

**ROLES OF DEPOSIT MONEY BANKS ON THE
GROWTH OF AGRICULTURAL SECTOR
IN NIGERIA**

(A Case Study of Zenith Bank Plc)

BY

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CERTIFICATION

This is to certify that this research study was conducted by **RAJI MUHAMMED ADESHINA** with Matriculation Number **HND/23/BFN/FT/0324** and this work has been read and approved as meeting the requirement for the award of Higher National Diploma (HND) in Banking and Finance, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic.

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DEDICATION

This research work is dedicated to almighty Allah the most merciful, the most beneficent, the beginning and the end, for making this research work possible and reality for me. I also dedicate this research work to my beloved parents **MR WAHEED AYOFE RAJI** and **MRS FASILAT AMOPE RAJI**, who have been my greatest source of inspiration and support.

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All praises, adoration and glorification are due to almighty Allah (S.W.T) the most gracious, the most beneficent, the most merciful and I seek his benevolent peace and blessing be showered upon the best of mankind his noble prophet Muhammad (S.A.W) his house hold; his companion and the entire Muslim (Amen).

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ABSTRACT

The objective of this study was to investigate the role of deposit money banks credit on the growth of the agricultural sector in Nigeria. An ex post facto research design was used for the study. Three research objectives were formulated. Data were sourced principally from the secondary sources. The Data were analyzed using the ordinary least square multiple Regression Statistical Technique. Result from the analysis revealed that both deposit money banks loans and the agricultural credit guarantee scheme fund had a positive relationship with the output of the agricultural sector. It was however discovered that agricultural credit guarantee scheme fund's relationship was insignificant. It was finally revealed that deposit money bank lending rate had a negative and insignificant relationship with the output of the agricultural sector in Nigeria. Based on these findings, it was recommended that the loans and finances to the agricultural sector should be increased while the lending rate should be reduced. Also, the conditions to be fulfilled by farmers before accessing the agricultural credit guarantee scheme fund should be reviewed.

Keywords: *Deposit money bank, credit, loan and total agricultural output, Agricultural Growth*

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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 live stock, 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 sinequanon 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.

As the largest industry in Nigeria and one that contributed an average of 24% to GDP between 2013 and 2019, it is impossible to overestimate the importance of the agriculture sector to GDP. Security of food and nutrition is one of the most critical issues on the current international political agenda and concerns governments all over the world. Despite the fact that there is enough food for everyone on the planet, over a billion people still go without enough nutrition. In Undernourishment is common in many countries, yet the prevalence of overweight and obesity are still major public health concerns. One of the key components for achieving sustainable economic activity in every nation is credit finance. By providing farmers with essential resources like fertilizer, land, improved seedlings, machinery, storage facilities to prevent postharvest waste, and irrigation systems for farming during dry seasons, this will increase agricultural output. Access to loans can especially lessen entry barriers and inspire entrants to the sector, enhancing agricultural output generally. Despite this, banks still find the agricultural sector to be more risky and

less desirable for a credit facility due to the volatility of commodity prices, unforeseen disease outbreaks, climate change flood and drought, and other factors. Additionally, the majority of Nigeria's smallholder farmers and rural residents, who control the country's agricultural sector, lack adequate collateral facilities to receive credit from reputable financial institutions, impeding potential agricultural performance. The central government established the Agricultural Credit Guarantee Scheme Fund (ACGSF) in 1977 to encourage formal financial institutions to increase and sustain financing to agriculture in order to address this issue and attain food security (Magaji and Bature, 2004; Eyo, Nwaogu and Agenson, 2020).

According to Magaji, and Adamu (2011) agricultural sector is the highest employer of labour and one of the least financed sectors by commercial banks in Nigeria. In developing nations (like Nigeria), rural and small-farm holdings have a low capital base and limited access to financing. Therefore, the issue of low production efficiency has become more problematic as a result of these farmers' inability to acquire sufficient funding. Inadequate loan availability is a significant issue that negatively affects farmers' productivity and efficiency along with other agricultural issues. Obtaining credit requires a lot of administrative work and numerous procedural steps, which raises operation expenses. These institutions favor loans for non- agricultural purposes over loans for agriculture and favor large-scale transactions over small- scale transactions. For many years, graduates and technical officers whose main responsibilities included assisting farmers in improving their farming techniques have been created by universities and agricultural colleges.

Food production is significant because, shortage in the production of food leads to the deterioration of household's means of livelihood and food security (Magaji and Musa, 2015; Omondi, 2019). Because of this, it is important to research the effects of farmers' lack of access to credit facilities from the financial industry. This informs

the focus of this study and Finance is essential for any economy seeking to achieve growth and consequently economic progress. Such finance is one of essential resources which if invested in strategic sectors of the economy have the potential to result in the transformation of the economy (Mellor & Dorosh, 2010). One source of finance of significant importance in any business is credit.

Credit may be obtained from various sources, including banks, nonbank financial institutions, stock markets, and so on. However, banks remain a major source of credit for investment by both individuals and firms. This credit borrowed while it may be invested in various sectors of the economy, in the case of a developing country as Nigeria, the Agriculture sector may be argued as a strategic sector of importance for the growth and development of the Nigeria economy and hence a sector of choice for investment of credit.

