



The Role of Bank of Agriculture Micro Credit Scheme on Small Scale Enterprises Development in Rural Community: Issues, Problems and Prospects

¹Umeifekwem Uchenna Timothy & ²Umeifekwem, Chinyere Marietta

¹Dept. of Commerce/ Cooperative Education, School of Business Education, FCE (T) Umunze, Anambra State, Nigeria

²Department of Public Administration, Chukwuemeka Odumegwu Ojukwu University, Igbariam, Anambra State, Nigeria

ABSTRACT

Poverty has been one of the most disturbing issues in the developing countries, Nigeria inclusive. Small Scale Enterprises development was amongst the measures identified by the government to tackle the trend. Government created some financial institutions including Bank of Agriculture to take responsibility in such direction. The Micro Credit scheme was among the packages by the Bank of Agriculture to encourage and assist in Small Scale Enterprises development in rural communities. The access to such scheme has been a contentious one as rural communities' populace are often claimed to be cash trapped in the starting of small businesses despite this facility. This paper therefore examines the operations of the Bank of Industry vis-à-vis administration of the Micro Credit Scheme to rural communities for Small Scale Enterprises development thus, proffers solution to the disconnection between the two for efficient utilisation of the package in the development of rural communities' small-scale business enterprises.

Keywords: Small Scale Enterprises, Micro-Credit Scheme, Rural Community

INTRODUCTION

The importance of small scale enterprises in complementing economic growth of developing countries cannot be overemphasised. Failure of traditional financial institutions to extend credit to the poor is one of the most prominent reasons for persistence of poverty in the developing countries. Nevertheless, attention has been given to micro credit schemes in Nigeria based on the salient impacts it has made in the rural communities. Apart from the observation of the impact of the small scale enterprises in the rural communities in Nigeria, in many other countries small scale enterprises have provided the mechanism for stimulating national entrepreneurship, increasing employment opportunities per unit of capital and aiding the development of local technology(Mbah, 2008). Creation of employments, improvement of skills of the populace, acting as a check on urban rural drift, contribute to more equitable distribution of income among individual states and regions and relative guarantee of security among other things are the benefits of engaging the rural communities in small scale enterprises. Nwaorgu (2008) noted that even in mature economies like those of the United States of America, Britain, Germany and Japan one recognises that the main stay of the economies of those countries is small business.

In Nigeria small-scale enterprises has been given attention by various governments. The Bank of Agriculture has been involved in the administration of loans to encourage both the large scale industrialists and the small scale enterprises in the establishment of their businesses. The Micro Credit Scheme is particularly designed for small-scale enterprises such that the issue of scarcity of fund in the event of opening small-scale businesses would be addressed. Firstly, this paper expounded the concepts that formed the major body of the work. Secondly, it discusses the roles played by the Bank of Agriculture through its Micro Credit Scheme to offer loan supports to the rural population. Thirdly,

it identifies and discusses the problems that are encountered by the intending beneficiaries of the scheme. Fourthly the paper proffers solution to the already identified problems to enhance free flow of transactions such that the aims of establishment of such scheme will be actualised.

Explications on the Main Concepts

Small-Scale Enterprises:

The concept small-scale enterprises are a relative term which depends on the idea of the scholar in question in his definition. In some cases, small-scale enterprises are confused or deliberately used interchangeably with small-scale industries. For clarity sake, Anyanwu (2001) opined that small-scale enterprises are viewed to consist of all economic activities including trading while small-scale industries are restricted to direct productive activities, particularly manufacturing ventures. It is instructive to note that this paper centres its discussion on the small-scale enterprises even though there could exist some minor interchangeability in usage of both concepts. The Federal Ministry of Industries (2001) cited in Obi (2015), defined a small scale enterprise as an enterprise whose total cost including working capital but excluding cost of land, does not fall below One Million Naira and does not exceed Forty Million Naira and having number of employees between 11 to 35 workers.

