

RESEARCH ARTICLE

Agricultural Financing and Economic Development in Nigeria: A Study of Agricultural Credit Guarantee Scheme Fund (ACGSF)

Oyetunde Ojo^{1*}, Yinus Oluwaseun²

Department of Management and Accounting, Faculty of Management Sciences, Ladoké Akintola University of Technology Ogbomoso, Oyo State, Nigeria.

*Corresponding Author: E-mail: ojo.oyetunde@yahoo.com

Abstract

Finance is required to purchase farmlands, construct buildings, acquire plants, machinery, seedlings, hire labour and organize irrigation schemes just to mention few in the agricultural sector. Such fund is often colossal beyond the reach of peasant farmers. This is what has prompted the federal government to establish the Agricultural Credit Guarantee Scheme Fund (ACGSF) as a sub unit of the Central Bank of Nigeria (CBN), to guarantee credit facilities extended to farmers by banks up to 75% of the amount in default net of any security realized. This study appraises the roles, duties and functions of the ACGSF and the impacts its activities have in stimulating economic development in Nigeria. It examines factors militating against its effectiveness and makes recommendations on how its management can be improved upon. Questionnaire was administered on 125 farmers randomly selected from the South Western part of Nigeria to evaluate and assess the level of their awareness on the governmental agricultural financing activities of the ACGSF. Their views on credit potential benefits to the farmers were also sought. This is with the main aim of deciphering if the option is capable of providing the breathing space and the leeway for the much needed long term financing, capable of accelerated agricultural development. With 104 respondents returning the questionnaire, the data is analyzed with the chi square statistical tool. With the expected value remaining significant at a critical value of 99%, the study proves that Agricultural Financing Scheme such as ACGSF, has the tendency of enhancing macro economic development when properly managed and harnessed. The paper will be of tremendous importance to policy makers particularly stakeholders in the agricultural financing sectors.

Keywords: ACGSF, Agriculture, CBN, Development, Finance, Nigeria.

Introduction

The imperativeness of agriculture is underscored from the fact that below a certain level of nutrition, man lacks not only body energy and sound health, but also lacks interest in many things. He cannot think. He cannot function. He cannot rise significantly beyond animal existence and congenital infantilism. Food is fundamental and basic because it is a necessity one cannot do without [1-3].

Similarly, a greater proportion of the population—about two thirds of the total labour force of the nation, depends on the sector for their livelihood. Also, the rural economy in particular is propelled by agriculture [4-6]. It is the main source of food for most of the population and also the dominant economic activity in terms of employment and linkages with other sectors of the economy; serving as a major source of raw materials for the agro-allied industries. It is also as well a potent source of foreign exchange [7]. In fact, the sector has been the highest contributor to the nations

GDP over the years accounting for 42.07%. In 2008, 35.8% in 2009 and 2.2% to the growth in real GDP in first quarter of 2010 [8].

Furthermore, the agricultural sector has the potentials of shaping the landscape; providing environmental benefits such as conservation, guaranteeing sustainable management of renewable natural resources, preserve biodiversity and contribute to the transformation of rural areas [9]. Through its spheres of activities at both micro and macro levels, agricultural sector is strategically positioned to have dominion influence high multiple and linkage effects on a nation's quest for socio economic and industrial development [10, 11].

Yet, salutary and important as the sector portends, it is grossly underfunded. In fact, the sector equates the Biblical stone that supposed to be the head cornerstone which the masons have rejected. The financial inadequacy of the sector has

resulted in limited agricultural produce of staples that can be ready for the table in less one year [12]. Similarly, there has been continuous increase in the food imports leading to outflow of foreign exchange. For instance, \$1.23 billion was spent on food imports in Third Quarter of the fiscal year with \$1 billion alone spent on rice [13, 14].

Statement of the Problem

It is apt to contend that studies on the impact of agricultural credit facilities to farmers as well as credit guarantee schemes to assist farmers, would provide the insight on how to improve the flow of credit to the agricultural sector as well as improve the activities of the schemes [15]. Similarly, there is the need to overhaul the entire credit guarantee scheme for maximum efficiency so that there can be sustainable food security in Nigeria. The extent to which agricultural credit facilities can improve farmer's performance has not been greatly explored in Nigeria. This paper aims to evaluate the role of ACGSF in the process of lending for sustainable farmers and its overall effect on Nigeria economic development in Nigeria.

