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THE ROLE OF COMMERCIAL BANKS IN AGRICULTURAL

DEVELOPMENT IN NIGERIA: 1986-2010

BY

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CERTIFICATION

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DEDICATION

This work is dedicated to God Almighty for His divine love and mercies throughout my stay in the university.

To my parents Mr. & Mrs. H. O. Okafor for their love and support for a quality education.

To my brother Izuchukwu, Jideofor, Chinedu and my sisters Mrs. Stella Okolo, Mrs. Esther Chiemeka-Ozor, Ngozi and Chinwe Ubah for their assistance and encouragement.

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I give all the glory and honor to the almighty God for the successful completion of this work.

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Okafor Onyinyechukwu Helen

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ABSTRACT

The study examines the role of commercial banks in Agricultural development in Nigeria, spanning from 1986-2010. The methodology used is ordinary least squares (OLS), using P.C give 8.00 package. The findings from the study support the view that commercial bank loans are not getting to red farmers. The commercial banks loan to Agricultural sector is positive and significant at 5% level, contributing 67.65 percent variations in Real Agricultural output in Nigeria. Real interest rate and real exchange rate are both positive, but not significant at 5% percent level. The positive real interest rate shows that Investments in Agricultural sector in Nigeria has a very high rate of return. The findings suggest that real interest and exchange rates should be properly managed and periodically received so as to promote the growth of the Agricultural sector.

CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Agriculture involves the cultivation of land, raising and rearing of animals and raw materials for industries. It involves cropping live stock, forestry, and fishing, processing and marketing of these agricultural products.

Food is man's most important basic need before those of clothing and shelter. It is provision therefore, has been the major concern of man from the past years since it is both an essential condition and sinequanon to life. Agriculture being the provider of food can then be concluded as the life wire of any nation and thus be concluded as the life wire of any nation and thus its importance cannot be over emphasized.

When Nigeria gained their political Independence in 1960, agriculture was dominant sector of the economy. It contributed over 65% of the country's Gross Domestic Product (GDP) and provided the bulk of the foreign exchange earnings through the foreign exports of the cash crops. The sector catered adequately for nearly all food requirement and raw materials

for industry in the country. Agriculture performs a number of functions in an economy such as:

1.2   STATEMENT OF THE PROBLEM

Nigerian agriculture is confronted with many problems which ranged from low yield to low productivity and inadequate facilities among others. Oyatooye (1981) was on the same path when he noted that the problem of agriculture in Nigeria can be discussed under four headings.

   I.   Technology

  II.   Marketing

 III.   Finance and Government

Such problems include problems of providing adequate extension services, agricultural inputs, storage facilities, agricultural credit, marketing information and efficient marketing arrangement, infrastructures such as feeder roads efficient power supply and institutional reforms where necessary.   William (1981) pointed out that, the major problems facing Nigeria today are the needs to transform her agricultural industry from one traditional input with low productivity to one which enables her to meet the rising expectations of her people and to correct the social and economic

imbalance created by lopsided development between her rural and urban areas which have encouraged the youths and others to migrate from rural areas.

His statement is a valid one as when it was made from we have seen, the Nigerian economy is characterized by a high degree of rural to urban drift in search of greener pastures leaving the farm land to old aged men who are unable to provide all the food requirements of the growing population. This is responsible of the growing population. This is responsible for the high cost of food as there is pressure on the little produced.

Adekanye's assertion (1988) when he stated that: it is a common knowledge that present farmers and artisans who the back of the rural population do not get adequate and timely loans from financial institutions and they have no collateral and equally they do not get supplies of raw materials of standard quality even at the market place as they come under the ditches of rich farmers and sellers in the urban areas. The need for setting up of rural based commercial banks is very urgent.

1.3   OBJECTIVE OF THE STUDY

The main objective of this study is to assess the role of the commercial banks in agricultural development in Nigeria from 1986-2009. Specifically the study tends to be achieving the following objectives.

I.   To access the scope and achievements as well as highlight new role of Nigerian Commercial Banks to Agriculture.

II.   Identify the inherent problems of agricultural financing which have hindered the smooth flow of credit from banks to agriculture.

III.   To offer solutions to identified problems.

1.4   HYPOTHESIS OF THE STUDY

The hypothesis guiding this study are of two type H0 which is the null hypothesis and H1 which is the alternative hypothesis H0 is that the Banking Industry has played an important role in agricultural development in Nigeria. H1: is that the Banking Industry has not played an important role in agricultural development in Nigeria.

1.5   SIGNIFICANCE OF THE STUDY

This study is useful in many ways.

Firstly, Nigerian farmers can know the type of credit or assistance offered by Nigerian Banking Industry and the benefit from them.

Secondly, it will help to update knowledge on how the banks especially commercial banks in Nigeria, thus making it useful for other researchers, schools and readers.

Thirdly, it will enable the Nigerian government to take advantage of the suggestions and more result oriented policy towards boosting agricultural production in Nigeria.

Finally, the salient findings of this study will also make the farmers to be more result oriented in agriculture.

1.6   SCOPE AND LIMITATION OF THE STUDY

This study covers the period between 1986-2009; it will be an oversight to think that study such as this will be accomplished without impediments and constraints. Much as it seems incontrovertible that odds will be imminent there are some glaring inexorable cases.

Some respondents to interviews are always simplified and simplify in relating information to researchers.

Again, to think of development only in terms of increasing agricultural output is an under statement.

There is also the clamored non-existence of relevant and indispensable literature as versatile as possible.

The limitation put together explains why the research is scaled down from 1986-2009

The study only centers on the role of commercial Banking in agricultural development and factors surrounding their credit decisions to agricultural sector.

Thus, it only assessed the performance of the banks in executing the role of financing agriculture.

Since it was not possible to get the whole information needed in this study, the study is limited to the Nigerian Economy. The study is equally limited by time and limited sources of data. There are time constraints in the process of carrying out research due to in accuracy of data. It is sometime possible to underestimate or over estimate.

