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**PRE-INVESTMENT APPRAISAL AND SMALL SCALE  
AGRIBUSINESS DEVELOPMENT**

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**ABSTRACT**

This research was conducted to verify if agribusiness entrepreneurs do carry out pre-investment appraisal of their projects which could make them better equipped for the risk and uncertainties inherent in Agribusiness. The research was conducted in two commercial cities of Akwa Ibom State namely, Uyo and Ikot Ekpene. The focus was on the farm supplies, processing and distribution components of agribusiness. Using structured questionnaire, 138 respondents were sampled. Questions covered a wide range of issues, including what motivated entrepreneurs into agribusiness, tools used in analysing their projects and achievement of business objectives/goals. Data obtained were subjected to descriptive statistical analysis. Results show that only 13.08% of the respondents conducted pre-investment analysis. Low educational level does not support the use of sophisticated evaluation tools and more processors (6.92%) carried out project appraisal as compared with others. Furthermore, the major problems facing small agribusiness entrepreneurs are high transport cost and inadequate funds, in order of severity. The results point to the need for mass campaigns to enlighten the agribusiness entrepreneurs on the usefulness of project analysis in business success.

**INTRODUCTION**

The decision to start agribusiness or any business may be one of the most challenging decisions one has to make. This is so because it may involve taking responsibility for one's own future especially in respect of employment and income. The decision is even more crucial in a developing economy where the financial base of the majority is precarious and also when the proposed business is prone to risk and uncertainty as is the case in agriculture. The situation in agribusiness is succinctly captured by Seck (1992) who said:

“In many African countries, a wise entrepreneur would rather put his capital into real estate rather than unto agriculture, which is a high risk business at the best of times and is particularly so when the state offers no protection”.

Agribusiness development in Nigeria has suffered major constraints which adversely affect their conduct and performance. Olayide and Akinwumi (1975) posited that the observed poor performance of agro-industries is due to certain constraints which include the unattractiveness of ventures in this sector to indigenous business men and investors and the delay in completing feasibility studies, among others. While these constraints may be common to large scale agribusinesses, it is doubtful if small scale agribusiness operators make efforts to undertake a quantitative analysis of their investment alternatives.

Many researchers assert that urgency is often the key factor in the decision of most small scale entrepreneurs (Adesimi, 1988; Inim, 1991 and Akpan, 1994). This attitude is against the widely held view that pre-investment appraisal of project is an important factor in the investment decision process.

From the entrepreneurial perspective, the success of an investment rests on the economic appraisal of projects as such appraisal helps to sharpen the judgement of the entrepreneur. As efforts are intensified on sustainable agricultural development in Nigeria, attention should be given to possible ways of ensuring the success of the small agribusiness enterprises. Thus, preliminary but critical evaluation of the desired or proposed business, should be made.



### RELATIVE SIGNIFICANCE OF APPRAISAL TOOLS

Several tools of project appraisal have been known and used by researchers and practitioners. These tools are broadly grouped into two, namely: the traditional/conventional or non-discounting techniques and the non-conventional/sophisticated or discounting techniques. Under the non-discounting techniques are such tools as urgency, payback period, peak-profit method, rate of return on investment and the average profit method. The discounting techniques comprise the net present value (NPV), the internal rate of return (IRR) and the benefit-cost ratio (B/C), (Gittinger, 1982). The non-discounting methods though easy to compute and use are replete with obvious demerits. Their common short-coming is their inability to consider timing of capital investment and benefits thus treating all the cash flows as if they are expressed in the same money value. This fundamental drawback is overcome by the discounting techniques. They consider all the returns over the life span of the project and these are expressed in their present value which is what the returns expected in the future are worth today (Adegeye and Dittoh, 1983). Present value is given by the formula

$$\text{Present value} = \frac{\text{Future Nominal Value}}{(1 + r)^n}$$

where,

The future nominal value is the streams of income accruing to the project.

r = interest rate (expressed in percentage)  
n = period of time (in years).

Inflation affects both the cash flows of an investment proposal and cost of capital to the entrepreneur. Ignoring inflation can result in wrong investment decisions. In the light of this, the discounting techniques could prove useful apparatuses in determining the desirability of a project and even accounting for the risk associated with different investment projects.

