Assessment of Formal Financial Institutions in Financing Agribusiness Investments in Southeast, Nigeria

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ABSTRACT

This study assessed formal financial institutions in financing agribusiness investment in Southeast, Nigeria. A multi-stage random sampling technique was employed to select 900 respondents for the study. Primary data were collected using a well-structured questionnaire and interview schedule. Data were analyzed using both descriptive and inferential statistics. The findings revealed that the predominant formal financial institutions available to agribusiness investors in the study area include the Bank of Agriculture (20.44%), Microfinance Banks (17.67%), and the Ministry of Agriculture (16.78%). Analysis of loan demand indicated that most agribusiness investors requested mid-sized loans, particularly within the ₦300,001–₦400,000 range (21.67%) and ₦200,001–₦300,000 (19.11%), suggesting a dominance of medium-scale operations. However, loan disbursement patterns showed a bias toward smaller loan sizes, with the highest proportions disbursed in the ₦100,001–₦200,000 (21.00%) and below ₦100,000 (18.56%) categories indicating that larger loan categories consistently received less than requested, suggesting cautious lending behaviour by formal financial institutions. Key factors influencing the amount of loan granted included collateral (3.81), loan repayment ability (3.70), government policy (3.61), and farm size (3.60). Furthermore, constraints to financing were categorized into socio-economic and institutional factors. Socio-economic constraints included low repayment rate (0.733) and loan diversion (0.727), while institutional constraints comprised insufficient funds (0.743) and adverse government policies (0.690). It was recommended amongst others that formal financial institutions should adopt flexible collateral policies to enable small-scale agribusiness investors' access loans more easily.

Keywords: Finance, Formal Financial institution, Agribusiness and Investment

INTRODUCTION

Agribusiness is the term used to describe investment in agriculture such as in the area of food production, processing, storage, production of wood for building etc. among others in the area. According to Enimu (2015) agribusiness is defined as the business of farming commonly related with business that supplies farm inputs such as farm machinery and seed supply. Bashir (2010) citing Goldberg and Davis (1957) viewed agribusiness as to involve agrichemicals, breeding, crop production, distribution, farm machinery, processing, and seed supply as well as marketing and retail sales.

Agribusiness is an aspect of agriculture comprising of production, manufacturing and distribution of farm inputs, equipment and supplies at one hand and the processing, storage and distribution of farm commodities on the other hand. This implies that the entire agricultural production, processing, distribution and consumption spectrum from farm input supplies inclusive of wood producers, furniture manufacturers, food processors, food packers, food transporters and food marketing companies to restaurants and shopping malls are all the components of agribusiness. It covers input industries for agricultural production, post-farm gate industries; including the commodity-processing, food manufacturing and distribution industries and third party firms that

facilitate agribusiness operations including bankers, brokers, advertising agencies and marketing information firms (Yumkella *et al*., 2012).

Agribusiness investment is associated with the business in agriculture which include; farmer's market vending, herb growing, vegetable farming; livestock feed manufacturing, fruit growing, field crop growing, nursery operation, urban agriculture, seed and agrochemical production and facilitative services etc. In recent decades, the financial requirements of agriculture related activities have increased tremendously due to the extended use of modern farm inputs and mechanization (Bashir *et al*, 2010). But these rural residents who constitute the bulk of the farmers are still trapped in the poverty web (Adepoju and Yusuf, 2012). One major way to drastically reduce poverty and improve the poor welfare situations of the rural farmers is to increase their agricultural output and productivity (Foltz, 2004; Awotide *et al*, 2015). Meanwhile, one sure way of achieving this, is by provision of finance in form of credit to farmers.

Agricultural finance is primarily seen as a tool to increase agricultural output and productivity especially when provided in good time, through improved adoption of new technologies and use of optimum farm inputs (Foltz, 2004; Bashir *et al*, 2010; Chandio *et al*, 2016). This is because when there is paucity of fund in form of credit, the amounts and combination of inputs used by farmers may deviate from optimum levels which in turn limit optimum production and productivity. Availability of finance is important for sustaining the production and productivity of agricultural commodities vis a vis increase in income which ultimately leads to the improvement of the farmers welfare. This is usually made available to the farmers by the financial institutions. Financial institutions are an organizations dealing with money or capital (Nwibo *et al*., 2005).