Research Hypothesis

Ho: There is no significant relationship between ACGSF activities and Nigerian economic development

Literature Review and Conceptual Underpinnings

[16-20] view that the importance of credit facilities to agricultural sector underlies the fact that it removes financial constraints faced by farmers by providing incentives to adopt new technologies that would otherwise hitherto be more difficult to acquire. Thus, the reactivation, expansion and modernization of all type agricultural enterprises enable the achievement of rapid economic productivity in particular and development in general. Efobi and Osabuohien [16] relying on secondary data of 1978 to 2007 assessed the role of agricultural credit guarantee scheme fundin promoting non-oil export in Nigeria. It reveals that loan from commercial banks to the agricultural sector had a minute magnitude compared to the loan of commercial banks. However, not quite much was said about the attitude of the farmers and their financial indiscipline as regards constant default in payment as many perceive such loan as part of their own share of the national cake.

Similarly, Ijaiya [17] investigated the relationship between commercial banks credits to the agricultural sector and the Nigerian economy. The study made use of secondary data of 1982-1996. The main findings were that commercial banks credits to agricultural sector since 1981 have been on a progressive trend. However, judging from the total percentage of Nigerians engaged by the sector and coupled with the progressive credit trends to the sector, the contribution of the agricultural sector to total GDP of the country is still on the low side. The study found that between 1982 and 1996, GDP is only on the high side in years 1986 and 1988 with a percentage record of 38.66% and 40.59% respectively. This period coincides with the period the federal government initiated the non-oil export promotion strategy as the basis for industrial development. Similarly, Anthony [18] examines the relationship between agricultural credit and economic development in Nigeria. While relying on data spanning the period 1986 to 2007, he deduced that credit facility's contribution to export growth was encouraging. However, the prevalent food insecurity and endemic poverty in Nigeria renders Anthony's macro-economic model unrealistic as a parameter of measuring accurate Nigerian economy. It is also yet unanalyzed why credit facilities are channeled more to export promotion to the detriment of the stimulation of domestic agricultural productivity.

Also, Lawal and Sanusi [20] who in their study on the diversification of banks credit for agricultural production did a sub sectoral analysis with secondary data conveying the period 1981 to 2006. This indicated that the various agricultural subsectors had one or few edges over another in terms of attention by the banks with more priority given to the arables subsector. This crop subsector had the highest number of enterprises. It is also of the same number with the services subsector. The research further reveals that the crop subsector has more stability than the other credit volume and actual releases. It is however more of an in-depth study of sector by sector attraction of agricultural credit facilities which is tangentially related to agricultural financing and economic development in Nigeria which is the focus of this study.

However, Agboeze and Onwuka [21] contend that the credit markets including the ACGSF is unreliable presenting the capital market source of funding as a viable option for financing agriculture by all tiers of government in Nigeria,

if accelerated agricultural development is to be ensured. Nevertheless, the defect in Agboezes' & Onwukas' [21] work is in the stock market option which has already defeated the motive of government assistance. Similarly, Adetiloye's [15] work centre on the impact of agricultural credit in general and credit guarantee scheme in particular as an assistance to farmers in order to enhance food security. He finds out that though credit to the agricultural sector is significant, it has however not been growing relative to the economy. For instance, \$1.23 billion was spent on food imports in Third Quarter of the fiscal year 2010 with \$1 billion alone spent on rice [22]. Yet 9% of Nigeria's population is under nourished [23].

However, one would tend to disagree with Adetiloye [15] in his contention that lending to the agricultural sector is significant. There is nothing significant in banks credit to the sector in nominal terms over the years which have increased from about #230 million (then about \$233 million) in 1978 to over #262 billion (\$2.23 billion) in 2005 [24]. The significance should be in relative terms. Then the lending is for who and in whose interest?

In other words lending to the agricultural sector has been half-hearted because it is considered more risky, problematic and unprofitable relative to other sectors. even though there has been consistent increase in the lending portfolio of banks to the agricultural sector from 1978-1989 the gains are yet to be felt [24-26]. Perhaps, this has been lost to the financial system deregulation. Lenders are opposed to assisting small land holders who constitute over 86% of rural household as a result of cost of credit appraisal [8, 27].

