COMPARATIVE ANALYSIS OF INCOME INEQUALITY AMONG SMALL AND MEDIUM AGRIBUSINESS LOAN BENEFICIARIES FROM COMMERCIAL AND MICROFINANCE BANKS IN IMO STATE NIGERIA

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ABSTRACT

The study comparatively analyzed the level of income distribution among small and medium agribusiness entrepreneurs' who patronized commercial banks and Micro-finance banks. Multistage sampling technique was used to select (50) loan beneficiaries from commercial bank and another fifty (50) loan beneficiaries from Micro-finance banks in Imo state using structured and validated questionnaire . Data were analyzed using descriptive statistics and Gini-coefficient model. Results show that the Kuznets ratio is (4.601) for commercial bank beneficiaries and 6.39 for Micro-finance bank beneficiaries, and Gini coefficient for the income distribution of agribusiness entrepreneurs' who patronized Micro-finance banks was 0.502 while that their counterparts who patronized commercial banks was (0.446) which implies that there is more unequal distribution in the income of agribusiness entrepreneurs' who patronized Micro-finance banks than their counterparts who patronized commercial banks .

KEYWORDS: Loan, Inequality, Income, Lorenz Curve, Kuznets, Micro-Finance, Commercial Banks, Agribusiness Entrepreneurs.

INTRODUCTION

In Nigeria today, the mantra "beyond oil" has become a 'buzz word' owing to declining revenue from oil and its associated adverse effect on the economy and citizens' welfare. Governments have acknowledged role of Agribusiness Small and Medium agro Enterprises (SMEs) in encouraging entrepreneurship and its impact on job creation, improvement of people's standards of living and hence an overall impact on the economy as a way of diversifying the economic reliance on oil for development.

Agricultural and agribusiness finance is very significant in developing countries because it can potentially serve as an enabler of inclusive growth and poverty reduction, productivity enhancement, improved income for agribusinesses operators, and overall balanced regional development (Sharma and Zhang, 2012). Agriculture in Nigeria provides employment for about 30% of the population (NBS, 2010), therefore any financial investment in small-scale agribusinesses will be critical and worth considering because of their dominance and pervasiveness. Smallholder agriculture remains the major engine of rural growth and livelihood improvement for some time. Meeting the challenge of improving rural incomes in Nigeria will require some form of transformation out of the semi-subsistence, low-input, low-productivity farming systems that currently characterizes much of rural Nigeria. The inadequate use of improved inputs consequent upon the low resource endowment of the peasant farmers has made Nigerian agriculture to remain at the rudimentary and traditional level. A fundamental requirement for correcting this problem is injection of investible funds into peasant agriculture. This is necessary because the needed funds cannot be provided by the resource-poor farmers owing to low productivity and widening demand-supply gap for loanable funds especially in the rural landscapes which is home to majority of the peasants (Olayemi, 1999).

However, since the availability of adequate credit is central to improvement of agricultural production in the economy, the Federal Government of Nigeria advised the commercial banks to devote a certain percentage of their loanable funds to the sector. Despite the directive, commercial bank credit to farmers in Nigeria is perceived to be "bad business" by the banks and "process-cumbersome". Broad-based analysis of the socio-economic characteristics of small and medium agribusiness entrepreneurs' who patronize financial institutions is necessary, so that these characteristics and their contribution to income effect of credit can be viewed in entirety and not as a part. Currently small and medium agribusiness entrepreneurs' prefer credit from Micro Finance Banks and cooperative societies because of their scale of operation and ease of obtaining the credit. The issues of bank credit and small and medium agribusiness entrepreneurs' have mainly been one of accessibility, technicality and product component from actors on both sides.

Despite the importance of credit to small and medium agribusiness entrepreneurs', the agricultural sector and general economic development of the nation, studies conducted have not focused on comparing the credit distribution and income inequality of agribusiness entrepreneurs who patronize microfinance banks and commercial banks. The paper seeks to examine the socio-economic characteristics and income inequality of agribusiness entrepreneurs who patronize microfinance banks and commercial banks in Imo State Nigeria.

MATERIALS AND METHODS

Study Area

This study was carried out in Imo State which is one of the five states of southeastern, Nigeria, mainly because a number of financial institutions, international and federal agricultural establishments are located in the state and because of the large numbers of small and medium agribusiness entrepreneurs in the state. Imo State is divided into three agricultural Zones namely Owerri, Orlu and Okigwe.

