**COMMERCIAL BANKS CREDIT AND AGRICULTURAL OUTPUT IN NIGERIA**

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**Abstract**

This research examined the impact of the commercial bank credit for agricultural production in Nigeria using macroeconomic variables (bank credit to commercial and agricultural output). The overall objective of the study is to examine the extent to which the commercial bank credit had supported agricultural production Nigeria. The specific objectives are: (i) to determine the impact of commercial bank credit for agricultural production in Nigeria, and (i) to determine the impact of agricultural production on economic growth in Nigeria. The methodology adopted for the study was chi-square test (chi-s) , to test the significance of the individual parameter estimate, After the hypotheses, the result shows that: firstly, agricultural production and the commercial bank credit to agriculture and the real interest rate have contributed to economic growth in Nigeria. Second, there is general agreement that Nigeria agricultural sector is severely underfunded.

**CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

Agriculture is the first and most thriven occupation of mankind. From its early form of wild fruits, leaf, root, snail and insect gathering, fishing and hunting, to its present mechanized and almost automated form, it has undergone a lot of development. Agriculture is conceived as the cultivation of land, raising animals for the purpose of production of food for man, feed for animals, and raw materials for our industries. It also consists of crop production, forestry, livestock and fishing. It is also essential for expansion of employment opportunity, reduction of poverty and improvement of income distribution, speeding up industrialization and easing the pressure of balance of payments disequilibrium. The role of agriculture in transforming both the social and economic frame work of an economy cannot be over emphasized. Anyanwu posits that “agriculture has been the main source of gainful employment from which Nigeria nation can feed its population, providing the nation’s industries with local raw materials and as a reliable source of government revenue. The major agricultural export commodities in Nigeria include cocoa, coffee, cotton, groundnut, groundnut oil, palm kernel, soya beans, ginger, rubber, benign seed and chili pepper. There are other commodities that are being demanded in the world market such as cassava and cassava products, banana, plantain and so on. The Nigerian economy, until today is still dependent on primary products both as foreign exchange earner and contributor to gross domestic product. Agriculture is of two types, the subsistence agriculture and commercial agriculture-: the subsistence agriculture is the type of farming which involves the farmer and his family, that is, the farmer produces for himself and his family with little or none to sell in the market, it is practiced in small scale system. It involves only a little amount of money to practice unlike commercial farming that involves huge amount of money to practice. It does not involve the use of machine to carry out, since the land is very small and fragmented. The second type is commercial agriculture, and this is where a farmer produces his crops and sells them in the market. It is carried out in large scale with enough land and machines. These machines are used in cultivating crops. It involves a lot of capital and time, and also increases the farmers’ income. Commercial farming helps farmers to engage in the cultivation of different varieties of crops, since the money, land and equipment could easily be used. In agriculture, fund is needed to enable the farmer purchase more land, buy his inputs at the appropriate time and to pay for hired labor or farm machinery. Unfortunately, credits are not easily available for most of the farmers because of collateral and other documentation that are usually required by the commercial banks and other credit institutions. This makes it impossible for most of the farmers in Nigeria to access the required capital for investment in large scale agriculture, hence the reason for the recent low agricultural productivity. With the recent move by the leading economies of the world to diversify their economy and Nigeria in a bid to join the rest of the developed economies is conscious of the danger signals observed both within and outside the country that underscores the need to move away from total reliance on petroleum related revenues. These signals according to Soludo include the ongoing global economic crisis that is threatening the growth and development agenda of the present administration, the current decline in crude oil prices, and the frightening revelation that the united states of America, the highest buyer of Nigeria crude oil, Brazil and several other countries have seriously engaged in alternative source of energy. Hence, the need to diversify Nigerian economy, especially through agricultural sector that has for long, been neglected. Nigeria is endowed with huge expanse of fertile arable land, and graze land, as well as a large active population that can sustain a high productive and profitable agricultural sector. Adubi admits that this enormous resource base if well managed could support a vibrant agricultural sector capable of ensuring self-sufficiency in food and raw materials for the industrial sector as well as, providing gainful employment for the teeming population and generating foreign exchange through exports. In spite of these endowments, the sector has continued to record a declining productivity. The capacity of the sector to fulfill its traditional role in the Nigerian economy has been constrained by various social-economic and structural problems. These include unavailability of credits to local farmers, discovery of oil, high interest rates on loans to farmers, rural- urban migration and ineffective institutions charged with policy implementations. Not until recently, government has seriously developed a policy to mobilize potential credits for the rural farmers. Commercial banks themselves have given little attention to the approval of loans to farmers for fear of defaults. Where credits are received from other sources apart from government and commercial lending, the interest rates have been too high. These reported high interest rates are blunt realities to the peasant farmers. The question deducible from the above is how have the credit institutions, especially commercial banks credits, been able to impact on the level of agricultural output in Nigeria? The broad objective of the study is to investigate the extent to which bank credit had supported agricultural output in Nigeria. This study is delineated to the impact of bank credit on agricultural output in Nigeria, investigating bank credit, bank lending rate and industrial output and, their roles on agricultural output in Nigeria. This study covered the period, 1970 to 2013.

