

USMANU DANFODIYO UNIVERSITY, SOKOTO

**ROLE OF COMMERCIAL BANKING IN AGRICULTURAL
DEVELOPMENT IN NIGERIA.**

BY

BELLO ALIYU

ADM.NO:13120905031

**A PROJECT SUBMITTED TO THE POST GRADUATE
SCHOOL, USMANU DANFODIYO UNIVERSITY, SOKOTO IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
AWARD OF POSTGRADUATE DIPLOMA IN MANAGEMENT.**

FEBRUARY 2015

APPROVAL PAGE

This empirical research project by Bello Aliyu has been read and approved having met the requirement of the Department of Business Administration, Faculty of Management Science of the UsmanuDanfodiyo University Sokoto for the award Postgraduate Diploma in Management.

M. K. Kamba
Supervisor

Date

Dr. M. S. Umar
Head of Department

Date

Prof .M .M.Maishanu
Dean Faculty of Mgt, Science

Date

DEDICATION

This project is dedicated to my beloved, honest, easy going, faithful mother late HajiyaHauwa'u Aliyu, and may her soul rest in perfect peace amen.

ACKNOWLEDGEMENT

All praised be to Allah the lord and sustainer of the universe who created heaven and the earth in writing this research work, I most indulge my profound gratitude to my supervisor Malam MK KAMBA who makes correction, suggestion throughout the completion of this project.

I would like also to vote a thousand of thanks to my family and well wishes who help in one way or the other may Allah reward them, Ameen.

TABLE OF CONTENTS

Title Page - - - - -	i
Certification - - - - -	ii
Dedication - - - - -	iii
Acknowledgement - - - - -	iv
Abstract - - - - -	v
Table of Content - - - - -	vi

CHAPTER ONE

1.0 Introduction -----	1
1.1 Background Study -----	1
1.2 Statement of the Problem-----	2
1.3 Objective of the Study-----	4
1.4 Hypothesis of the Study-----	4

1.5 Significance of the Study----- 5

1.6 Scope and Limitation of the Study-----6

CHAPTER TWO

2.1 Literature Review----- 8

2.2 Agricultural Development in Nigeria ----- 8

2.2.1 Agricultural Credit Guarantee Scheme Fund (ACGSF)---13

2.2.2 The National Fadama Development Project ----- 17

2.2.3 Agriculture and Export Earnings----- 22

2.2.4 Agriculture and Nigeria balance of Payment----- 23

2.2.5 Agriculture and Food Supply----- 24

2.2.6 Agriculture and Employment in Nigeria----- 25

2.2.7 Past Efforts at Revamping Agriculture in Nigeria----- 26

2.3 Literature Review ----- 30

CHAPTER THREE

3.1 Research Design and Methodology-----	38
3.2 Design and Methodology-----	39
3.3 Model Specification-----	39
3.3.1 Dependent Variable-----	39
3.3.2 Explanatory or Independent Variable-----	39
3.4 Structural Presentation of the Model-----	40
3.4 Mathematical Presentation of the Model-----	40
3.5 Method of Evaluation-----	41
3.6 Data Required and Sources -----	45

CHAPTER FOUR

4.1 Introduction -----	46
4.2 Data analysis -----	53
4.3 Test of hypothesis -----	53
4.4 Summary of Findings -----	53

CHAPTER FIVE

5.1 Summary of Findings, Recommendation and Conclusion	-46
5.2 Summary of Findings -----	56
5.3 Recommendation -----	58
5.4 Conclusion -----	59
References-----	60

ABSTRACT

The study examines the role of commercial banks in Agricultural development in Nigeria, spanning from 1986-2010. The study used Ordinary Least Squares (OLS) techniques for analyzing the findings, from the study, support the view that commercial bank loans do not reach real farmers. Commercial banks loan to the Agricultural sector has a positive growth 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 having positive growth, 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 reviewed so as to promote the growth of the Agricultural sector.

CHAPTER ONE

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 livestock, 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 sequential 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.

