ABSTRACT

This research examined the effects of commercial banks in agricultural financing in Nigeria. Respondents were selected based on simple random sampling technique. One Hundred (100) staff of First bank Nigeria Plc. were sampled.

Three hypotheses were formulated and tested with the use of Chi-Square analysis. The analysis resulted to rejecting all null hypotheses and hence accepting the alternate hypotheses.

Based on decisions of the tested hypotheses conclusions were reached there is significant relationship between the type of borrower and their repayment patterns, evident from the result of hypothesis one where the null hypothesis was rejected and the alternate hypothesis accepted.

The result of hypothesis Two also resulted to rejecting the null hypothesis and accepting the alternate hypothesis and concluding that there is significant relationship between the educations of farmers and loan repayment.

It was also revealed from hypothesis three that there is significant relationship between the types of security pledged and loan repayment patterns.

Conclusion was drawn and recommendations were proffered to commercial banks, government and farmers.

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CHAPTER ONE

INTRODUCTION

1.1   BACKGROUND OF THE STUDY

Like many other African countries, Nigeria is primarily agrarian with its abundant land and water resources. Despite the rapid growth of the oil industry over the years, agriculture still accounts for 40% of GDP and provides employment (both formal and informal) for about 60% of Nigerian's 150 million people. Nigeria's agriculture remains largely subsistence-based with about 80% of agricultural output coming from rural

farmers living on less than a dollar per day, earned from farming less than one hectare (2.47 acres). Nigeria has diverse agro-ecological conditions that can support a variety of farming models to create its own green revolution.

However, successive administrations neglected agriculture over the years and failed to diversify the economy away from overdependence on the capital-intensive oil sector. Nigeria was once a large net exporter of agricultural products and the sector was the major foreign exchange earner before the advent of oil in 1970s. Nigeria is currently a huge net importer of agricultural products, with such imports exceeding $3 billion in 2010. The country has the potential to return to its previous position if adequate attention is given to agricultural growth policies, finance and provision of rural infrastructure.

The fact of the matter is most of the smallholder farmers lack access to capital to acquire the needed inputs to increase their productivity and incomes and reduce their poverty. Farmers require credit to purchase seeds, fertilizers, herbicides, and buy or rent mechanized equipment and related services.

Nigerian agricultural policy recognizes the vital role of agriculture finance in attaining the much desired green revolution. A major focus of the policy is to establish a system of sustainable agricultural financing schemes, programs and institutions that could provide micro and macro credit facilities for the small, medium and large-scale producers, processors and marketers. However, public expenditure on agriculture which serves as the bedrock of financing for the sector has consistently fallen short of recommendations. It is therefore not surprising that these policies have failed to achieve the set goals of food self-sufficiency, self reliance, poverty reduction and rural development. Importantly, Nigeria agriculture is abysmally under-financed. At a public forum in early 2011, the Governor of the Central Bank of Nigeria (CBN) was quoted to have said "currently agriculture accounts for 40 percent of the GDP, yet it receives only one percent of total commercial bank loans." This is significantly below the level of other developing countries, e.g. Kenya and Brazil which reportedly registers 6 percent and 18 percent, respectively.

The Nigeria Agriculture Public Expenditure Review, a collaborative study carried out by the International Food Policy Research Institute (IFPRI) and the World Bank in 2008, revealed that public spending on agriculture was less than 2 percent of federal expenditure during 2001 to 2005. This is far below the 10% goal set by African leaders under the Comprehensive Africa Agricultural Development Program (CAADP). CAADP was established by the AU assembly in 2003 with a focus on improving food security, nutrition, and increasing incomes in Africa's largely farming based economies. It aims to do this by raising agricultural productivity by at least 6% per year and increasing public investment in agriculture to 10% of national budgets per year. Very low levels of funds are available for activities considered vital for promoting agricultural growth, such basic and applied agricultural research, agricultural extension and capacity building, and agricultural credit and irrigation development. In spite of this poor investment, agriculture contributed on average 32% to the country's total GDP during 1996-2000 and 42% between 2001 and 2009. For a successful transformation of the agricultural sector, experts suggest that Nigerian agriculture requires additional annual investments of as much as $8 billion.