**STATEMENT OF THE PROBLEM**

In Nigeria, agriculture remains the mainstay of the economy since it is the largest sector in terms of its share in employment (Philip, Nkonya, Pender and Oni 2009). In an effort to diversify her oil base economy, Nigeria is placing much emphasis on financing other sectors most especially agricultural sector, since agriculture has the potential to stimulate economic growth through provision of raw materials, food, jobs and increased financial stability. It follows that agriculture financing is one of the most important instruments of economic policy for Nigeria, in her effort to stimulate development in all directions. Finance is required by agricultural sector to purchase land, construct buildings, acquire machinery and equipment, hire labour, irrigation etc. In certain cases such loans may also be needed to purchase new and appropriate technologies. Not only can finance remove financial constraints, but it may also accelerate the adoption of new technologies.

 **OBJETIVE OF THE STUDY**

The objectives of the study are;

1. Ascertain the impact of commercial bank credit on Agricultural output
2. Identify the constraints militating against the agricultural financing in Nigeria
3. To ascertain the relationship between agricultural financing and Nigeria economic growth
4. Examine whether the impact of agricultural financing have reflected on the growth and development of agricultural sector in Nigeria

**RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** commercial bank credit has no impact on agricultural output in Nigeria

**H1:** commercial bank credit has impact on agricultural output in Nigeria

**H02:** there is no relationship between agricultural financing and Nigeria economic growth

**H2:** there is relationship between agricultural financing and Nigeria economic growth

**SIGNIFICANCE OF THE STUDY**

This study, which is primarily aimed at explaining agricultural financing and economic growth in Nigeria, will provide an insight into the problems associated with agricultural financing and Nigeria economic growth. This report would be of great benefit for agriculture sector and Nigeria, to expose them to benefit of financing agricultural sector for economic growth of the Nation. The findings will be useful for researchers to further generate knowledge in the field

**SCOPE AND LIMITATION OF THE STUDY**

The scope of the study covers commercial bank credit and Agricultural output in Nigeria. The researcher encounters some constrain which limited the scope of the study;

 **a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

**DEFINITION OF TERMS**

**AGRICULTURAL FINANCING:** Agricultural finance refers to financial services ranging from short-, medium- and long-term loans, to leasing, to crop and livestock insurance, covering the entire agricultural value chain - input supply, production and distribution, wholesaling, processing and marketing

**ECONOMIC GROWTH:** Economic growth is the increase in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study

 **CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

 **2.1INTRODUCTION**

Agriculture finance refers to (public or private) resources (in form of equity, gift or loan) for improving social welfare through development of agricultural sector (Shreiner and Yaron, 2001). It encompasses not only government funds but also funds of non-governmental organizations that use matching grants to attempt to promote community and sector development, income equality and local empowerment. Public funds are subsidized funds and private funds regardless of their price, are not subsidized, unless a contribution is tax free or the market price is affected by an explicit or implicit state guarantee of the liabilities of a development finance institution (Shreniner and Yaron, 2001). Agriculture financing can be divided into the non-debt (non –leverage) and debt (leverage) categories. Thirlwall (1976) states that Debt represents funds with fixed contractual financial obligations, to which the resources of a nation might be plead as collateral. To cope adequately, in the long-run, a nation‟s debt- servicing capacity must grow at a rate not less than the growth rate of its debt burden (Ariyo, 1999). Non-debt funds on the other hand, do not impose fixed or compulsory servicing obligations on the nation. The regularity and magnitude of non-debt resource flows, however, depend on perceived country risk, relative investment yield and enabling factors such as the quality of governance (Ariyo 1999). Professor Simon Kuznets, a Nobel Prize winner defines a country‟s economic growth as “a long term rise in capacity to supply increasingly diverse economic goods to its population; this growing capacity is based on advancing technology, and the institutional and ideological adjustments that it demands” (Todaro, 1992). This definition implies that economic growth is synonymous with a sustained rise in national output, provision of wide range of economic goods, presence of improved technology and institutional, attitudinal and ideological adjustments

**FINANCE, AGRICULTURE AND ECONOMIC GROWTH NEXUS**

This nexus based on the economic development experience of developed countries. As often stressed by development literature, agricultural surplus is important for the structural transformation accompanying economic growth (Moody, 1981). This is based on the view that the agricultural sector should transfer to the non-agricultural sector the „surpluses of „investible‟ resources generated in agriculture (Kuznets, 1961). On this basis, it is suggested (implicitly or explicitly) that developing countries must extract resources from agriculture for successful industrial development (Ohkawa and Rosovsky 1996; Mellor, 1973; Johnston and Kilby, 1975). The appropriate indicator of the phase of development would therefore be the share of agriculture in the national product. Kuznets (1966) states that during the early phase of modern economic growth the share of agriculture in the national product is around 50%. Landes (1965) reports that in the year of Britain‟s industrial revolution agriculture was taking as much capital as giving. Mody (1981) argues that this resource flow into agriculture became necessary because the changes in land tenure and improvement in techniques that made agricultural growth possible required substantial outlays of capital. Thus, capital was required for land clearing, drainage, cost of enclosure and consolidation, fencing, building, equipment, roads etc. To this end, agriculture financing not only removes financial constraints but also promote investment and adoption of technology necessary to spur desired economic growth.