Technology, Marketing, 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 the 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 farmers.
- 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 1986-2010; 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 understatement. 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 1986-2010.

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

2.1 LITERATURE REVIEW

2.2 AGRICULTURAL DEVELOPMENT IN NIGERIA

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(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 era 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 macroeconomic policies became expansionary while sectoral 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, at all 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 by 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, its plan is 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)

2.2.1 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 breakdown 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; AkwaIbom 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 initiative, 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-lending 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 (CACCS) 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 breakdown 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.

2.2.2 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 marketing (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 et al, 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 empowerment 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 overall 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 not start 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.

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 Fadamauser"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).

2.2.3 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. Its 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).

2.2.4 AGRICULTURE AND NIGERIA 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 fall 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)

2.2.5 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.

2.2.6 AGRICULTURE AND EMPLOYMENT IN NIGERIA

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.

2.2.7 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 staple 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 headquarters 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).

2.3 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 policies 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 peasant 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) tested 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 elsewhere 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 of inflation on the economy. Examples of such studies 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 to impact heavily, so much depends on type of exchange regime a country is pursuing 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

RESEARCH METHODOLOGY

3.1 METHODOLOGY

The Study used the following techniques, multiple regression analysis, employing Ordinary Least Square (OLS) technique.

The other technique is adopted because of the following reasons,

- (1) The parameter estimates obtained possess optimal properties of unbiasedness, 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 course 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 PRESENTATION 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

B0 = Constant term

B1 = Coefficient of CBLA

B2 = Coefficient of Real Exchange Rate

B3 = Coefficient of Real Exchange Rate

Ut = 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 R^2 test
- (2) The student t - test
- (3) The f- test
- (4) The Durbin – Watson test

1. The Adjusted 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 R^2 is between 0 and 1. The higher the R^2 the better the goodness of fit of the regression plane

to the sample observations, and the closer the 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. $t^* > t_{\text{tab}}$) 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 $f^* > f_{tab}$, 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 $d_u < d^* < (4 - d_u)$, that is there is presence of first order autocorrelation of first order.

These are the guiding principles throughout 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.

CHAPTER FOUR

This chapter presents data analysis and discussion of finding. As earlier mentioned in the chapter three, the parameters estimates obtained possess optimal properties of unbiasedness, minimum variance, Linearity e.t.c

The respondents were required to respond by ticking the correct answer either YES or NO or supply answer to the blank space. Hundred questionnaires were sent out to various places aimed at finding out the contribution of commercial banks toward agricultural development.

4.2 DATA ANALYSIS

ANALYSIS OF QUESTIONNAIRE

TABLE 1: Does the Commercial Banks contribute towards Development of Agriculture In Nigeria.

Option	No. of respondent	Percentage (%)
YES	50	100
NO	-	-
TOTAL	50	100

From the table above 100% of the respondents agree that there is a contribution made by the commercial banks.

TABLE 2: Which Area do you think Commercial Banks contributed most in Agriculture?

Area	No. of respondent	Percentage (%)
Farming Accessories	4	8
Seedlings	3	6
Fertilizer	33	66
All of the above	10	20
TOTAL	50	100

From the above table, 8% of the farmers agree that they do sometime received loans for farming implement, while 6% got loans for buying

seedlings, also 66% respond to the credit facility for purchasing fertilizers, and 20% indicated all of the above.

TABLE 3: Did Farmers obtain Loan and other credit facilities from the Banks?

Option	No. of respondent	Percentage (%)
YES	15	25
NO	35	75
TOTAL	50	100

From the above table 75% of the respondents disagree that did not obtain loan from commercial banks while 25% agreed that there was loan obtained from commercial banks.

TABLE 4: Is there any benefit farmers derived from this loan?

Option	No. of respondent	Percentage (%)
YES	25	50

NO	25	50
TOTAL	50	100

From the table above, 50% agreed that there was benefit derived from the loan by commercial banks while other 50% disagree that there was no benefit.

