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FINANCING AGRIBUSINESS SMALL AND MEDIUM SKILL ENTERPRISES (SMEs): PROSPECTS AND PITFALLS

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ABSTRACT

Undeniably, SMEs have been identified to be the backbone propping up the economic growth of nations. For the agrarian economy of Ghana, this is even truer for agribusiness SMEs. Thus, access to credit by agribusinesses is integral to growing GDP and moving the nation forward to middle-income status. This study identifies the pitfalls bedevilling ease of access to finance by agribusiness SMEs and also highlight the prospects open to financial institutions willing to provide the much-needed credit to agribusiness SMEs. The major findings categorized the pitfalls into "demand-side pitfalls," i.e. pitfalls generated by the agribusiness SMEs seeking finance, and "supply-side pitfalls," i.e. pitfalls resulting from the policy framework of the suppliers of credit. Measures to tackle these pitfalls were suggested; based on the analysis and findings.

Keywords: Small and medium skill enterprise (SMEs), Supply-side pitfalls, Financing, Agribusiness.

INTRODUCTION

In 2009, the assembled authorities of the G-20 (World's 20 major economies) summit held at Pittsburgh, agreed to "scale up successful models of small and medium-sized enterprise (SME) financing." The G-20 assigned the IFC (The International Finance Corporation, a subsidiary of the World Bank Group that offers investment, advisory, and asset management services to encourage private sector development in developing countries) and other international organizations to launch a G-20 Financial Inclusion Experts Group and asked the private sector to come up with ideas through G-20 SME Finance Challenge (Kushnir, 2010). This increased attention to small and medium-sized enterprises (SMEs) and the financial challenges they face.

More importantly, it brought to the forefront, the finance gap experienced especially by agribusiness SMEs.

The availability of external finance for small and medium enterprises (SMEs) in general is a topic of significant research interest to academics and an issue of great importance to policymakers around the world. The conceptual framework to which most of the current research literature adheres has proven to be quite helpful to advancing our understanding of the markets for providing funds to SMEs in both developed and developing nations. And although this framework has aided our understanding of the effects of policies that both facilitate and hinder the access to funding by creditworthy SMEs in these nations, agribusiness SMEs are yet to witness a concomitant rise in access to funding – owing to the dependency of agribusinesses on the unpredictable elements and fickle forces of biological phenomena, weather conditions, changing consumer preferences and global supply and demand dynamics for farm produce. Thus, the current framework presents an oversimplified model that overlooks important distinctions across national financial institution structures (i.e. the market presence of different types of financial institutions that provide credit, as well as competition among these institutions), and lending infrastructures (i.e. the rules and conditions set up mostly by governments that affect financial institutions and their abilities to lend to different potential borrowers) and how these elements of the financial system affect SME credit availability (Berger and Udell, 2006). This study dealt with the differences in the financial institution structure and lending infrastructure that significantly affects the availability of funds to agribusiness SMEs. It offers insight into how financial institutions may employ the different lending techniques in which they have comparative advantages to provide funds to agribusiness SMEs.

The prospects and pitfalls of financing agribusiness SMEs in the context of "…weighing the comparative advantages of different types of financial institutions vis-à-vis the use of transactions lending technology or relationship lending" (Gibson and van der Vaart, 2008) is of primary concern to the budding agribusiness entrepreneur. This plays into the link between agribusiness SME activities and the economic growth of a primarily agrarian economy like Ghana. The purpose of the study is to evaluate the challenges facing the financing of agribusiness SMEs, Specific objectives were to identify the prospects and opportunities open to financial institutions backing agribusiness SMEs, Findthe pitfalls present in the financing of agribusiness SMEs and Categorize the pitfalls present in the financing of agribusiness SMEs.

MATERIALS AND METHODS

Study Area

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

The Sekyere South District is located in the northeastern part of the Ashanti Region. Agona Ashanti which is the administrative capital is located 37 kilometres from Kumasi, along the Kumasi - Mampong trunk road. The District shares common borders with Ejura Sekyedumasi to the north, Mampong Municipal and Sekyere East to the east, Kwabre East to the south and Offinso Municipal to the west. The District has a total land area of 416.8 square kilometres representing about 1.7 per cent of the total land size of the Region of 24,389 square kilometres. The District has a density of 226 persons per square Km. the District lies between latitude 6o 50'N and 70 10'N and Longitude 10 40'W and 10 25' W. The Sekyere South district lies within the Semi-deciduous forest zone. The vegetation is dense in terms of tree coverage with most trees shedding off their leaves in the dry season. Trees of economic value like Odum, Wawa, Sapele, etc. are found in the forest. The forest is made of three layers namely the upper, middle and lower layers. A greater part of the natural vegetation has been altered due to man's activities on the land such as timber extraction and farming on the environment. Most areas have been replaced by secondary bush or forest which is easily distinguished from the climatic climax vegetation.