Financial institutions can be viewed as an establishment that consults financial transactions like investment, loans and deposits. According to Speelman (2013), financial institution is an institution responsible for the supply of money to the market through the transfer of funds from investors to the companies in form of loans, deposit and investments. Formal financial institutions are those institutions that provides formal financial services as a registered companies that are licensed to offer financial services by a central monetary authority (Ghate, 1992) cited in (Amurtiya *et al*., 2018). They provide much more loans than the informal financial institutions. Examples of formal financial institutions includes; Commercial banks, microfinance banks, mortgage companies, Development banks, acceptance houses, central banks, discount houses, merchant banks, insurance companies, building societies and the state government-owned credit institutions. On the hand, informal financial institutions operates outside the regulated monetary system and it includes the activities of the intermediaries such as relatives, moneylenders, traders, friends, cooperative societies, local bankers, thrift and loan societies etc.

Inadequate agricultural financing has been identified as one of the major factors militating against food production in Nigeria. This has resulted in the recycling of poverty among farmers who are mostly rural-based and lacks the necessary collateral to access credit from financial institutions needed for increased production. This vicious cycle of poverty can only be broken by setting a policy that can ensure higher level of credit investment into the agricultural sector. The major challenges to agricultural sector financing from formal financial institutions in Nigeria have been identified as unfavourable macroeconomic environment, cumbersome documentation process, inadequate long-term finances, lack of data base on borrowers and poor infrastructure (Anyanwu, 2010). The work of Oputu (2010) presented a fragmented "rent seeking" banking industry in Nigeria that earns income by capturing economic rent through manipulation and exploitation of the economic and political environment, rather than earning profits through economic transactions and the production of value-addition wealth.

However, despite several researches carried out on the aforementioned topics, there seems to be no empirical evidences on the assessment of formal financial institutions in financing agribusiness investment in Southeast, Nigeria. In order to effectively address these problem, the study identified the various formal financial institutions in the study area; identified the amount of loan applied for and granted to agribusiness investors in the study area; analyzed the factors that determined the amount of loan granted to agribusiness investors by the formal financial institution and constraints to financing of agribusiness investment by formal financial institutions in the study area.

METHODOLOGY

Study Area

The research work was conducted in southeast agro-ecological zone of Nigeria. Southeast is located between latitudes 04°17' N and 07°06' N and longitudes 05°23' E and 09°28' E (Macmillan, 2009). The area comprises the geographical location of five States namely Abia, Anambra, Ebonyi, Enugu, and Imo. The climate of southeast Nigeria is generally tropical with two clear identifiable seasons: the wet and dry seasons with average highest annual rainfall at 1952 mm and temperature pattern-mean daily and annual temperature at 28 and 27°C, respectively (Igbokwe *et al*., 2008). It is primarily an agricultural zone with sandy, mostly loose and porous soil, hence its vulnerability to climate change.

In the Southeast, Nigeria, rainfall is the key climatic variable, and there is a marked alternation of wet and dry seasons in most areas. The rainy season usually begins in February or March as moist Atlantic air, known as the southeast monsoon, invades the country. The beginning of the rains is usually marked by the incidence of high winds and heavy but scattered squalls. By April or early May in most years, the rainy season is under way throughout most of the area. The usual peak of the rainy season occurs through most of southern Nigeria in July with a dip in precipitation during the month of August. Although rarely completely dry, this August dip in rainfall, which is especially marked in the southwest, can be useful agriculturally, because it allows a brief dry period for grain harvesting. Temperatures throughout Nigeria are generally high; diurnal variations are more pronounced than seasonal ones. Highest temperatures occur during the dry season; rains moderate afternoon highs during the wet season. The economy of Nigeria historically was based on agriculture, and about 70% of the workforce is still engaged in farming (largely of a subsistence type). The chief crops are cocoa, peanuts, palm oil, corn, rice, sorghum, millet, soybeans, cassava, yams, and rubber. In addition, cattle, sheep, goats, and pigs are raised as livestock. The distribution of vegetation in Southern Nigeria is dependent mainly on the climate, which becomes increasingly drier further inland from the coast. Climatic zones, therefore, run roughly parallel to the coast, widening or narrowing as geographical features alter the steepness of the climatic gradient. This climatic zoning has resulted in a vegetation zoning, comprising the rain forest zone, the mixed deciduous forest zone, and the parkland zone. The first two are climax systems, but the parkland zone is probably caused by anthropogenic conversion of forest and is maintained by annual bush fires. The natural vegetation of the parkland zone would probably be mixed deciduous forest.