- i. However, a small scale enterprise according to Obi (2015) is a business that is not large, in terms of its size, scope of operation, financial involvement and the workforce involved. Most small scale enterprises are owned by one entrepreneur. The detailed explanation of small-scale enterprise is very wide encompassing thus, Lawal (2000) in Obi (2015) described the characteristics of small scale enterprises as follows:
 - (i) Personal savings of the owner forms the start-up capital of the business
 - (ii) Low initial capital required
 - (iii) Simple technology
 - (iv) Low level of managerial skill
 - (v) Difficulty in accessing external funds for establishment and running the business
 - (vi) Keeping little or no records of business
 - (vii) Reluctance in risk taking by the owner to expand the business
 - (viii) Low level of education and technical expertise on the part of the business owner
 - (ix) Little influence on the market and small market share
 - (x) Small scale enterprises generally have high mortality rate
 - (xi) Concentration of management on the key man
 - (xii) Limited access to long term funds
 - (xiii) High cost of funds as a result of high interest rates and banks charges
 - (xiv) Over-dependence on imported raw materials and spare parts
 - (xv) Poor inter and intra-pectoral linkages-hence they hardly enjoy the advantages of economies of scale
 - (xvi) Poor managerial skills due to their inability to pay for skilled labour
 - (xvii) Poor product quality output
 - (xviii) Absence of research and development effort
 - (xix) Little or no training and development for their employees
 - (xx) Low entrepreneurial skills, inadequate educational or technical background
 - (xxi) Lack of adequate financial record-keeping
 - (xxii) Poor management of financial resources and inability to distinguish between personal and business finance
 - (xxiii) High production costs due to inadequate infrastructure and wastages
 - (xxiv) Use of rather outdated and inefficient technology especially as it relates to processing, preserving and storage
 - (xxv) Lack of access to international market
 - (xxvi) Lack of succession plan
 - (xxvii) Poor access to vital information.

Looking at Lawal's outlined characteristics, one notices that there is a muddle up of both characteristics of Small-scale Enterprises and Small-scale industries. Be it as it may, on the foregoing, Small-scale enterprises are known for its obvious characteristics as stated in a concise form below.

- i. Low capital: The small-scale enterprise does not require huge sum of money to start.

- ii. Low sales: Because of the smallness in size of the business, the overall sales per day does not look quite substantive.
- iii. Existence of very few labour force: The small-scale enterprise in most cases is run by an individual or very few persons acting on auxiliary capacity and often not on a pay role.
- iv. Limited coverage: The coverage of such business maybe just in one site because low capital investments.
- v. Independent ownership: The person running a small-scale business is often the owner of the business therefore he is not accountable to anyone.
- vi. Absence of proper records of transactions: The nature of a small-scale enterprises especially in rural areas in most cases does not give room for proper documentation of daily transactions.

Micro-Credit

Micro-Credit is a common form of microfinance that involves an extremely small loan given to an individual to help them become self-employed or grow a small business. These borrowers tend to be low-income individuals. According to the guidelines for operations of micro credit fund the objectives of the Micro Credit Fund shall be:

- i. To complement the poverty and small and micro credit interventions by Government at all levels as well as the activities of the Microfinance banks in supplying a large but cheap source of finance to the small and micro entrepreneurs.
- ii. To ensure a wider and equitable distribution of credit around the country to deserving entrepreneurs by allowing State Governments to engage in wholesale borrowing from the banks and on-lend or distribute to the entrepreneurs in their respective states
- iii. To motivate the State and Local Governments to comply with the requirements of the Microfinance Policy and Regulatory Framework that they devote at least one percent of their annual budgets to microfinance.
- iv. To strengthen the institutional, organizational and technical capacity of the agencies that will administer the credit, including the microfinance banks, and also strengthens the technical capacity of the beneficiaries.

The guidelines also specified the areas the beneficiary should invest when the loan is accessed. The loans obtained shall be used for any of the following activities engaged in by small and micro entrepreneurs;

- i. Agriculture and agro allied
- ii. Cottage industries
- iii. Trade/commerce.
- iv. Services

The importance and advantages of micro credit schemes to poor households in the rural areas in starting small scale enterprises cannot be overemphasised. Yunus (2003) opined that micro-credit schemes have developed unique characteristics in terms of unconventional approaches, organizational and lending procedures that have resulted in high rates of repayments, savings mobilization and the ability to nurture a culture of commitment and self-reliance of poor people. Hirschland, (2003) cited in Ogunrinola and Alege (2007) observe that given their inability to meet the requirements of formal financial institutions, the rural and urban poor are turning to microfinance institutions (MFIs) to meet their intermediate financial needs.

Buttressing their arguments, they outlined some constraining factors that could dissuade poor households in rural areas from qualification to loans in formal financial institutions for opening small scale businesses, for them, the paperwork needed for opening, operating and closing accounts; the high initial amount required for opening an account; the minimum balance required for an ongoing account; the collateral required for loan purposes and the travel time to, plus the waiting period in the banks.