Nigeria's agricultural development is constrained by the lack of access to credit for the predominantly smallholder farmers. Efforts by successive governments to address the problem have been largely unsuccessful. Commercial banks in the country perceive agricultural finance to be high-risk. The Central Bank of Nigeria is making efforts to de-risk the sector and encourage banks to lend to farmers.

This research work tends to asses the effects of commercial banks in financing agriculture in Nigeria with

special reference to First bank Nigeria Plc. The role of the Central bank of Nigeria (CBN) and some other commercial banks will also be examined.

1.2   STATEMENT OF THE PROBLEMS

It is important to note that in the early 70s when the oil price increased, the agricultural sector suffered a serious neglect as the focus and concern of the nation's economic activities and government revenue shifted to the industry. Consequently, price fell in the world market.

The Nigerian food import bill assumed an unprecedented level of about N1.5billion while the traditional agricultural exports were progressively declining. The need then arose for re-engineering the agricultural sector and a fundamental restructuring of the economy towards self-sustaining growth and development. After the post independent, the CBN established some agricultural agency like Credit Guarantee Loan Scheme (1972) to address the problem of agriculture by granting loan and advances to agricultural sector, but this scheme was not properly implemented. In 1971, an agricultural reform was established called "Operation Feed the Nation". Poor assessment and implementation of the programme could not allow the government to achieve its objectives. 1989, the government came up with a reform called Structural Adjustment Programme, the programme was also with a wrong motive.

The Bank reform (2005) by CBN resulted in the growth of the banks with new branches springing up everywhere across the major cities, and was celebrated by self-deluded bourgeois ideologues. The banks were given a clean bill of health, and they were said to be poised to finance the critical sector of the economy. Rather than invest in the real sector of the economy like agriculture, manufacturing, iron and steel, etc that will bring about improved productivity in the economy, the banks went into the oil whose price has now crashed at the international market. In addition, they also invested colossal sums of money in the casino market, where they speculated wrongly in anticipation for quick returns, but the stock market has now crashed, and the banks have lost over 900 billion naira invested in shares.

First Bank Plc currently has a loan scheme called Farmers First, which started in 2008. Under this scheme purportedly meant for all categories of farmers, the individuals or group of farmers who want to access the loan (N1million minimum) are expected to meet the following requirements before they are eligible: own an existing farm for some time; open and run current account for a period of six months; deposit 25 per cent of the total sums intended to borrow; six months moratoria; agriculture insurance; and other sundry charges. These hurdles notwithstanding, many poor farmers who have scaled it are still denied the loans on flimsy excuses, grounds for the rich farmers.

Nigeria's agricultural development is constrained by the lack of access to credit for the predominantly smallholder farmers. Commercial banks in the country perceive agricultural finance to be high-risk making it difficult to grant predominant farmers loan.

The researcher tends to examine the impact of commercial banks to these problems and proffer suggestions and recommendation that could limit these challenges.

1.3   OBJECTIVES OF THE STUDY

The broad objectives of this research work is to examine varying the impact of bank credit on agricultural development. Other specific objectives include;

   To examine the effect of CBN Credit guidelines and other financial bodies on Agricultural development.

   To examine the relationship of bank lending policies in Nigeria as the relate to Agricultural development.

   To examine how effective or defective are these credit policies on the preferred Sector of an economy.

To examine factors that are responsible for only few individuals and small-scale agriculture industries benefiting from such polices.

To proffer recommendation on Assessment of the Impact of Bank Credit on Agricultural Development.

1.4 RESEARCH QUESTIONS

Research questions are those interrogative statements that arise often from the course of study or alternatively they can be defined as research objectives stated in interrogative form. Research questions are meant to generate possible answers to different aspects of the research problem and they should be clearly stated such that they act as guides in identification, collection and analysis of relevant data. In order to achieve the purpose of this research study, the study will attempt to provide answers to the following research questions in order to arrive at a logical conclusion

Does any relationship exist between the CBN credit guidelines on agriculture and agricultural development in Nigeria?

Is there any significant difference between the loan repayment of small and large-scale farmers?

Is there any Relationship between the type of borrower and loan repayment?

Is there any significant relationship between gender and loan repayment patters of farmers?

Is there any significant relationship between the types of security pledges and repayment patterns?

Is there any significant relationship between the educations of farmers' and loan repayment?

What are the banks lending policies in Nigeria as they relate to agricultural development?

What factors are responsible for only few individuals and small scale agriculture industries benefiting from such policies?

1.5 RESEARCH HYPOTHESES

Hypothesis is a tentative answer to a research question. It is a conjectural statement about the relationships that exist between two or more variables which needs to be tested empirically before they can be accepted or rejected. In a research work, hypotheses are never proved or disproved, they are either supported (i.e. accepted) or rejected. To provide answer to the research questions arising from this study, the following hypotheses are postulated.

HYPOTHESIS 1

H_o: There is no significant relationship between the type of borrower and there repayment patterns.

H_i: There is significant relationship between the type of borrower and their repayment patterns.

Hypothesis 2:

H_o: There is no significant relationship between the educations of farmers and loan repayment.

H_i: There is significant relationship between the educations of farmers and loan repayment.

Hypothesis 3:

H_o: There is no significant relationship between the types of security pledges and loan repayment patterns.

H_i: There is significant relationship between the types of security pledges and loan repayment patterns.

1.6 SCOPE OF THE STUDY

The research would focus on the activities of First Bank Nigeria Plc., towards the financing and development of agriculture in Nigeria. Emphasis would be on operational schemes of the bank, condition and pre-requisites for borrowing, financing procedures, sources and application of funds, evaluation financing. The study would cover a definite period to enable us have a clear vision of the role of First Bank Nigeria Plc. in

relation to agricultural credit in Nigeria.

1.7 LIMITATION OF THE STUDY

In the course of conducting this research work it is expected that the following will constitute impediments to the effective conduct of the study

a) Time constraint within which the study must be completed.

b) Financial constraint

c) Inaccessible and inadequate data

Nevertheless, I believe the above limitations will in no way affect the reliability and validity of the research study.

1.8 HISTORICAL BACKGROUND OF THE CASE STUDY

First Bank of Nigeria Plc remains one of Africa's most diversified financial services solution providers. Since its establishment in 1894, the Bank has consistently met growing market demands for financial services, through a process of continuous re-invention. Its customer-centered architecture combines service delivery through the traditional branch outlet and emphasis on person-to-person contact, with the ease of the automated delivery channel, to create a customer-service experience that is strong on choice, convenience, and mass customization. In the over one century since its establishment, the Bank has continued to build relationships with its customers and alliances with key sectors of the economy that have been strategic to the well-being and growth of the Nigerian economy.

Consequently, it has remained the most profitable banking franchise in Nigeria with group profit after tax of N20.4billion in the financial year ended March 31, 2007. Underpinning this success is the Bank's strategy, with its focus on the two critical imperatives of modernization and growth.

With over 400 business locations, the bank has one of the largest domestic sales networks in Nigeria, all on-line real times. As a market leader in the financial service sector, First Bank Plc pioneered initiatives in international money transfer, MasterCard, Interswitch and the ATM consortium. It is the industry leader in terms of value and volume of ATM transactions in the country.