The sources from which funds may be obtained for financing the activities of the agriculture sector may be categorized into Micro and Macro sources of finance. The micro sources relate to the use of Deposit Money bank financing as capital for agricultural activities, while agricultural funding through capital mobilization and allocation by government through such agencies as rural banking development programmes, Nigerian Agricultural Cooperative and Rural development Bank (NACRDB) and the Central Bank of Nigeria (CBN), constitute the macro sources of Agriculture sector finance. Therefore, with a variety of sources of credit available in Nigeria, and with the recent shift in focus of the Nigeria government towards rekindling interest in the development of the Nigeria Agriculture sector, the present study is an examination of Deposit Money Bank credit to the Agriculture sector and Agriculture sector output in Nigeria.

Mbat and Duke (2016) have identified poor credit supply as one of the factors accounting for the poor performance of the agricultural sector in Nigeria. The

Deposit money banks have no keen interest in agricultural finance (Obilor, 2013). In order to encourage the banks, the government established the Agricultural Credit Guarantee Scheme (ACGS) to provide guarantees against inherent risk in agricultural lending. This measure could not achieve the intended objectives because agriculture requires huge capital outlay because it is both labour and capital intensive venture (Nwankwo, 2013). This made the country to rely on massive importation of basic food items and raw materials for industrial inputs (Itodo, Apeh and Adeshina, 2012). The resultant effect is the high cost of living coupled with high level of unemployment on the common man. Evidently, this suggests that the government's effort to fortify the Nigeria agricultural sector has not yielded the desired result (Udensi, Orebiyi, Ohajianya and Eze, 2012). Thus, the need for further investigation in this area cannot be overemphasized.

1.2 Statement of the Problem

The Nigerian agricultural sector is characterized by many problems; noticeable among them is inadequate finance. The difficulties in accessing loans from deposit money banks has limited the ability of the sector to expand its production, use modern technologies, provide employment opportunities to the teeming population and contribute to the growth of the Nigerian economy. To solve these problems, many policy dimensions have been evolved meant to increase the funding to the agricultural sector including the requirement of banks to play pivotal roles in providing cheap credit to the sector's operators.

The truth remains however that deposit money banks have not fully complied with this policy requirement as there are still rumors of the unwillingness of the banks to grant credit to the sector's operators. Furthermore, where credits are granted, the interest charges are often too high. Other problems associated with the access to deposit money banks' credit by the agricultural sector include:

excessive paper work, requirement for collateral securities and the fear of default in the payment of the principal and interest by banks.

1.3 Research Questions

- i. What is the relationship between deposit money banks credit on the growth of agricultural sectors in Nigeria?
- ii. How is the relationship between deposit money banks leading rate and the output of the agricultural sector in Nigeria?
- iii. What is the relationship between the agricultural guarantee scheme fund and the output of the agricultural sector in Nigeria?

1.4 Objective of the Study

The main objective of this study is to assess the role of the deposit money banks on agricultural development in Nigeria. Specifically the study tends to be achieving the following objectives;

- iv. To determine the relationship between deposit money banks credit on the growth of agricultural sectors in Nigeria.
- v. To determine the relationship between deposit money banks leading rate and the output of the agricultural sector in Nigeria.
- vi. To assess the relationship between the agricultural guarantee scheme fund and the output of the agricultural sector in Nigeria.

1.5 Research Hypothesis

The hypothesis to be tested are expressed in their null form as:

H₀: Deposit money bank loan to agricultural sector has no significant impact on agricultural output in Nigeria.

H₁: Deposit money bank loan to agricultural sector has a significant impact on agricultural output in Nigeria.

1.6 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.

1.7 Scope and Limitation of the Study

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.

1.8 Organization of the Study

In order to achieve the above objectives, the paper is organized into five different sections.

Section One is the introduction. It captures important issues relating to the role of deposit money banks credit on the growth of agricultural sectors in Nigeria.

Section Two covers the theory behind role of deposit money banks credit on the growth of agricultural sectors and relevant literature review.

Section Three handles the research methodology.

Section Four focuses on data presentation, analysis and discussion of findings relating to this study.

Section Five is on summary, conclusion and then recommendations emerging from the study.

1.9 Definition of Terms

Deposit Money Banks: Financial institutions that accept deposits and make loans, providing financial services to individuals and businesses.

Agricultural Sector: The sector of the economy that produces food, fiber, and other agricultural products.

Growth: An increase in the size, output, and productivity of the agricultural sector.

Financial Inclusion: The access to financial services for individuals and businesses, particularly in rural areas.

Agricultural Financing: The provision of financial services, such as loans and credit facilities, to farmers and agricultural businesses.

Credit Facilities: Financial instruments, such as loans and overdrafts, provided by banks to farmers and agricultural businesses.

Agricultural Productivity: The output per unit of input, such as labor or land, in agricultural production.

Food Security: The availability of sufficient, safe, and nutritious food for the population.

Rural Development: The process of improving the economic and social well-being of rural communities.

Agricultural Value Chain: The series of activities involved in the production, processing, and distribution of agricultural products.

Farmers' Access to Credit: The ability of farmers to obtain credit facilities to finance their agricultural activities.

Agricultural Insurance: Insurance products that protect farmers against risks such as crop failure, livestock disease, and natural disasters.

Microfinance: Financial services, including small loans and savings accounts, provided to low-income individuals and small businesses.

Agricultural Development: The process of improving agricultural productivity, increasing food production, and enhancing the livelihoods of farmers.

Banking Penetration: The extent to which banking services are available and accessible to the population, particularly in rural areas.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

The conceptual framework underpins the model adopted for the study. The conceptual framework is as presented in Figure 1.