Bank of Agriculture Overview and Historical Development

Bank of Agriculture is a Nigerian government sponsored bank that provides credit facilities to both small and large scale farmers and small businesses within rural areas. Bank of Agriculture's history can be traced to the establishment of Nigerian Agriculture Bank (NAB) in 1973. NAB was a

government initiative to fund agriculture development projects in the country, in particular small-scale farm holders that may not have enough collateral to obtain credit facilities from commercial banks. An outcome of a restructuring of government sponsored microcredit institutions, the bank was formed in 2000 and assumed the assets of the National Agriculture and Cooperative Bank, People's Bank and the Family Economic Advancement Project. Ten years later, precisely in October 2010 as part of institutions Transformation Programme, the Bank was rebranded and named Bank of Agriculture. The BOA has 136 branches, 6 Zonal Offices and the Head Office, spread across the 36 States of Nigeria and the Federal Capital Territory. Individuals can access credit facility up to maximum of a N5, 000,000 mainly for Agricultural Projects.

The Bank of Agriculture has the following functions which include:

- i. Provides loans to support all parts of Agricultural Value Chain.
- ii. It provides non-agricultural microcredits to poor people from villages.
- iii. It contributes to the development of agricultural information systems.
- iv. The bank helps in providing rural areas with technical support and different services.
- v. It supports and create the opportunities for employment in rural areas.
- vi. The aim is not only to develop rural areas but to slow down the migration of people from rural areas to cities.
- vii. The bank contributes to the inculcation of banking services to rural areas of the society.

Eligibility criteria for assessment of Bank of Agriculture loans

- A completed and signed account application form.
- 3 (Three) recent passport photographs.
- A recent copy of Utility bill (PHCN, Water ,etc.).
- Signed Letter to the Bank.
- Signed Letter Of Set-Off.
- A photocopy of means of identification (National I.D Card, International Passports or Driver License.
- At least, a minimum of N3,000 as Initial Deposit.
- Own or operate an existing farm.

It is worthy of Note however that the criteria for assessing the Bank of Agriculture Micro Credit scheme is not entirely same as above.

Having seen the functions of Bank of Agriculture on its entirety, it is expedient to critically look at the number two function as stated above because it forms the basis for our paper.

The Micro Credit Scheme of Bank of Agriculture

The bank of Agriculture Micro Credit Scheme is also known as small holders' scheme it is divided into two and each has its peculiar packages though to some extent they are interwoven by the fact that it has same target beneficiaries. The two categories are:

- i. The Micro Credit Agriculture. This one is specifically designed for people who are to engage in everything agriculture ranging from marketing, production or processing. It attracts very minimum interest rate of 14%.
- ii. The Micro Credit Non-Agriculture. This one is more relaxed in its condition because it does not limit the beneficiary to engage on only agricultural businesses. One can engage in non-agriculture related small businesses. As such, it accommodates artisans and all other small businesses like hair dressers, fashion designers, butchers, grocery food and vegetable items etc. on like the micro credit agriculture, it attracts a higher interest rate of 20%.

It is noteworthy that in either of the choice made by the potential beneficiary of the Micro Credit Scheme, the processes to accessing the loan are almost the same. The business may not be a registered one but it requires at least two guarantors.

Challenges of Micro-Credit Schemes

The challenges with Micro-Credit Scheme is twin in nature one is on the part of the Bank and the other on the part of the people or customers. Firstly let us begin by discussing the challenges the bank faces in its transaction with the people. They are discussed below as follows:

- i. Rate of loan recovery. Lending to small enterprises is considered to be highly risky. The loan repayment rates are always very low. Ogunrinola and Alege (2007) observe that it is probably because micro-enterprises are faced with multi-faceted uncertainties that lead to high attrition rates.
- ii. Poor Credit Culture. Some of the beneficiaries of the micro credit scheme are insincere that some of the information furnished at the processing stage are fictitious as such it becomes very difficult to track them in event of renegeing and such situation may give rise to bad debt.
- iii. Poor Records. Bank of Agriculture has not totally digitalised in their operations especially in the micro credit transactions still uses obsolete method of record keeping which could be attributable to the calibre of people they deal with, for instance information on files are kept on hard copies and that oftentimes hinders quick documentation and retrieving of information.

Secondly, let us discuss the challenges the prospective beneficiaries of Bank of Agriculture Micro-Credit Scheme face in assessing the loans.