CHAPTER TWO

2.0 THEORETICAL REVIEW

2.1 AGRICULTURAL DEVELOPMENT

Agricultural development is most desirable in almost every nation of the world, whatever the stage of the economy of the nation.

According to Todaro (1977) agricultural development occurs when substantial productive capacity and high output per worker permits a very small number of farmers to feed the entire nation.

Soyambola tomori (1979) has more broad conception of agricultural development to him, the physical requirements for agricultural development may generally be considered to be improved farming techniques with proper and adequate use of such inputs as fertilizers, pesticides, improved seeds, water storage facilities, marketing and transportation.

However, the adoption of these innovations techniques and inputs used by large number of farmers depends on their willingness and ability to do so.

From the above, it could be said that for, agricultural development to take place, support is need from other sectors of the economy since it needs improve seeds, improved varieties of livestock, fisheries etc. inputs like fertilizers, pesticides, machinery and equipment and implements all of which are produced outside agriculture.

Obasanjo (1976) summarized in four ways how greater productivity and output contribute to an economy's development.

(i)   By supplying food stuff and raw materials to other expanding sectors of the economy.

(ii)   Providing an investable surplus of saving and taxes to support investment in another expanding sector.

(i)   Selling for cash a marketable surplus that will raise the demand for rural population for products of the expanding sector.

(ii)   Relating the foreign exchange constraint by earning foreign exchange through exports or by saving foreign exchange through sub situation.

Local consumption and export on the part of the government, emphasis was placed on research extension, marketing and pricing of export based

crops to the neglect of food crops subsector. In general, the performance of agricultural sector during this ear was satisfactory as it fulfilled its major roles by making food importation less pronounced, but generated a foreign exchange through the balance of payments.

During the period 1970- 1985, Government intervention was very pronounced, what gave rise to this was the fear that the sector was no longer performing its primary roles, a variety of macro and micro economic policies were introduced. The revenue from the crude oil export, government macro economic policies became expansionary while sectored policies emphasized directly on government involvement in agricultural production.

The Nigerian Agricultural and Co-operative Bank Ltd. (NACB) as a development financial institution was incorporated in March 6, 1973 into an initial paid up capital of N12 million. This amount was provided by Federal Military Government turns N1 million in equality shares and N11 million in loan stock.

Agriculture contributes more than 30% of the total annual GDP, employs about 68 percent of labour force, accounting for over 70% of the non oil exports, besides providing over 80% of food needs of the country.

But this does not amount to food security, as enunciated by the food and agricultural organization. Exist "when all people, al at times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preference for an active healthy life style.

In line with this, the present administration has evolved a 7 points agenda, aimed at guaranteeing a better life for all Nigerians.

The National Food Security Programme (NFSP) developed b the Federal Ministry of Agriculture and Water Resources is designed to ensure sustainable access, availability and affordability of quality food to all Nigerians, and is targeted at making Nigeria significant exporters of agricultural commodities.

Government's intention in the short run is to improve production in all aspects of agriculture. By 2011, the target is to significantly boost productivity, attain large scale production while also improving storage, processing and marketing infrastructure to achieve sustainable food stability.

In the long run, on the hand, its plan it to derive over 50 percent of the nation's foreign exchange through agriculture exports.

The country, realized over N50.6 billion ($314.8 million) from export of agricultural produce such as cocoa, coco butter, cocoa cake, ginger, sesame seeds, cashew nuts, Shea nuts, cotton lint, palm kernel cake, Shea butter, cocoa, rubber, chilies, among other in 2008.

This is N2.9billion higher than the N47.7billion realized in 2007. The increase in export value was attributed to increase in export of some produce like cocoa beans, from 141,084 tons; ginger 2,082 tons to 2,712 tons; cotton link 14, 054 tons to 20,695 tons and cashew nut, Shea nut, palm kernel, Shea butter, rubber and hibiscus flower recorded a significant drop (Business day online.com 2009)

2.1.1 AGRICULTURAL CREDIT GUARANTEE SCHEME FUND (ACGSF)

The contribution of banks through Agricultural Credit Guarantee Scheme Fund (ACGSF) cannot be ignored. Between 2005 and 2009, loans guaranteed by banks reached N18, 992.408 million (business day online.com 2009) The break down of the loans show that year 2005 accounted for N3, 046.739 million; 2006 N4, 263,060 million, and 2007, N4, 425,862 million;

2008 N6, 721.075 million and 2009 (i.e. January and February) 0.536 million.

Most of the loans were used for crops. Specially N15, 462, 331 or 81.41% to food crops livestock farming accounted for N2, 238.581 million, fisheries reached N789, 975 while N363,581 million, fisheries reached N789,975 while N363, 460 went into cash crops; other sectors received N122, 850. Under the review period, N2.887 billion loans previously guaranteed under the scheme were paid (Business day online.com 11/10/2009).

In terms of state, between January and February 2009, Oyo State got highest guarantee worth N81,950 Katina State followed with 74,840, Benue State received N58,646; Adamawa N56,000, Ogun N43,535; Imo N34, 280; Delta N31,480; Gombe N26,936; Enugu N20,570; Koji N19,550; Kwara N18,170; Anambra N15,341; Rivers N15,000; Borno N13,435; Cross Rivers N10,000; Plateau N5,900; Lagos N5,000; Edo N2,100; Nasarawa N1,500; Akwa Ibom N1,300.

Agricultural purpose for which loans under the Agricultural Credit Guarantee Scheme (ACGSF) can be guaranteed are the establishment or

management of plantations for the production of rubber, oil palm, cocoa, coffee, tea and similar crops; the cultivation or production of cereal crops tubers, fruits of all kinds, cotton, beans, groundnuts, Shea nuts, Benn seed, vegetables, pine-apples, bananas and plantains. There is also animal husbandry, which includes poultry, piggery, cattle rearing and the like fish farming and fish capture among others.