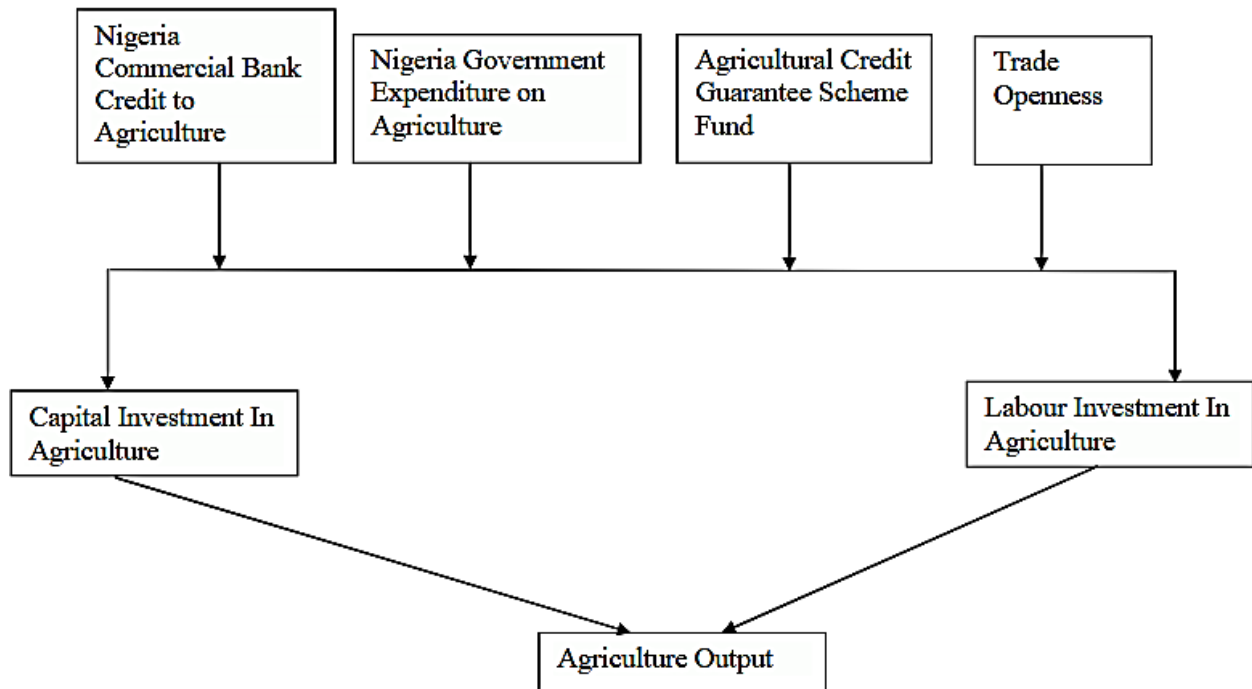


Figure 1: Conceptual Framework of Agriculture Output

From the above figure 1, Nigeria deposit money bank credit to agriculture, Nigeria government expenditure on Agriculture, Agriculture Credit Guarantee scheme fund, and Trade openness play a role in affecting the availability of funds which flow to the agriculture sector via capital investment in Agriculture and labour investment in Agriculture. Capital investment in agriculture refers to the use of funds to purchase farm inputs and capital goods that contribute to farm output, while labour investment in agriculture refers to the use of funds to pay agriculture workers salaries and wages. That is capital and labour investments are two channels through which funds flow

to the agriculture sector. Capital investment and labour investment affect Agriculture sector output as capital goods purchased for agriculture and agriculture sector workers together contribute to production effort in the sector.

2.1.1 Concept of Deposit Money Bank Credit

Aremu, Suberu and Oke, (2016), the term ‘credit’ is used specifically to refer to the faith placed by a creditor (lender) in a debtor (borrower) by extending a loan usually in the form of money, goods or securities to the debtor. In essence, the lender extends credit to the borrower when a loan is made, and he afterwards accepts the borrower's credit. Credit can therefore be defined as a transaction between two parties in which the creditor or lender supplies money, goods and services or securities in return for promised future payments by the debtor or borrower (Ayuba, Magaji, and Kuna, 2013).

Commercial credit includes bank credit including overdrafts, loans, and advances, trade credit from producers, commercial papers (or notes), invoice discounting, bill financing, hire purchase, factoring, commercial papers (or notes), and commercial papers (or notes) (to mention but a few). Consumer credit, often known as trade credit, is a type of authorization given to a person or a household to buy products like a refrigerator, television, car, or electronic sets for which instalment payments are made over time rather than in full.

Investment credit allows a business concern such as corporate body, sole proprietorship, or partnership to obtain credit for capital goods for expansion of factory or procurement of machinery (Aremu, Suberu and Oke 2016).

2.1.2 Concept of Agricultural Output

A distinct area of the farm or horticulture business known as the enterprise contains valuations of unsold goods created by the enterprise in its production. The primary

indicator of individual crop and livestock output is agricultural output (Farm Survey, 2016). It includes: Crop enterprise output, or the value of all the crops the farm produces (other than losses in the field and in store). It comprises crops consumed in the farmhouse and by farm labour, as well as those utilized for feed and seed by the farming enterprise. With the exception of some horticultural crops, crop enterprise output is calculated on a "harvest year" rather than a "accounting year" basis. This means that it only includes crops that were fully or partially harvested during the accounting year and does not include crops that were carried over from the previous year. The total harvested yield of the crop is therefore valued at market prices and valuation differences (between the previous and current crops) are irrelevant (plus any subsidies). However, any difference between the opening valuation of any stocks of previous crops and their ultimate disposal value (sales, used on farm and any end-year stocks) is included in total farm output (Farm Survey, 2016).