Research Design

The research design of this project was a survey of a non-experimental nature. It determined the prospects and pitfalls inherent in financing agribusiness SMEs. The researcher gathered extensive data from the owners, managers, accountants and finance directors of eight (8) agribusiness SMEs, and the loan officers and managers of eight (8) financial institutions in the study area. Questionnaires, covering the research objectives were prepared and used to collect data from sample entities.

Data Collection Procedure

Data were collected from both primary and secondary sources. Primary data were captured using questionnaires to be used in the analysis of results and discussion. The secondary data collected were used primarily informing the literature review.

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

Table 1: Sample Size & Technique for Selecting Respondents

Item Target Group	*Sample Estimated Number*	*Method Sample Selected*	*Required Technique Used*
Respondents from finance institutions	130	40	Questionnaire
Respondents from agribusiness SMEs	137	40	Questionnaire
Total	267	80	

Source: Field data, (2021)

Data Analysis

The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyze the data for the study. The data was edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents.

The data was then coded to group the respondents into a limited number of categories. The SPSS software was used for this analysis. Data were presented in tabular form, graphical and narrative forms. In analyzing the data, descriptive statistical tools such as bar graphs and piecharts were used.

RESULTS AND DISCUSSIONS

Institution's level of experience in dealing with agribusiness SME loan requests

The experience rating in dealing with agribusiness SME loan requests held by the financial institutions in the sample frame is indicative of the quality of the responses collected and used in data analysis, and the integrity of the conclusions so drawn.

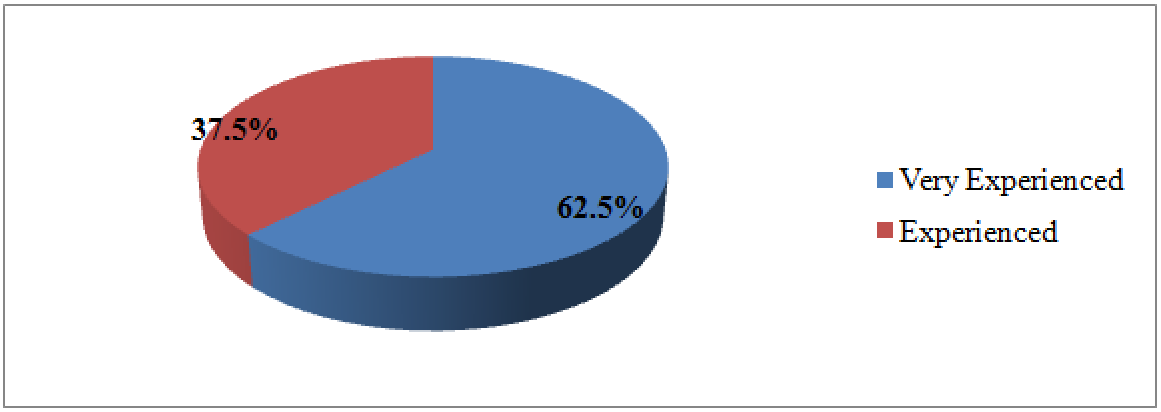

Figure 1: Institution's Level of Experience with Agribusiness SME Loan Requests

Source: Field data, (2021)

The research findings indicated that the rating of experience held by the financial institutions in the sample frame in dealing with loan requests from agribusiness SMEs is highly commendable- with 62.5% rating for "very experienced" and 37.5% for "experienced". There were no responses for the options "low experience", "very low experience" and "no experience at all".

The average share of loans to agribusiness SMEs by financial institutions

In Table 2 below, we see the frequency distribution pattern for the percentage average of loan shares disbursed to agribusiness SMEs.