**AGRICULTURE FINANCING AND ECONOMIC GROWTH**

On a priori basis, the theories of link between finance and economic growth can be traced back to the work of Schumpeter (1912) and more recently to Goldsmith (1969); Shaw (1973) and Mckinnon (1973); King and Levine (1993). These studies show a positive relationship between finance and economic growth. Demetriades and Hussein (1996) find the evidence that finance is a leading factor in the process of economic growth. They further found that for the majority of the countries, causality is bi-directional, while in some cases finance follows economic growth. Luintel and Khan, (1999) state that the causality between financial development and output growth is bidirectional for all countries they studied. Rajan and Zingalas, (1996) look at the structure and sources of company finance, also conclude that the development of the financial sector facilitates the growth of corporate sector. In contrast, Robinson (1952) states that “where enterprise leads finance follows”. According to this view, economic development creates demands for particular types of financial arrangements. In spite of the above arguments finance remains the key to the region's investment and hence growth. As World Bank (1989) argues, savings determines the rate at which productive capacity and income can grow. In particular, long-term finance tends to be associated with higher productivity and growth (Caprio and Demirguc-Kunt, 1998). Reisen and Soto (2001) argue that capital flows (external funds) can magnify existing distortions in capital allocation, that is, if domestic financial systems do not function properly, capital flows will not end up in the right places and will cause problems in the places they do end up. And some capital flows are subject to quick reversal. In extreme cases these reversals can results in the occurrence of the different forms of crises: currency and banking crises, (Joel, 2005). On the other hand, once a macroeconomic stabilization has been completed and positive GDP growth resumes, large capital inflows are fairly common. Such inflows come from foreign borrowing, portfolio investments, deposit inflows and foreign direct investments and finance both investment and consumption (Wachtel, 1998) Ariyo, (1999) asserts that in practice, governments employ a combination of debt and non-debt sources to varying degrees. Available evidence further indicates that (external) debt seems the most easily accessible source of financing to Sub-Saharan African (SSA) countries. Nevertheless, studies suggest that debts in general and external debts in particular, may aggravate the problem of underdevelopment of developing economies. This view is buttressed by the widespread unsustainable debt profile coupled with economic retardation of nearly all SSAs (Ajayi, 1991; Ariyo, 1993; Buiter, 1983; Wickens and Uctum, 1990). Savvides (1992) asserts that if debtor country is unable to pay its external debt, debt payments become linked to the country‟s economic performance. The country benefits only partially from an increase in output or exports because a fraction of increase is used to service the debt and accrues to the creditors. Thus, from the perspective of the debtor country as a whole, the debt overhang acts like a high marginal tax rate on the country, thus lowering the return to investment and providing a disincentive to domestic capital formation (private saving and investment). Henry and Lorentze (2004) argue that debt rather than equity (non-debt) is a cause of instability, because debt differs from non debt, contracts in that they require periodical payments of interest. To this end, Fisher (1987) had argued that rigid debt contracts in combination with unexpected information were the main reason for the outbreak and prolongation of the Latin American debt crisis. Williamson (1997) opines that when adverse information becomes available, the capital flows resulting from debt contracts are thus procyclical: money leaves that country when times are bad, and comes in when they are good. Some study argued that foreign aid assists to close the exchange gap, provides access to modern technology and managerial skills, and allows easier access to foreign market (Chenery and Strout 1966; Over, 1975, Levy 1988; Islam, 1993). On the other hand, other studies related to the emergence of the view that external capital exerts significant negative effects on economic growth of recipient countries, argued that foreign aid is fully consumed and substitutes rather than compliments domestic resources. They further stated that foreign aid assists to import inappropriate technology, distorts domestic income distribution, and encourages a bigger, inefficient and corrupt government in developing countries (Griffin, 1970; Weisskoff; 1972; Boone, 1994; Easterly, 1999). Bagehot (1873) and Hicks (1969) argued that the financial system played a critical role in igniting industrialization in England by facilitating the mobilization of capital for „immense work‟.