First Bank of Nigeria Plc was apparently the first to kick off the campaign, and achievements in the Nigeria media trying to sell message to the people. Not long after First Bank's campaign, the United Bank for Africa (UBA) made a resounding N50 billion stake towards agriculture financing. This initiate, called the Agricultural Support Scheme, is one of the largest private sector initiatives to support agriculture development in Nigeria. The fund is targeted at all segments of the agriculture chain, from small and medium scale farmers to large industrial projects.

The entrance of Central Bank of Nigeria (CBN) into the race to save the nation's agriculture through the approval of N200 billion for on-leading for large scale agriculture by National Economic Council serves as a federal government endorsement of some sort (business day online .com 2009).

The Commercial Agricultural Credit Scheme (CACS) package of N200 billion is exclusively dedicated to intervention in the agro sector. Except for N40 billion reserved for state governments, it bears all the hall marks of a medium- term commercial leading programme – five years maximum with additional unique features of digit fixed interest rate.

The strategy is to encourage and strengthen micro finance institutions through the provisions of adequate funding by state and local government as provided in the National Micro Finance Policy and Regulatory Guidelines. In addition to the contributions of some banks in agriculture financing, Nigerian Agricultural Insurance Scheme (NAIS) is also taking root in providing protection to farmers from the effects of natural risks. In 2008, Nigerian Agriculture Insurance Corporation (NAIC) paid N102 million as claims to farmers out of the N156 million expected to be paid to the farmers during the period under review while the balance of N54 million was still being processed for payment. The break down of the amount showed that N39.8 million was paid for crops, N79.7 million for livestock while N22.3 million was for other forms of claims. Also the corporation under wrote

business worth N20.6 billion during the same period, including crops, N6.5 billion livestock, N5.1 billion and N8.9 billion for other business.

2.1.2 THE NATIONAL FADAMA DEVELOPMENT PROJECT

The National Fadama Development Project was another agricultural policies introduced by the government to improve agricultural product.

Fadama I: Fadama I was implemented during the period 1993-1999. It focused mainly on crop production and largely neglected support of post production activities such as commodity processing, storage and making (down stream agricultural sector). The emphasis was on providing boreholes and pumps to crop farmers through simple credit arrangements aimed at boosting aggregate crop out (Nkonya etal, 2008).

Fadama II was borne out of the need to ensure all year round agricultural production using available Fadama Resources in Nigeria and also a follow up to Fadama I that was adjusted successful. Its approach was Community Driven Development (CDD) with emphasis on social inclusiveness and empowered of the rural people focused on increasing sustainable income of Fadama users via empowerment in terms of capacity building, advisory service, acquisition of productive assets and rural

infrastructure development. A recent effort towards booting production and enhancing farmer's welfare was the introduction of second National Fadama Development Project.

Fadama- the Hausa name for irrigable land is flood plains and low-lying area underlined by shallow aquifer sand found along Nigeria's river system (Ingawa et al, 2004). Fadama also refers to a seasonally flooded area used for farming during the dry season. It is defined as alluvial, low land formed by erosion and depositional actions of the rivers and streams (Qureshi, 1989). They encompass land and water resources that could easily be developed for irrigation agriculture (World Bank, 1992).

The National Fadama Development Project (NFDP) was established to ensure all year round production of shallow aquifers and surface water potentials in each state using table well, wash bore and petrol driven pumps technology (World Bank 1992 BSADP, 1994). This was the era of Fadama I which many adjudged successful both nationally and international and culminated in Federal Government of Nigeria requesting the World Bank for the preparation of a follow up project bank (World Bank 2003; Blench and Ingawa, 2004).

The second Fadama Development Project is one of the major instruments for achieving over all development of agricultural sector in Nigeria. The project, which was declared disbursement effective on May 27, 2004, is funded by World Bank. The states include Adamawa, Bauchi, Gombe, FCT, Imo, Kebbi, Lagos, Niger, Ogun, and Taraba (NFDO, 2007). Fadama II was designed to operate for six years (2004-2010) with a goal of contributing to poverty reduction in Nigeria. Actual implementation did until |September 2005, however, the project set a target of 50 percent and female users who benefit from the project supported activities.

The project development objectives are to increase the incomes of Fadama users. Those who depend directly or indirectly on Fadama resources (farmers, pastoralists, fishers, hunters, gathered and service providers) through empowering communities to take charge of their own development agenda, and by reducing conflict between users. The project adopted a demand-driven approach. In this case users of Fadama resources were encouraged to develop participatory and socially inclusive local development plans (LDPS). The LDPS were the basis support under the project.

PROJECT COMPLIMENTS

The project designed the following components to achieve its goal. Pilot Production Asset Acquisition Support: The overall objective of this component is to enhance the improvement in Fadama user's productivity and income by facilitating the acquisition of productive assets by individuals or matching grants Fadama user groups (FUGS) to mobilize their own funds and by providing matching grants for income Generating Activities (IGAs) to Fadama users groups. The pilot scheme will promote the acquisition of productive assets, and reduce the impact of market failure in rural finance sector on the poor Fadama user group through matching grants. A matching grant of seventy percent (70%) will supplement the beneficiaries financing share of thirty percent of cost of the assets (Okonjo, 2005).

Rural infrastructure investments: The Rural Infrastructure Component is responsible for the creation of infrastructure and local production methods in order to improve the productivity of Fadama users household. It finances the construction or rehabilitation of eligible small scale infrastructural projects specified as priorities in local Development Plans (LDPs) and also large sub projects that cut across development plans which are considered by

priorities by Fadama Community Association. Such infrastructure include: Feeder roads, Culvert, Drift Stock routes, Grazing reserve and Service centers. Others are market infrastructure such as VIP latrine, drainages, boreholes, cold rooms, cooling sheds, and rice processing post-harvesting and maize processing equipment (Ingawa et al, 2004).

2.1.3 AGRICULTURE AND EXPORT EARNINGS

The importance of agriculture can also be measured in terms of its contribution to be export earnings from to date.