By-products forage and cultivations, which include sales of fodder, changes in the value of fodder and cultivations, and the value of the output of agricultural by-products. It also covers revenue from the letting of bare land or forage on a short-term lease (Farm Survey, 2016). Livestock enterprise output consists of the total sales of livestock and livestock products, including direct livestock subsidies and production grants received, part of the valuation change, produce consumed in the farmhouse and by labour, and the value of milk and milk products fed on the farm (excluding direct suckling), adjusted for debtors at the beginning and end of the year (except for direct livestock subsidies), as well as transfers between enterprises; However, changes in the value of production grants received, produce consumed in the farmhouse and by labour, and the value of produce consumed Livestock

enterprise output is computed using an accounting year, in contrast to crop enterprise output (Farm Survey, 2016).

The value of production from those activities that still come within the agricultural cost centre but do not fall under the livestock or crop enterprise output is covered by the term "miscellaneous output." These will consist of wayleave income, agricultural hire income, various woodland sales, contract farming rent, various insurance receipts, and compensation payments. Total Farm Output is total crop enterprise output plus adjustment for output from previous year's crops plus total livestock enterprise output plus output from home grown fodder crops plus output from tillage's and forage plus output from non-agricultural diversified activities plus miscellaneous revenue plus single payment (Farm Survey, 2016).

2.1.3 The Role of Deposit money banks in Agricultural Financing

Pooling of Savings

Deposit money banks perform this very important function to all sector of the economy by making available the facilities for the pooling of savings through the acceptance of deposits from the public and then making these funds available for economically and socially desirable purpose. In many villages deposits are received from farmers through saving account on which the banks pay small interest to the depositors. These depositors are allowed to draw their money upon presentation of their savings account passbooks (Adeyinka, Daniel & Olukotun, 2015). The use of fixed or time deposit accounts by farmers has also improved the saving habit of the farmers likewise the use of cheque books (through the current account) to settle their obligating without necessarily holding cash is made possible. b. Extension of Credit Extension of credit facilities by deposit money banks is very important to the economy, most importantly, the agricultural sector, for it makes possible the

financing of the agricultural, commercial and industrial activities of the nation. Indirect or found-about production as against direct production where consumable goods are secured by the direct application of labour to land or natural wealth is made possible through the extension of these credit facilities. Also, bank credits make possible production for inventory (Adeyinka, Daniel & Olukotun , 2015). For instance, in the food industry, if Nigeria cannot consume all the food that is harvested and processed immediately bank credits to carriers would enable them to purchase, process and store the food which may at a late time be sold to retailers and ultimately to consumers. You discover therefore that the bank credits have made possible the economic handling on the food crop during this interval of time i.e. from producers to carrier, to wholesaler, to retailers and finally to consumer (Agunuwa, Inaya & Proso 2015).

2.1.4 Problems of Deposit Money Banks on Agricultural Financing

Agricultural sector has not been booming because it has not been properly financed by deposit money banks. This arises as a result of the fact that deposit money banks are faced with some problems such as; Inadequate financial resources at the disposal of the deposit money banks and limited resources of branch network and skilled manpower at the disposal of banks to monitor and control lending in the agricultural sector. Even though some banks are ready to grant out loan to agricultural sectors (i.e. farmers) of the economy but the effort of the entrepreneurs were directed to industrialization where there is better attraction of high return on investment and high payback period. Lack of management skills and trained manpower in the sector. This may lead to wrong selection of enterprises. At times, farmers ventures into the area of production in which they have no knowledge and they may refuse to employ the right caliber of staff to manage the venture for them. These are what the bank

will consider before giving out loan so that they won't run into the risk of irrecoverable debt.

Risk of diversion of funds for other purposes which results to high bad and doubtful debts. In this case, even though, if bank grant credit or loan, the bank will monitor the end-use of the loan. Risk and uncertainty of agricultural product. Agricultural output cannot be accessed with 100% certainty because some products are seasonal in nature. Also at times, climate and weather imbalances may affect an agricultural product. This make banks to give loans to industries more than agricultural sector.

Inadequate banks in the rural area are another point that affects the financing of agricultural sector. This is because most farmers are rural base and as a result of this, they won't be able think of requesting for loan that can make them to buy equipment and cultivate on large scale. High interest rates of banks make many farmers to run-away for bank loans and advances (Athanasius, 2017).

Subsistence Farming Subsistence farming is a form of production in which nearly all crops or livestock are raised to sustain the farm family, and rarely producing surpluses farming, which includes shifting cultivation, slash and burn, and pastoral nomadic farming is mainly practiced in marginal areas. In contrast, intensive subsistence agriculture, which is the subject of this paper, is practiced in high potential arable land where land is scarce and the farmers have to maximize food production on relatively small fields. This type of farming exhibits a high degree of diversification (mixed crop-livestock systems). Intercropping and limited use of modern technologies and purchased agricultural inputs. Intensive subsistence agriculture is widespread in many less developed countries where over 80% of their rural population is engaged in this type of farming. Intensive subsistence agriculture contributes substantially to economics of these countries and in alleviating food insecurity (Athanasius, 2017). It has high potential for increased growth if given the

necessarily support. Despite this high dependence on subsistence agriculture, the farmers are faced with several challenges which unless addressed will continue to drag behind the economic development of these countries. This paper not only reviews the characteristics and impacts of intensive subsistence agriculture but also the challenges and possible interventions to these challenges (Chinasa & Making, 2013)

2.1.5 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.