Sampling Technique

A multistage sampling technique was used to select 100 respondents from the state. Firstly, two (2) agricultural zones were purposively selected based on the activeness small and medium agribusiness operators, These are Okigwe and Owerri agricultural zones.

Secondly, five (5) local government areas (LGAs) were randomly selected from each of the two selected agricultural zones, to bring the total number of local governments selected to ten. Thirdly, one community was purposively selected from each of the local government based on the activeness in small and medium agribusiness entrepreneurship; this brings the total number of communities involved to ten communities. In the final stage, five respondents (small and medium agribusiness operators) who patronized commercial bank credit and another five respondents (small and medium agribusiness operators) who patronized Micro-finance bank credit, were randomly selected from each of the ten communities to bring the total number of respondents to .

Analytical Techniques

Various analytical techniques were used for this study. Descriptive statistical tools were used to analyse the socio-economic characteristics of the commercial bank and Micro-finance bank credit beneficiaries, while the Gini-coefficient derived from the Lorenz curve was used to ascertain the size and distribution of the income levels of the commercial bank and Micro-finance bank credit beneficiaries. The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents.

RESULTS AND DISCUSSION

Age is very important in agricultural production as it determines the physical strength of the individual, and young people tend to withstand stress, put more time in various agricultural operations which can result to increased output (Adeola, 2010). The results presented in Table 1 show that the only 12% respondents of (55) years and above patronize commercial banks while more than twice

as many(28%) patronize micro finance lending institutions. This indicates that older farmers make use of Micro-finance credit sources than commercial sources. This can be attributed to commercial banks credit review system which restricts old small and medium agribusiness entrepreneurs from obtaining credit facilities. Majority of the commercial bank beneficiaries (72%) are males while majority of Micro-finance bank beneficiaries are females. This can be attributed to the land tenure system in the state which does not allow women to inherit landed properties such as land. Therefore, the women find it difficult to provide collateral which is necessary for credit to be provided by commercial banks. Another reason could be the fact that the micro finance banks in Nigeria are not required to demand for collateral from prospective borrowers.This support the result of Akangbe *et al.* (2011), which reported that oil palm small and medium agribusiness are dominated by females. Mean household size of the bank credit users was found to be (5) while micro finance bank users were found to be (7). The table also showed all the small and medium agribusiness entrepreneurs who made use of commercial bank credit had at least basic education whereas (6%) of the Micro-finance bank users had no formal education. The mean Agribusiness experience of commercial bank credit users is (23) years while that of Micro-finance bank credit users as (14) years showing that most small and medium agribusiness entrepreneurs who patronize commercial bank credit are largely experienced, were more banks experienced than Micro-finance bank users. This owes largely to the credit review system of commercial banks.

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Table 1: Socioeconomic characteristics of beneficiaries

	Commercial Bank Users		Micro-Finance Bank Users	
	Frequency	%	Frequency	%
Age (Yrs.)				
25 – 39	14	28	14	28
40 – 54	30	60	22	44
55 – 69	6	12	14	28
Mean	**47.9**		47	
Total	50	100	50	100
Gender				
Male	36	72	19	38
Female	14	28	31	62
Total	50	100	50	100
Marital Status				
Single	16	32	4	8
Married	34	68	46	92
Total	50	100	50	100
Household Size				
1 – 4	16	32	11	22
5 – 8	29	58	26	52
9 – 12	5	10	13	26
Mean	**5**		7	
Total	50	100	50	100
Educational Level				
0	0	0	3	6
1 6	3	6	14	28
7 – 12	40	80	25	50
13 and Above	7	14	8	16
Mean	**9.8**		8.1	
Total	50	100	50	100
Agribusiness Experience				
1 – 6	2	4	4	8
7 – 11	6	12	16	32
12 – 24	25	50	23	46
25 and Above	17	34	7	14
Mean	**22.94**		14	
Total	50	100	50	100
Staff Strength				
1-3	27	54	26	52
4 – 6	19	38	21	42
7 and above	4	8	3	6
Total	50	100	50	100

The size distribution of the beneficiaries' income was analyzed using the gini coefficient derived from the Lorenz curve. The graph shows that both curves are considerably farther away from the equality line showing that there is some degree of unequal distribution of income amongst the small and medium agribusiness entrepreneurs who patronized commercial banks and small and medium agribusiness entrepreneurs who patronized Micro-finance banks Tables 2 and 3. The graph also shows that the unequal distribution of income among small and medium agribusiness entrepreneurs that

patronized Micro-finance banks is higher than their counterparts who patronized commercial banks (Figure 1).

