

TITLE PAGE

THE ROLE OF FINANCIAL INSTITUTIONS IN AGRICULTURAL
DEVELOPMENT (1990-2010)
A CASE STUDY OF NIGERIA AGRICULTURAL COOPERATIVE AND
RURAL DEVELOPMENT BANK

BY

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REG. NO: EC/2008/653

BEING A RESEARCH PROJECT PRESENTED TO THE
FACULTY OF MANAGEMENT AND SOCIAL SCIENCES,
DEPARTMENT OF ECONOMICS.

CARITAS UNIVERSITY AMORJI-NIKE, EMENE ENUGU STATE.

IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD
OF BACHELOR OF SCIENCES (B.Sc.) DEGREE IN ECONOMICS.

AUGUST, 2012

APPROVAL PAGE

This is to certify that this research study carried out by **YVONNE ONYEKACHI PAULA OMEJE** of the Department of Economics is adequate in scope and content, and approved by the undersigned, on behalf Caritas University Amorji-Nike Emene.

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To him

Who loves us all

GOD ALMIGHTY

For his love and sustaining grace all through my programme and
the OMEJE family especially my parents.

ACKNOWLEDGEMENT

First and foremost, I wish to thank and praise the almighty God for sparing my life and more importantly for his spiritual guidance and heavenly mercies rendered to me since the beginning of my academic pursuit to this stage. I wish to express my profound gratitude to my parents PROF. & MRS. IKENNA S. OMEJE for their unflinching support, both morally and financially and to my brothers and sisters for their love and support.

I also wish to express with deep sense of humanity, gratitude and indebtedness to my beloved daddy and project supervisor Prof. S.I Udaba whose regular and prompt attention; useful suggestions, comments and encouragement at every stage of this work were invaluable. I wish to thank more sincerely for his open handedness and accomplishing nature towards me, praying the good Lord to bless him and his family.

I sincerely appreciate the invaluable help and advice from my H.O.D. P.C Onwudinjo E.sq and other lectures such as Mr.

Ojike, Mr.Uche, Mr. Ikpe, Dr. Umadi, Mr. Osodunire who had impacted something meaningful into my life.

Further more I acknowledge my colleagues and friends who shared every thing with me, all odds we pulled together, the laughter, the joy and sorrows throughout my stay in school.

I personally that in moment of sober reflection discover that I am indebted to very many people even for the least achievement. Here I find myself limited in space, I would have gone on and on mentioning them.

Above all, I give endless thanks to Almighty God, the author and finisher of our faith, for giving me the grace to embark and successfully complete this programme.

Abstract

This study examined the role of financial institutions in agricultural development. A case study of Nigeria Agricultural Cooperative and Rural Development Bank, with a view to make useful suggestions and recommendations as way of enhancing the development of agricultural sector. The population for the study includes large and small scale farmers and the sampling method adopted for the study is the stratified random sampling in order to ensure adequate representation of the population. In order to achieve the objective of making useful suggestions that would improve the agricultural sector, a number of hypotheses were made and tested. Samples of one hundred and eighty responses were collected and analyzed using the chi-square (χ^2) and tested method. It was discovered that bank credit loan scheme is making some impacts in lending loans to farmers. The result also showed that farmers prefer informal to the formal sources of finance mostly because of the demand of formal institutions that farmers most present collateral security. Finally, the study also indicated that the problems facing agricultural financing.

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CHAPTER ONE

INTRODUCTION

BACKGROUND TO THE STUDY

Nigeria is endowed with natural resources, large fertile farmland, wide range of crops, and river amongst others. Despite its abundant nature resources it is faced with a poor food situation. The poor food situation is traceable to the decline in the agricultural sector. The problem of feeding and provision of natural resources is increasing by the day. However, several efforts are being made to improve the standard.

Prior to the discovery of petroleum in Nigeria agriculture used to be the highest foreign exchange resources earner and its contribution to gross domestic product GDP has been estimated to about 62.63% in 1960, 48.08% in 1970, and 20.63% in 1980. Recently due to the growing awareness of the role of agriculture, the various governments have intensified efforts aimed at transforming from its present subsistence level to a market oriented production. One of those efforts was the ban made on

importation of agricultural products like palm oil, maize and rice. This was done to encourage improvements on our production standard.

Due to the fall in the level of production from decade to decade, the country could no longer feed the large population, provide raw material for domestic industries, engage in export of agricultural produce and employ the labor force of the country despite the abundance of human and material resources.

In spite of growing urbanization, Nigeria is known to be predominantly rural in nature and majority of the population is dependent directly or indirectly on agriculture for their livelihood. Though, the Nigerian agriculture is characterized by low farm income, low level capacity to satisfy the food needs of the country, due to the outdated and primitive techniques of production, it is still the mainstay of the nation's economy.

Measures and program setup to upgrade the Agricultural sector involve the construction and reformation of the whole structure of the agricultural sector by the creation of appropriate

institutions and public services. This would help strengthen the economic position of the dependent farmers. Examples of such measures are National Accelerated Food Production Project (NAFPP), Structural Adjustment Program (SAP), Nigeria Agricultural Cooperation and Rural Development Bank (NACRDB).

STATEMENT OF RESEARCH PROBLEM.

According to Anyanwu Etal (1997:14) "the agricultural sector has been recognized for a long time as an important sector to Nigerian economy and development is one of the crucial requirements for the overall economic growth. He noted further that the decline in agricultural activities might appear natural in any development process; it is obvious that in Nigeria agricultural activities would remain the most important single sector for some time to come. He emphasized that in the past, development planners have introduce programs such as national accelerated food production project (NAFPP), green revolution programs (GRP), in search for all appropriate technique in order to increase

farm output and productivity and such program have at one time been implemented.

In recognition of the aforementioned that attempt is made in this study to provide answers or solution to the research problems below.

1. What are the reasons for continuous fall or decline in the production level of the agricultural sectors of the Nigerian economy?
2. What actions can be taken to upgrade the current production level of the agricultural sector?
3. What effect does the decline in agricultural sector have on the human resources of the economy?

What measures have been taken in the past to redress the perceived slow growth rate of the agricultural sector?

How and to what extent does the performance and commitment exhibited by financial institution in general, Nigeria agricultural cooperation and rural development bank (NACRDB) in particular in terms of providing financial support influenced the activities of agricultural sector?

OBJECTIVES OF STUDY.

The objectives of the study are to determine the role of financial institution in agricultural development in Nigeria. This will specifically include

1. To examine and evaluate the agricultural credit granted to the farmers in recent years.
2. To ascertain the effectiveness of credit granted by Nigeria agricultural cooperation and rural development bank (NACRDB) in the achievements of the pre-planned objectives of the agricultural sector.
3. The study seeks to analyze the measures and program set by the government in a bid to enhancing the agricultural sector.
4. To determine the influence of these measures at accelerating the growth rate of the agricultural sector.
5. To establish and verify ways by which the agricultural sector can be improved in the future.

The study seeks to achieve the above system aims or objectives.

SCOPE OF THE STUDY.

