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ABSTRACT

Thestudy is an investigation into the impact of Bank Credit on AgriculturalDevelopment with emphasis on First Bank of Nigeria Plc.

Specifically,I examined the effect of Central Bank of Nigeria credit guidelines and otherfinancial bodies on AgriculturalDevelopment, also examined the relationship of bank lending policies inNigeria, and to what extent there credit facilities are effectively beenutilized by the farmers.

Twomajor statistical tools were adopted, while a time-series analysis wasconducted to observe the movement of the loans and advances against the yearsloans were utilized by small and large scale farmers.

Someof the major findings of these tests confirm that bank credit has a significantimpact in Agricultural Development for the small and large scale farmers.

Furtherinvestigation shows that the highest agricultural loan was granted in 2009 withover One Hundred and Seventy Five Million Naira the loan granted in 2010 and2011 decreased drastically by 20 percent which was basically due to the globalfinancial meltdown.

Basedon these results, some of the major recommendations are that Federal Governmentshould increase the banks share and credit base in order for the bank to copewith increasing loans demand.

Finally,for credit to be more effective, other sector of the economy should asked tocorporate with the bank in providing the relevant service to support the schemethe bank in its bid to relive farmers other predicaments.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Like many other Africancountries, Nigeria is primarily agrarian with its abundant land and waterresources. Despite the rapid growth of the oil industry over the years,agriculture still accounts for 40% of GDP and provides employment (both formaland informal) for about 60% of Nigerian’s 150 million people. Nigeria’sagriculture remains largely subsistence-based with about 80% of agriculturaloutput coming from rural farmers living on less than a dollar per day, earnedfrom farming less than one hectare (2.47 acres). Nigeria has diverseagro-ecological conditions that can support a variety of farming models tocreate its own green revolution.

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

The fact of the matter ismost of the smallholder farmers lack access to capital to acquire the neededinputs to increase their productivity and incomes and reduce their poverty.Farmers require credit to purchase seeds, fertilizers, herbicides, and buy orrent mechanized equipment and related services.

Nigerian agriculturalpolicy recognizes the vital role of agriculture finance in attaining the muchdesired green revolution. A major focus of the policy is to establish a systemof sustainable agricultural financing schemes, programs and institutions thatcould provide micro and macro credit facilities for the small, medium andlarge-scale producers, processors and marketers. However, public expenditure onagriculture which serves as the bedrock of financing for the sector hasconsistently fallen short of recommendations. It is therefore not surprisingthat these policies have failed to achieve the set goals of foodself-sufficiency, self reliance, poverty reduction and rural development.Importantly, Nigeria agriculture is abysmally under-financed. At a public forumin early 2011, the Governor of the Central Bank of Nigeria (CBN) was quoted tohave said “currently agriculture accounts for 40 percent of the GDP, yet itreceives only one percent of total commercial bank loans.” This issignificantly below the level of other developing countries, e.g. Kenya andBrazil which reportedly registers 6 percent and 18 percent, respectively.

Nigeria's agriculturaldevelopment is constrained by the lack of access to credit for the predominantlysmallholder farmers. Efforts by successive governments to address the problemhave been largely unsuccessful. Commercial banks in the country perceiveagricultural finance to be high-risk. The Central Bank of Nigeria is makingefforts to de-risk the sector and encourage banks to lend to farmers.

This research work tendsto asses the impact of bank credit on agricultural development with specialreference 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 notethat in the early 70s when the oil price increased, the agricultural sectorsuffered a serious neglect as the focus and concern of the nation’s economicactivities and government revenue shifted to the industry. Consequently, pricefell in the world market.

The Nigerian food importbill assumed an unprecedented level of about N1.5billion while the traditionalagricultural exports were progressively declining. The need then arose forre-engineering the agricultural sector and a fundamental restructuring of theeconomy towards self-sustaining growth and development. After the post independent, the CBNestablished some agricultural agency like Credit Guarantee Loan Scheme (1972)to address the problem of agriculture by granting loan and advances toagricultural sector, but this scheme was not properly implemented.

1971, an agriculturalreform was established called “Operation Feed the Nation”. Poor assessment andimplementation of the programme could not allow the government to achieve itsobjectives. 1989, the government came up with a reform called StructuralAdjustment Programme, the programme was also with a wrong motive.

The Bank reform 2005 byCBN resulted in the growth of the banks with new branches springing upeverywhere across the major cities, and was celebrated by self-deludedbourgeois ideologues. The banks were given a clean bill of health, and theywere said to be poised to finance the critical sector of the economy. Ratherthan invest in the real sector of the economy like agriculture, manufacturing, iron and steel, etc that will bring aboutimproved productivity in the economy, the banks went into the oil whose pricehas now crashed at the international market. In addition, they also investedcolossal sums of money in the casino market, where they speculated wrongly inanticipation for quick returns, but the stock market has now crashed, and thebanks have lost over 900 billion naira invested in shares.

FirstBank Plc currently has a loan scheme called Farmers First, which started in2008. Under this scheme purportedly meant for all categories of farmers, theindividuals or group of farmers who want to access the loan (N1million minimum)are expected to meet the following requirements before they are eligible: ownan existing farm for some time; open and run current account for a period ofsix months; deposit 25 per cent of the total sums intended to borrow; sixmonths moratoria; agriculture insurance; and other sundry charges. Thesehurdles notwithstanding, many poor farmers who have scaled it are still deniedthe loans on flimsy excuses, grounds for the rich farmers.

Nigeria's agriculturaldevelopment is constrained by the lack of access to credit for thepredominantly smallholder farmers. Commercial banks in the country perceiveagricultural finance to be high-risk making it difficult to grant predominantfarmers loan.

The researcher tends toexamine the impact of commercial banks to these problems and proffersuggestions and recommendation that could limit these challenges.

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