The contribution of agriculture increased in absolute terms over the years, from N282.4 million in 1960 to N13852.7 million I 1995. It relative share however declined from 83.2%in 1960 to only 1.8 million in 1994.

The reasons usually adduced for this feature are its poor performance in terms of productivity and relative importance of petroleum sector. Apart from these factors, the relative declined in the world demand for primary products, which constitute the bulk of Nigeria which has led to increase in the use of major proportions of some of these products as raw materials. A strategy for increased output is needed to ensure increased export (Structure of Nigeria Economy).

But presently the country realized over 50.6 billion ($341.8 million) from export of agricultural produce in 2008 the country realized 2.9 million higher than N47 billion realized in 2007 (businessdayonline.com).

2.1.4 AGRICULTURE AND BALANCE OF PAYMENTS

One must add that increased agricultural output of industrial raw materials reduce dependence on imported inputs and goes to improve our balance of payment position. The invigoration of agriculture is essential not only for expansion of employment opportunity, reduction of poverty improvement of income distribution and speeding up industrialization but also for easing the pressure on balance of payment.

Agriculture in Nigeria performed this enviable role in 1960s and before the advent of oil. The combined effects of short fail to balance of payments deficits from 1981 to 1994. While net surpluses of N8.1 million and N2.4 billion were recorded in 1976 and 1980, 1981 witnessed a deficit of N2.9 billion. In 1982 deficits stood at N1, 398.3 million on and N244.8 billion respectively while in 1994 it stood at N7, 194.9 million, having fallen from N13, 615.9 million in 1993. This therefore confirms a greater need for renewed attention to our agricultural sector. (Structure of Nigeria Economy)

2.1.5 AGRICULTURE AND FOOD SUPPLY

Nigerian agriculture has in recent years not been able to meet the food needs of the country. Rather, food production per capital has been declining.

To supplement the low domestically produced food supply there has been a substantial rise in food imports. These have taken substantial portions of the much need foreign exchange for importing capital for development purpose.

A strong and efficient agricultural sector has the potential to enable a country feed its growing population, generate employment, earn foreign exchange and provide raw materials for industries. The vibrancy of the sector has a multiplier effect on any nation's socio-economic and industrial fabric, because of multifunctional nature. Therefore, the fact remains that is why present administration introduces a 7-point agenda, aimed at guaranteeing a better life for all Nigerians.

2.1.6 AGRICULTURE AND EMPLOYMENT

More than 80% of the rural population of Nigeria is engaged in one type of agricultural activities or the other. This roughly indicates the extent to which the agricultural sector absorbs the labour force in the country. However, a World Bank Report (1970) puts it that Agricultural sector

employed 71% of the total labour force in Nigeria in 1960, and by 1977 into this had dropped to 56%. This was 68% in 1980, falling to 55% in 1985, 53% in 1986, in 1987 55% and 57% annually to date (Structure of Nigeria Economy).

One of the most firmly accepted dogmas of economic development is that there is a secular decline of agricultural population and labour force of agricultural share in the GDP in the course of development.

The fall in the proportion of labour force engaged in agriculture is thus theoretically plausible and has been due to the structural change in the economy where other sectors are assuming different dimensions and engaging more labour than they previously did. While in the course of force which is employed in agriculture over time, is inevitable, it is important that agricultural labour productivity increase in order to compensate for the outflow of labour.

2.1.7 PAST EFFORTS AT REVAMPING AGRICULTURE IN NIGERIA

In Nigeria like other West Africa countries, a lot of policy measures and programmes have been adopted since independence aimed mainly elevating

agriculture from its pitiable position of subsistence level to market-oriented level. Some of these policy measures and programmes include:

The National Accelerated Food Production Project (NAFPP) NAFPP was established in 1973 aimed at accelerating the production of major stable crops. The programme which has three components of research, extension and agro-services used improved practices in place of traditional ones. It also provided facilities like credit, marketing, storage and processing facilities to farmers.

The River Basin Development Authorities (RBDA): The Federal Government in 1976 established eleven River Basin Development authorities under Decree No. 25. The RBDAS were aimed at development of land and water resources for general development of agriculture in Nigeria.

Operation Feed the Nation (OFN); OFN was launched in 1976 by the Obasanjo Military Administration. It was aimed at mobilizing Nigerians to take active part in growing their own food which will lead to increase in food production in the country thereby leading to self sufficiency in food production, OFN tried to encourage Nigerians irrespective of their occupation is to take part in farming no matter the size of the farm.

Land Use Decree: The land use decree was promulgated in 1978 and incorporated into 1979 constitution. The decree was aimed at reforming the Land Tenure System which had constituted a bottleneck to large scale farming in Nigeria. The decree gave a boost to agriculture by making land readily for large scale agricultural activities in the decree, all land were vested in the hands of State Government that held them in trust for the federal government.

The commodity Boards in 1977, the federal government established seven commodity boards under decree No. 29. The seven marketing boards replaced the dissolved regional boards. The seven boards took care of cocoa, rubber, cotton, groundnut, grains (for cereals) root crops (for cassava, yam and cocoa yam) and palm produce (palm oil and palm kernel). The seven boards were established mainly to encourage the increase in production and marketing of the various commodities, conduct research into production and encourage the processing of the commodities assigned to the various boards.

Green Revolution: The civilian second republic or Shagari's administration in an effort to curb shortage of food in the country and increase food production launched green in 1980. The programme mainly aimed at

boosting increase in 1980. The government mainly aimed at boosting increase in agricultural production in order to meet the food need of the country and reduce the drain in the country's foreign reserves through food importation.

Credit Availability: The recognition of the role of credit facility to agricultural development prompted government to establish the Nigerian. Agriculture Development Bank with its head quarters in Kaduna. The bank gives loans directly to individual farmers, organizations and established institutions. Other credits are made available for agricultural development by commercial bank credit guidance directives and Federal Government Agriculture Credit Guarantee Scheme.