- a. **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.
- b. **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.

- c. **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.

- d. **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.
- e. **Credit Availability:** The recognition of the role of credit facility to agricultural development prompted government to establish the Nigerian. Agriculture Development Bank with its head quarters in Kaduna. The bank gives loans directly to individual farmers, organizations and established institutions. Other credits are made available for agricultural development by deposit money bank

credit guidance directives and Federal Government Agriculture Credit Guarantee Scheme.

- f. **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).

2.2 Theoretical Review

2.2.1 The Demand-Following Theory

The idea holds that as the economy expands, there is a corresponding increase in demand for financial services, "which leads to a supply response in the growth of the financial system" (Patrick 1966). According to the hypothesis, financial and economic progress follow one another. Investors and savers are driven by high economic growth to want modern financial institutions' services, assets, liabilities, and arrangements. In this instance, the widespread and comprehensive process of economic development is continuing to have an impact on how the financial system is evolving. The increase in real output, commercialization, and monetization of agriculture, as well as other traditional substance sectors, determines the amount of demand for financial services (Patrick 1966). Real national income grows more quickly, which encourages businesses to seek out external financing more frequently since it becomes more challenging for them to fund expansion plans with internally generated income.

The financial system will also have a bigger responsibility to carry out the role of financial intermediation by diverting savings from slow-growing industries and

businesses to fast growing industries and companies as the disparities in growth rates across the various economic sectors increase. The system will be able to support and maintain the leading industries as they experience expansion in this way. The demand-following financial hypothesis makes the assumption that, to the extent that the number and variety of financial institution types sufficiently increase and are diverse, there is a high elasticity in the supply of entrepreneurship in the financial services relative to growing opportunities for profit from provision of financial services. Additionally, it is believed that a favourable legal, institutional, and economic environment exists.

2.2.2 Commercial Loan Theory

The theory upon which this study is built is the commercial loan theory. The commercial loan theory also referred to as the Real Bills Doctrine states that a deposit money bank should advance only short term self liquidating productive loans to business firms, self liquidating loans are those loans which are meant to finance the production and movement of goods through the successive stages of production; storage, transportation and distributions. When such goods are ultimately sold, the loans are considered to liquidate themselves automatically, (Jhingan, 2009). Under this theory, the ideal assets of commercial banks should consist of short term business loans made to business firms for the management of their working capital. When a bank finances the working capital of a firm, it expects funds for repayment to come from the management of working capital itself (Mbat, 2001).

The theory posits believe that when commercial banks make only short term liquidating productive loans, the central bank, in turn, should lend to the banks only on the security of such short term loans. This principle would ensure the proper degree of liquidity for each bank and the proper money supply for the

whole economy. The Central Bank is expected to increase or diminish bank reserves by re<discounting approved loans when business expand and the need to trade increase, banks are able to acquire additional reserve by re<discounting bills with the Central Bank when business fall and the need for trade declines, the volume of rediscounting of bills would fall, the supply of bank reserves and the amount of bank credit and money would also contract.

Considering this theory as it relates to the agricultural sector, Commercial Banks are expected to grant short term self liquidating loans to farmers for financing their working capital needs. There loans are expected to be used basically for farming activities and the loan repayment should come from the farm proceed.

2.3 Empirical Review

In their article Udoka, Mbat and Duke (2016) discuss how loan from commercial banks affects Nigerian agriculture. The primary focus of the study is how loans from commercial banks affect Nigeria's agricultural output. The mentioned equation was estimated using the ordinary least squares regression method. The conclusion reached based on the results collected is that the agricultural loan guarantee plan fund and agricultural productivity in Nigeria have a positive and significant association.

Ogbuabor and Nwosu (2017) examine the impact of deposit money bank agricultural credit on agricultural productivity in Nigeria using an error correction model and annual time series data for the period 1981-2014. The findings show that the variables have an equilibrium relationship. Additionally, we discover that agricultural loan from deposit money banks has beneficial and considerable long-term effects on agricultural productivity, but this impact is quite little in the short-term. They also discover that agricultural land and labour force have detrimental

long- and short-term effects on agricultural output. But throughout, the influence of climate change factors, such as annual rainfall and average temperature, remained minimal. The paper supports policies that will make it easier for farmers to access land for agricultural use, expand and sustain the availability of bank credits for the agricultural sector at cheap interest rates, and mechanize the agricultural system to appeal to the youth population.

Oyelade (2019) investigates the impact of deposit money bankcredits on agricultural output in Nigeria over the period 1980 to 2015 by setting three specific objectives which are to examine the trend of deposit money bankcredit and agricultural output in Nigeria; to investigate the effect of deposit money bankcredit on agricultural output in Nigeria and to investigate the effect of deposit money bankcredit on subsector of agriculture in Nigeria. This work is distinctive and distinct from other research in this field due to the trend analysis and the effect of deposit money bankcredit on the subsector of agriculture in Nigeria. The first goal was accomplished using trend analysis, while the second and third goals were accomplished using fully modified ordinary least square (OLS). Methodology. The Fully Modified Ordinary Least Squares (FMOLS) technique was used in the investigation. The results showed that interest rates on agricultural loans from commercial banks and the assets of deposit money institutions are statistically significant in determining agricultural output in Nigeria throughout the studied period. Additionally, deposit money bankloans for agriculture and deposit money bank assets, deposit money bankloans for agriculture and interest rates on commercial banks' credit to agriculture, deposit money bankloans for agriculture and interest rates on commercial banks' credit to agriculture, as well as deposit money bankloans for agriculture and interbank lending, determine the output of crop production in Nigeria.

In Nigeria, Ebere, Oresanwo, Omogboye, and Timothy (2021) investigate the viability of agricultural output through agricultural credit. Between 1981 and 2019, secondary data from the Statistical Bulletin of the Central Bank of Nigeria were used. The study's goal was examined using cointegration, DOLS, and Granger Causality. Furthermore, the study's findings revealed that Nigeria's agricultural productivity is significantly enhanced by credit provided to the sector. The direct relationship between agricultural spending and agricultural output in Nigeria, however, is minimal. Additionally, there is a unidirectional causal relationship linking agricultural credit and agricultural expenditure. The relationship between agricultural output and agricultural spending in Nigeria also has a one-way feedback effect.

The study is the first empirical investigation that evaluates the viability of agricultural credit in Nigeria. Because the agricultural sector has the potential to sustain agricultural output, food security and the eradication of hunger in the nation would be assured, policymakers in the nation are recommended to be devoted to financing it. Additionally, the national budget's allotment to Nigeria's agricultural sector needs to be increased.

Onuegbu, Ikeora and Ogini (2022) examine the effect of deposit money bank credit on agricultural output in Nigeria. The data were examined using econometric methods, including the Ordinary Least Squares and Augmented Dickey Fuller Tests for Unit Roots (OLS). The analysis shows that whereas bank loans, government investment, and the Agricultural Credit Guarantee Scheme Fund all have positive and large effects on agricultural output, interest rates have a negative and tiny impact. As a result, the study concludes that deposit money bank credit has a positive effect on agricultural output in Nigeria and has raised agricultural production in Nigeria throughout the study. According to the analysis, strengthening the

agricultural loan guarantee program through genuine financial support will dramatically increase its capital base. To make agricultural finance appealing to commercial banks, the Agricultural Credit Guarantee Scheme (ACGS) should enhance its credit guarantee requirements. A portion of the losses made by deposit money banks due to their exposure to the agriculture sector should be covered by the Central Bank of Nigeria.

Adewale, Lawal, Aberu and Toriola (2022) examine the effect of farmers credit on agricultural productivity from 1981 to 2016 using data from World Bank Development Index (WDI). Agricultural bank loans significantly increase agricultural output, according to the results of the Ordinary Least Squares (OLS) estimation ($=0.667173$, $t=5.961095$ and $P<0.05$).

The bank lending rate ($=1.094792$, $t=1.295874$ and $P>0.05$) and the foreign exchange rate ($=0.124297$, $t=0.437929$ and $P>0.05$) have no discernible effects on agricultural output. It was argued that bank loans significantly increase Nigeria's agricultural productivity. It was suggested that the government encourage savings and bank credit to farmers.

A thorough analysis of the various theoretical and empirical literatures demonstrates that banks' lending to the agricultural sector is essential for increased production performance, which boosts economic growth in Nigeria.

2.4 Research Gap

Despite the importance of Deposit Money Banks in providing financial services to the Agricultural Sector in Nigeria, there is a lack of empirical research on the specific roles of Deposit Money Banks in promoting agricultural development in Nigeria. Previous studies have focused on the general role of financial institutions in

agricultural development, but there is a need for more specific research on the roles of Deposit Money Banks in this area.

This study aims to fill this research gap by examining the specific roles of Deposit Money Banks in promoting agricultural development in Nigeria, with a focus on the financial services provided by Zenith Bank Plc to farmers and agricultural businesses in Nigeria.

CHAPTER THREE

3.0 Research Methodology

3.1 Introduction

The survey study employs questionnaire as instrument of data collection. The questionnaires were administered among of all the Agric desk officers of deposit money banks in Abuja and agricultural loan applicants using both purposive and convenient sampling techniques. The study was conducted in Federal capital Territory Abuja, Nigerian. In view of the foregoing, the sample size for the study is 195 respondents comprising 3 Agricultural desk officer of the deposit money banks in FCT Abuja and 200 agricultural loan applicants. The participants were selected using through Multistage Cluster Sampling technique. Zenith Bank is used as as the case study for deposit money banks.

3.2 Research Design

Ex-post facto research design is adopted for the study. This is because the data are secondary data that already exist in the financial publications of the Central Bank of Nigeria and that of other financial institutions which are verifiable and authoritative

Model Specification

The model used for the study was adopted from the work of Agunuwa, Inaya, and Proso, (2015),

who examined the impact of deposit money banks credit on agricultural productivity in Nigeria (1980 - 2013). The model is stated thus:

$$AGO = f (CAS, CPS, LE)$$

Where:

AGO = Agricultural Output

CAS = Credit to Agricultural Sector

GSA = Government Spending on Agricultural Sector

β_0 = Constant

The Model was modified as follows.