Table 2: Percentage Average Loan Share to Agribusiness SMEs

Item	Frequency	Percent
Less than 10%	17	42.5
10%-19%	14	35.0
20%-29%	6	15.0
30%-39%	3	7.5
Total	**40**	**100.0**

Source: Field data, (2021)

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

With 42.5% of responses accounting for a loan share average of less than 10%, we can see the dismal status of credit availability to agribusiness SMEs. This is further underscored by the 35.0% loan share average of between 10%-19% disbursed to agribusiness SMEs. With a combined percentage of 77.5% accounting for an average loan share of 19% and below disbursed to agribusiness SMEs, the study buttresses the findings of earlier studies that show a prevalence of finance gaps for agribusiness seeking credit to grow productivity.

Average loan share trend to agribusiness SMEs (2016 and 2020)

Analysis of the responses to the question "What has been the average loan share trend to agribusiness SMEs in the last four years (2016-2020)?" showed 77.5% of respondents saying that the average share trend of loans disbursed to agribusiness SMEs was on the rise compared to the earlier benchmarked averages. 17% said it was decreasing and 5.0% said that it was static. This is illustrated in Figure 2 below.

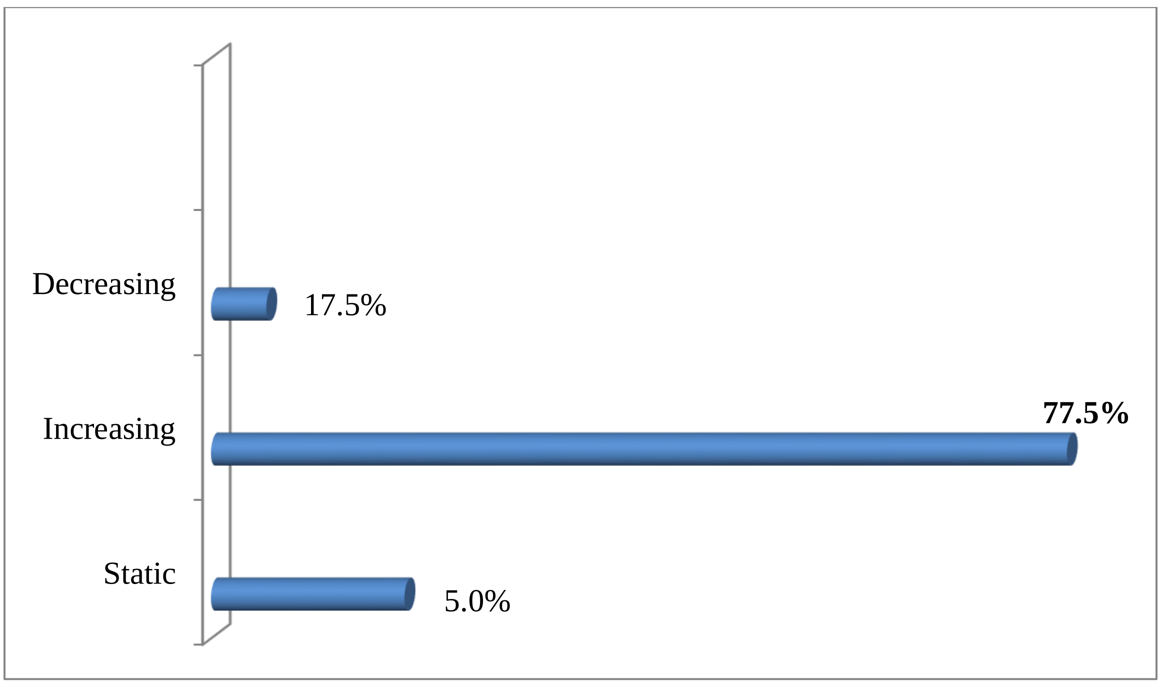

Figure 2: Percentage Share Trend of Loans to Agribusiness SMEs in the Last 2 Years (2016 and 2020)

Source: Field data, (2021)

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

The resultant increase in average loan share disbursed to agribusiness SMEs in 2013 and 2014 shows that proactive measures are being taken by financial institutions to address the concerns raised in earlier studies on the subject matter.

Incidence of loan losses to agribusiness SMEs

The research sought to determine the rating for the incidence of loan losses to agribusiness SMEs. Twenty-six (26) of the respondents (65.0%) stated that there was a "low incidence". Five (5) respondents (12.5%) alluded to a high loan loss incidence rate, while 7.5% said the loan losses incidence rate was "about half". "Very low incidence" accounted for 15% of the responses.