- i. Alienation of the Bank to the Target Groups. The Bank is not widely spread in the rural communities. Because the Bank of Agriculture is not located in so many rural areas, the people especially low profile ones find it very stressful going to the scanty areas they are located thereby stultifying their urge to assess the loans which invariable are meant for them.
- ii. Lack of Awareness. The Bank of Agriculture Micro- Credit Scheme is still novel to so many rural people. This is because that the Bank officials do not engage on rural sensitisation of the rural people as such those who are supposed to benefit from the scheme are ignorant of its existence hence the funds are always unassisted.
- iii. Illiteracy: The rural people are predominantly semi-illiterates who could not read or write perfectly therefore some who may have the need to assess the loan would develop the phobia of withstanding the interviews in the documentation stage.
- iv. Inability to provide surety. It is believed that the bank of Agriculture does not require collateral for eligibility to assess the loan but it is noteworthy that the people who need these loans are from the lower class in the society. It becomes obvious that getting a surety often times becomes very difficult and as such they may decline in registering interest in the Micro-Credit Scheme.
- v. Delay in Intervention. The period between application and disbursement of the fund is not automatic as such the intending beneficiaries are always sceptical applying since they cannot face the rigours of bureaucratic redtops

The Prospects

The prospects of Bank of Agriculture Micro-Credit Scheme lies in their ability to address these issues as discussed below:

- i. Bring the Bank nearer to the people. Since Bank of Agriculture is responsible for the issuing of the Micro-Credit it will be worthwhile to build the Bank at least in all the Local Government areas so that the rural people would have access to the Bank and their loans.
- ii. Creating Awareness. The government should through their agencies create awareness on the existence of this scheme so that the rural people would be in the know of the scheme and also educate them on the processes of assessing the loans.
- iii. Relaxing some of the criteria for assessing the loan. Since the Micro-Credit Scheme targets the rural people, the Bank should consider the state of those intending beneficiaries especially in their ability to present a surety before the loan.
- iv. Using the Modern means of operation. The Micro- Credit Scheme of the Bank of Agriculture is to a greater extent meant for the rural people where illiteracy is prevalent, it therefore becomes imperative for the Bank to use procure modern machines that can read the papillary ridges than subjecting the illiterate ones to filling documents an signing signatures.
- v. Fast-track the intervention period. The Bank should try to eliminate some of the unnecessary delays that make the assessment of the loan very cumbersome and lengthy. Consideration should be directed to the fact that some of the applicants would want the loan for certain businesses that may be seasonal and thus delay may be a big constraint for efficiency of such business.

CONCLUSION

If these points discussed above is given adequate attention, the Microcredit Scheme of the Bank of Agriculture will firstly, empower people especially the rural populace such that poverty will be defeated. Secondly talents will be discovered in diverse ramifications and that will be healthy for the economy. Thirdly, Insecurity in the country will reduce since almost everybody will be busy. Fourthly, the urban rural migration will be naturally checkmated as the rural population would not have much need to migrate to the urban centres. Fifthly, there should be a significant push on the economy since there will be production in virtually all the nook and crannies and that will create surplus that can be exported for a balanced national economy.

REFERENCES

- Anyanwu, C.M. (2001). Financing and promoting small-scale industries: Concepts, issues and prospect. Bullion Volume 23 No. 3 CBN.
- Lawal, A.A. et al. (2000). Entrepreneurship Development in Nigeria. Lagos
- Mba, S.I. (2008). Financing small-scale enterprises for industrial development in Nigeria. *Journal of Management Sciences, Anambra State University, Uli*. Onitsha: Bookpoint Educational Ltd.
- Nwanyanwu, O. J. (2011). Micro finance in Nigeria: Problems and prospects *An International Multi-Disciplinary Journal, Ethiopia*. Vol. 5 (Pp 87-103) (2), Serial No. 19, ISSN 2070-0083 (Online)
- Nworgu, I.A. (2008). The impact of financial institutions on small-scale enterprises in Nigerian economy. *Journal of Management Sciences, Anambra State University, Uli*. Onitsha: Bookpoint Educational Ltd.
- Obi, J.N. (2015). The role of small-scale enterprises in the achievement of economic growth in Nigeria. *International Journal of Social Sciences and Humanities*, vol.3, no. 1, 2015. ISSN: 2141-1162
- Ogunrinola, O.I. & Alege, P.O. (2007) Micro-credit and micro-enterprise development: An analysis of some rural-based enterprises in Nigeria. *Nigerian Journal of Economic and Social Studies*. Volume 49, No. 1
- Yunus, M. (2003) *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*. Public Affairs, New York
- Development Finance Department Central Bank of Nigeria February 12, 2008
<https://www.legit.ng/1184301-bank-agriculture-loan-application-requirements-procedure.html>