With the aim of examining how the financial institutions influence the activities of agricultural sector, through their credit policies and farm credit system, programs that have been established to review the agricultural sector would be analyzed. A lot of sources for farm credit have been and a number of them have failed to perform their pre-planned functions. An example of such scheme is the Nigeria local development board (NLDB).

Our point of focus in examining institution program and scheme setup to upgrade the agricultural sector would be on Nigeria agricultural co-operative and rural development bank (NACRCD).

SIGNIFICANCE OF THE STUDY.

The agricultural sector of the Nigeria economy like any other sector of the economy cannot function without fund. Unlike the other sectors of the economy, agricultural sector can guarantee repayment of loan borrowed or collected only after a long period

of time. This is because of the slow nature of the production process.

However, this has acted as a hindering factor to giving out loan to the agricultural sector by financial institutions. If this continues in its current path, the continuous lack of fund would lead to the eventual collapse of agricultural activities.

The problem of lack of fund and credit facilities in the agricultural sector has been chosen because the persistent shortage of fund would lead to a fall in the production level of the agricultural sector, the agricultural sector whose importance cannot be over stated.

Nevertheless, there would be some beneficiaries in this study which will include the government, financial institutions, large and small scale farmers as well as the general public.

STATEMENT OF THE RESEARCH HYPOTHESIS.

This study would be guided by the following hypothesis;

- i. Ho: the agricultural down drain cannot be curbed through effective bank credit.

Hi : the agricultural down drain can be curbed through effective bank credit.

- ii. Ho: bank credit and financial facilities are not made available by development bank to farmer.

Hi: bank credit and finance facilities are made available by development bank to farmers.

- iii. Ho: bank credit facilities have been ineffective due to their policies formulated and not their implementations and utilization.

Hi: bank credit facilities have been ineffective due to their improper implementations and utilization and not due to the policies formulated.

SOURCES OF DATA.

For this study, data and information from different sources would be required to test the research hypotheses and solve the research problem. Content that would be analyzed in the process of data generation include books, newspapers, magazines, journals, minutes of meetings, publication of any involved body as well as other media for recording historical data. The sources listed above would provide primary and secondary data.

LIMITATION OF THE STUDY.

Some factors may limit the level of accuracy and reliability of this study. Such factors include.

- i. Difficulty in obtaining data.
- ii. Low response rate from involved parties.

In the absence of the above mentioned limitations, all other errors and omissions are entirely those of the researcher.

DEFINITION OF TERMS.

i. **AGRICULTURE:** This can be defined as the growing of crops and rearing of animals for human consumption. Agriculture involves live stock, forestry, wide life and fisheries as well as the production of crops like cocoa, palm product, groundnut, cotton and rubber. Historically, the Nigerian agriculture can be categorized into three. They are

- The subsistence type.
- The diversified type.
- The plantation type.

The subsistence type is the production type done mainly for human consumption with little or no surplus.

The diversified type is the production type that is done beyond individual consumption or domestic level.

The plantation type although have not made any impact in the Nigeria agriculture, it accounts for a small amount of total Nigeria agricultural output. It involves the use of improved

modern techniques and it is run in the state by their development cooperation.

ii. **AGRICULTURAL SECTOR:** The agricultural sector is one of the sectors of Nigeria economy... it is the sector responsible for the provision of food supply and raw materials for domestic and foreign industries.

iii. **FINANCIAL INSTITUTION:** These are organization owned either by individual, group or persons, state or country as a whole. Financial institutions are established mainly for saving money (deposit) for their customers and providing for such deposit and when needed and also the granting of credit facilities to their customers based on the credit worthiness of such customers.

iv. **NIGERIA AGRICULTURAL CO OPERATIVE AND RURAL DEVELOPMENT BANK (NACRDB):** It is a body charged with the duty of granting credit facilities to individual farmers as well as the group farmers for the purpose of fueling their farming activities. It was previously known as Nigeria agricultural cooperative bank (NACB) and became Nigeria agricultural cooperative and rural development bank (NACRDB) after merging

with the defunct people's bank of Nigeria and family economic advancement program.

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CHAPTER TWO.

LITERATURE REVIEW.

THEORETICAL BACKGROUND.

There are many problems operating against the development of agriculture in Nigeria. The most serious of these problems is the inadequacy of credit facilities. This has caused a lot of setback to development of this sector of Nigerian economy. Several banks have been encouraged by federal government to give out loans to the needy farmers to boost agricultural production in the country. The effect of agricultural production in relation to bank credit is a matter of great value based on the effect unhealthy agricultural environment has on a country.

These can be seen from such angles which includes;

Starvation, poverty, unemployment, poor economy growth, over dependence on other countries and many more.

According to Uchegwu (1995:10), "in trying to solve this problem and encourage bank to meet the prescribed credit target, the federal government established by decree no. 20 of 1977, the agricultural credit guarantee scheme fund (ACGSF)

managed by the central bank of Nigeria”. This scheme guarantees the repayment of loans granted to agricultural investor. But it has not significantly reduced the increased pressure of high demand for agricultural credit. The continued inability of farmers to meet the collateral requirement of the commercial banks further led to central bank of Nigeria’s small-scale farmers lending guideline introduced at the beginning of 1987.

The dilemma of the under development of the agricultural sector is clearly seen in observing the malnutrition suffered physically by the populace and that experienced in the dwindling economy. The functions that contribute to this sad trend can be grouped into

- i. Internal function.
- ii. External function.

INTERNAL FUNCTIONS.

These internal function include

- a. Agricultural policies.
- b. Agricultural input, market and prices.
- c. Political factor.

d. Infrastructural facilities.

e. Food losses.

A. Agricultural policies: agricultural policies refer to measures, actions, and incentives established for the purpose of increasing the productivity of the agricultural sector. This is to give room for the development of the economy as a whole as the development of agricultural sector affects areas of all areas of the economy.

B. Agricultural input market and prices: inputs are required in every production process. These inputs could be informed of seed, technology, plants and equipment, machinery. They must be available at the right time, quantity and price in order to produce marketable supplies.

C. Political factors: the stability of economy political wise matters a great deal. Political disturbances and disruptions have resulted in abnormal food shortages. As a result of these disruptions such as strike and demonstrations, which effects the transportation of food and farm produce, the order of the day has been loss of perishables and unnecessary prices likes.

D. Food losses: poor harvesting tools and infrastructures have been major contributing factors to losses, there's shortage of food supply, which will in turn lead to price increase.

EXTERNAL FUNCTIONS

- a. Food aid.
 - b. Terms of trade.
 - c. Inadequate investments.
 - d. Unusual hazards.
- A. Food aid: countries with surplus assist countries in need of food. This process is known as food aid, although has it beneficial side effects of providing food to countries in need and in the process alleviating hunger, it has a negative effect of reducing incentives for domestic food production and changing food habits of consumers. It has however been advised that food aid should be used only as an emergency measures and for a short period of time.
- B. Terms of trade: this refers to the rate at which one commodity of a country is exchanged for another commodity of the other country. A term of trade is the most

important factor that determines the gains from trade. Distorted terms of trade coupled inaccessibility to the external market have resulted in low value and volume of exports.

C. Inadequate investment: statistics from the food and agricultural organization (FAO) show that per capital total government expenditure on agriculture is on the decline ranging from 5.9% in central and West Africa to 13.4% in East and South Africa. This lack of commitment portrayed here cannot result in the attainment of food self-sufficiency.