Methodology

This study appraises the roles, duties and functions of the ACGSF and its impacts in stimulating economic development in Nigeria. It examines the level of the awareness of the activities of ACGSF by the farmers who supposed to be the beneficiary of its activities. The Association of Nigerian Farmers, South West branch constitutes the study population. Survey research was adopted through the administration of structural questionnaire to elicit information. The organization is fluid and unable to give accurate figure of its population. At a monthly meeting held in Ibadan Oyo State. 125questionnaire were administered on farmers

randomly selected and 104 were recovered. This represents 83% retrieved and used for the study.

The questionnaire consists of questions that are based on the awareness of the farmers on the lending activities of ACGSF, the extent to which they were beneficiaries and the impact of such credit facility on economic development. Data collected was coded and analyzed using frequency table, percentage and mean score analysis while the non-parametric statistical test (chi-square) was used to test the formulated hypothesis using STATA 11 data analysis package software.

Results and Discussions

Analysis on Rural Farmers Perception of Government Agricultural Credit Scheme

Table 1 reveals the level of awareness of respondents on the activities of the ACGSF, 28.85% of the respondents are aware of the scheme while 71.25% were ignorant of the ACGSF activities. This implies that government needs to embark on continuous media and rural extension activities to sensitize the farmers about the activities of the ACGSF. Also Table 2 shows that only 35% of the respondents (farmers) in Southwestern Nigeria had quick access to agricultural loan as desired while 65% were denied of quick loan to agricultural finance. This implies that ACGSF should restructure their conditionality's in other to benefit a greater number of Nigerian farmers. The result of analyses in Table 3 shows that cooperative financing constitute the major source of credit (50%), 40.38% is gotten from bank of agriculture while microfinance banks available to respondent farmers is 9.62%.

The result of analyses in Table 4 shows that 42.35% affirmed that guarantors constitute the major challenge. Other challenges include bank interest rate representing (33.65%) and lack of banks in their rural area (24%).

Table 1: Awareness of agricultural credit guarantee scheme fund activities

Respondent	Frequency	Percentage (%)
YES	30	28.85
NO	74	71.25
TOTAL	104	100

Source: Field Survey 2015

Table 2: Access to quick agricultural loans

Respondent	Frequency	Percentage (%)
YES	36	35
NO	68	65
TOTAL	104	100

Source: Field Survey 2015

Table 3: Source of agricultural financing credit

Respondent	Frequency	Percentage (%)
Microfinance	10	9.62
Bank of Agriculture	41	40.38
Cooperative Financing	53	50.
TOTAL	104	100

Source: Field Survey 2015

Table 4: Challenges in accessing agricultural financing credit from formal sources

Respondent	Frequency	Percentage (%)
High Interest	35	33.65
Guarantors	43	42.35
No of banks in locality	26	24.
TOTAL	104	100

Source: Field Survey 2015

Analysis on Rural Farmers' Perception of Agricultural credit Potential Benefits and Its Impact on Economic Development

From the table 5 above, it can be seen that 85.58% agreed on the economic empowerment capacity of cooperative societies 8.65% disagreed, while 5.77% were neutral, showing that agricultural credit guarantee scheme fund (ACGSF) method has capacity for economic empowerment, 84.61% agreed that ACGSF is a major provider of fund to the farmers while 12.5% disagreed and 2.88% were neutral indicating the significance of ACGSF method as major provider of capital for the poor and low income group. 60.6% attested to the widespread acceptance of Agricultural finance. Findings from the

respondents to the questionnaire indicate to a large extent the positive perception of potential benefits that the rural farmers with low income will derive more benefits from agricultural credit guarantee scheme fund (ACGSF). This finding also buttressed the significance of Agricultural financing scheme as tools for poverty alleviation and economic development.

Also from the analysis presented in table 6, it can be seen that 76.92% agreed that agricultural financing serves as a tool for sustainable economic development, 15.34% disagree, while 7.69% were neutral, showing that Agricultural financing serves as a tool for economic development, 69.21% agreed on cooperative method as a veritable tool of achieving MDG relating to poverty and 20.19% disagreed while 10.6% were neutral which is an indication that cooperatives are a veritable tool of achieving MDG relating to poverty. 66.34% agreed that cooperative finance has the capacity for Millennium Development Goal (MDG) relating to poverty and reduction. 25.0% disagreed while 8.65% were neutral; an indication that cooperatives have the capacity for MDG objective of poverty reduction relating to poverty which will positively influence economic development of the country.