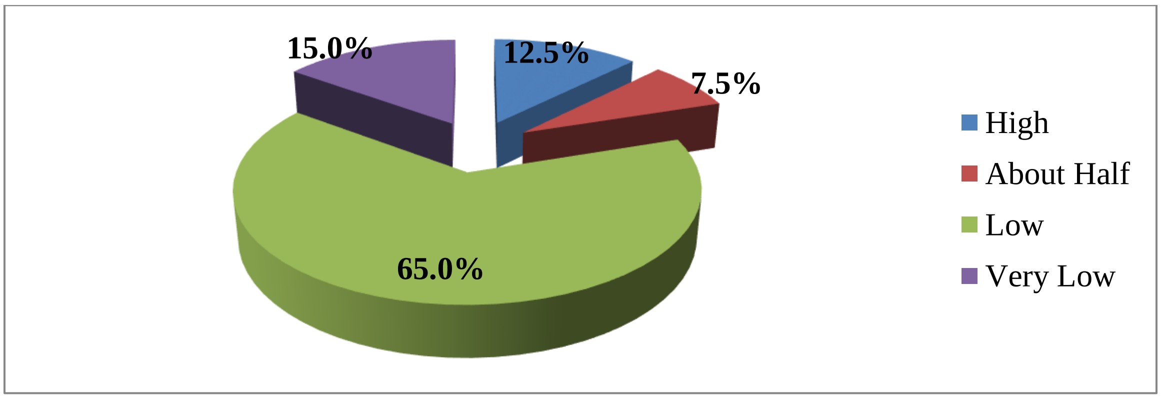

Figure 3: Percentage Rating of Loan Losses to Agribusiness SMEs

Source: Field data, (2021)

This finding is at variance with the reports of earlier studies which show a high incidence of loan losses to agribusiness SMEs. This may be the result of increased education on appropriate and efficient loan use by agribusiness SMEs since the publication of these earlier studies. It could also point to leveraged proactive measures put in place by finance institutions to cut down on the incidence of non-performing assets. It could also mean that the emerging crop of agribusiness SMEs is managed by competent personnel.

Lack of asset base by agribusiness SMEs to meet the collateral requirement

In attempting to find demand-side pitfalls associated with the disbursement of loans to agribusiness SMEs, the research found the following worrying results. Fifty-seven-point-five percent (57.5%) of respondents "strongly agree" that agribusiness SMEs lack the requisite asset base needed to secure credit when asked to respond to the statement: "Agribusiness SMEs lack the requisite asset base to meet the collateral requirement." This was closely followed by 30.0%

who "agreed" to the assertion. Conversely, only 2.5% and 5.0% "strongly disagreed" and "disagreed" respectively.

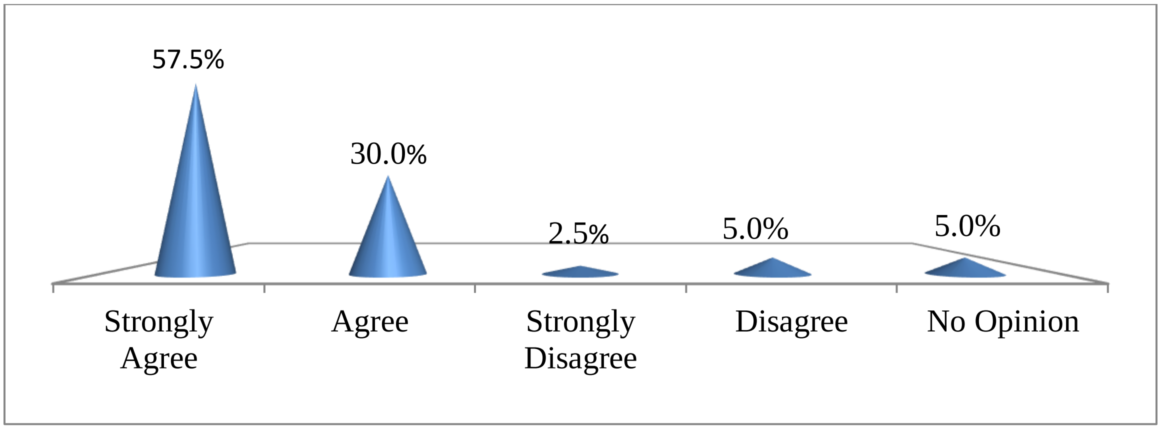

Figure 4: Lack of Asset Base to Meet Collateral Requirement by Agribusiness SME

Source: Field data, (2021)