D. **Unusual Hazards:** this factor includes desertification drastic weather changes and draught, affect food production and storage. The human resources have little or no control over these factors.

SOURCES OF FARM CREDIT

Farm credit has a number of sources .The types of credit available for agriculture is based on the needs of the individual, group or company.

However, credit facilities can be grouped into three,

- a) Short term.
- b) Medium term.
- c) Long term.

Short term credit facility generally span 6 months to 2 years while medium term credit facility spans over a period of two to five years. Long term credit spans a period of usually between 5-10years.

These credit facilities are obtained from two main sources.

- i. Institutional source.
- ii. Non-institutional sources.

Institutional sources: This is a formal source of financial credit. It requires a set of procedures to be met before the credit facility is granted. Such procedures includes

- ❖ Purchases of an application form.

- ❖ Interview.
- ❖ Presentation of vital document such as bank statement, license etc.

This source is made up of farmers co operative societies, specialized agricultural bank, state agricultural co operatives, commercial bank and financial co operation. The origin of this source of credit facilities (i.e. institutional source) can be traced back to the 1930's.

Non-institutional sources: These sources include financial assistance from friends, relatives, and merchant, middleman and professional money lenders. These sources do not require any formal application documents or procedures.

2.3 Agricultural credit policies

These are policies set up or made by the government at different levels in a bid to increase agricultural output. According to Uchegwu O.E I (1995). The various governments intensified

their effort towards maximizing agricultural production during the first half of 1977.

In order to induce banks to increase loans and advances to agriculture, the federal government and central bank established an agricultural credit guarantee scheme fund designed to guarantee loan given by any bank to farmers and co operate institutions for agricultural purposes.

The credit policy measures in 1982 was designed to accelerate the ratio of domestic production, maintain a healthy balance of payment position, reduced the rate of domestic price inflation and mobilized increase domestic saving to facilitate increase domestic capital formulation. The prescribed proportion of the bank total loans and advances indigenous borrowers were raised from the minimum of seventy percent to 80percent based on the fact that the banks generally exceeded the minimum 70% stipulated in 1981. Agricultural banking lending agricultural production stood between 6-7% and interest rate for agricultural credit guarantee scheme between 6-7%. Bank with loans and advances not exceeding N100 million as at December 1984 were

allowed to expand credit higher than as at the end of December 1984 by 10% or 15% of their total deposit liabilities, whichever was higher. According to Anyanwu J.C (1993) for every loan given to farmers by bank, the teams guarantee 75% loan default thereby encouraging the financial institution to increase lending to agricultural sector.

FEATURES OF THE AGRICULTURAL CREDIT GAURANTEE SCHEME

Loans given out order ACGS are done at concessionary interest rates. The guarantee is backed by an authorized fund of 100 million naira to be subscribed to by the federal government and the central bank of Nigeria in the proportion of 60% and 40% respectively. The fund is under the management of the ACGS. Fund board with the central bank as the managing agent for its day administration.

The agricultural purposes of which loans can be guarantee by the fund are:-

- a) The cultivation and production of cereal crops, tubers, fruits of all kinds, cotton, beans, groundnut, bananas plantain and pineapples.
- b) The establishment or management of plantation for the production of rubber, oil palm, cocoa, coffee, tea and similar crops.
- c) Animal husbandry, pig and cattle rearing, fish farming depending on the magnitude of the loan.

The securities, which may be offered to bank for the purpose of a loan, are:-

- i) A life assurance policy, a promissory note or other negotiable security.
- ii) A charge on the movable property of the borrowers.
- iii) Stocks and shares
- iv) A charge on land in which the borrower holds a legal interest or a right to farm or a charge on assets on the land, including fixed assets, crops and livestock.
- v) Any other security acceptable to the bank.

BANK CREDIT FOR AGRICULTURAL DEVELOPMENT.

The trend started in the Northern Region of Nigeria in line with the introduction of mixed farming in the Savannah. According to Lord H (1966), mixed farming is an agricultural process that involves a combination of processes, which include:-

- Using ploughs drawn by animals
- Permanent crop rotation system
- Use of manure for land enrichment

The above needs required capital for the purchase of ploughs and the procurement of land that was to be cultivated. Absence of these funds laid further emphasis on the importance of credit facilities. The administration of the native northern Nigeria at that time therefore took it upon them to give loans to the agricultural department to meet their needs.

Also efforts were made by the ministry of agriculture and natural resources of this region to widen their coverage to include the supply of agricultural materials.

However, some setbacks were encountered, which consisted of:-

- a) The limitation of resources
- b) Inadequate collateral on the part of farmers
- c) Provision of enough finance

Commercial Banks also started helping out in agricultural finance, although they were skeptical about granting credit to agricultural ventures due to the risks involved in agricultural financing which included:-

1) RETURNS FROM AGRICULTURAL PORTFOLIO:-

The returns from agricultural portfolio have not been able to justify the degree of risk involved comparatively.

2) ESSENTIAL INPUTS: - This factor affects both large and small scale farmers. It involves the unreliability of the supply of essentials such as fertilizers, pesticides, improved seeds plants and machinery, thus leading to price fluctuations in agricultural produce. However, agriculturist still benefit indirectly from the commercial banks through patronage of transporters and traders who are lucky to get the needed assistance easily.

3)RISK: - This refers generally to the uncertainty encountered in the field of agriculture. Such uncertainty includes that of mainly weather which of recent has been highly unpredictable. Other factors include:-

- The small and scattered nature of agricultural holdings.
- Lack of experienced managers to actualize the potential of large-scale farmers.
- Lack of sophistication of small holder farmers, which makes the costs of servicing them very high.

1.6 THE ROLE OF PARASTATALS IN THE DEVELOPMENT OF AGRICULTURE IN NIGERIA.

The federal government has also set up various parastatals to aid the development of agriculture in Nigeria by decentralizing their roles and status. Such parastatals include:-

National Accelerated Food Production Project (NAFPP):-
NAFPP was based on the green revolution concepts and experience of Mexico, India, Philippines, and Pakistan. It was established on the year 1973.

The project had 3 components namely

- Research
- Extension
- Agro services

Its main objectives were the acceleration of the production of six major food crops, namely rice, millet, sorghum, maize, meats and cassava. However, this program failed due to inadequate commitment by some states, inadequate public and poor infrastructural facilities.

THE RIVER BASIN DEVELOPMENT AUTHORITY (RBDA)

This was formally started to cater for the development of the land and water resources potentials of Nigeria for agricultural purposes and general rural purposes and development. The River Basin Development Authorities (RBDA) was established and commenced operation in 1973.

However, the activities of RNDAS have been hampered as a result of inadequate planning data shortage of funds shortage of funds of spare parts, inadequate land space and shortage of qualified manpower.

Federal Ministry of Agriculture and Rural Development.

It has the following roles:-

- a) Production of export crops
- b) Improvement and maintenance of soil fertility
- c) Efficient marketing of agricultural produce
- d) Rural Development
- e) Agricultural, forestry, fishing, and veterinary development.