Table 5: Agricultural credit potential benefits

	AGREED		UNDECI DED		DISAGREE D	
Economic empowe rment through (ACGSF) as major providers of fund to poor and small as widely spread	38.46	47.12	5.77%	03	07	02
Preference for cooperative loan by the poor	34.61	50.0		08	12	04
Convenient credit access in (ACGSF) as compared to bank	32	48	08	11	08	16
	30.76	46.15	7.65%	11	11.54	3.855
	%	%			%	%
	24.04	42.31	10.57%	06	05	14
	26.92	49.04	5.77%	06	05	14
	%	%			%	%

Source: Field Survey 2015

Test of Hypothesis

H0: There is no significant relationship between (ACGFS) and Economic development.

Table 6: Agricultural financing impact on economic development

Response	Agreed		Neutral Disagreed		
Assessment of	20	60	08	12	04
Agricultural financing serving as a tool for economic sustainable Cooperative method as tool of MDG relating to Poverty	19.23%	57.69%	7.69%	11.54%	3.84%
	24	48	18	18	08
	23.06%	46.15%	12.30%	12.30%	7.69%

Source: Field Survey 2015

The result of the Chi-square analyzed to measure discrepancies between the observed and expected frequency as well as the level of significance of the tested hypothesis as regard findings from tables 2 and 3. Since $X^2_c = 491.27$ Critical region = $X^2_{1(0.01,4)} = 13.2767$ level of significance: 99% Hence, $X^2_c > X^2_t$ i.e. $491.27 > 13.2767$. Statistically; findings from the above indicates that expected value is greater than observed value, with calculated X^2_{cal} 491.27 being greater than tabulated X^2_{tab} 13.2769 thus one can conclude that the expected value remain significant at a critical level of 99%; an indication that Agricultural financing scheme such as agricultural credit guarantee scheme fund has the tendency to enhanced economic development if properly harnessed.

The result of the Chi-square analysis measure discrepancies between the observed and expected frequency as well as the level of significance of the tested hypothesis. Since $X^2_c = 491.27$ Critical region = $X^2_t (0.01,4) = 13.2767$ level of significance: 99% Hence, $X^2_c > X^2_t$ i.e. $491.27 > 13.276$. Due to the result shown in table 7. Thus, we reject Null hypothesis and accept the alternative.

Conclusion and Recommendation

The research is on the impact of Agricultural Financing on economic development in Nigeria. Agriculture as a sector of the economy plays an important role and contributes to the growth of the GDP. Improved and efficient credit programmers like (ACGSF) are needed in the sector that will lead to

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Table 7: Test of Hypothesis using Chi-Square Analysis

O	E	O-E	(O-E) ²	(O-E) ² /E
223	145.6	776	5990.76	41.14
345	145.6	199.4	39760.36	273.07
41	45.6	-104.6	10941.16	75.15
62	145.6	-83.6	6988.96	48.00
57	145.66	-88.6	7849.96	53.91
728	728.0			491.27

Source: Field Survey 2015

higher productivity and increase economic growth. From the result of this finding, all the variables in the model proved significant, which show that agricultural financing has positive impact on the economic development in Nigeria. It is a natural fact that without food and raw materials for our industries, no other sector of the economy can thrive. Agricultural production is a source of raw materials to local industries and generates foreign exchange earnings for the country.

In conclusion, the ACGSF is important in enhancing agricultural production and economic development in Nigeria. Lastly, knowing fully well that the agricultural sector has a multiplier effect on any nations' socio-economic sector because of the multifunctional nature of agriculture, policy makers should bear in mind that a strong and an efficient agricultural sector requires large infusion of credit to finance it. Based on the findings of the study it is recommended that:

- Government should be more proactive in insisting on the private sector, especially, the financial sector to set aside funds annually for agricultural financing to compliment government efforts.
- Government should make efforts through its agencies to enlighten farmers of the availability of such credit facilities
- Government is therefore called upon to reinforce its link with farmers in the provision of farm inputs and credit facilities that could be affordable to the farmers, through its agricultural extension workers. Above all, the Federal Government needs to take a holistic appraisal of agricultural programmes and schemes, with a view of streamlining them to meet the dynamics of times, for the benefits of the Nigerian citizenry [28-38].

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