

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 INTRODUCTION**

Nigeria, which spans an area of 924,000 square kilometers, is bordered by the Gulf of Guinea, Cameroon, Benin, Niger, and Chad. The topography ranges from mangrove swampland along the coast to tropical rain forest and savannah to the north. Nigeria is generously endowed with abundant natural resources. With its reserves of human and natural resources, Nigeria has the potential to build a prosperous economy and provide for the basic needs of the population. This enormous resource base if well managed could support a vibrant agricultural sector capable of ensuring the supply of raw materials for the industrial sector as well as providing gainful employment for the teeming population.

Nigeria's rich human and material resource endowments give it the potential to become Africa's largest economy and a major player in the global economy. Compared with other African and Asian countries, especially Indonesia, which is comparable to Nigeria in many respects, economic development in Nigeria has however been disappointing, Nigeria has become one of the poorest countries in the world. Having earned about \$300 billion from oil exports between the mid-1970s and 2000, its per capita income was disappointingly 20 percent lower than that of 1975. Inability to tap much of the abundant human and material resources can therefore put the attainment of the Millennium Development Goals by 2015 in jeopardy as a country is endowed with vast land mass, fertile soil and a good topography which is suitable for agriculture. In fact, the Nigerian economy at independence in 1960 was still largely agriculture based country contributing about 64% to the Gross Domestic Product (GDP), producing food for her consumption and cash crops like groundnut, cocoa, rubber, and palm oil for export (Iyoha, 2003). But with the advent of oil boom and its attendant free money from rents and royalties paid to the government by the multinational oil companies that dominated the sector in 1970s led to the shifting of attentions from agriculture to the petroleum sector concerning the decay and gradual collapse of the agricultural sector productivity to the inability of the agricultural sector to maintain an independent output trend. This is so because it has been noticed that as the output of the petroleum sector is increasing, there is a decline in the level of productivity of the agricultural sector.

There is a need to reverse this trend and for the agricultural sector to grow in terms of output and productivity. The need for the banking sector to contribute to an increase in agricultural output becomes paramount. The banking sector which is also known as financial intermediaries provides loans and credits to the deficit units. This sector is needed to provide the necessary funds for the agricultural sector to acquire land, mechanized farming implements, raw materials and so on which invariably will lead to an increase in agricultural productivity. Financing the agricultural sector is necessary because the agricultural sector has a multiplier effect on a nation's socio-economic and industrial fabric, as a strong and efficient agricultural sector would enable a country to feed its ever growing population, generate employment, earn foreign exchange and provide raw materials for industries (Ogen, 2009). It also has the potential to be the industrial and economic spring board, from which a country's development could take off, shape the landscape and provide environmental benefits. But the agricultural sector cannot do this without the needed funds.

There is a need to intensify the allocation of loans, subsidies and transfer payments to the agricultural sector. However, the government of Nigeria over time has strived to improve the level of credits available to the agricultural sector over time (Obilor, 2003). With the current growth rate of agriculture in Nigeria on an increase, this figure still has to be boosted because Nigeria can achieve a balanced growth between the oil sector and the agricultural sector. With proper financing of the agricultural sector in Nigeria, the "*a la Dutch Disease Syndrome*" that has plagued Nigeria since the 1970s where the relative contribution of agriculture to Gross Domestic Product (GDP) fell steadily from about 41.3% in 1970 to about 28.7% in 1979 (Iyoha, 2003) would be reduced if not totally wiped out.

Consequently, this study will be taking a look at the role of the banking sector on agricultural productivity in Nigeria and not focusing solely on the banking sector's loan and credit to the agricultural sector but also on other factors such as interest rate which determines the ability of farmers to access loans and when such interest rate is high, the ability of farmers to have access to loans becomes difficult. Also, financial deepening will also be considered as a variable that determines the extension of loans to farmers and finally government expenditure on agriculture which has a significant effect on the amount of loans demanded among others has a great impact on agricultural productivity in Nigeria.

Given the above introduction, this study will centre on the relative contribution of the banking sector to agricultural productivity and possible way forward.

## **1.2 STATEMENT OF THE PROBLEM**

The aim of any banking sector is financial intermediation which involves the processes through which funds and financial resources are channeled from the surplus sector to the deficit sector. But the Nigerian banking sector like that of many less developed countries are highly regulated leading to financial disintermediation which retarded the growth of the Nigerian economy. The effect is that the banking sector finds it rather too difficult to advance much loans to the real sectors. Banks keep declaring billions upon billions of profit at the end of each financial year and yet the real sector continues to grow weak. Many farmers produce below potential capacity because of the inability to acquire loans from banking sectors due to the fact that the cost of borrowing is too outrageous.

Banks in Nigeria are highly liquid but refuse to lend to the agricultural sector because they believe that it is too risky to lend to agricultural sector which has led to decline in agricultural productivity in the country. Other problems such as seasonality, time lag in agricultural production and the domestic profit which cannot be predicted makes banks unwilling to take the risk of advancing loans to farmers.

Despite the use of various instruments such as moral suasion by the Central Bank of Nigeria and even the formulation of various agencies and programmes by the governments such as the Agricultural Credit Guarantee Scheme (ACGS), the amount of loans advanced to the agricultural sector is still a far cry from what is needed to fast track the needed growth in the sector. Also, the urban locations of many banks make it difficult for farmers to have access to credit. Though in recent times the Nigerian banking sector is trying in the aspect of agricultural financing much more still needs to be done.

The problems above raise the following questions;

1. To what extent does the banking sector affect agricultural productivity in Nigeria
2. What has been the contribution of the banking sector on agricultural productivity
3. What is the effect of banks loans on agriculture
4. What percentage of credit is needed from the banking sector to take agriculture to the needed level

### **1.3 OBJECTIVES OF THE STUDY**

The objectives of this study are as follows;

1. To access the role of the banking sector on agricultural productivity in Nigeria
2. To examine the extent to which government fund allocation has been boosting agricultural productivity.
3. To examine the impact of financial deepening on agricultural productivity.
4. To examine the impact of interest rate on agricultural productivity.

### **1.4 HYPOTHESES OF THE STUDY**

The hypotheses of the study include the following

1. There is no significant impact of banking sector on agricultural productivity
2. There is no significant impact of government fund allocation on agricultural productivity
3. There are no significant relationship between financial deepening and agricultural productivity
4. There is no significant relationship between interest rate and agricultural productivity.

### **1.5 SIGNIFICANCE OF THE STUDY**

Many literatures have been put forward to justify the need for the banking sector to contribute to the growth or an increase in agricultural productivity. But these literatures have in one way or the other neglected other vital factors that affect agricultural productivity in Nigeria. For instance, Obilor (2013) focused on only credits to the agricultural sector and agricultural product, Thomaj (2014) focused on agricultural lending from the banking sector in Albania, Muhammad and Atte (2006) in their work on the analysis of agricultural production in Nigeria only focused on different aspect or the sub sectors of agriculture. In Nigeria, Saleem and Jan (2004) focused only on credits to different areas under agriculture while Toby and Peterside (2014) focused on credits from the commercial banks and merchant banks to agriculture. But this study has its aim to expressly look at the impact of bank credit considering all types of banks and their credit; impact of key factors such as interest rate, government allocation to agriculture and financial deepening on agricultural productivity in Nigeria.

One of the goals of the Nigerian policy is to diversify the economy and reduce the over dependence of the economy on oil exports for revenue. This study thus serves as a tool to

access the measures of the Nigerian government can take through the banking sector to achieve this much needed objective. Given the present condition of the Nigerian economy, whereby we are witnessing diminishing oil price, there is a need to accelerate agricultural productivity if we are to pull through this problem. Nigeria is blessed with a lot of labour and this manpower is needed to work on the vast landmass but this manpower without the necessary capital will not achieve much. The study will therefore bring into limelight the need to collaborate adequate manpower with the necessary capital base in order to help policy makers, politicians, the government and students of economics to focus attention on the areas necessary for economic growth.

Topolicy makers, ascertaining the contribution of banking sector can make on agricultural productivity and therefore investment will enable them to make policies that will take the economy to the desired level. To the politicians, this study would provide an insight into the areas that should be focused on agriculture for development planning and drafting of manifestoes. To students of economics and other related disciplines, it serves as a pragmatic knowledge as it enlightens them on the role agriculture can play if adequately funded. It also serves as a basis for further study.

Moreover, ascertaining the key contributing factors like interest rate, government allocation and financial deepening of the banking sector will enable decision makers to take actions with the knowledge of the consequences of their actions.

## **1.6 SCOPE OF THE STUDY**

The scope of the study is centered on the overall contribution of banking sector to agricultural productivity in Nigeria. This research work spans a period of 33 years from 1981—2013. The regression analysis will be based on the use of time series data extracted from the Central Bank of Nigeria Statistical bulletin and if need be, the National Bureau of Statistics Annual Abstract and world Bank Development Indicators.

The Ordinary least Squares (OLS) technique which minimizes the sums of squares residual is employed to estimate the model. This is because it possesses the desirable statistical properties of unbiasedness, efficiency and consistency. If the OLS assumptions are met, the estimates obtained will possess the best linear unbiased estimate property (BLUE).

## **1.7 LIMITATIONS OF THE STUDY**

The study like every other study is faced with certain limitations. A major limitation of this research is the inconsistency and discrepancy of data. The data as reported by CBN is not consistent with that of federal Bureau of statistic and that of the Nigeria Agricultural cooperative and Rural Development Bank.

Also, there was difficulty in obtaining empirical data, for adequate data analysis, bureaucracy in assessing data and inadequate research materials. Furthermore, one of such limitations and difficulties encountered in course of this research is the inadequate relevant data owing to the fact that the habit of record keeping is lacking in most underdeveloped countries like Nigeria.

In addition, time factor was another limitation due to the combination of lecture time and project work. All these constraints combined limited the scope of the work in terms of sample size and number of exogenous variables.

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