National Grain Production Company Limited (NGPC). This is a limited liability company with its headquarters in Kaduna, fully owned by the federal government. It was incorporated in September 1975 with N2, 000,000.00, its objectives include:-

- a) Production, purchase, processing, storing, marketing of wheat, rice, maize, in particular alongside other grains.
- b) Establishment of subsidiary companies in partnership with states and other investors.
- c) Invest and deal with fund of the company not immediately required in such shares.
- d) Raise money in such manner as the company may think fit.

Specific areas of activities include:-

- Strategic grain storage
- Grain processing Scheme
- Processing Program
- Production Program

NATIONAL ROOT CROPS PRODUCTION COMPANY (NRCPC).

These parastatals were incorporated in September in 1975 with headquarters in Enugu. Its objectives includes:-

1. To produce, purchase, process, store and market cassava and other root crops in general.
2. To establish subsidiary companies investment and financial management.
3. Processing and it includes that of cassava process program being an improvement on the traditional method involved, it includes the use of graters and locally fabricated processors.
4. Seed multiplication programmed centers have been sighted in Anambra, Benue, Imo, Oyo, and Cross River

states. Their operators major in seeds and yams due to high cost.

5. Plantation development: to ensure adequate and regular supply of roots and tubers to the processing factories.

LIVES STOCK AND MEAT AGENCY.

It was established in 1971 with the principal objective of developing and organizing the livestock and meat industry in Nigeria. The general function includes.

1. Keeping under review and conducting research into production, handling, marketing and slaughtering of livestock.
2. Establishment and maintenance of abattoirs and services ancillary thereto, to the establishment and maintenance of farms for the purpose of breeding and fattening livestock and to carry on or participate the carrying on of a business connected with the livestock and meat industry.

2.7 Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB).

NACRDB emerged in the year 2000 as a result of a merger between agricultural and cooperative bank (NACB), peoples bank of Nigeria and family economics advancement program (FEAP).

Nigerian agricultural and cooperative bank was established as a specialized financial institution in the year 1972 and it started operations fully in 1973 of providing loans to farmers and entrepreneurs in the agro allied industry. Business enterprises involved in the processing, storage and marketing of agricultural product, tractor hiring services, agricultural chemical fertilizers and pesticides stood the chance of benefiting from the scheme. The bank was engaged in financing all forms of agricultural projects at highly subsidized rates. Anyanwu Et al (1977).

Peoples bank of Nigeria, a micro credit institution was established to provide credit for petty traders, vulcanizers, carpenters, and other self employed artisans who usually patronize non-institutional credit facilities. The banks strategies considered the

characteristics of this categories of business operators by reducing to the nearest minimum the requirements and formalities of conventional bank institution.

Family Economic Advancement Program (FEAP) was set up with the aim of reducing poverty by loans to cooperative society in the country to enable them establish small and micro industrial enterprises.

The role of Nigerian agricultural cooperative and rural development bank therefore comprises of those roles and duties of the Nigeria agricultural cooperative bank (NACB), people's bank of Nigeria and family economic advancement program (FEAP) and are outlined in reference to the need for the merger. The need for the merger stemmed from

1. The need for more finance to meet adequately the demand of customers.
2. Encourage customers by alleviating the procedures for loan application approval and procurement.
3. Reduce the stress of time wasting and bureaucracy.

4. Widen the scope of reach so that services benefit not only large scale project but also smaller holder farmers.
5. Reduce the dependence of federal government and central bank for the supply of share capital thus making it profitable viable and self relate.
6. Enable it pull resources and function together to aim at a specified role.

Credit facilities.

NACRDB operates retail outlets in six zonal offices, sixty eight branch offices and over two hundred representative offices in all the states of the federation and the federal capital territory.

CENTRAL BANK OF NIGERIA (CBN).

The central banks perform the following functions in relation to the development of agriculture in Nigeria.

1. Direct financing of the agricultural market.

The central bank involvement to agriculture dated back to 1962 when it initiated a commercial bill-financing scheme for agricultural marketing. This was a re-financing facility for a

consortium of banks, which would have produced marketing companies limited by discounting the company's bill.

2. Agricultural credit guarantee scheme.

The central bank of Nigeria is the managing agent and it is expected to guarantee loans in respect of

- Animal husbandry.
- Interest rate on agric loan.
- Rural banking and lending program.
- Cultivation of cereal crops, tubers, fruits etc.
- Establishment and management of plantations for production of rubbers, oil palm etc.

3. Sectarian prescription for agricultural credit.

This function involves imposition of quantitative ceilings on non-priority sectors and the settings of floors for priority lending.

2.8 ASSESSMENT OF THE BANKING INDUSTRIES DEVELOPMENT OF AGRICULTURE AND FUTURE EXPECTATION.

The directives are given based on the beliefs that the banks are not willing to give the agricultural sector they needed assistance and attention unless compelled to do so. Even as far as the establishment of Nigeria agricultural cooperative bank (NACB) in 1973. It is said that the banks cannot cater for the transformation of the agricultural sector in Nigeria.

The decline in returns of investment in agriculture and therefore the decline in the ability of agriculture pursuits to complete for finance is largely due to the effects of over valuation of the naira and the strong hold of the commodity boards and other agriculture price fixing arrangements.

The overvalued naira on one hand meant export crop farmers got less in naira than the true worth of their produce which was and remain the foremost non oil source of foreign exchange for the nation. On the other hand, the overvalued naira cheapened the imports of food and agricultural produce into the country thereby

giving foreign producers an edge over our local producers and pushing them out of business.

THE PRE OIL BOOM PERIOD

The grounds for financing agriculture become suitable against the background of agricultural policies in Nigeria and the expectations of banks. This expectation is better appreciated against the background of the fact that for our agricultural to be transformed from its present near subsistence stage more capital will have to be injected.

Another fact to face seriously is that of the small holder producers who are presently dominant and produce bulk of the food consumption. The long run strategy should be to reduce to the population of small scale farmers thereby more medium and large scale producers would be able to commercialize farming and increase their output and productivity as well as profitability. For now however, the small-scale farmer is predominant and so vigorous effort to improve its lot is necessary.

Future prospects for the cooperation and the agriculture sector are bright. Banks can improve on their performance in line with the perspective plans outlined in the agricultural policies for Nigeria. The definite areas of banks are as follows:

a. Increasing Loan able Funds:

Despite the coercion on banks to ensure a minimum percentage of their funds are channeled to the agriculture sector, most have been defaulting. There is therefore the need to channel more bank credit to the primary producers. Fortunately, the government has discontinued the legislation of charging concessional interest rate to the agriculture industry and in its place, the public sector credit institution now have access to private capital market at home and also abroad to enable them increase their loan able portfolio, also the institutions have been allowed to charge interest rates commensurate with the dictates of the capital market.

The development means that banks must finance only projects that show satisfactory levels of the returns investment; hence

effective project appraisal machinery is to be set up to help identify viable and profitable proposals that require funding.

b. Decentralization program.

Commercial banks and Nigerian agricultural cooperative and rural development bank will need to accelerate their decentralization program with firmer presence at the state and local government areas. This will enable the banks improve untimely of credit delivery and project monitoring and supervision.