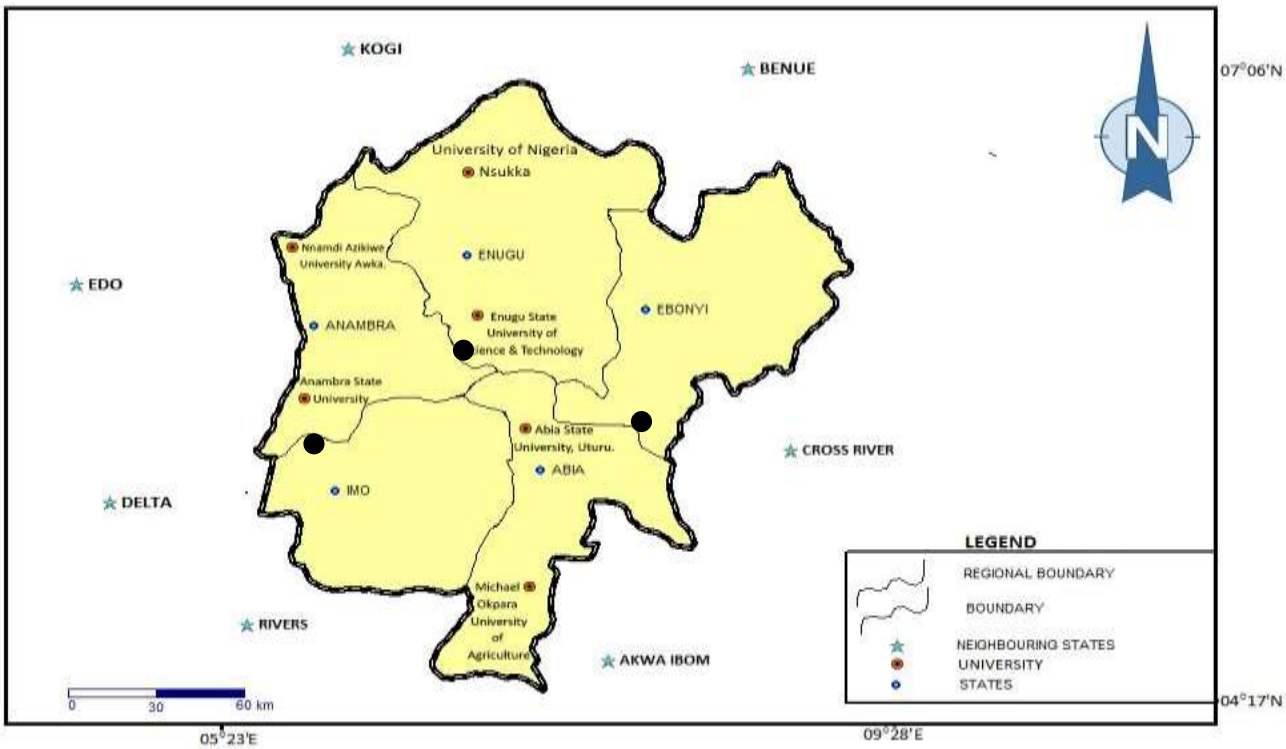

Figure 3.1 Map of southeast Nigeria showing the study area and the selected States.

Source: Macmillian Atlas series (2009).