**THEORETICAL REVIEW**

**The Quantity** **Theory of Credit**

Werner in his work towards a quantity theory of disaggregated credit and international capital flows presented the Quantity Theory of Credit with a central focus on different equation of exchange distinguishing between money used for GDP-transactions and money used for non GDP-transaction. He further stressed that money should not be defined as bank deposits or other aggregates of private sector savings. More so, that bank should not be seen as not being financial intermediaries that lend existing money, rather creators of new money through the process of lending. In addition, growth of GDP requires increased transaction in economic activities, which in turn require larger amount of money to be used for such transactions; therefore, the money used for transactions can only rise if banks create more credits. The bank credit can be disaggregated into credit for GDP transactions and credit for non-GDP transactions. The former drives nominal GDP and the latter assets transaction values. Consequently, the effect of bank credit depends on its quantity and quality which is defined as whether it is used for unproductive transactions (credit for consumption or asset transactions, producing unsustainable consumer or asset inflation, respectively) or productive transactions (delivering non-inflationary growth). Credit used for productive transactions aims at income growth and is sustainable; credit for asset transactions aims at capital gains and is unsustainable

**The Credit Channel Theory**

Bernanke and Gertler postulated the credit channel theory. This theory emphasized that the direct effects of monetary policy on interest rates are amplified by endogenous changes in the external finance premium. They described external finance premium as the difference between the cost between funds raised externally and funds raised internally by the borrower. More so, the imperfection of credit market depends on the size of the finance premium and a change in monetary policy that raises or lowers open market interest rates tends to change external finance in the same direction. In addition, they linked the monetary policy and external finance premium through “Balance Sheet Credit Channel” and “Bank Lending Credit Channel”.

**The Balance Sheet Credit Channel Theory**

This theory stressed that the external finance premium facing a borrower depends on borrower’s financial position. Therefore, the greater is the borrower’s net worth, the lower the external finance premium and overall terms of credit. The theory further stated that the quality of borrower’s sheet similarly affects their investment and spending decisions. This balance sheet channel arose due to shifts from central bank’s policy not only affects market interest rate but also the financial positions of borrowers

**The Bank Lending Credit Channel**

The banking lending channel stated that monetary policy also affects the external finance premium by shifting the supply of the intermediated credit, especially loans from commercial banks. It indicated that if supply of bank loans is disrupted for some reason, bank dependent borrower may not be necessarily shut off but incur cost of finding lenders. Therefore, a reduction in the supply, relative to other forms of credit is most likely to increase external finance premium and reduce real activity

**EMPIRICAL EVIDENCE**

Mallik (2008) conclude that a long run relationship exists between per capita real GDP, aid as a percentage of GDP, investment as a percentage of GDP and openness. However, long run effect of aid on growth was found to be negative for most of the countries he examined. On the other hand, Hatemi-J and Irandoust (2005) in their study “relationship between foreign aid and economic growth in developing Countries –Botswana, Ethiopia, India, Kenya, Sir-lanka, and Tanzania” reveals that foreign aid has a positive and significant effect on economic activity for each country in the sample. They conclude that foreign capital flows can have a favorable effect on real income by supplementing domestic savings. Oyejide (1999) in his study, “taking stock of long-term financing for sustainable development in Africa” argues that that the SSA region's poor economic growth performance since the mid-1970s is not unrelated to its low investment rates. In addition, he suggested that since the region's domestic savings have been inadequate for financing even these low investment rates, it has historically relied rather heavily on external resource inflows. It is tempting, in these circumstances, to suggest that the solution to the growth problem in the SSA region is increased investment that is financed even more than in the past by inflow of foreign capital, both official and private. According to Prasad et. al. (2004) there is series of theoretical advantage of openness to capital flows, the most important being the enhanced pool of savings available for investment. kose et.al. (2008), finds that financially open economies have higher productivity growth. Were (2001) finds that Kenya has a debt overhang problem and that country‟s external debt has negative impact on economic growth and private investment. However, Athukorala and Rajapatirana (2003), finds that an increase in FDI leads to real exchange rate depreciation in Latin America and Asia whereas Lartey (2007) reveals that FDI causes real exchange rate appreciation in sub-Saharan African. Recent theoretical research, typified by endogenous growth models, suggests that high investment rates can result in a permanent increase in an economy's overall growth rate (Roemer, 1986; Lucas, 1988). The credibility of macroeconomic policy may be perceived through at least three main indicators: inflation rate and its variability; real exchange rate variability; and sustainability of fiscal balance. These three indicators interact with an economy‟s degree of openness trade and the ease of cross-border financial transfers, as moderated by foreign exchange control regulations. High inflation, for instance, make domestic asset holders react to the erosion of the real value of their assets by moving their assets abroad. Also, since inflation is often regarded as an indicator of the government overall ability to manage the economy (Fischer, 1993), a rising inflation rate tends to undermine that ability. Most empirical studies have found evidence of a positive relationship between capital flow and inflation, but such a relationship was not statistically significant for African countries ( Murinde et al., 1996; Lensink et al, 1998; Olopoenia, 2000; Nyoni, 2000; Ndikumana and Boyce, 2002). Capital flow may also be stimulated by exchange rate fluctuations and volatility, which in itself can also be influenced by inflationary pressures. For instance, high inflation may create increasing expectations about future exchange rate depreciation, and may provide incentives for capital flight. While Hermes and Lensink (1992) found a strong support for a positive link between real effective exchange rate and capital flight in Cote d'lvoire, Nigeria, Sudan, Tanzania, Uganda, and Zaire (now Democratic Republic of Congo) for the period 1978-88. The level of exports, adjusted for country size, reflects the economy‟s openness, and openness generally is good for growth (Sachs and Warner, 1995b, Edwards, 1998 and Frankle and Romer, 1999). Gylfason (2000) opines that the link between openness and growth is through inflation, however, one of the reasons why inflation is inversely related to growth, may well be that inflation hurts export through the real exchange rate, all else being the same. According to Gylfason (2000) sustained economic growth requires high-quality saving and investment. High net saving rate do not necessarily stimulate growth if they are accompanied by rapid depreciation and depletion of capital. Fry, (1995), Mckinnon (1973) and Shaw (1973) in their studies show that positive real interest rate stimulates saving and financial intermediation thereby increase supply of credit to be allocated to productive sectors. This, in turn, increases investment and economic growth.