Decentralization also greatly improves farm produce marketing and help stabilize market prizes and marketed quantities by reducing past harvest losses incurred by farmers who sell their produce uneconomically immediately after harvest to meet social and personal needs.

c. Diversification of credit base.

Commercial banks have been encouraged to extend credit to farmers especially the small holder producers. This is due to the fact that presently over 80% of the farmer population is smallholder producers. In order to avail themselves of credit

facilities, liberal lording conditions have been evolved especially in the area of security for loans and title to farm land. In the long run it is expected that these efforts will assist the small holder farmers to graduate to medium and large scale producers who will farm for business. Bank have subscribed to the Nigeria agriculture insurance company (NAIC) and are expected to be agents of Nigerian agriculture insurance scheme (NAIS), which goes along run to allay fear of lenders.

The Post Oil Boom Period.

The post oil boom brought along with it less proposition for the financing of licensed buying agents (LBA's) which became less bankable. As the sector collapsed, lines of credit from banks through licensed buying agents to farmer dwindled and government was forced to rectify this problem by dishing out policies. Some of them which includes

- Pegging of interest rates on agriculture loans at levels lower than commercial rates.

- Introduction of special programs to facilitate the extension of loans to agriculture.
- Using laws and regulations to coerce commercial and merchant banks into extending their credit facilities to agriculture.
- Creation of public sector institution for agricultural credit.

These trends took off with emphases on charging preferential interest rates in agricultural loans. Later pioneers status tax incentives were introduced to facilitate the preferential rate according to pioneer status to agro business concerns (the earliest form of this version of tax relief was introduced in 1952 under the “aid” to pioneer industries” ordinance of 1952).

The most potent weapon so far is the compulsion of banks to lend to agriculture, which is backed by painful penalties of minimum percentage of their loan portfolio, which must go into agriculture.

Future prospects.

The realization that agriculture is the hope of our non oil export cannot be over emphasized and one cannot help but to be

optimistic that the banking industry will break new ground when fully operational in the concerns of agriculture.

It is also fulfilling to note that the acquisition of an agricultural insurance cover will even be one of the conditions for obtaining an agricultural loan. This helps to allay the fear of risk so that lenders will more willing to provide to farmers.

2.9 EXTENSION RESEARCH AND RURAL DEVELOPMENT STRATEGIES IN AID OF AGRICULTURAL DEVELOPMENT IN NIGERIA EXTENSION.

According to Yomere G.O and Agbonifoh B.A (1999), this is a service which assists the farmers through educational producers in improving their farming techniques thereby increasing their production efficiency income as well as improving their standard of living. It helps rural farmers solve their problems through the application of scientific knowledge in a voluntary programme. The aim of agricultural extension is to teach rural people how to raise their own resources. It encourages progressive growth through local leadership, civil pride and self help.

The scope of extension is very broad. It is not a mere matter of giving the farmers knowledge from research and technology to help raise efficiency, but it helps them learn about changes, the reasons for it and the uncertainties inherent in the change. The concern includes the dissemination of agriculture; practical application of such knowledge to help farmers analyze their problems and bring improvement in a systematic way through carefully planned organized programmes. These programmes must start in the villages and tackle the problems faced by these farmers. Its effectiveness is measured by its ability to change a static situation into a dynamic one.

Available evidence points to the fact that agricultural extension has been unsatisfactory to the extent that it can be said that it is nonexistent in several states.

- 1) Long decision-making and communicate process so that at the time the information gets to the farmers it is distorted and sometimes of no effect.
- 2) Lack of adequate liaison between extension and research so that research findings are not responsive to the needs of

farmers. Many research recommendations are not economically viable and culturally as the compatible with farmers farming system.

- 3) Untimely and irregular distribution of essential inputs like improved seeds, fertilizers, land preparation equipment, fungicides and credit facilities at the cost that farmers cannot afford. Absence of these tends to affect the credibility of the extension agents.
- 4) Lack of trained personnel both in quantity and quality so that the few that available are spread too thinly to be effective.
- 5) Inadequate financial support as the amount allocated is only barely available to pay for the salaries of the staff, which does not include the farmers. These therefore limit the volume of work that can be successfully carried out with the farmers.

RURAL DEVELOPMENT

It covers activities such as equitable access to land, generation of employment opportunities, opportunities for saving, credit and investment.

Factors limiting the effectiveness of viable rural development programme include:-

- Poor management of available funds
- Illiteracy
- Lack of fund

These factors give rise to the need for a progressive rural structure, which must have the following elements.

- a. Markets where farmers can purchase production suppliers and equipment and sell their products.
- b. Rural roads to expedite and reduce the cost of the flow of commodities, information and all sorts of rural services.
- c. Available extension service through which farmers can learn about how to use improved farm technology.
- d. Credit facilities to finance the use of production inputs.

2.10 IMPORTANCE OF CREDIT FACILITIES IN AGRICULTURE.

The food and agricultural organization points out that Agricultural credit is not simply a banking business. There is more to it than making loans available to farmers especially when the amount required by each borrower may be small and yet in aggregate represents considerable risks. Lord H (1966) credit alone is of no avail to small farmers, if it is not accompanied by complementary services, which will help the borrowers to use the money productively and hence avoid unnecessary debt.

Oluwansanmi and Alao share the view that credit can serve as a catalyst in carrying out various agricultural projects.

Akinwolemi stressed the importance of credit facilities to farmers, arguing that agricultural credit to farmers is a necessity for carrying out new techniques of production and agricultural intensification.

On the other hand there are views again at the importance of credit is not the solution to improve agriculture production.

Adegeye (1962) asserts that small farmers are not knowledgeable enough in terms of improved technology and as

such granting them credit facilities would likely be fruitless, as they would not be fully utilized.

Nwankwo (1980) also held that the importance of credit is limited to an extent. This is based on the assertion that credit alone is wholly inapplicable as a means of initiating the agricultural development process and ineffective to persuading farmers to accept new technology.

Agricultural credit generally include all loans and advance to borrowers to finance and service production activities relating to agricultural, fisheries, animal rearing etc, and also for the processing, marketing, storage and the distribution of production resulting from these activities.

The roles of credit are necessary for the development of agricultural in terms of:-

1. Boosting technical change in peasant agriculture.
2. Helping prospective farmers secure farm machinery and equipment.
3. Aids in production intensification.

4. Strengthening the farmers' position in the disposal of their farm produce rather than having the timing be determined by urgent need for cash.
5. Helping farmers particularly small scale farmers produce at subsistence level and surpluses are small thus savings for future investments are nearly impossible.

2.11 CONSTRAINTS OF THE NIGERIAN AGRICULTURAL SECTOR.

The factors that limit agricultural production in Nigeria include:-

a. GOVERNMENT

The depreciating value of the Naira and increase interest rate has caused agricultural lending problems and general rise in production cost, the erosion of farmer's income through inflation cripples the economy.

Also, policies like export promotion policy create hardship for the people due to the liberalization.

b. CLIMATE

Nigeria has humid tropical and dry tropical zones. Climate fluctuations like rainfall and sun in excess affects the land used for food production and the growth of animals etc.

c. TOPOGRAPHY

This factor is linked with climate to adversely affect agriculture and is defined as the natural features of an area, which includes landforms, landforms like low lands, plain etc. influence rainfall and sun and its effect on vegetable and livestock.

d. SOCIAL FACTORS

This includes conservation of the farmers, which is their unwillingness to change their old farming habits and try new ones.