The Kuznets ratio (the ratio of the incomes received by the top 20 percent and bottom 40 percent of the population) is 4.60 for commercial bank beneficiaries and 6.39 for Micro-finance bank beneficiaries, suggesting that there is a higher degree of inequality amongst beneficiaries of Micro-finance banks This finding agrees with the work of Osinubu (2003) that there was a considerable inequality of wealth among the households in Nigeria, that is, a little above average population controlled a large proportion of the wealth of all household.

Table 2 : Income Distribution of the commercial bank beneficiaries

Income quintile	Income range (N)	% of total income	Cumulative % of total income
Lowest 5th	1-170,000	3.1	3.1
Second 5th	170,001-340,000	7.7	10.8
Third 5th	340,001-510,000	13.5	24.3
fourth 5th	510,001-680,000	26	50.3
Highest 5th	680,001-850,000	49.7	100

Table 3. Income distribution of the Micro-finance bank beneficiaries in Imo state

Income quintile	Income range (N)	% of total income	Cumulative % of total income
Lowest 5th	1-156,000	2.9	2.9
Second 5th	156,001-312000	6.1	9.0
Third 5th	312001-468,000	10.8	19.8
fourth 5th	468,001-624000	22.7	42.5
Highest 5th	624,001-780,000	57.5	100

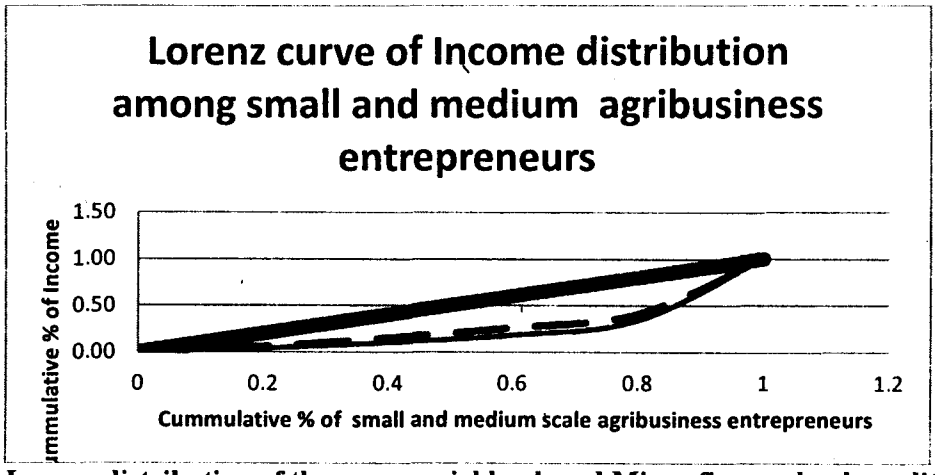

Figure 1: Income distribution of the commercial bank and Micro-finance bank credit users.

Note:

Reflects the perfect equality line;

Reflects the cumulative income distribution of beneficiaries that received credit from microfinance banks;

Reflects cumulative income distribution of beneficiaries that received commercial bank credit.

The Gini coefficient for the income distribution of small and medium agribusiness entrepreneurs' who patronized Micro-finance is 0.502 while that their counterparts who patronized commercial banks is 0.446 This implies that there is more unequal distribution in the income of small and medium agribusiness entrepreneurs' who patronized Micro-finance banks than their counterparts who patronized commercial banks.

CONCLUSION

Worsening income inequalities and economic growth is evident in Nigeria and a number of countries in West African (World Bank, 1992). There is therefore a need for policies that will influence the pattern of agricultural growth in ways that can reduce inequalities the income level of rural farm households. However such policies will be lacking if they do not incorporate micro level data on the income distribution of farm household. This study was therefore designed to partially fill the knowledge gap by comparing the nature of the size and distribution of commercial bank beneficiaries and Micro-finance bank beneficiaries in Imo state South east Nigeria.

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