**THE ROLE OF AGRICULTURAL FINANCING AND IT IMPLICATION ON ECONOMIC GROWTH, FOOD SECURITY AND POVERTY REDUCTION**

There has been serious argument on agricultural financing as a declining sector in the course of development in many developing countries; it is still a leading economic sector, the main exporter, and the major employer, especially for the poor and women. Improved financial markets accelerate agricultural and rural growth. Financial services assist households in maintaining food security and smoothing consumption, thereby safeguarding or enhancing labor productivity, the most important production factor of the poor (von Braun, 1992; Heidhues, 1995; Murdoch, 1995; Zeller, 1995; Zeller, 1997; Zeller, 2001). Studies have not identified any effects of financial liberalization on the price and availability of informal credit to agriculture (Mosley, 1999; and Steele, 1997). NACRDB cost of loan to agricultural sector has not been stable since 1990 to 2006, but from 2007 till date, the cost of loan to agricultural sector has been stable at 8%. At present; Nigerian banks lend less that 3% of their commercial loans to agricultural sector. In 2005, agricultural lending was only 2.44% of commercial banks total portfolio, it fell to 1.96% in 2006, 3.11% in 2007 and 1.37% in 2008. Still yet, most of the poor still live in rural areas because of not having access to agricultural credit. Any student of an introductory course in micro-economics, business finance or development economics learns that access to savings, credit and insurance services can have beneficial effects on households and their enterprises and therefore on economic growth, and that microfinance in particular may also contribute to more equitable growth. Access to credit especially agricultural sector, however, has an economic benefit only if and when that access generates a broadly defined net economic surplus after having deducted the private and social costs of loan provision (including the opportunity costs of scarce public funds in alternative poverty reduction policies). While the evidence on the impact of credit on household welfare, agricultural technology adoption, and on agricultural sector growth is mixed, many practical constraints (i.e. time and money) and methodological difficulties in estimating the impact of a policy or project with a reasonable probability of error exists. Simple common sense tells us that savers who continue to deposit money for different motives, borrowers who continue to repay their loans and clients paying regular premiums for health and life insurance over long periods actually derive an economic benefit (Oboh, 2008)

**CONCEPTUAL REVIEW**

**The Concept of Bank Credit**

Credit is the extension of money from the lender to the borrower. Spencer (1977) noted that credit implies a promise by one party to pay another for money borrowed or goods and services received. Credit cannot be divorced from the banking sector as banks serve as a conduit for funds to be received in form of deposits from the surplus units of the economy and passed on to the deficit units who need funds for productive purposes. Banks are therefore debtors to the depositors of funds and creditors to the borrowers of funds. Bank credit is the borrowing capacity provided to an individual, government, firm or organization by the banking system in the form of loans. According to CBN (2003), the amount of loans and advances given by the banking sector to economic agents constitute bank credit. Bank credit is often accompanied with some collateral that helps to ensure the repayment of the loan in the event of default. Credit channels savings into productive investment thereby encouraging economic growth. Thus, the availability of credit allows the role of intermediation to be carried out, which is important for the growth of the economy. The total domestic bank credit can be divided in to two: credit to the private sector and credit to the public sector. Thus, for this paper, we adopt the definition of credit given by CBN (2003), which is defined above.