PROBLEMS OF CREDIT

The problems can be grouped into 2

- 1) Those caused by farmers.
- 2) Those associated with agriculture.

PROBLEMS CAUSED BY FARMERS

- a) Diversion of loan meant for agricultural project for other ventures or personal uses.

- b) Mismanagement of loans or lack of managerial capacity.
- c) Misinterpretation of objectives of governments and financial institutions e.g. where a bonus is granted or subsidy is given and not well utilized as they often believe such to be a gift.

PROBLEMS ASSOCIATED WITH AGRICULTURE

These problems have been hinted before and generally refer to weather crops or livestock in question and basically the practice of agriculture.

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CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter will focus on the exposition of the methods used in obtaining data and information for the purpose of this study. In this case, primary attention would be paid to the type of information to be collected, the sources of data and the data collection procedures.

3.2 RESEARCH DESIGN

The survey method shall be adopted for this study. This method focuses on frame work for controlling data collection. The main objective of the survey method is to ensure the accuracy of information. The use of questionnaire for data collection will be adopted.

3.3 POPULATION OF THE STUDY

The population of this study includes farmers, which could include larger scale and small-scale farmers, financial institutions that provide credit facilities for the farmers and the Nigerian Agricultural co-operative and Rural Development Bank (NACRDB).

3.4 SAMPLING DESIGN

A sample of 200 farmers would be selected out the population of farmers and questionnaires would be administered to each of them.

The stratified sampling technique will be used to administer the questionnaire so as to segregate the population into homogeneous subgroups, in this cases respondents would be arranged into 2 or two grades or groups namely: large scale farmers and small-scale farmers.

Further procedure will involve selecting a random sample from each sub-group. The research for this is to ensure that each sub-group is adequately represented.

3.5 METHODS OF DATA COLLECTION

The primary and secondary sources of data were used obtaining data for this study. Questionnaire will serve as an instrument for data collection as well as interview with the farmers. This will constitute the primary source of data; also, review of journals and publications will be used as additional source of data.

The questionnaire is divided into two parts.

Part 1 consists of questions relating to the biographical data of the respondents.

Part 2 consists of questions, which have the purpose of collecting respondents view on the subject of the study.

3.6 METHOD OF DATA ANALYSIS

The descriptive and inferential statistics will be used to analyze data collected. The descriptive statistics will make use of tables, frequencies, and percentages while the inferential statistics on the other hand will make use of chi-square (χ^2) test of independence and homogeneity to test the hypotheses. The chi-square formula is given as follows:

$$\chi^2 = \sum (O - E)^2$$

Where \sum = summation of total values.

O= observed frequency.

E= Expected frequency

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CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

The analysis of data collected from respondents would be dealt with here. A total of 200 questionnaires were administered to 200 farmers comprising large-scale farmers and small scale farmers and small-scale farmers. The farmers were randomly selected from basically three states namely Ebonyi State, Enugu State, and Anambra State.

Of the 200 questionnaires administered, 188 were dully completed and collected, thus representing a 94% return rate while 12 questionnaires were not returned representing 6%.

CHARACTERISTICS OF RESPONDENTS

TABLE 4.1

DISTRIBUTION OF RESPONDENTS ACCORDING TO EDUCATIONAL QUALIFICATION.

Qualification	Frequency	Percentage
Elementary	150	79.2
SSCE	35	19.1
NCE/OND/HND	3	1.7
B.Sc	-	-
M.Sc	-	-
Total	188	100

Source: Fieldwork, 2010.

Table 4.1

Above, shows that 79.2% of the respondents have elementary qualification which is to no qualification, 19.1% of them possess SSCE while 1.7% of the respondents are NCE/OND/HND holders.

In other words, greater percentage of the farmers has low educational qualification.

Table 4.2

Distribution of respondents according to level of operation

Level of operation	Frequency	Percentage
Large scale	58	30.8
Small scale	130	69.2
Total	188	100

Source: field work, 2010.

The data above shows that 30.8% of the respondents operate on large scale farming while 69.2% of them operate on small-scale farming.

ANALYSIS OF RESPONSES

RESPONSES TO QUESTIONNAIRES PART B.

Table 4.3

Do you think a financial institution such as the NACRDB is important to Agricultural development in Nigeria?

Responses	Frequency	Percentage
Yes	116	61.7
No	72	38.3
Total	188	100

Source: field work, 2010.

The table above reveals that 61.7% financial institution such as the NACRDB is important to Agricultural development in Nigeria where as 38.3% of them disagrees to this.

Table 4.4

How would you grade the performance of NACRDB in assisting farmers?

Responses	Frequency	Percentage
Poor	29	15.4
Very Poor	26	13.8
Good	88	46.8
Very Good	45	24.0
Total	188	100

Sources: field work, 2010.

It is seen the table above that while 15.4% and 13.8% of the respondents grade the performance of NACRDB in assisting farmer as poor and very poor respectively, 46.8% and 24% of the respondents grade the performance as being good and very good respectively.

Table 4.5

Are you satisfied with the level of Agricultural development in the country?

Responses	Frequency	Percentage
Yes	20	10.7
No	168	89.3
Total	188	100

Sources: field work, 2010.

The data above shows that 10.7% of the respondents are satisfied with the level of Agricultural development in the country while 89.3% of them are dissatisfied.

Table 4.6

Do farmers find it difficult obtaining loans from financial institutions such as NACRDB?

Responses	Frequency	Percentage
Yes	170	90.1
No	18	9.9
Total	188	100

Source: field work, 2012

The above shows that 90.1% of the respondents agree that they find it difficult obtaining loans from financial institutions such as the NACRDB where as 9.9% of the farmers disagree.

Table 4.7

Has the inaccessibility of modern farming implements to farmers affected Agricultural production in the country?

Responses	Frequency	Percentage
Yes	155	82.4
No	33	17.6
Total	188	100

Source: field work, 2010.

It is seen above that 82.4% of the farmer's implements has affected Agricultural production in the country while 17.6% of them do not believe in this.

Table 4.8

Do you believe that the decline in Agricultural production has effect on the economy?

Responses	Frequency	Percentage
Yes	139	73.9
No	49	26.1
Total	188	100

Source: field work, 2010.

The table above reveals that 73.9% of the respondents agree that decline in Agricultural productions had effects on the economy where as 26.1% of the respondents do not agree to this.

Table 4.9

Do you agree that the non-availability of loans to farmers causes decline in Agricultural production in the country.

Responses	Frequency	Percentage
Agree	183	97.3
Disagree	5	2.7
Total	188	100

Sources: field work, 2010.

It is revealed in the table above that 97.3% of the respondents agree that non-availability of loans to farmers causes decline in Agricultural production in the country while 2.7% of the respondents disagree to this.

Table 4.10

Has government measures such as the establishment of NACRDB been effective in improving the performance of the Agricultural sector?