$AGO = f(CAS, GSA, ACGS, INTR)$

Where:

AGO = Agricultural output

CAS = Credit to Agricultural Sector

GSA = Government Spending on Agricultural Sector

ACGS= Agricultural Credit Guarantee Scheme Fund on Agricultural Sector

INTR = Interest Rate

$AGO = \beta_0 + \beta_1 CAS + \beta_2 GSA + \beta_3 ACGS + \beta_4 INTR + \mu$ --- -1

β_0 and μ are the constant and error term respectively while β_1 , β_2 and β_3 are the coefficient of,

agricultural output, credit to agricultural sector, government spending on agricultural sector,

agricultural credit guarantee scheme fund on agricultural sector and interest rate on agricultural output

Method of Analyses

The data was analyzed with econometric techniques involving descriptive statistics, Augmented

Dicker Fuller and Philip Perron tests for unit roots, Johansson technique for cointegration test for long run relationship, Granger Causality Test and the ordinary least square.

The design that will be used for this study is the ex < post facto research design. This design has been adjudged appropriate as the events under study have already taken place. The researchers have no control over the variables under study simply because they have already been manipulated before they were applied in this study. Unlike the experimental design, statistical techniques will be applied in the treatment of the events under study.

RESPONSE AND DISCUSSION OF RESULTS

Table 1: Mean Response on Impact of Agricultural Loan on agricultural Output

S/N	Items	Mean	Standard Deviation
1	Agric loan has increase my productivity	0.88	0.33
2	Timely disbursement of loan has increased my output	0.72	0.45
3	Volume of loan has increased my output	0.94	0.22
4	Low interest rate on Agric loan has increase my output	0.88	0.33
5	Loan duration has positively impacted my output	0.74	0.44
	Total Mean	0.83	

Table 1 Shows that respondents agreed with all the items with the mean values ranging from 0.72 to 0.94. While, the total mean is 0.83 indicated that the respondent agreed that the

agricultural loan by deposit money banks has positive impacts on agricultural output in Nigeria.

3.3 Population of the Study

The population of this study comprises of the Agricultural desk officer of Zenith Bank Plc, which Emphasis was placed on staff knowledge and information concerning the subject of the study.

3.4 Sample Size and Sampling Techniques

The sample size for the study is 195 respondents comprising 3 Agricultural desk officer of the deposit money banks in FCT Abuja and 200 agricultural loan applicants. The participants were selected using through Multistage Cluster Sampling technique. Zenith Bank is used as the case study for deposit money banks.

3.5 Methods of Data Collection

The method of data collection is the secondary method. The questionnaires were administered by the researcher to the Agricultural loan applicant through the Agricultural desk officers of the selected deposit money bank. This was done to make sure that the respondents are actually the respondent's banks customers. The research questionnaire on the effect of deposit money banks' loans on agricultural output in Nigeria was addressed to the applicants for agricultural loans.

CHAPTER FOUR

4.0 Data Presentation, Analysis and Interpretation

4.1 Data Presentation

The result on revealed that at level, under the “intercept only”, agricultural output, credit to agricultural sector, government spending on agricultural sector, agricultural credit guarantee scheme fund on agricultural sector and interest rate were stationary at 5% level [1(0)] From the analyses of stationarity of the variables, it was seen that the variables have stationarity of level. The Ordinary Least Squire Method which is capable of handling stationary at level I(0) is the most suitable tool of analyses

Table 1: Summary of the Unit Root Result

Variables	At Level 1(0)	At First Difference 1(1)	At Second Difference	Order of Integration	Probability
AGO	-4.526315			1(0)	0.0039
CAS	-3.839292			1(0)	0.0112
GSA	-4.595801			1(0)	0.0016
ACGS	-5.814004			1(0)	0.0022
INTR	-4.340303			1(0)	0.0048

Source: E-View 9.0

DEMOGRAPHICAL PRESENTATION OF THE STUDY

TABLE 1: GENDER DISTRIBUTION OF RESPONDENTS

Gender	Frequency	Percentage (%)
Male	27	51.9%
Female	25	48..1%
TOTAL	52	100%

Source: Field survey 2025

The table above shows that 27 respondents representing 51.9% are male while 25 respondents representing 48.1% are female. This shows that we have more male respondents than female since it has the highest frequency.

TABLE 2: AGE DISTRIBUTION OF RESPONDENTS

Age category	Frequency	Percentage (%)
20-25	10	19.2%
25-30	30	57.7%
31- above	12	23.1%
TOTAL	52	100%

Source: Field survey 2025

From the table above, 10 respondents representing 19.2% is between 20 to 25 years, 30 respondents representing 57.7% is between 25 to 30 years. 12 respondents representing 23.1% is between 31 and above years. This shows that most of the respondents are between 25 and above years, since it has the highest frequency.

TABLE 3: MARITAL STATUS OF RESPONDENTS

Marital	Frequency	Percentage (%)
Single	30	57.7%
Married	20	38.5%
Divorced	2	3.8%
TOTAL	52	100%

Source: Field survey 2025

From the above table, 30 (57.7%) respondents are single, 20 (38.5%) respondents are married and 2 (3.8%) are divorced. This means that most of the respondents are single.

4.1.1 Data Presentation of Core Research Questions

RESEARCH QUESTION ONE: WHAT IS THE RELATIONSHIP BETWEEN DEPOSIT MONEY BANKS CREDIT ON THE GROWTH OF AGRICULTURAL SECTORS IN NIGERIA?

To answer this research questions, table 4 and table 5 shall be used.

TABLE 4: DOES YOUR AGRICULTURAL BUSINESS HAVE A BANK ACCOUNT WITH A DEPOSIT MONEY BANK?