TABLE 5: Is the loan given by Commercial banks to the farmers improved Agricultural Productivity?

Option	No. of respondent	Percentage (%)
YES	30	70
NO	20	30
TOTAL	50	100

From the above table, 70% of respondents testified that the loan has improved agricultural productivity while 30% disagree with the statement.

TABLE 6: What is the importance of this loan and other Credit facilities to farmers?

Option	No. of respondent	Percentage (%)
YES	40	80
NO	10	20
TOTAL	50	100

The above table indicated that 80% respond that loan and credit facilities are very important to the farmers while 20% goes against it importance.

TABLE 7: Did Government play role in this loan scheme?

Option	No. of respondent	Percentage (%)
YES	50	100
NO	-	-
TOTAL	50	100

From the table above, 100% of the respondents agree that the government play role in this loan scheme; it's obvious that government play its part in agricultural development.

TABLE 8: What ways could you suggest for improve Agricultural Development?

Way	No. of respondent	Percentage (%)
Insurance scheme	15	30
Supply of Fertilizer and improved seedling	30	60
Enlightenment programmes	5	20
TOTAL	50	100

From the table above indicated that the response for insurance scheme represent 30%, Supply of Fertilizer and improved seedlin fertilizer 60%, while enlightenment programmes 20%.

TABLE 9: Do you think Commercial Banks are doing their Enormous?

Option	No. of respondent	Percentage (%)
YES	50	100

NO	-	-
TOTAL	50	100

The above table indicated that the response for YES was 50 representing 100% and the response for NO was 0 representing 0%.

TABLE 10: Give your own opinion on the Commercial Banks towards Agricultural Development?

Option	No. of respondent	Percentage (%)
Low rate of changes	30	65
Mode of payment	20	35
TOTAL	50	100

The above table indicated that the response for the low rate of changes was 30 representing 65% and the response for mode of payment indicates 20 which represent 35%.

4.3 RESULT OF FINDING

From the research work carried out by the researcher as presented and analyzed in chapter three, the following information were discovered. The commercial bank has the scheme which is called Commercial Agricultural Credit scheme.

In the one of finding indicated in table two that the commercial banks contribute tremendously toward agricultural development through various means, the study also shows that farming implement, seedling, fertilizer were the major means that farmers need to have a giant support but the percentage of this aids does not reach its expectation. Because only fertilizer that a farmer could access a bank loan to purchase and sometime obtaining this fertilizer became herculean task to every average farmer.

One of the important issues here to know is that not all the farmers are having access to the banks; in fact some they are not even aware of the loan scheme, all what they know is the subsidy support from the

government. In table three 30% of the farmers got access to loan scheme and 70% are not aware of the scheme.

For those who benefit from it, testified that they achieved their goals because their farming activities has improved. the important of loan cannot be over emphasis considering it economic benefit, this is because the availability of readily made fund to local farmers guaranteed by the Central Bank of Nigeria , the commercial banks are steadily been given necessary financial support to farmers, in Nigeria. This has brought about increase in food production.This has reduced our total dependence on food importation. From the research, the responce gave their possible ways with which emphasis should be made in order to improve agricultural development; a lot of farmers are more concern with the modern system of farming which was global system.They complain bitterly on the aspect of insurance scheme especially during drought or Disaster Period. 30% of the farmers suggested that the Nigerian Government should also introduce more insurance scheme,

enlightenment programmes to meet the global standard of farming, this could be found in the table eight.

The research also confirmed that 60% of the farmers complain on the interest rate, therefore urged commercial banks to low the interest rate. So as to enable farmers pay back the loan at stipulated period, a part from interest rate, they also complain on the mode of payment. They want commercial banks to grant them loan that has moratorium period. Therefore agriculture in Nigeria needs Special attention from the Government and relevant stakeholders. Due to serious setback in Agriculture we cannot meet our consumption demand, not to think of export.