The 87.5% combined percentage of responses in agreement to the lack of asset base held by agribusiness SMEs to meet collateral requirement sought by creditors is similar to the results of earlier studies showing that a lack of requisite collateral is held by agribusiness SMEs plays a major role in diminishing access to credit. Thus, realistic solutions must be found to ease this bottleneck of accessibility to credit by agribusiness SMEs.

Information gathering on agribusiness SMEs by financial institutions more costly than for other SMEs

When the researcher cited the cost of gathering information on a loan seeking agribusiness SME by a financial institution as an obstacle to agribusiness SMEs access to credit, the following results in Table 3 were obtained.

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

Table 3: Information Gathering More Costly for Agribusiness SMEs than for Others

Item	Frequency	Percentage
Strongly Agree	16	40.0
Agree	19	47.5
Strongly Disagree	2	5.0
Disagree	3	7.5
Total	**40**	**100.0**

Source: Field data, (2021)

This shows that a major setback mitigating against access to credit by agribusiness SMEs is the cost borne by the financial institution in gathering reliable information (such as valid addresses).

Administrative costs on loans made to agribusiness SMEs is high in comparison to other SMEs

Besides the high costs incurred in obtaining reliable information on agribusiness SMEs applying for loans, the researcher also sought to find out if the relative costs of administrative processing of loans were higher in comparison to other SMEs by posing the assertion "besides the costs incurred to obtain information on agribusiness SMEs, administrative costs on loans processed and made to agribusiness SMEs are high compared to other SMEs"; to which respondents could "strongly agree", "agree", "strongly disagree", "disagree" or opt for "don't know". Table 4 is a frequency distribution table of the results collated.

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

Table 4: Admin Costs to Process and Grant Loan to Agribusiness SMEs higher than other SMEs

Item	Frequency	Percentage
Strongly Agree	16	40.0
Agree	19	47.5
Strongly Disagree	2	5.0
Disagree	3	7.5
Total	**40**	**100.0**

Source: Field data, (2021)

It is worth noting that an increase in the administration costs of a loan application generally presents an accompanying disincentive to work on such an application. This, therefore, can rightly be categorized under "supply-side" pitfalls.

Projects proposed by agribusiness SMEs are less viable due to management's poor capacity for presenting the content of the project

When seeking a business loan, the business plan of the proposed project for which the loan is sought is often required by the crediting institution. The researcher, therefore, sought to ascertain the opinions of the respondents to the assertion that "overall, projects proposed by agribusiness SMEs are less viable due to management's poor capacity for presenting the content of the proposed project." Results from the study showed a combined percentage of 57.5% in agreement with the assertion (i.e. the 17.5% who "strongly agreed" to the assertion and the 40% who just "agreed"). Again, this represented a fifteen point percentage over the combined percentage of 42.5% who disagreed (i.e. the 35% who "strongly disagreed" and the 7.5% who just disagreed). The significant point difference (of 15%) between agreement and disagreement shows that project proposal scripts in the form of business plans are essential to closing the finance gap experienced by agribusiness SMEs seeking credit to upscale production. Not surprisingly, the finding is congruent with earlier findings on this supply-side pitfall in the access of credit by agribusiness SMEs. Overleaf in Figure 5 are the details of the analysis in graphical form.