The Bank has nine local subsidiaries and a full-fledged subsidiary in the United Kingdom, as well as a representative office in South Africa. First Bank's growth strategy is hinged on continued network expansion, product development, mergers and acquisition and growth of its international footprint. In furtherance of this strategy, and in line with the imperatives of industry consolidation, the Bank in the 2005/2006 financial year, acquired its investment banking subsidiary, FBN (merchant Bankers) Limited and another bank – MBC International Bank Plc. Furthermore, the Bank is currently exploring alliance with key prospects in the industry with a view to creating the largest bank in West Africa and one of the largest in the continent.

In the last decade, by playing key roles in the Federal Government's privatization and commercialization scheme, First Bank has led the financing of private investment in infrastructure development in the Nigerian economy.

A key element of the Bank's strategy is its continued focus on retail banking/consumer financing, gradually shifting towards a high yield diversified portfolio by aggressively targeting the relatively under-banked consumer spending, which is a major driver of domestic demand in developed economies, still constitutes a relatively lower percentage of GDP in Nigeria. To this end, the Bank provides both business and consumers with a broad range of finance asset acquisition. Marketed under the U-First brand name, this suite of flexible products and services offers prospective customers financial solution to help them achieve their "higher

quality of life goals". The business of the Bank is operated along two main market segments/Strategic Business Units (SBUs): Corporate Banking and Regional Directorates (Lagos & West, North and South). These are defined within broad limits to facilitate and give direction to marketing activities within the bank.

Of particular note is the fact that Regional Directorate whose purview encompass retail and commercial banking, leverage the Bank's domestic sales network of over 400 branches, acting as points of sale for all the Bank's products/services to customers in selected target markets and facilitating the Bank's ability to effectively dominate the market.

First Bank got listed on the Nigerian Stock Exchange (NSE) in March 1971 and has won the NSE's Annual President's Merit Award for the best financial report in the banking industry twelve times.

In further evidence of the Bank's strength, is Standard and Poor's, an international ratting of "BB - " "B" short term rating with stable outlook. This is the same rating assigned the country by the same agency. Fitch, another international agency, assigned the Bank "B+" (long-term) and "B" (short-term) and stable outlook, which translates into a notch below what the agency, assigned the country. The agency also affirmed the Bank's "A+" and F1 (nga) national long-term and short-term rating respectively for the past five years. Global Credit Company Limited, a licensed rating agency, Alos assigned the bank national long and short term ratings of "AA" and "A+" respectively. Both agencies accorded the Bank the highest rating in the national short-term category, while Austo & Co. (a national credit rating agency) upgraded its long-term outlook on the Bank from an "A" rating in the 2001/2002 financial year to "Aa" in the last four years.

The ratings are a manifestation of the strength of the Bank's domestic franchise and systemic importance in the industry in particular and the economy in general. The international ratings by Standard and Poor's and Fitch are particularly significant as they indicate the alignment of the Bank's practices with world-class standards, expected to facilitate seamless integration into the international financial markets.

First Bank was equally rated number one among Nigerian banks in Corporate Governance practice in 2003 and 2005 by Johnston Irving Consulting, in collaboration with ICRA Pty Limited (an associate of Moody's Investors, USA). In addition, the Bank was awarded the "Best in Nigeria", "Best Trade Finance Bank in Nigeria", and "Best Foreign Exchange Bank in Nigeria" for three consecutive years 2004, 2005, and 2006 by the US-based Global Finance magazine, to mention a few of the awards won by the Bank. The bank was also awarded bank of the year "2011".

In line with the Bank's vision "to be the clear leader and Nigeria's bank of first choice", its mission "to remain true to our name by providing the best financial services possible"; and its brand essence, "dependably dynamic", the Bank has continued to transform itself as it forges ahead in its second century of providing qualitative banking services to the nation and maintain leadership in a consolidated and more dynamic industry.

THE EFFECT OF COMMERCIAL BANKS IN AGRICULTURAL FINANCING IN NIGERIA (A Case Study of First Bank Nigeria Plc.)

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