Sampling Technique

Multistage sampling procedures involving both purposive random sampling techniques were used in identifying and selection of respondents for the study. The south-east region comprises the geographical location of five States namely Abia, Anambra, Ebonyi, Enugu, and Imo State. Stage I: three States each from the agro-geopolitical zones were purposively selected. The three States include Abia, Ebonyi and Anambra States. Stage II: from the three selected States, three agro-geopolitical zones each were randomly selected. This gives the total of 9 (nine) agro-geopolitical zones selected. Stage III: From the 9 (nine) agro-geopolitical zones that were selected, One Hundred (100) agribusiness investors each were purposively selected. This was done to ensure that only respondents who engaged in agribusiness investment were selected. Thus, a total of 900 (Nine Hundred) agribusiness investors constituted the sample size for the study.

Data Collection

Data for this study were collected mainly from primary sources. The data were collected using structured questionnaire and interview schedule which was administered to the 900 respondents.

Data Analysis

The analysis of the data generated from field survey was done using relevant analytical tools. Specifically objectives (i) and (ii) were analyzed using descriptive statistics such as frequency distribution tables, mean and percentages. Objective (iii) was achieved using inferential statistics in form of five point likert scale rating while objective (iv) was subjected to principal factor-analysis.

Model Specification

Mean Score Analysis

$$\ddot{X} = \frac{\sum X}{N}$$

Where,

$\ddot{X}$ = mean score

$\sum$ = summation

X = likert value

N = number of respondents

Decision rule for the five point likert scale;

5 = Very great extent, 4 = Great extent, 3 = fairly great extent, 2 = Low extent, 1 = Very low extent.

X = 5+4+3+2+1/5 = 15/5 = 3.0

This means that by using 3.0 as decision point, any item with mean score less than 3.0 was rejected whereas those with 3.0 and above were accepted.

Factor Analysis Model

$$Xi-Ui = Li1F1 + Li2F2 + Li3F3 + \ldots LiKFk + \epsilon i$$

Where;

ϵi = error term

F = the factor

Ui = population means

Xi = variables

Li = loading factors

RESULTS AND DISCUSSION

Types of Formal Financial institutions

The result on types of formal financial institutions in the study area revealed that the most predominant type of formal financial institutions in the study area was bank of agriculture which accounted for 20.44% followed by Microfinance Banks (17.67%), Federal Ministry of Agriculture (16.78%), Registered Cooperatives (16.22%), Donor Agencies (14.67%), and Commercial Banks (14.22%). The dominance of the Bank of Agriculture (20.44%) suggests that it remains the most accessible and preferred formal financial institution among farmers and agribusiness operators in the region. This may be attributed to its mandate to provide subsidized credit and flexible repayment structures tailored to agricultural production cycles. Microfinance Banks, accounting for 17.67%, also played a significant role in financial inclusion. Their relatively high usage reflects their proximity to rural communities, simplified loan procedures, and reduced collateral requirements, making them attractive to smallholder farmers. The Ministry of Agriculture (16.78%) ranks closely, indicating the importance of government intervention programs, including input subsidies, grants, and extension services. This underscores the continued reliance on public-sector support in agricultural financing. Registered Cooperatives (16.22%) show substantial participation, highlighting the relevance of collective action and group-based financing mechanisms. Cooperatives often enhance members' access to credit by serving as intermediaries or guarantors. Donor Agencies (14.67%), such as the World Bank and International Fund for Agricultural Development, contributed moderately, reflecting their role in project-based funding and rural development initiatives, although their reach may be limited to specific programs or locations. Commercial Banks (14.22%), including institutions like First Bank of Nigeria and Access Bank, have the lowest participation. This may be due to stringent lending conditions, high interest rates, and collateral requirements, which often exclude smallholder farmers. This finding is in agreement with the finding of Sani and Aliero (2012) who observed that agribusiness investors in rural areas of Sokoto State Nigeria access more loan from formal financial institutions closer to them than the one far from them.