Government expenditure: In a bid to avoid fund hampering increase in production of agriculture, the various governments in Nigeria have spent fortunes in the area of agricultural sector. Considerable priority was given to agriculture in all development plans launched in Nigeria. For instance, about N1, 646 million was planned expenditure on agriculture in the Third Development Plan (1975-1980).

2.2 EMPERICAL LITERATURE REVIEW

A lot of Economics writers have been done on the development of agriculture as sector examining the site of public sector and the private sector. Development aims at achieving the enlightened aspiration of people such that a positive change in their socio-political and economic concerns is brought about along with development in their being.

Agriculture development aqually aims at changing the status quo from less productive approaches to a reasonable level of growth, depending on social order and resource endowment among other factors. Successive administrations in Nigeria have embarked on several agricultural policies with varying degrees of successes and failures from 1960 to date.

The period between 1960 and 1969 was characterized by minimum direct government intervention and decentralized approach to agriculture. The federal government intervention and decentralized approach to agriculture. The federal governments only, play a support role while the regional and state governments were left to take major initiatives.

Nwankwo (1986) attributed this development to the fact that

Agriculture which include livestock, forestry, and

Fishing is the sector from which the nation expects

So much in terms of the provisions of employment

Opportunities, self reliance in basic food production,

Foreign exchange earnings and industrial raw materials

There is belief that various administrations both military and civilian alike have not done enough to feed the people. Also the banking industry discriminated against the agricultural sector by denying them the needed funds to transform the sector.

Before the discovery of oil sector in 1956 in agriculture was the stay of the Nigerian economy, but now it is living in past glories. Both Ola Vincente (1981) and Asabia (1981) confirms this position that agriculture constituted a very important sector of Nigerian Economy and was the dominant sector before the oil boom of the 1970's.

The reason for the several in trend according to Nwankwo, agricultural sector is a major potentials which are not being fully exploited in the large and expanding domestic and foreign markets for agricultural products, abundance of land and human resources and availability of improved technology, suffers major constraints in the storage of qualified manager.

These are in key area of supply of physical infrastructure such as federal roads water shortage and marketing facilities, adequate agricultural credit and depilating land tenure system.

Despite the fact that before 1960's agriculture was the main traditional sector, able the produce domestic consumption and cash crop for exports. It was organized around small family holdings and crude implements like hoes, matches etc. To increase agricultural productivity, therefore both for domestic financially, the agricultural financing is inevitable to achieve self sufficiency in agricultural production.

Agriculture experts, however, believe that government and financial institutions efforts to save the agricultural sector may be better late than never. It has now dawned on government that the only way the economy can survive is to diversify it from one entirely dependent on crude oil to one with multiple streams of income from other sectors.

According to Okereke (1989) identified a number of problems impeding the sectors movement to desired prominence in the economy. These include low technological input, poor receptivity of new ideas by farmers still attached to the cutlass and hoe syndrome, red tapism in acquisition of credit

land parcelization. Added to these, the vagaries of nature and the disastrous manifestation of drought, erosion, epidemics collapse of dams show the picture why Nigeria's agriculture remains in doldrums becomes clear.

These raise the need for an urgent appraisal of existing method of risk management in Nigeria agriculture. This is why the creation of Nigerian agriculture insurance scheme is a step in the night direction.

Umuokoro (1987) in his analysis of risk and uncertainty in agriculture advocated for diversification, specialization, flexibility yield and proper polities etc. whereas, in agriculture risk can be insured and uncertainty can be insured because uncertainty are losses which may not occur.

The measure of diversification and its relative risk is why banks discriminate against agricultural sector in terms of credit. This can be attributed to the passant nature of agriculture in terms of credit. This can be attributed to the peasant nature of agriculture in Nigeria and the inability of various governments both past present to execute efficient agricultural policy and programmes.

Appraising the prospects of agriculture and agricultural related business, Ajakaiye (1986) contended that the agricultural sector of economy will turn

out to be greatest that the beneficiary of the structural Adjustment Programme (SAP) the aspects concerning the devaluation of the naira and the disengagement of government from commodity price fixing. According to him, the inability of the agricultural sector to complete favorably for finance has been the combined efforts the over-valuation of the naira and strangle-hold of the commodity boards and other agricultural and price fixing agents. The Structural Adjustment Programme (SAP) has restructured the macro and micro economics environment in the favour of agricultural production.

Although he did not aware of resultant increase in the price of farmers' foreign inputs, he says that this increase will be more than off-set, the increase in income as demonstrated by the vastly increased profitability of production of exports since inception of SAP.

Lap and Smith (1992) tasted this for United States and extended the study to United Kingdom (Smith and Lap 1993). The results obtained for us data were tentative. For example, no evidence was found to support or reject the hypothesis that variations in inflation affect relative price variability among agricultural commodities.

However, the results the hypothesis that the variability of relative price in agriculture is related to average rate of nominal price change among agricultural commodities.

Zinnias (1997) studied the relationship between agricultural prices and the general price level in Greece. He used econometric methods for non-stationary variables preceded by co-integration and unit root tests. Agricultural price deflator was regressed on GDP deflator and per capital of agricultural production. The results show that agricultural prices used in the short-run, while the adjustments speed to the long-run inflation neutrality is shown.

Furthermore, Loy and Weaver (1998) carried out a time series analysis of retail food price in Russian markets to determine the effects of anticipated and unanticipated inflation, as well as inflation, uncertainty on relative agricultural price volatility. The results indicate that distortions in relative's price were induced by the anticipated inflation or a measure of inflation uncertainty.

Jaramillo (1991) analyzed time series relationship between inflation and relative price variability, using V.S data. A significant positive association

was obtained between inflation and relative price variability, allowing for an asymmetrical response of relative price to episodes of positive and negative inflation.

In spite of extensive studies done else where on the relationship between inflation and price variability within the agricultural sector, adequate studies have not been done for Nigeria's inflationary process only a few studies analyzed the effects if inflation on the economy. Examples of such focused on the impact of inflation on the economy. Examples of such studies include C.B.N (1974) and Osakwe (1982). Both studies focused on the impact of inflation on output growth and macroeconomic variables that has continued of impact heavily, so much depends on type of exchange regime a country is pursing at a time. Nigeria has come a long way in evolving and enduring exchange rate management policy, and have no doubt made appreciable progress in this regard.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 METHODOLOGY

The methodology to be adopted is multiple regression analysis, employing ordinary least square (OLS) technique.

The other technique is adopted because of the following reasons,

(1) The parameter estimates obtained posses optimal properties of un-biasedness, minimum variance, linearity etc.

(2) It is BLUE (i.e. best linear unbiased estimator).

(3) The computational procedure of OLS is fairly simple as compared with other econometric techniques.

(4) OLS is an essential component of most other econometric techniques (Kontsoyiannis 1997).

3.2 MODEL SPECIFICATION
3.2.1 DEPENDENT VARIABLE

AGDP: This is chosen as a dependent variable in the course of this study because it is used as an indicator for assessing the growth of agricultural output in the country.

3.2.2 EXPLANATORY OR INDEPENDENT VARIABLE

(a) Commercial bank credit advances to agricultural sector (CBCA). This is employed as an explanatory variable in the curse of study to show the total loan advances from commercial banks to agricultural sector.

(b) Real Interest Rate on Agricultural Loan (IRAL): This is used as an explanatory variable because it shows the rate of interest that causes the change in AGDP.

(c) Real Exchange Rate: This is used to capture the exchange rate volatility and its impact on the agricultural productivity level. It will be included as an explanatory variable.

3.3 STRUCTURAL PRESENTATION OF THE MODEL

This could be symbolically expressed as:

RAGDP = F (CBLAE, REIR, REXR)

Where:

RAGDP = Real Agricultural Gross Domestic Product.

CBLA = Commercial Bank Loan to Agriculture

RINTR= Real Interest Rate on Agricultural Loan

REXR= Real Exchange Rate.

3.4 MATHEMATICAL PRESENTATIOON OF THE MODEL

This can be mathematically written as:

RAGDP: $b_0 + b_1 CBLA + b_2 REIR + b_3 REXR + U_t$

Where:

RAGDP = Real Agricultural Gross Domestic Product.

CBLA = Commercial Bank Loan to Agriculture

REXR = Real Exchange Rate

B_0 = Constant term

B_1 = Coefficient of CBLA

B_2 = Coefficient of Real Exchange Rate

B_3 = Coefficient of Real Exchange Rate

U_t = Stochastic error term.

Based on prior grounds, there should be a positive relationship between the CBLA and REXR explanatory variable and dependent variable, while the REIR will have negative relationship with the dependent variable.

3.5 METHOD OF EVALUATION

Having specified and estimated the parameters of model the research would proceed with the evaluation of the results of the calculation, that is, with the determination of the reliability of these results. That is, with the evaluation of the reliability of these results. The evaluation consists of

deciding whether the estimates of the theoretically meaningful and statistically satisfactory.

In view of the researcher will evaluate the estimated parameters using the following criteria;

(1) The adjusted $\bar{R}^2$ test

(2) The student t - test

(3) The f- test

(4) The Durbin – Watson test

1. The Adjusted $\bar{R}^2$

This is also coefficient of multiple determinations. It measures the percentage of the total variation of the dependent variable (RAGDP) explained by the regression plane, that is by changes in explanatory variables, (CBLA, REIR, REXR). The value of $\bar{R}^2$ is between 0 and 1. The higher the $\bar{R}^2$ the better the goodness of fit of the regression plane to the sample observations, and the closer the $\bar{R}^2$ to zero worse the fit (Gujarati 2004).

2. The student T-test

It is used to test the statistical significance of individual estimated parameter. In this research, t – statistics is chosen because the population variance is unknown and sample size is less than 30(n<30).

Decision Rule

Reject the null hypothesis if the calculated value of t is greater than the tabulated value of t (i.e. $t^* > t_{tab}$) with N −K degree of freedom at the chosen level of significant. In this study, the chosen level of significance will be 5%.

3. The F – test

This is used to test for the overall significance of the regression plane (model). The test aims at finding out whether the joint influence of the explanatory variables on the dependent variable is statistically significant.

Decision Rule

If f – calculated (f^*) is greater than F – tabulated ($f^* > f_{tab}$) with the chosen level of significance with K-1 and N-K degree of freedom, we reject the null hypothesis, that is, we accept that the regression model is significant.

But if $f^* > f_{tabs}$, we accept null hypothesis, that is we accept that the regression model is not significance with K-1 and N − K degree of freedom.

4. Durbin – Watson Test

It is determined by the theory of economics. It is used for the presence of first auto correlation in the level of significance used is (%).

Decision Rule

Accept the null hypothesis if du < d*< (4 – du), that is there is presence of first order autocorrelation of first order.

These are the guiding principles through out the study.

3.6 DATA REQUIRED AND SOURCES

The data used in this research is secondary data. They are the time series data the included variables. All the data for the study are obtained from various publications of Central Bank statistical bulletin and its spans the period 1986-2009. These are supplemented with data are also obtained from the financial economics review, journal and text book published to ensure that proper adequate data presented in the course of the course of our regression analysis.

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# CHAPTER FOUR

## 4.0 PRESENTATION AND ANALYSIS OF RESULT

### 4.1   REGRESSION RESULT

MODELLING RAGDP BY OLS

| Variable | Coefficient | Std. Error | T. Value | T. Prob. | Part $R^2$ |
|----------|-------------|------------|----------|----------|---------|
| Constant | 1.4267 | 20540 | 6.946 | 0.0000 | 0.6967 |
| CBLA | 0.020427 | 0.0030826 | 6.627 | 0.0000 | 0.6765 |
| REIR | 865.71 | 421.49 | 2.054 | 0.0526 | 0.1673 |
| REXR | -241.16 | 142.96 | -1.687 | 0.1064 | 0.1193 |

$R^2 = 0.822999$   F, (3,21) = 32.548 (0.0000)

Dw = 1.60,  RSS = 2.841149441

### 4.2   RESULT INTERPRETATION

### 4.2.1  EVALUATION BASED ON ECONOMIC CRITERIA

The parameter estimates are expected to conform to a priori expectations. The table below summarizes the outcome of our model parameters on an apriority ground.

Table 4.2.1a

| Variable | Expected signs | Obtained signs | Conclusion |
|----------|----------------|----------------|------------|
| CBLA | Positive | Positive | Conform |
| REIR | Negative | Positive | Not conform |
| REXR | Negative | Negative | conform |

The apriori expectation for real interest rate was not satisfied. This shows that interests charged by Nigerian banks are still within the range that encourages investment in agricultural sector.

The apriori expectations for commercial banks loan to agriculture and the real exchange rate conformed to the expected signs.

## 4.2.2   STATISTICAL TEST (FIRST ORDER TEST)

i.   The student t – Test

The student t – Test involves comparing the $t^*$ (t- calculated) to its t – tabulated value, which defines the critical region in a two-tailed test, with n-k degrees of freedom, where n = sample size and k = total number of estimated parameters.

The null hypothesis: $H_0$: $b_1 = 0$ is tested against the alternative $H_1$: $b_1 \neq 0$

If $t^* > t_{0.025}$, reject $H_0$, otherwise accept $H_0$.

Table 4.2.2a

| Variable | $t^*$ | $t_{0.025}$ | Decision | Conclusion |
|---|---|---|---|---|
| Constant | 6.946 | ±2.080 | $t^*$>t-tab | Significant |
| CBLA | 6.627 | ±2.080 | $t^*$>t-tab | Significant |
| REIR | 2.054 | ±2.080 | $t^*$>t-tab | Not significant |
| REXR | -1.687 | ±2.080 | $t^*$>t-tab | Not significant |

The above results show that the constant and the commercial bank loan to agricultural sector are significant while Real interest rate and real exchange rate are statistically insignificant.

ii. F- test.

F- ratio is used to test for the joint influence of the explanatory variables on the dependent variable. It tests for the statistical significance of the entire regression plane. Symbolically,

$$F = \frac{R^2/k\text{-}1}{(1\text{-}R^2)/N\text{-}k}$$

The calculated F-ratio ($F^*$) is compared with the theoretical $F_{0.05}$ with $N_1$= N-k degree of freedom. Where: $N_1$ = degree of freedom for numerator.

$N_2$ = degree of freedom for denominator. k= number of $b^s$ ( including $b_0$).

N = sample size

If $F^* > F_{0.05}$, reject $H_o$, otherwise accept $H_o$.

From our regression result, $F^*$ (3,21) = 32.548 while $F_{0.05}$ (3,21) = 3.0725.

Hence $F^* > F_{0.05}$, we reject $H_o$ and conclude that at 5% level of significance, the overall regression is statistically significant.

iii.    The coefficient of determination ($R^2$):

$R^2$ shows the percentage variation in the dependent variable as explained by the independent variables.

The structure variables explained the variation on the behavior of the dependent variable adequately. This means that the model has a good fit, as evidenced in the value of $R^2$, which is 0.822999, showing that commercial banks loan to agriculture, real interest rate and real exchange rate jointly accounted for 82.30% of the variation in real agricultural output in Nigeria within 1986 to 2010.

### 4.2.3  ECONOMETRIC TEST (SECOND ORDER TEST)

(i) Test for Autocorrelation :

One of the assumption s of OLS regression model is that errors are independent. In the context of time series analysis, this means that an error $(U_t)$ is not correlated with one or more of previous errors $(U_{t-i})$.

The Durbin-Watson d Test compares the empirical $d^*$ value, calculated from the regression residual with $d_L$ and $d_u$ in D-W tables to their transforms $(4-d_L)$ and $(4-d_u)$.

Decision Rule

I. If $d^* > d_L$ , we reject the null hypothesis  of  no autocorrelation and accept that there is positive autocorrelation of the first order.

II. If $d^* > (4-d_L)$, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.

III. If $d_u < d^* < (4-d_u)$, we accept the null hypothesis of no autocorrelation.

IV. If $d_L < d^* < d_u$ or if $(4-d_u) < d^* < (4-d_L)$, the test is inconclusive.

From our regression result the

$d^* = 1.60$

$d_L = 1.123$

$d_u = 1.654$

$4\text{-}d_L = 2.877$

$4\text{-}d_u = 2\text{=}346$

Hence $d_L$ (1.123) $< d^*$ (1.60)$< d_u$ (1.654), we conclude that the test is inconclusive.

(ii)    Normality Test for Residual

The J B test for normality is an asymptotic or large sample test and it is based on the OLS residuals.

This test computes the skewness and curtosis measures of the OLS residuals, and uses the Chi-square distribution (Gujarati, 2004).

The null hypothesis for the test is $H_o:b_1 = 0$ (the error term follows a normal distribution) against the alternative hypothesis;

$H_1:b_1 \neq 0$ (the error term does not follow a normal distribution).

At 5% level of significant, with 2 degree of freedom,

$$J B = n \left| \underline{s^2} + \underline{(k\text{-}3)^2} \right| = 0.96288$$
$$\phantom{J B = n \left|} 6 \phantom{+} 24$$

While critical $JB = (X^2(2)df) = 5.99147$

Conclusion: since 0.96288 is less than 5.99147 at 5% level of significance, we accept $H_o$ and conclude that the error term follows a normal distribution.

(iii)  Test for Heteroscedasticity

The test is carried out using White's General Heteroscedasticity test. It asymptotically follows a Chi-square distribution with degree of freedom equal to the number of regressors (excluding the constant term). The auxiliary model can be stated thus:

$U_t = B_o + B_1 CBLA + B_2 REIR + B_3 REXR + B_4 CBLA^2 + B_s REIR^2 + B_6 REXR^2$
$+ Vi$

Where $Vi$ = pure white noise error.