**Bank Credit and the Nigerian Economy**

Since its inception, the banking system has been providing credit to the Nigerian economy. In order to examine the role of bank credit to the economy, the aggregate bank credit to the economy is used to estimate its impact growth, which is proxies by gross domestic product. This credit is classified into credit to the public sector (government) and credit to the private sector. This section presents and examines credit to these sectors from 1992 to 2008 with a view to assessing its impact on the growth of the Nigerian economy. Data on aggregate domestic credit of deposit money banks reveal that between 1993 and 1994, credit to the economy grew from 64.5 per cent to 67.3 per cent. Between 1995 and 2008, credit to economy fluctuated as follows with 24.1% in 1995, 34.7% in 1996, 25.9% in 1997, 14.8% in 1998, 55.7% in 1999, 42.1% in 2000, 32.7% in 2001, 37.9% in 2002, 15.3% in 2003, 38.4% in 2004, 20.5% in 2005, 40.2% in 2006, 86.1% in 2007 and 45.7% in 2008. The highest growth rate was recorded in 2007, which could be attributed to the gains on postconsolidation of Nigerian Banks

**AGRICULTURAL FINANCE POLICIES IN NIGERIA**

The policies aimed at strengthening the agricultural and rural financial markets include the establishment of schemes, programmes, and institutions to address and deliver government’s intentions in the sector. Some of these were encapsulated in the various national development plans and budgets.

**Agricultural Schemes Initiatives**

The schemes for financing agriculture have the first objective of encouraging banks to lend to the sector despite the relatively higher inherent risk and uncertainty Eze et al (2010). This was done by providing the bank with lowcost funds for lending. Another way was to cover their risk exposure to some extent using one instrument or the other. The second objective is promoting farmers’ access to credit by the provision of concessionary terms

1. Agricultural Credit Guarantee Scheme Fund (ACGSF), 1978 till date. Established by Act No. 20 of 1978, this offers a 75 per cent guarantee backed by the Central Bank of Nigeria (CBN) on agricultural credit in default, net the amount realized from the disposal of security for such credit. Financing is at market-determined interest rates (CBN 2007a). According to the CBN report of 2007, CBN offers a rebate equivalent to 40 per cent of the loan interest when loans are duly repaid. This scheme deals with small scale farmers who need small loans to operate. For instance, in 2005, more than 70% of all loans were smaller then fifty thousand naira to each farmer who applied and accounted for 36% of total loan value. Only 11% of all loans were larger then N 100, 000 and accounted for 32% of total loan value (CBN, 2007). The scheme has, however, suffered bureaucratic and administrative bottlenecks. For instance the processing of applications and claims has been slow so much so that at the end of 2005, there was an accumulated backlog of 4064 unprocessed claims, the oldest of which dates back to 25 years International Food Policy Research Institute (IFPRI, 2008).

 2. Small and Medium Enterprises Equity Investment Scheme (SMEEIS), 2001. This is a voluntary initiative of the Bankers’ Committee to support micro, small and medium enterprises (MSMEs), including agro and agro-allied businesses CBN (2001). Financing is in form of either debt or equity. In the case of debt, the borrowing rate is not to exceed single digit.

3. Refinancing and Rediscounting Facility (RRF), 2002 to date. As noted by Eze et al (2010), banks that lend long-term to agriculture and are in need of liquidity are availed an amount which is a certain percentage of the outstanding asset portfolio to long-term agriculture by the CBN at reduced rates at the discount window.

 4. Agricultural Credit Support Scheme (ACSS), 2006 till date. According to the CBN Statistical Bulletin 2007, the initial ACSS fund of N50 billion was established with contributions mostly from the CBN and deposit money from banks for the financing of large agricultural projects such as establishment or management of plantations, cultivation or production of crops, livestock, and fisheries and farm machinery and hire services. The borrowing rate is 14 per cent, with the CBN absorbing 6 per cent while the borrower pays 8 per cent at full repayment CBN (2007). The purpose of ACSS is to facilitate the development of the agricultural sector by advancing credit to farmers at low interest rates. By pursuing this strategy, the government hopes to exert downward pressure on prices of agricultural produce, especially food, leading to reduced inflation, increased exports, diversification of government revenue base, and increased foreign exchange earnings.

5. Large Scale Agricultural Credit Scheme (LASACS), 2009. As regards to the Large Scale Agricultural Credit Scheme (LASACS) the CBN report noted that a N200 billion fund established by the Federal Government in the wake of the current global economic crisis to finance large integrated commercial farm project with an asset base of at least N 350 million (excluding land) with prospect of increasing this to N 500 million in three years time, and mediumsized agricultural enterprises with an asset base of N200 million (CBN, 2009). The terms of borrowing are favourable, including a long tenor and single digit lending rate.

6. Supervised Agricultural Loans Board. Most state governments set up these boards to dispense finance in form of credit to farmers. It should be added that aside this boards, the state Agricultural Development Programmes (ADP) have recently been working in conjunction with the National Programme for Food Security (NPFS) in the provision of credit to farmers Eze et. al (2010).

**NATIONAL PRORGAMMES ON AGRICULTURE**

1.National Accelerated Food Production Programme (NAFPP), 1972. According to Eze et al 92010:8), this was part of the Second National Development Plan (1970-74).The plan itself has no clear statement on rural development, although N1,353 million was voted for it (FGN, 1972). It targeted self sufficiency in the production of rice, maize, sorghum, millet and wheat. It was a joint programme of Federal Government and USAID. Its objectives include accelerating and increasing food production through the adoption of improved packages of production technology, speedy up the transfer of research results to farmers, pursuing intensive and extensive cultivation of crops and linking research to production agencies through extension services.