### OBJECTIVES OF THE STUDY

The purpose of this study is to examine small scale agribusiness in relation to project appraisal. The specific objectives are to:

- (i) assess the relationship between educational attainment and project appraisal.
- (ii) examine the types of project in relation to the appraisal tools and;
- (iii) examine motivation, goal achievement as well as the problems faced by entrepreneurs in their business operations.

### THE DATA

The research which culminated in this paper was conducted in two commercial cities of Akwa Ibom State - Uyo and Ikot Ekpene. Structured questionnaires were used to obtain information from 130 agribusiness concerns in the study areas. Fifty-two of the respondents belong to the restaurant/fast foods group, 50 were of the processing aspect, bakery, etc., and 28 were food shops. Questions were drawn to cover a wide range of issues including what motivated entrepreneurs into agribusiness, tools used in appraising their projects and achievement of business objectives/goals. The responses were revealing as well as interesting and were subjected to sample analytical technique of descriptive statistics.

### FINDINGS AND DISCUSSION

#### 1. Educational Attainment and Project Evaluation:

Table 1 presents result relating entrepreneurs educational level and project evaluation. Only 13.08 percent of the respondents conducted pre-investment appraisal of their business. Undoubtedly, respondents with a higher level of education than the primary school appraised their projects as compared to those without formal education or lower level of education.

The pay-back period method seems to be the most popular tool followed by the benefit-cost ratio. (The pay-back period method is an undiscounted method which measures project worth from the beginning of a project until the net (undiscounted) value of the incremental production stream totals the



amount of the (undiscounted) investment of capital. Benefit cost ratio is the ratio of discounted benefits over discounted cost).

The popularity of the pay-back period method could be as a result of its simplicity and clarity. But, it does not account for the time value of money and other risks and uncertainties which are responsible for the failure of most businesses. That only 13.08 percent of the total respondents evaluated their projects tends to point to the belief of some of the respondents that success in business does not depend on pre-investment appraisal. This shows lack of knowledge of the workings of an economy and could well account for the frequent failure of small agribusinesses in Nigeria.

**TABLE 1: EDUCATIONAL LEVEL AND TOOL OF PROJECT APPRAISAL.**

Educational Level	Number of Respondents	Number of entrepreneurs Naming a particular appraisal tool		
		Benefit Cost Ratio	Internal Rate of Return	Pay-back period
No formal Education	13	Nil	Nil	Nil
Primary	17	Nil	Nil	1
Secondary	37	3	2	2
Tertiary	20	3	2	4

SOURCE: Field Data, 1994.

## 2. Project Evaluation and Type Enterprise:

It is common sense that some business are more complex, capital intensive and volatile in operation than others. While some enterprises take longer time to pay back investment on them, others have very short pay-back period. In whichever of these classes a given project belongs, there is a strong

need for pre-investment appraisal. The enterprises in Table 2 were classified into three groups: restaurants/fast foods, processing and food shops. The first group comprises cafeterias, bukatarias, restaurants, fast food shops, e.g. snacks and suya spots, while the processing group consisted of small scale bakeries, local gin distilling and rafia product manufacturing. The food shop group is made up of meat shops and raw food stores. Of 52 restaurants and fast food shops sampled, only 3.85 percent appraised their projects. Similarly, 6.92 percent of the 50 processors and 2.30 percent of the 28 food shops, respectively, carried out pre-investment appraisal before embarking on their projects. In all, entrepreneurs in the processing businesses seem to be more interested in appraisal of their projects. This sustained interest in pre-investment appraisal by processors could be because processing is more involving in terms of equipment and other inputs, funding, time, etc, than other groups of businesses. Therefore, an entrepreneur involved in it would take time to evaluate the profitability or otherwise of the business before committing his hard-earned resources.

**TABLE 2: TYPE OF ENTERPRISE AND PROJECT APPRAISAL.**

Type of Enterprise	Number of Respondents	Number that Evaluated	Percentage of Total Respondents
Restaurant/ Fast Food	52	5	3.85
Processing	50	9	6.92
Food Shops	28	3	2.31
Total	130	17	13.08

Source: Field Data, 1994.