Responses	Frequency	Percentage
Yes	101	53.7
No	87	46.3
Total	188	100

Sources: field work, 2010.

The figure above shows that 53.7% of the respondents agree that government measure such as the establishment of NACRDB is effective in improving the agricultural sector where as 46.3% of the respondents disagree to this.

Table 4.11

Do financial institutions such as NACRDB encounter any difficulty in disbursing loans to farmers?

Responses	Frequency	Percentage
Yes	87	40.9
No	101	59.1
Total	188	100

Sources: field work, 2010.

The table above shows that 40.9% of the respondents believe that financial institutions such as NACRDB encounter difficulty in disbursing loans to farmers while 59.1% of the respondents disagree.

Table 4.12

Are bank credit and finance made available by Agricultural development banks farmers?

Responses	Frequency	Percentage
Yes	138	73.4
No	50	26.6
Total	188	100

Sources: field work, 2010.

The figures above shows that 73.4% of the respondents agree that bank credit and finance are made available by Agricultural development banks farmers while 26.6% of the respondents disagree.

Table 4.13

Can Agricultural down drain be curbed through effective bank credit?

Responses	Frequency	Percentage
Yes	120	63.8
No	68	36.2
Total	188	100

Source: field work, 2012.

The data above reveals that agricultural down can be curbed through effective bank credit as agreed by 63.8% of the respondents while 36.2% of the respondents disagree.

Table 4.14

Ha bank credit facilities been ineffective due to proper implementation and utilization and due to the policies formulated

while 33.5% of the respondents disagree.

4.1 TEST OF HYPOTHESIS

The statistics techniques used here is Chi-square(χ^2). This is given by the formula below

$$\chi^2 = \sum (O-E)^2 / E$$

Where O= Observe frequency

E= Expected frequency

It is used in company observed distribution with hypothesized or expected distribution. Since our interest is the difference between observed and expected data, it is a one-tail test. The calculated χ^2 value is compared with the table value of freedom(df). The degree of freedom is derived using this method where

$$(R-1) (C-1)$$

R=Rows.

C=Columns.

DECISION RULE

The 5% level of significance will be used to test the hypothesis. In this case, if the calculated χ^2 is greater than the table value at 5% level of significance and degrees of freedom, we reject H_0 and accept H_1 but if calculated χ^2 value is lesser than table, we accept H_0 and reject H_1 .

Note

Expected frequency $E = \text{Row Total (RT)} \times \text{Column Total (CT)} / \text{Grand Total (GT)}$.

H_0 : Null hypothesis

H_1 : Alternative hypothesis.

TEST OF HYPOTHESIS

Hypothesis 1

H_0 : Agricultural down drain cannot be curbed through effective bank credit.

H_1 : Agricultural down drain can be curbed through effective bank

credit.

Responses

Level of operation	Yes	No	Total
Large scale	44	12	56
Small scale	76	56	132
Total	120	68	188

Source: field work, 2010.

To calculate expected frequencies.

$E = \text{Row Total(RT)} \times \text{Column Total(CT)} / \text{Grand Total(GT)}$

$$E_1 = 56 \times 120 / 188 = 35.7$$

$$E_2 = 56 \times 68 / 188 = 20.3$$

$$E_3 = 132 \times 120 / 188 = 84.3$$

$$E_4 = 132 \times 68 / 188 = 47.7$$

O	E	O-E	(O-E) ²	(O-E) ² /E
44	35.7	8.3	68.89	1.93
12	20.3	-8.3	68.89	3.39
76	84.3	-8.3	68.89	0.82
56	47.7	8.3	68.89	1.44
Total				7.58

Degree of freedom (df)

$$Df = (R-1) (C-1)$$

$$Df = (2-1) (2-1)$$

$$Df = 1 \times 1 = 1$$

At 0.05 significant level and 1df, the table value of $\chi^2 = 3.84$

Decision:

Since $7.58 > 3.84$, we reject the null hypothesis (H_0) and conclude that Agricultural down drain can be curbed through effective bank credit.

Hypothesis 2

Ho: Bank credit and finance facilities are not made available by development banks to farmers.

Hi: Bank credit and finance facilities are made available by development banks to farmers.

Responses

Level of operation	Yes	No	Total
Large scale	48	8	65
Small scale	90	42	132
Total	138	50	188

Source: field work, 2010.

To calculate expected frequencies

$E = \text{Row Total(RT)} \times \text{Column Total(CT)} / \text{Grand Total}$

$$E_1 = 56 \times 138 / 188 = 41.1$$

$$E_2 = 56 \times 50 / 188 = 14.9$$

$$E_3 = 132 \times 138 / 188 = 96.9$$

$$E_4 = 132 \times 50 / 188 = 35.1$$

O	E	O-E	(O-E) ²	(O-E) ² /E
48	41.1	6.9	47.61	1.16
8	14.9	-6.9	47.61	3.20
90	96.9	-6.9	47.61	0.49
42	35.1	6.9	47.61	1.36
Total				6.21

Degree of freedom(df)

$$Df = (R-1) (C-1)$$

$$Df = (2-1) (2-1)$$

$$Df = 1 \times 1 = 1$$

At 0.05 significant level and 1df, the value of $\chi^2 = 3.84$

Decision

Since $8.21 > 3.84$, we reject null hypothesis (H_0) and conclude that bank credit and finance facilities are made available by development banks to farmers.

Hypothesis 3.

H_0 : Bank credit facilities have been ineffective due to their improper policies formulate and not their implementation and utilization and not due to the policies formulated.

Responses

Level of operation	Yes	No	Total
Large scale	46	9	55
Small scale	79	54	133
Total	125	63	188

To calculate expected frequencies

$E = \text{Row Total(RT)} \times \text{Column Total(CT)} / \text{Grand Total(GT)}$

$$E_1 = 55 \times 125 / 188 = 38.6$$

$$E_2 = 55 \times 63 / 188 = 18.4$$

$$E_3 = 133 \times 125 / 188 = 88.4$$

$$E_4 = 133 \times 63 / 188 = 44.6$$

O	E	O-E	(O-E) ²	(O-E) ² /E
46	36.6	9.4	88.36	2.4
9	18.4	-9.4	88.36	1.6
79	88.4	-9.4	88.36	0.9
54	44.6	9.4	88.36	1.9
Total				6.8

Degree of freedom (df)

$$Df = (R-1) (C-1)$$

$$Df = (2-1)(2-1)$$

$$Df = 1 \times 1 = 1$$

At 0.05 significant level and 1df, the table value of $\chi^2 = 3.84$

Decision

Since $6.8 > 3.84$, we reject the null hypothesis (H_0) and conclude that bank credit facilities have been ineffective due to their improper implementation and utilization and due to the policies formulated.

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CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION.

5.0 SUMMAYRY AND CONCLUSION

This is the concluding chapter of the research. This study attempted to appraise of role of financial institutions in agricultural development. The study looked at the following issues.

- The development of agricultural banking
- Ways in which bank credit issues have affected the developmental of agriculture.
- Ways to improve on the developmental process of bank credit as regards agriculture.
- Identified problems surrounding agricultural development.

This chapter is designed to reflect the summary of findings and to make recommendations on how the agricultural sector could be

improved.