Amount of Loan Applied for and Disbursed to Agribusiness Investors

Result of the loan amounts applied for and disbursed to agribusiness investors in Southeast Nigeria showed an important patterns about access to agricultural finance and the behavior of lending institutions. First, on the loan amounts requested, the highest proportion of investors applied for loans within the ₦300,001–₦400,000 range (21.67%), followed by ₦200,001–₦300,000 (19.11%). This suggests that most agribusiness investors operate at a moderate scale, requiring mid-sized capital to expand production, purchase inputs, or invest in equipment. Lower ranges such as below ₦100,000 (16.11%) and ₦100,001–₦200,000 (16.67%) also account for a significant share, indicating the presence of smallholder farmers and micro-scale agribusinesses. Meanwhile, higher loan categories such as ₦400,001–₦500,000 (14.33%) and above ₦500,000 (14.67%) show relatively lower demand, likely due to limited collateral, risk aversion, or uncertainty in repayment capacity. However, a comparison with the loan amounts disbursed showed a shift toward smaller loan sizes. The highest disbursement occurs in the ₦100,001–₦200,000 category (21.00%) and below ₦100,000 (18.56%), which are higher than their corresponding request percentages. In contrast, larger loan categories such as ₦300,001–₦400,000 (16.89%), ₦400,001–₦500,000 (13.89%), and above ₦500,000 (12.22%) receive relatively lower shares compared to what was requested. This discrepancy indicates that financial institutions tend to ration credit, favoring smaller loan disbursements even when larger amounts are requested. This may be attributed to risk management strategies, including concerns about loan default, inadequate collateral, and information asymmetry between lenders and borrowers. As a result, many agribusiness investors may receive less than the amount requested, potentially constraining their ability to fully implement planned investments. This is in line with the

findings of Okeke (2018) which argued that small scale farmers in Anambra State Nigeria applied for considerable amount of loan to help them boost their output. The implication is that the agribusiness investors may not be able to invest in many agribusiness ventures dominating in the area. Another reason could be that they do not have adequate collateral to secure adequate loan. This findings is also in agreement with the findings of Obilor (2013) which opined that a farmer in the rural areas of Nigeria lacks security to obtain loan from formal financial sources.

Factors that determined the Amount of Loan Granted to Agribusiness Investors by the Formal Financial Institutions

The result of the analysis on Table 3 indicated that the most dominating factors that determined the amount of loan granted to the agribusiness investors by the formal financial institutions in the study area includes; collateral (3.81),loan repayment (3.70),Government policy (3.61) and farm size (3.60). This is because collateral was seen to be an important factor to be considered in loan application and approval as this act as the security provided to the formal financial institutions in a default situation. The agribusiness investors have to provide enough security to enable them be granted enough loans from the formal financial institution. This implied that the institutions have to ensure that enough collateral were provided to cover the formal loan or total debt exposure should the agribusiness investors' default. Another common factor was loan repayment rate. This is because the agribusiness investors may have ran into loss due to drought, flood, pest etc. on their agribusiness ventures and thus may not meet up with the loan repayment schedule as prescribed by the financial institutions in the area. This has led to reduction in amount of loan granted to the farmers amongst the formal financial institutions in the area as some farmers believed that money from loan was part of their national cake and therefore do not take repayment serious. This result was consistent to that of Anang (2018) who argued that majority of the formal financial institutions in rural areas of Akwa Ibom State considered collateral, loan repayment rate, government policies and farm size as a yard stick to the amount of loan granted to farmers in the area as opposed to the findings of Oriaku (2017) which pointed out that most formal financial institutions in rural areas of Imo State disbursed loan to farmers based on appointment from the government and not necessarily collateral, loan repayment etc.

Factors that constrained the Financing of Agribusiness Investment by Formal Financial Institution

The result of the analysis presented on Table 4 showed that the factors that constrained the formal financial institutions in financing agribusiness investment in the area were classified into two *viz a viz;* socio-economic and institutional constraints. The socio-economic constraints were low repayment rate (0.733) and loan diversion (0.727). The institutional constraints were insufficient fund (0.743) and adverse government policy (0.690). Low repayment rate was observed as a constraint to financing agribusiness ventures in the area. This was because the farmers do not always meet up with the agreed loan repayment period with the formal financial institutions which has made them decline interest in financing agribusiness ventures in the area and thus reduce agricultural production capacities amongst farmers in the area. Similarly, insufficient fund was also a constraint. Interest of the formal financial institutions increases with adequate fund to disburse to the farmers. Insufficient fund reduces the zeal to financing the agribusiness ventures by the formal financial institutions in the area. Furthermore, The institutions complained that government policy normally affect their interest in financing agriculture as a result of tax levied on them by the government and thus curtail their level of financing the agribusiness ventures in the area. This finding is in agreement to that of Okurut (2016) who posited that the predominant formal financial sources in rural areas of Nigeria complained that low repayment rate, loan diversion, insufficient fund and government policy constrained their interest in financing agribusiness ventures in the area. Conversely, Olaleye (2018) argued that formal financial institutions in the rural areas of Ondo State approved formal loan to the farmers irrespective of repayment rate, extent of loan diversion etc. provided the loan can be recovered at any point in time.