 2. Agricultural Development Programme- 1975. It is jointly funded by the World Bank, Federal and States, in Nigeria aimed at provision of rural roads, farm service centers, agricultural extension services, credit etc towards achieving food production. Extension activities implemented by ADPs included establishing demonstration farms, identifying lead farmers, providing information to lead farmers on improved farming practices, facilitating access to improved technology and inputs and helping lead farmers teach others Eze et al (2010).

 3. Operation Feed the Nation (OFN), 1976. The OFN was part of the Third National Development Plan (1975-80) which was voted N2,050.738 million (Okeke, 2001 and Eze, 2010). Like the earlier plan, there was no categorical strategy for rural development, except some N500 million for rural regrouping (Olayiwola and Adeleye, 2005). However, it had objectives to mobilize the people to embrace agriculture, eliminate the traditional disdain for

agriculture by the educated, enhance food production on a large scale, create jobs and income and utilize all available land resources in the country.

4. Green Revolution Programme- 1980. The civilian regime initiated this programme aimed at wiping away hunger through credit supply to farmers, encourage and intensify cooperative education, mobilizing the local people to actively participate in agriculture, application of research on food and fibre to enhance abundance in staple food production, processing and distribution in Nigeria.

 5. Rural Banking Programme, 1977 to 1991. Banks were encouraged to not only establish rural branches but also to extend at least 50 per cent of the deposit mobilized from the rural areas as loans and advances to rural dwellers. Defaulting banks were to be penalized

 6. Community Banking Programme, 1991 to 2007. The programme provided for the establishment of community banks with a focus on rural banking operations. The National Board for Community Banks (NBCB) was the regulator of these banks until 2002 when this function was transferred to the CBN Eze et al (2010:9). It was intended to serve communities that were able to establish one based on personal recognition, character and credit worthiness of the borrower.

 7. Root and Tuber Expansion Programme-2000. It was established to commercialize root and tuber crop production and improve living conditions, income, food security and nutritional health of the poorest small holder households.

 8. National FADAMA Development Programme aimed at increasing income of beneficiaries by at least 20%. The programme was designed in 1993 to promote simple and low cost improved irrigation technology under World Bank financing Eze et el (2010).. FADAMA is a Hausa word for low lying flood plains usually with easily accessible shallow groundwater. It is a major instrument for achieving the government’s poverty reduction objective in rural areas of Nigeria. The beneficiaries are meant to come as a group known as FADAMA Community Association to the National FADAMA Development Programme. The programme empowers the association with resources, training, and technical assistance support to properly manage and control the resources for their own development. FADAMA adopts a socially inclusive and participatory process in which all FADAMA users will collectively identify their development goals and pursue it when assisted. The programme is in its third phase currently due to its success in the states that adopted it.

9. Family Economic Advancement Programme (FEAP), 1997 to 2001. This was established to serve the credit needs of the family in their daily economic activities through input supplies, loan in form of cash, and capacity building.

 10. National Poverty Eradication Programme (NAPEP), 1999 to date. Like FEAP, NAPEP was established by the federal government. The mode of operation is tailored towards directed (subsidized) credit to farmers. The programme consists of four schemes namely, Youth employment scheme which involves capacity acquisition, mandatory attachment, and credit delivery; Rural Infrastructures Development scheme which involves the provision of portable water, rural electrification, transportation and communication development. Social Welfare Services Scheme which is involved with qualitative education, primary health care, farmers employment and provision of social services, provision of agricultural input and credit delivery to rural farmers.; and Natural Resources Development and Conservation Scheme which contains programmes for environmental protection through conservation of land and space, development of agricultural resources, solid minerals and waters resources.

11.Microfinance, 2005 to date. Microfinance bring financial services such as savings, deposit, payments, transfers, micro insurance and micro leasing to the active (or productive) poor and low income people, who would otherwise have no access to such services. The Microfinance Policy outlines the principles and guidelines for the practice of microfinance in Nigeria, including provision for the establishment of private sector driven microfinance banks with marketcentred operations, veritable source of loanable funds for microfinance bank is the Micro Credit Fund, integration of microfinance institutions into the formal banking system. The specific objectives of the Nigerian microfinance policy are to make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services, promote synergy and mainstreaming of the informal subsector into the national financial system, enhance service delivery by Microfinance institutions to micro, small, and medium entrepreneurs, contribute to rural transformation and promote linkage programmes between universal and development banks, specialized institutions and microfinance banks. The micro finance banks are of two types; those licensed to operate as a unit bank with capital base of # 20 million (88,890 Euros) and those licensed to operate in a state with capital base # 1 billion (444, 500 Euros) Eze et al (2010:10).

12.There have been several recent presidential initiatives aimed at financing the production and export of certain commodities such as cassava, rice, cocoa and oil palm.