CHAPTER FIVE:

SUMMARY AND CONCLUSION

5.1 INTRODUCTION:

This chapter presents the summary, conclusion and recommendation to the study. The important of agriculture cannot over emphasis considering its role and position occupied in sustenance and development of economy. Majority of the Nigerians are farmers and farming in the past has brought good development in terms of manpower and enough food production of both food crops and cash crops. Agriculture production accounts for about 50% of the Gross Domestic Production (GDP). It serves as a source of raw materials for the small industries, local industries largely rely on raw materials for the supply of essential goods for the citizens, it also offers employment to more than 65 percent of the working population, accounts for more than 70 percent of non-oil export and provides raw materials for the individual sector. In sixties and seventies, agriculture had been given consideration by both

Government, individual and corporate organization. That was way it brought good result in terms of economic and social development. Impact, it was the revenue generated from the agriculture that our today oil boom became reality. Since discovery of the oil, agriculture was neglected and abandoned. Although towards the beginning of eighteenth the Federal Government and Central Bank of Nigeria jointly under took a feasibility studies in finding reasons for the declining agricultural production. The result indicated that lack of funds or insufficient was the major hypothesis of this collapse. A part from that also our local farmers today lack of modern technique in the farming, therefore Government and Commercial Banks have to make a joint effort by providing loans schemes, insurance and public enlightenment to the farmers.

In view of this the Commercial Agricultural Credit Guarantee Scheme programme was established in 2010 by Central Bank of Nigeria to share risk with Commercial bank and provide funds for onward disbursement to participating farmers. The banks are encouraged to

agricultural lending and hence encourage them to continue to extend credit to the farmers; this laudable programme is currently being threatened by the lackadaisical attitude in terms of participation. All commercial banks are partnering in this programme but the Special Purpose Vehicle make the programme very difficult for our local farmers to access the loans.

5.2 CONCLUSION

The Commercial Banks have a great impact into the economic activities of the farmers, farmers today improved their method of farming and also their social activities have tremendously improved. The loan scheme and credit facilities bring farmers in Nigeria close to the financial institutions and insurances, no doubt farmers have confidence in the Nigerian banking industry. Finally, commercial banks still have task ahead in reining farming activities as it was in the past decades, although there is need to farmers to embrace modern farming technology to meet the global challenges today.

5.3 RECOMMENDATION

The following recommendation will be useful to the banks that are already in the programmes, based on the findings and conclusion of the study. Firstly, there should be adequate bank facilities to facilitate acquisition of essential farm implements to ease difficulty in farm production; this will enhance the capability of farmers to become full time farmers.

The commercial banks should ensure that all Agricultural insurance policies are covered by Nigerian Agricultural Insurance and other approved insurance firms that pay insurance claim without delay to the farmers. The commercial banks in conjunction with Central Bank of Nigeria and States Governments should make an enlightenment forum with farmers and other relevant stakeholders.

REFERENCES

- John Black (1979), Agricultural credit policy in U.S, Publishing.
- James Caruin (ed.) Economic for agriculture.Harward University press.
- Donal Gordon (1979), Credit for small farmers in developing countries,
Oxford university press.
- SiyanbalaTomori (1979), Agriculture forestry and fishing: published in
structure of The Nigerian economy. Macmillan Press.
- M.O. Ijere (1982), New Perspective in Financing Nigerian
Agriculture.Published By fourth dimension.
- Oleih (1979), Indigenous Banking Problems and Prospects, Central
Bank of Nigeria.
- Anyanwuocha (1970), Agricultural Development in Nigerian
perspectives, Ibadan.
- Anyanwuocha (1970), Fundamental Economics, Ibadan.
- Bonner (1970), Biography of the cooperative Bank, www/bio/cooperative.com.
- Nnadi, K.U. (2003) New Approach Economics, Longman.
- Togun, A.O. et al. (2003), Agricultural Science for Senior Secondary
Schools, Macmillan Nigeria.

Central Bank of Nigeria: Guidelines and Operations of the Agricultural Credit Guarantee Scheme Fund (ACGSF).