CONCLUSION AND RECOMMENDATION

It was observed that the agribusiness investors were in need of finance in form of credit for financing their agribusiness investment in the study area. The study concluded that although formal financial institutions are present in the study area, their effectiveness in financing agribusiness investment is limited by stringent lending

conditions and systemic factors. However, both socio-economic and institutional constraints such as loan diversion, low repayment rates, insufficient funds, and unfavorable government policies limit the effectiveness of formal financial institutions in adequately financing agribusiness in the study area. It was recommended amongst others that formal financial institutions should adopt flexible collateral policies to enable small-scale agribusiness investor's access loans more easily.

Area For Further Studies

Basing on the findings from this study, further studies can be suggested on how mobile banking and fintech solutions influence access to agricultural credit. Studies can also explore whether disparities exist between male and female agribusiness investors in accessing formal credit. An evaluation of existing agricultural credit programs and their impact on productivity and income levels is needed in the area to further the research.

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Table 1: Distribution of the respondents according to the types of formal financial institutions in the study area

Types of formal financial institutions	Frequency (N=900)	Percentage (100)
Microfinance bank	159	17.67
Bank of agriculture	184	20.44
Commercial bank	128	14.22
Registered cooperative	146	16.22
Ministry of agriculture	151	16.78
Donor agency	132	14.67

Source: field survey, 2019

Table 2: Distribution of the agribusiness investors according to the amount of loan applied for and disbursed to them by the formal financial institutions

Amount of loan requested	Frequency (n=900)	Percentage (100)
Below 100,000	145	16.11
100,001-200,000	150	16.67
200,001-300,000	172	19.11
300,001-400,000	195	21.67
400,001-500,000	129	14.33
Above 500,000	109	12.11
Amount of loan disbursed		
Below 100,000	167	18.56
100,001-200,000	189	21.00
200,001-300,000	157	17.44
300,001-400,000	152	16.89
400,001-500,000	125	13.89
Above 500,000	110	12.22

Source: field survey, 2019.

Table 3: Factors that determined the amount of loan granted to agribusiness investors in the area

Factors	Mean score	Weighted mean	Decision
Amount of loan requested by agribusiness investors	3.0	3.41	Accepted
Farm size	3.0	3.60	Accepted
Credit worthiness	3.0	3.51	Accepted
Types of enterprise	3.0	3.55	Accepted
Disbursable fund	3.0	3.53	Accepted
Government policies	3.0	3.61	Accepted
Collateral	3.0	3.81	Accepted
Number of time the investors has benefited from the institution	3.0	2.83	Rejected
Personality profile	3.0	3.20	Accepted
Relationship of the investors with the bank officials.	3.0	2.92	Rejected
Performance of the investors in previous loan obtained (loan repayment)	3.0	3.70	Accepted

Source: Field survey, 2019.

Table 4: Constraints to financing of agribusiness investment by formal financial institution in the study area

Factors	Socio-economic	Institutional
Insufficient fund	0.032	0.743
High cost of administration	0.321	0.633
Loan default	0.712	0.024
Lack of proper insurance cover	0.708	0.298
Loan diversion	0.727	0.213
Low repayment rate	0.733	0.309
Economic depression	0.064	0.645
Adverse government policy	0.381	0.690
High risk and uncertainty	0.319	0.213
Inherent in agribusiness investment	0.618	0.019
Lack of basic infrastructures	0.310	0.340
Poor communication channel	0.231	0.327

Source: field survey, 2019.