 13.Preferred sector allocation of credit, 1970 to 1996. Banks were mandated to extend 40 per cent of their loans and advances to agriculture which was designated a preferred sector. Banks that failed to meet this target were penalized. The funds not lent were transferred to the then Nigerian Agricultural and Cooperative Bank, NACB Eze et al (2010).

14. Concessionary interest rates for agricultural loans, 1980 to 1987. Banks were further mandates to extend credit to agriculture at a regulated rate of 9 per cent annum.

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to examine the commercial bank credit and agricultural output in Nigeria

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information on the study commercial bank credit and agricultural output in Nigeria. 200 staff of ministry of Agriculture, Uyo Akwa Ibom state was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N(e)2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. They staff were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the organizations. The questionnaires contained about 16 structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion.

The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Supervisors  | 37 | 27.8 | 27.8 | 27.8 |
| Agronomists  | 50 | 37.6 | 37.6 | 65.4 |
| Senior staff  | 23 | 17.3 | 17.3 | 82.7 |
| Junior staff  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 The above tables shown that 37 respondents which represent27.8% of the respondents are supervisors, 50 respondents which represents 37.6 % agronomists 23 respondents which represents 17.3% of the respondents are senior staff, while 23 respondents which represents 17.3% of the respondents junior staff

**TEST OF HYPOTHESES**

Commercial bank credit has no impact on agricultural output in Nigeria **Table III**

|  |
| --- |
| **commercial bank credit has no impact on agricultural output in Nigeria** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
|  |
|  | commercial bank credit has no impact on agricultural output in Nigeria |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state there is no impact made by agricultural policies so far on the Nigerian economy as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state there is impact made by agricultural policies so far on the Nigerian economy

**TEST OF HYPOTHESIS TWO**

There is no relationship between agricultural financing and Nigeria economic growth

Table V

|  |
| --- |
| **there is no relationship between agricultural financing and Nigeria economic growth**  |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | there is no relationship between agricultural financing and Nigeria economic growth  |
| Chi-Square | 28.21 1a |
| Df | 2 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state there is no relationship between agricultural financing and Nigeria economic growth as the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that there is relationship between agricultural financing and Nigeria economic growth

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was agricultural financing and economic growth in Nigeria. In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of agricultural financing and economic growth in Nigeria.

* 1. **Summary**

This study was on agricultural financing and economic growth in Nigeria. Four objectives were raised which included: Ascertain the impact made by agricultural policies so far on the Nigerian economy, identify the constraints militating against the agricultural financing in Nigeria, to ascertain the relationship between agricultural financing and Nigeria economic growth, examine whether the impact of agricultural financing have reflected on the growth and development of agricultural sector in Nigeria. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of ministry of agriculture Uyo, Akwa Ibom state. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made supervisors, agronomists, senior staff and junior staff were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**5.3 Conclusion**

Agriculture financing is essential in development strategies in a variety of ways. It promotes agricultural investment and adoption of technology necessary to spur economic growth. It has been shown that most African countries (Nigeria inclusive) have inadequate levels of domestic savings, which could be directed to investment and insufficient export earnings required to import capital goods for investment. For the target rate of agriculture-led economic growth to be achieved there would have be external financing (either as foreign investment or foreign borrowing) to fill the gaps. To this end, the need to investigate impact of agriculture financing appears more imperative for economic growth in Nigeria. However, Expansion of capital investment and increase in productivity of agricultural investment should be more appropriately financed with domestic savings, foreign private loan, share capital, foreign direct investment and development stocks are among suggested recommendations for agriculture-led economic growth.

**5.4 Recommendation**

n view of empirical results of the study, it is recommended that: Government should maintain the credibility of macroeconomic policy that will make borrowing pro-investment in order create economic growth through such investments; Agriculture financing should be given paramount attention in policy formulation; Nigeria should encourage more international trade because gains from the trade contribute to economic growth; Nigeria should attract foreign investments that would be bolted down i.e. made in physical assets in the sector and not in such investment that can flee the economy Government presence in financing agricultural growth should be given great attention. And agricultural capital investment and agricultural import substitution policy should be pursued effectively; Expansion of capital investment and increase in productivity of agricultural investment should be more appropriately financed with domestic savings, foreign private loan, share capital, foreign direct investment and development stocks

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been Working in ministry of agriculture?
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in ministry of agriculture
7. Supervisor { }
8. Agronomist { }
9. Senior staff { }
10. Junior staff { }
11. How long have you been in ministry of agriculture
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. There is no reform in ministry of agriculture?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. There is no significant relationship between agricultural financing and economic growth in Nigeria?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Nigeria economy depends on agriculture
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Agriculture really boost Nigeria economy
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. Without financing agricultural sector Nigeria economy will fall
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. There is no practical agriculture in Nigeria
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. Agricultural financing in the ministry of agriculture is a scam?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Nigeria economy can survive without agriculture
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. Most students are not willing to practice agriculture
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }