CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Nigeria, which spans an area of 924,000 square kilometers, isbordered by the Gulf of Guinea, Cameroon, Benin, Niger, and Chad. The topographyranges from mangrove swampland along the coast to tropical rain forest andsavannah to the north. Nigeria is generously endowed with abundant naturalresources. With its reserves of human and natural resources, Nigeria has thepotential to build a prosperous economy and provide for the basic needs of thepopulation. This enormous resource base if well managed could support a vibrantagricultural sector capable of ensuring the supply of raw materials for theindustrial sector as well as providing gainful employment for the teemingpopulation.

Nigeria’s rich human and material resource endowments give it thepotential to become Africa’s largest economy and a major player in the globaleconomy. Compared with other African and Asian countries, especially Indonesia,which is comparable to Nigeria in many respects, economic development inNigeria has however been disappointing, Nigeria has become one of the poorestcountries in the world. Having earned about $300 billion from oil exportsbetween the mid-1970s and 2000, its per capita income was disappointingly 20percent lower than that of 1975. Inability to tap much of the abundant humanand material resources can therefore put the attainment of the MillenniumDevelopment Goals by 2015 in jeopardy as a country is endowedwith vast land mass, fertile soil and a good topography which is suitable foragriculture. In fact, the Nigerian economy at independence in 1960 was stilllargely agriculture based country contributing about 64% to the Gross DomesticProduct (GDP), producing food for her consumption and cash crops likegroundnut, cocoa, rubber, and palm oil for export (Iyoha, 2003). But with theadvent of oil boom and its attendant free money from rents and royalties paidto the government by the multinational oil companies that dominated the sectorin 1970s led to the shifting of attentions from agriculture to the petroleumsector concerning the decay and gradual collapse of the agricultural sectorproductivity to the inability of the agricultural sector to maintain anindependent output trend. This is so because it has been noticed that as theoutput of the petroleum sector is increasing, there is a decline in the levelof productivity of the agricultural sector.

Thereis need to reverse this trend and for agricultural sector to grow in terms ofoutput and productivity. The need for the banking sector to contribute to anincrease in agricultural output becomes paramount. The banking sector which isalso known as financial intermediaries provides loans and credits to thedeficit units. This sector is needed to provide the necessary funds for theagricultural sector to acquire land, mechanized farming implements, rawmaterials and so on which invariably will lead to an increase in agriculturalproductivity. Financing the agricultural sector is necessary becauseagricultural sector has a multiplier effect on a nation's socio-economic andindustrial fabric, as a strong and efficient agricultural sector would enable acountry to feed its ever growing population, generate employment, earn foreignexchange and provide raw materials for industries (Ogen, 2009). It also has thepotential to be the industrial and economic spring board, from which acountry's development could takeoff, shape the landscape and provide environmentalbenefits. But the agricultural sector cannot do this without the needed funds.

Thereis a need to intensify the allocation of loans, subsidies and transfer paymentsto the agricultural sector. However, the government of Nigeria overtime hasstrived to improve the level of credits available to agricultural sectorovertime (Obilor, 2003). With the current growth rate of agriculture in Nigeriaon an increase, this figure still has to be boosted because Nigeria can achievea balanced growth between the oil sector and the agricultural sector. Withproper financing of the agricultural sector in Nigeria, the *''a la Dutch Disease Syndrome''* that hasplague Nigeria since the 1970s where the relative contribution of agricultureto Gross Domestic Product (GDP) fell steadily from about 41.3% in 1970 to about28.7% in 1979 (Iyoha, 2003) would be reduced ifnot totally wiped out.

Consequently,this study will be taking a look at the role of banking sector on agriculturalproductivity in Nigeria and not focusing solely on the banking sector's loanand credit to the agricultural sector but also on other factors such asinterest rate which determines the ability of farmers to access loans and whensuch interest rate is high, the ability of farmers to have access to loansbecomes difficult. Also, financial deepening will also be considered as avariable that determines the extension of loans to farmers and finallygovernment expenditure on agriculture which has a significant effect on theamount of loans demanded among others has a great impact on agriculturalproductivity in Nigeria.

Given the above introduction, this study will centreon the relative contribution of the banking sector to agricultural productivityand possible way forward.

1.2 STATEMENTOF THE PROBLEM

Theaim of any banking sector is financial intermediation which involves theprocesses through which funds and financial resources are channeled from thesurplus sector to the deficit sector. But the Nigerian banking sector like thatof many less developed countries are high regulated leading to financialdisintermediation which retarded the growth of the Nigerian economy. The effectis that the banking sector finds it rather too difficult to advance much loansto the real sectors. Banks keep declaring billions upon billions of profit atthe end of each financial year and yet the real sector continues to grow weak.Many farmers produce below potential capacity because of the inability toacquire loans from banking sectors due to the fact that the cost of borrowingis too outrageous.

Banksin Nigeria are highly liquid but refuse to lend to the agricultural sectorbecause they believe that it is too risky to lend to agricultural sector whichhas led to decline in agricultural productivity in the country. Other problemssuch as seasonality, time lag in agricultural production and the domesticprofit which cannot be predicted makes banks unwilling to take the risk ofadvancing loans to farmers.

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

Theproblems above raise the following questions;

1. Towhat extent does the banking sector affect agricultural productivity in Nigeria
2. Whathas been the contribution of the banking sector on agricultural productivity
3. Whatis the effect of banks loans on agriculture
4. Whatpercentage of credit is needed from the banking sector to take agriculture tothe needed level

1.3 OBJECTIVES OF THE STUDY

The objectives of this study are asfollows;

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

1.4 HYPOTHESES OF THE STUDY

The hypotheses of the study includethe following

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

1.5 SIGNIFICANCEOF THE STUDY

Manyliteratures have been put forward to justify the need for the banking sector tocontribute to the growth or an increase in agricultural productivity. But theseliteratures have in one way or the other neglected other vital factors thataffect 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 inAlbania, Muhammad and Atte (2006) in their work on the analysis of agriculturalproduction in Nigerian only focused on different aspect or the sub sectors ofagriculture. In Nigeria, Saleem and Jan (2004) focused only on credits todifferent areas under agriculture while Toby and Peterside (2014) focused incredits from the commercial banks and merchant banks to agriculture. But thisstudy has its aim to expressly look at the impact of bank credit consideringall types of banks and their credit; impact of key factors such as interestrate, government allocation to agriculture and financial deepening onagricultural productivity in Nigeria.

Oneof the goals of the Nigerian policy is to diversify the economy and reduce theover dependence of the economy on oil exports for revenue. This study thusserves as a tool to access the measures of the Nigerian government can takethrough the banking sector to achieve this much needed objective. Given thepresent condition of the Nigerian economy, whereby we are witnessingdiminishing oil price, there is a need to accelerate agricultural productivityif we are to pull through this problem. Nigeria is blessed with a lot of labourand this manpower is needed to work on the vast landmass but this manpowerwithout the necessary capital will not achieve much. The study will thereforebring into limelight the need to collaborate adequate manpower with thenecessary capital base in order to help policy makers, politicians, thegovernment and students of economics to focus attention on the areas necessaryfor economic growth.

Topolicy makers, ascertaining the contribution of banking sector can make onagricultural productivity and therefore investment will enable them to makepolicies 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 onagriculture for development planning and drafting of manifestoes. To studentsof economics and other related disciplines, it serves as a pragmatic knowledgeas it enlightens them on the role agriculture can play if adequately funded. Italso serves as a basis for further study.

Moreso, ascertaining the key contributing factors like interest rate, governmentallocation and financial deepening of the banking sector will enable decisionmakers to take actions with the knowledge of the consequences of their actions.

1.6 SCOPEOF THE STUDY

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

TheOrdinary least Squares (OLS) technique which minimizes the sums of squaresresidual is employed to estimate the model. This is because it possesses thedesirable statistical properties of unbiasness, efficiency and consistency. Ifthe OLS assumptions are met, the estimates obtained will possess the bestlinear unbias estimate property (BLUE).

1.7 LIMITATIONSOF THE STUDY

The study like every other study isfaced with certain limitations. A major limitation of this research is theinconsistency and discrepancy of data. The data as reported by CBN is notconsistent with that of federal Bureau of statistic and that of the NigeriaAgricultural cooperative and Rural Development Bank.

Also, there was difficulty in obtainingempirical data, for adequate data analysis, bureaucracy in assessing data andinadequate research materials. Furthermore, one of such limitations anddifficulties encountered in course of this research is the inadequate relevantdata owing to the fact that the habit of record keeping is lacking in mostunderdeveloped countries like Nigeria.

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

Bank lending and agricultural productivity in Nigeria (2006 - 2016)