## 3. Motivation, Evaluation and Achievement of Goals:

Berelson and Steiner (1964) have defined a motive as an inner state that energized, activates or moves, and that directs or channels behaviour



toward goals. The achievement of such goals in itself depends on how the entrepreneur is able to manipulate his business to respond to the socio-cultural, economic and political environment. In this study, 58.46 percent of the respondents are motivated by expected economic benefits to go into business, 46.05 and 48.68 percent of them had fully and partially achieved their goals respectively, and only 1.32 percent had appraised their projects. In the same vein, 24.62 percent of the respondents were encouraged to start their venture because of the need for independence; 11.54 percent by possession of skills and only 5.38 percent by perceived psychological appeal. Very few (49.23 percent) of those motivated by the factors listed claimed their goals were fully achieved.

TABLE 3: MOTIVATION AND ACHIEVEMENT OF GOALS.

Motivating factor	Number of Respondents	Achievement of Goal			Number that evaluated
		Yes	Partially	No	
Need for Independence	32(24.62)	15(46.88)	12(37.50)	1(3.13)	4(12.13)
Expected Economic Benefits	76(58.46)	35(46.05)	37(48.68)	3(3.95)	1(1.32)
Possession of skills	15(11.54)	7(46.67)	4(26.67)	2(13.33)	2(13.33)
Perceived Psychological appeal	7(5.38)	7(100)	Nil	Nil	Nil

Figures in parenthesis are percentages

Source: Field Data, 1994.

#### 4. Problems of Small-Scale Agribusiness:

Problems of small-scale agribusiness are many and varied. They include scarcity of inputs, inadequate capital, high transport cost and low patronage. Lack of inputs can hinder the realization of a business goal. However, this problem is less significant as only 8.46 percent of the

respondents complained of it. The most pressing problem is high cost of transportation followed by inadequate capital or funds (Table 4).

These observations are a reflection of the distortions in the Nigerian economy where transport cost constitutes a major portion of the cost of production due to escalating transport fares - a consequence of the removal of subsidy on petroleum products by the Federal Administration. Evidence from the survey reveals that most of the enterprises operate on personal savings which, as expected, is not adequate. Unless entrepreneurs have access to soft loan or cultivate co-operative spirit of pooling their resources together to sustain or expand their businesses, the sad story of failing agribusinesses will still remain.

TABLE 4: PROBLEMS FACED BY ENTREPRENEURS.

Main problems faced by Small-Scale agribusiness operators.	Number citing a particular problem	Percentage of respondents citing a particular problem
Scarcity of Inputs	11	8.46
Inadequate Capital	47	36.15
High transport cost	54	41.54
Low Patronage	18	13.85
<b>Total</b>	<b>130</b>	<b>100.00</b>

Source: Field Data, 1994.

#### CONCLUSION

The results from this study, reveal the unfortunate situation that most agribusiness operators do not undertake pre-investment appraisal of their project before embarking on them, where they do, the sophisticated tools which are capable of discounting for inflation and other uncertainties are not employed. The danger in this type of phenomenon is that such enterprises are bound to fail since the operators are ill-prepared for the risks and



uncertainties inherent in agribusiness. The pay-back period method which is preferred by most of the entrepreneurs is not strong enough to cater for time value of money. The problem of small-scale agribusiness ventures in the study area is aggravated by high transportation cost followed by inadequate funds. Agriculture has been identified to play a major role in the economic development of countries the world over. A well developed agribusiness sector in Nigeria has the potential of minimizing unemployment, rural-urban exodus, seasonal food wastage and surpluses. For agribusiness to be strong and vibrant in the study area, the problems identified in this study should be solved.

This requires:

- mass campaigns to enlighten agribusiness entrepreneurs on the efficacy of project appraisal in business success. Emphasis should be placed on the use of discounting methods of appraisal. This is to address the issue of time value of money, and other risks and uncertainties inherent in agribusiness.
- a reasonable reduction in petroleum products prices to bring down transport fares.
- the entrepreneurs themselves should cultivate co-operative spirit by pooling their resources together in order to beat the problem of inadequate funds for the execution of their projects.

According to these recommendations deserved attention can engender the development of the small-scale agribusiness and indeed Agricultural Subsector in Nigeria.

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