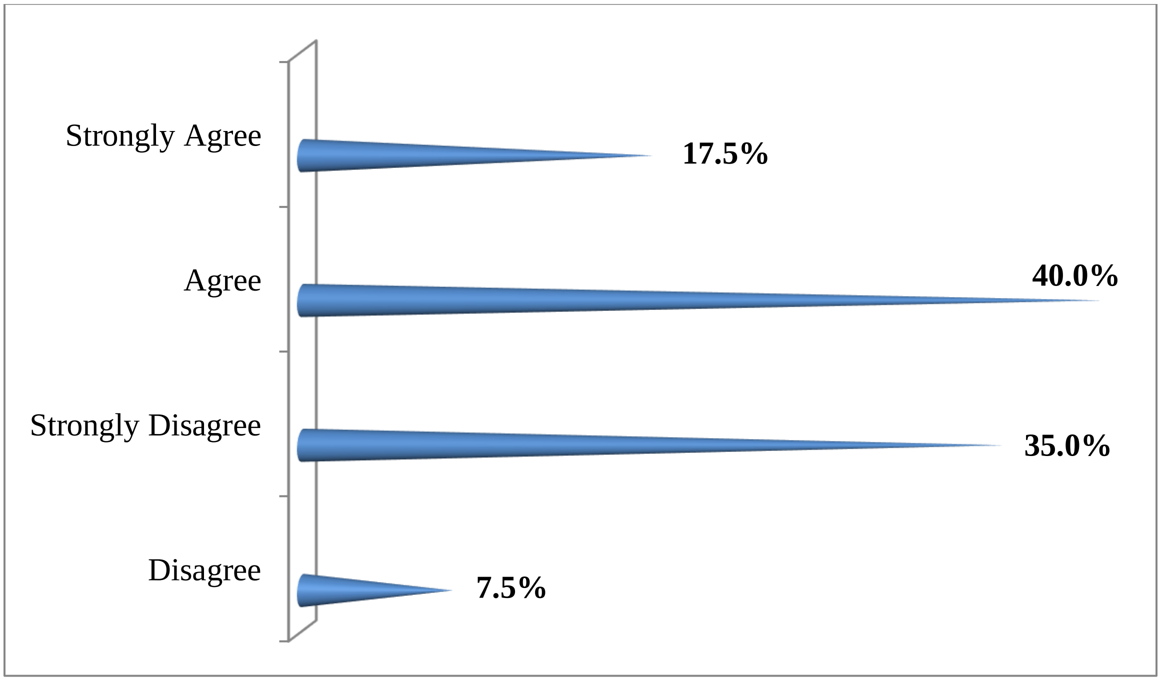

Figure 5: Less Viable Agribusiness SME Projects due to Managerial Short-Fall

Source: Field data, (2021)

The creation of agribusiness departments within financial institutions can help remove barriers to securing loans to fund the operations of agribusiness SMEs

The avoidance of loan losses is crucial to financial institutions looking to shore up profit margins. Subsequently, the researcher sought to know if respondents think the creation of a dedicated department to cater exclusively for the needs of agribusiness SMEs can help remove barriers to securing loans to fund agribusiness SME operations. An overwhelming majority of 80% thought that a dedicated department can help remove barriers to securing loans by agribusiness SMEs. Only 15% thought differently, and 5% did not have any view on the expected outcome of such an arrangement. The finding is consistent with earlier findings indicative of the general desire to increase credit access to SMEs in general and agribusiness SMEs in particular. The collated results are outlined in Figure 6 below.

ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

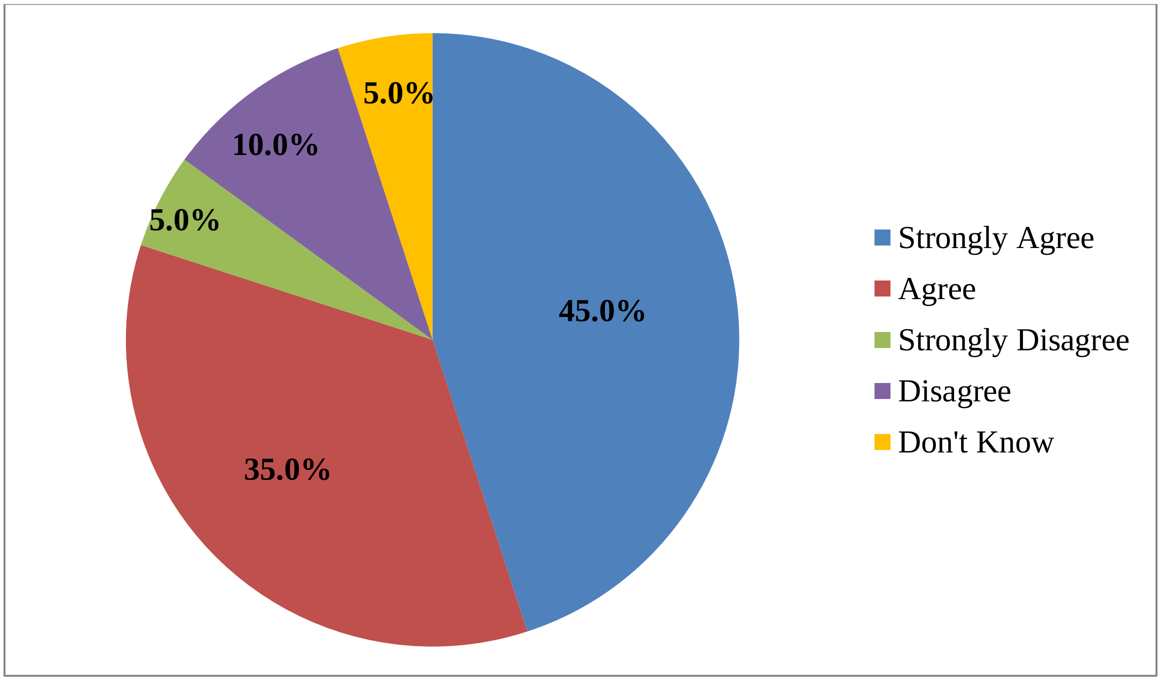

Figure 6: Percentage of Respondents in Favor of an Exclusive Agribusiness Dept.

Source: Field data, (2021)

KEY OF FINDINGS

The objective of the study is to identify the prospects and opportunities open to financial institutions providing credit to agribusiness SMEs, and also to categorize the present pitfalls in financing agribusiness SMEs. The study revealed that financial institutions that offer credit to agribusiness SMEs open themselves up to the golden opportunity to significantly increase their capital base by a concomitant increase in revenue generation and increased savings. This can be inferred from the responses generated with regards to the purpose and use of credit sought by agribusiness SMEs. Dominantly, loans for enterprise expansion and upgrade/acquisition of infrastructural assets made up a combined percentage of 85.0%. Expansion of enterprise and the upgrade/acquisition of infrastructural assets both naturally lead to an increase in productivity and profit generation. Monies from such profits will also more naturally find their way back to the credit awarding financial institution that made it possible; in the form of increased savings, increased deposits, and the wherewithal for equity financing anytime the financial institution's shares are up for sale.

The pitfalls identified can be categorized broadly into two, namely; supply-side pitfalls and demand-side pitfalls. The term, "supply-side pitfall," refers to issues and factors that make it difficult or impossible for the lender (i.e. financial institution) to disburse funds to the borrower (i.e. agribusiness SME). "Demand-side pitfall" on the other hand refers to factors or issues that make the borrower (i.e. agribusiness SME) reluctant to access credit from the lender (i.e. financial institution). Thus, in this study, supply-side pitfalls refer to challenges/obstacles occasioned by finance institution policies at variance with the realities on the ground of agribusiness SMEs seeking funding. It also connotes the demands made and expectations held by finance institutions when dealing with agribusiness SMEs. With this in view, the study noted that under the "supply-side pitfalls" 87.5% of respondents from financial institutions were uncomfortable with the high cost of gathering reliable information on agribusiness SMEs seeking credit. Again, 87.5% of respondents also attested to the higher administrative cost incurred by financial institutions as a result of information asymmetries from the agribusiness SME enterprise seeking credit assistance.

On the "demand-side" the study found that 92.5% of the agribusiness SME respondents cited high-interest rates, cumbersome procedures, and unrealistic terms and conditions as primary challenges encountered in securing loans from financial institutions. Another 60% cited lack of required collateral, poor credit history, and poor financial records as reasons for inability to secure credit.

It is worth noting that the study did not find an appreciable incidence of loan losses to agribusiness SMEs. The combined percentage of respondents who cited low and very low incidence of loan losses to agribusiness SMEs by their financial institution was a whopping 80%. This further buttresses the fact that there are ample prospects to be gained when agribusiness SMEs are granted credit assistance as and when needed because the "fear" of loan loss to agribusiness SMEs is more imagined than real.

CONCLUSION

Having ascertained the opportunities available to financial institutions through providing credit funding for agribusiness SMEs, the pitfalls shrink in significance to the obvious gains accruing from credit funding of agribusiness SMEs.

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ISSN: 2455-6939

Volume: 07, Issue: 05 "September-October 2021"

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