5.1 **Summary of Findings**

In the course of the study we discovered that over the years there has been a steady decline in banks investment in agriculture especially by our indigenous banks, this is attributed to the risk involved in the trade of agriculture ranging from weather conditions to divergences of funds and hence low recovery rate of finances which affects the banks willingness to assist.

There was also the discovery that there were no enough loan officers or staff willing to supervise and follow up the farmers to monitor the use of funds for the farm operations.

The inadequacy of financial institutions to cater for the needs of farmers is yet another problem of the agricultural sector; couple with this is the problem of collateral security demanded by banks.

High interest rates are also another factor which pushes the farmers from even considering a bank loan and so food production remains on the small-scale level. In cases where farmers take the

loans they find it difficult to pay back over the years, interest rates have been between 15-30%, which the farmers say is high.

There is also the problem of transportation, which affects the marketability of produce in the markets. This happens when in the course of transportation where costs are high or the vehicle is bad and breaks down on the way during which the product might get bad before getting to the market, transport cost could make the product expensive and thus lead to major losses.

It was also discovered that loans are mostly granted to farmers on short-term basis and when the formal institutions were compared, it was found that the bank loans from the formal sources are higher than that of the informal sources. This is because the farmers indicated that those informal sources could not give loans up to N50,000.

We also in the course of this study have found out that the government in its efforts to help in financing agriculture and improving produce through new technology do not consider the socio-economic status of farmers. The government without knowing

imposes the new technology and financial practices on them not knowing that most of these farmers are not economically sound in terms of education to appreciate the new and improved technology.

Conclusion

The role of agriculture in development of the country is an enormous one. Agriculture is not only important for food production and for the production of raw materials of different sectors examples of which are clothing, pharmaceutical, furniture etc, but also serves as foreign exchange earners for the country.

In Nigeria Agriculture has not been able to attain its full objectives and improper funding has been identified as its major problem. It is known that the effective contribution of agricultural lies increasing the hectares under the farmers management, this will reduce the unit cost of product and the total cost of credit administration and also bring about improved farm management and facilitate adoption of improved technologies in agriculture. This can be facilitated if the banks could enhance the greater flow of funds to agriculture.

Commercial and merchant banks have been called to allocate and release funds prescribed for agriculture, penalties have also been enforced as regards the prescription against defaulting banks. The underfunding of agriculture with the imminent chain reaction of stagnation in agricultural growth and development, manifested in low productivity output levels, which translate in food and raw material scarcity, possible closure of industries and retrenchment of workers which could precipitate high levels of unemployment. This can be checked if the problems of lack of well trained agricultural experts, insufficient loan, high interest and default rate, stringent conditions for loan approval and untimely disbursement of funds are surmounted by banks.

From the research we can ascertain that banks are willing to lend to qualified potential beneficiaries meaning that farmers should be enlightened on the benefit loans.

The central bank of Nigeria has also contributed immensely through their guidelines in relation to increasing lending to the agricultural sectors b banks.

Recommendations

In regard to the discoveries made above, the following recommendations are put forward:

A Loan increase

- i. It is advisable to increase the amount of loans given to farmers to assist them adequately considering the fact that increased input generally yields an increase in output.
- ii. Banks and other formal credit institutions should de-emphasized the possession of securities and collateral before loans are given. The social rating of individual credit worthiness measured by guarantors should be used to guarantee loans repayment.

B Qualified Staff

- i. This suggestion stresses the need for qualified and skilled staff to assess, follow up and monitor the farmer and the investment loan given so as to help him pay back and make some profit.

- ii. Bank and other formal credit institution should make it easier for the farmers to get loans without undergoing long processes which are usually involved in securing loans from their institution. Loans supervision should also be carried out to make sure loans are not used for other purpose.

C Interest Rate Regulation

Interest rate should be regulated and pegged at considerably low rate so to encourage farmers to take advantage of bank credit financing.

D. Extension of payback period

Considering the nature of agriculture as an occupation and trade, it would be in the farmer for banks to extend payback periods; this would reduce the default rate as well as increase productivity. Productivity will be increased as due to the short payback period, most farmers are forced to harvest before its due season causing losses, and the farmers also end up borrowing from others and incurring debts which have the tendency of gradually putting him out

of business.

E Enlightenment Programme

- The and banks should organize educational and enlightenment programmes at all levels to educate farmers on matters concerning obtaining loans. Issues that could be discussed are loan defaults, divergence of loans and loan mismanagement and the effect it has on government, banks and they the farmers.

F Infrastructure

- The government still has the duty of providing good and agriculture is practiced. Infrastructure such as roads, water, and electricity assists the farmers in terms of transporting their agricultural produce, taking care of the crops and their storage.

General Policy Recommendations

- **Agricultural Data**

Presently, there is no reliable means of aggregating the financial needs of Nigerian farmers. Data would reveal problems as well as solutions to such problems. It is advised that an agricultural data bank should be set up to closely monitor the trend of agriculture by local, state and federal government.

- **Gross-Root Financing Agencies**

Grass-root financing agencies should be involved by the cooperatives, State Ministries of Agriculture etc to aid channeling finances to the peasant farmers. Agricultural Development institutions as well as commercial banks should strengthen their agricultural developments with technically trained agriculturist and agricultural economists.

- **Hire Purchase**

The fear of diversion of funds to which creditors are susceptible to would be reduced if credit institutions could arrange for the farmers credit to be made directly to manufacturers and suppliers of

farm machinery and equipment under a suitable repayment plan that would fit into the entire needs of the farmer.

- **Banking Habit**

Positive banking habits should be encouraged reducing interest rates, reducing delays in banks and the use of bonuses from time to time to enhance farmers to save their money in a bank to serve as collateral if and when needed.

- **Fund Channeling**

The procedure of channeling funds to farmers through cooperatives should be examined to remove possible bottlenecks.

Prospects of Agricultural Financing In Nigeria

Having discussed the background of agricultural financing in Nigeria, its problem government efforts at reviving it, it is hoped that with the provision of credit facilities in place, financial bottlenecks will be removed and agricultural production will expand and improved.

Of the bright future of agriculture, its financing and the banking

industry. Over the past years, banks have been accused of neglecting the agricultural sector, but this trend is slowly fading.

With the merging of banks and parastatals to help pull resources together to come to the rescue of agriculture, Nigerian Agricultural Cooperative and Rural Developmental Bank is poised to play its role and rightful position in the agricultural sector development.

The prospects are seen through;

1. High Private Foreign Investment.
2. Nigerian Agricultural Cooperative and Rural Development Bank.
3. Rural and Community Banking programmes.

Also in developing the agricultural sector, Nigeria is getting the support of international Agencies, which include World Bank, Food and Agricultural Organizations in collaboration with the Nigerian Government include;

IFAD- Assisted Root and Tuber Expansion programme to which a loan of US\$23.048m has been signed. The federal and state governments are expected to contribute the naira equivalent of US\$13m as

counterpart funds to the project, which will promote the production, processing and marketing of cassava, yam, and potatoes in 25 states of the federation.

Support of the Agricultural Development Project (ADP) by the World Bank.

Special Programme on Food Security (SPFS) being supported by the FAO.

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