After the regression, an auxiliary $R^2$ is obtained.

The hypothesis to be tested is $H_o : B_1 = B_2 = B_3 \dots . B_6 = 0$ (Homoscedasticity);

$H_1 : B_1 \neq B_2 \neq B_3 \dots . \neq B_6 \neq 0$ (Heteroscedasticity).

Note: the sample size (n)  multiply by the $R^2$ obtained from the auxiliary regression asymptotically follows the Chi-square distribution with degree of freedom equal to the number of regressors (excluding the constant term) in the auxiliary regression.

The use of P.C. give software package saves us the above rigour by calculating the Chi-square value.

Decision Rule

Reject $H_o$ if $X^2cal > X^2tab$ at 5% level of significance, if otherwise accept $H_o$.

From the auxiliary regression result,

$X^2cal = 9.5265$ while

$X^2tab = 12.592$

Since $X^2cal$ (10.732) $< X^2_{0.05}$(12.592),

We accept the null hypothesis of homoscedasticity and reject the alternative hypothesis of heteroscedasticity, showing that the error terms have a constant variance.

(iv)  Test for Multicollinearity

The multicollinearity test were carried out using correlation matrix. According to Barry and Feldman (1985) criteria, " multicollinearity is not a problem if no correlation exceed 0.80"

Table 4.2.2b

Correlation matrix

|  | RAGDP | CBLA | REIR | REXR |
|---|---|---|---|---|
| RAGDP | 1.000 |  |  |  |
| CBLA | 0.8764 | 1.000 |  |  |
| REIR | 0.5554 | 0.4552 | 1.000 |  |
| REXR | -0.4220 | -0.3320 | -0.07766 | 1.000 |

The correlation matrix as shown above, shows that multicollinearity only exit between RAGDP and CBLA.

4.3   Policy Implementations

The statistical significance of the commercial banks loan to agricultural sector raises a doubt on whether the loan is really getting to farmers in Nigeria.

The positive outcome of the real interest rate is a good indicator that the agricultural sector in Nigeria is highly viable. This calls for modernization of the sector to create more employment opportunities for the young school leavers.

# CHAPTER FIVE

## 5.0   SUMMARY OF FINDINGS, RECOMMEDATIONS AND CONCLUSION

## 5.1  SUMMARY FINDINGS

This research work was carried out to known the impact of the banking industry in financing agriculture in Nigeria using a time series data within 1986 to 2010.

The past shows that some efforts have been made to finance agriculture in Nigeria but the effect has not been felt as the sector is dominated by the oil sector. The agricultural output in Nigeria is being affected by the regulation of the real exchange rate by the credit institution, since farmers find it difficult to exchange foreign currency into domestic currency.

The study identified some problems that have constrained reduction in agricultural productivity outside real exchange rate. This include using cost of farm input caused by prolong inflation in the economy. The implication is that there is inadequate supply and delivery of farm input, shortage of capital

low rate of technology, environmental hazards, processing and storage facilities, land and labour constraints etc.

However, the result of the regression shows that there is a positive change in banks credit to farmers and Real interest rate to change the agricultural output. On other hand, banks credit to farmers and the Real interest rate have a positive relationship with agricultural output in Nigeria economy by

  i.   Increasing the technological input of farmers

  ii.   Removing the redtapism in the acquisition of credit land parcelization

  iii.   It has helped banks to manage risk murder to speed specialization. Flexibility yield and proper policies.

  iv.   It has helped in providing adequate extension services, agricultural inputs, storage facilities, marketing information and efficient marketing arrangement, infrastructures such as feeder roads efficient, efficient power supply and institutional reforms.

  v.   The bank credit given to farmers has helped farmers to transform her agricultural output into industrial input which enable her to meet the rising expectation of her people and to correct the social and economic

imbalance created by the top sided developments between the rural and urban areas which have encourage the youths and others to migrate from rural areas.

## 5.2 RECOMMENDATION

Based on the above findings and existing literature on the loans and agricultural productivity, and from the present research, it is obvious that the \real Interest Rate and Banks Loan have a significant impact on agricultural output in Nigeria. In the high of these, the following recommendations are proffered:

1. Real Interest Rate as it influence needs policy should be properly managed and periodically reviewed so as to promote the growth of the agricultural sector.

2. Real Interest Rate determination is a function of monetary authority like Central Bank of Nigeria; therefore, monetary policy should be promoted towards enhancing agricultural output in Nigeria.

3. International bodies sometimes give out loans to finance agriculture; for such loans to be properly utilized, they have to be channeled in such a way that the impact of such loans has to be felt by the peasant farmers.

When such loans are taken, they should be used towards the achievement of specific objectives. And such loans should be seriously monitored. Since agriculture is an important sector of the economy, more loans should be allocated to its development and implementation.

4. The Central Bank should give adequate directives to the commercial banks mandating them to give out loans to farmers at affordable interest rate and collateral securities.

5. The government on its own part should pass a bill to Agricultural Banks, which will mandate them to give out loans to farmers without unnecessary prerequisite.

6. Various governments should encourage formation of farmer's cooperative societies at local level, so as to ensure adequate funding for agriculture which will enhance growth of the economy.

## 5.5  CONCLUSION

The potential increase on the effect of agricultural financing based on production does not exist, but the agriculture is yet to attain its full position and fulfill its role, especially in the production of basic agricultural commodities.

Furthermore, it is important to emphasize here that the role of credit in Nigerian agricultural development cannot be over emphasizes.

Again, the loan given out by the international and local bodies does not reach the real farmers, rather it goes to the business men who resell them and use the loan to improve on their business.

Therefore, a policy stability and long-term planning should be given adequate attention in the policy design processes. The nature of agricultural practices and changing of domestic market into word market should be addressed. The economic situation of Nigeria requires that a regular policy review process should be instituted. By so doing, Nigeria will achieve its '7 Points Agenda' aimed at guaranteeing a better life for all Nigerians and solve the present frightening –food crisis.

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