Responses	Frequency	Percentage (%)
Yes	52	100%
No	0	0%
Total	100	100.0%

Source: Field survey 2025

From the table above, all 52 (100%) respondents agree that their agricultural business have a bank account with a deposit money bank.

TABLE 5: HAVE YOU EVER APPLIED FOR A LOAN FROM A DEPOSIT MONEY BANK FOR YOUR AGRICULTURAL BUSINESS?

Responses	Frequency	Percentage (%)
YES	35	67.3%
NO	5	9.6%
NOT ALWAYS	12	23.1%
TOTAL	100	100%

Source: Field survey 2025

The table above shows that, Most 35 (67.3%) of the respondents says they have applied for a loan from a deposit money bank for agricultural business purpose, 2 (9.6%) of the respondents says they do not apply for a loan from a deposit money bank for agricultural business purpose and 12 (23.1%) of the respondents says that they do not always apply for a loan from a deposit money bank for agricultural business purpose

RESEARCH QUESTION TWO: HOW IS THE RELATIONSHIP BETWEEN DEPOSIT MONEY BANKS LENDING RATE AND THE OUTPUT OF THE AGRICULTURAL SECTOR IN NIGERIA?

To answer this research question two, table 6 shall be used.

TABLE 6: DO YOU THINK THE INTEREST RATES ON AGRICULTURAL LOANS FROM DEPOSIT MONEY BANKS ARE REASONABLE?

Responses	Frequency	Percentage (%)
YES	52	100%
NO	0	0%
Total	52	100%

Source: Field survey 2025

From the above table, all 52(100%) respondents agree that the interest rates on agricultural loans from deposit money banks are reasonable.

TABLE 7: ARE YOU SATISFIED WITH THE SERVICES PROVIDED BY DEPOSIT MONEY BANKS TO THE AGRICULTURAL SECTOR?

Responses	Frequency	Percentage (%)
Yes	46	88.5%
No	6	11.5%
Total	52	100%

Source: Field survey 2025

From the table above, most 46 (88.5%) respondents agree yes they are satisfied with the services provided by deposit money banks to the agricultural sector while 6 (11.5%) of the respondent disagree that they are not satisfied with the services provided by deposit money banks to the agricultural sector.

RESEARCH THREE: WHAT IS THE RELATIONSHIP BETWEEN THE AGRICULTURAL GUARANTEE SCHEME FUND AND THE OUTPUT OF THE AGRICULTURAL SECTOR IN NIGERIA

To answer this research question 3, table 7 and tale 8 shall be used.

TABLE 7: DO YOU THINK DEPOSIT MONEY BANKS HAVE CONTRIBUTED TO THE GROWTTH OF THE AGRICULTURAL SECTOR IN NIGERIA?

Responses	Frequency	Percentage (%)
Yes	46	88.5%
No	6	11.5%
Total	52	100%

Source: Field survey 2025

From the table above, most 46 (88.5%) respondents agree that deposit money banks have contributed to the growth of agricultural sector in Nigeria while 6 (11.5%) of the respondent disagree with the fact that deposit money banks do not contribute to the growth of agricultural sector in Nigeria.

TABLE 8: HAVE YOU BENEFITED FROM ANY AGRICULTURAL LOAN SCHEME OFFERED BY A DEPOSIT MONEY BANK?

Responses	Frequency	Percentage (%)
Great extent	46	88.5%
Low extent	6	11.5%
TOTAL	52	100%

Source: Field survey 2025

From the table above, Most 46 (85%) of the respondent agree that they have benefited from any agricultural scheme offered by a deposit money bank while 6 (11.5%) respondents says that they have not benefited from any agricultural scheme offered by a deposit money bank.

TABLE 9: WAS YOUR LOAN APPLICATION APPROVED?

Variable	Respondents	Percentage
Yes	40	78%
No	12	22%
Total	52	100%

Source: Questionnaire Administered 2025

The above table shows that 40 respondents representing 78% agrees that their loan application was approved while the remaining 12 respondents representing 22% disagree that their loan application was not approved.

TABLE 10: DO YOU THINK DEPOSIT MONEY BANKS PRIORITIZE AGRICULTURAL FINANCING IN THEIR LENDING PORTFOLIO?

Variable	Respondents	Percentage
Yes	-	-
No	52	100%
Total	52	100%

Source: Questionnaire Administered 2025

The indication of 52 respondents representing 100% are on the opinion that deposit money banks in Nigeria do not prioritize agricultural financing in their lending portfolio.

4.2 DATA ANALYSIS

The Ordinary Least Square Regressions

In this section, we provide the benchmark test of the significance of the independent variables in

explaining the effect of commercial bank credit on agricultural sector in Nigeria

Dependent Variable: AGO

Method: Least Squares

Date: 02/24/22 Time: 12:07

Sample: 1988 2021

Included observations: 32

Error	t-Statistic	Prob.		Variable Coefficient	Std.
C	15.73210	5.435635	2.543973	0.0031	
CAS	3.668951	0.991508	2.683245	0.0012	
GSA	1.342700	0.099069	2.339468	0.0521	
ACGS	2.145270	0.695746	2.208798	0.0312	
INTR	-0.537317	-0.785673	-1.274907	0.64235	
R-squared		0.749033	Mean dependent var	6.897917	
Adjusted R-squared		0.7108550	S.D. dependent var	1.094669	
S.E. of regression		0.601022	Akaike info criterion	2.096940	
Sum squared resid		4.334733	Schwarz criterion	2.444891	
Log likelihood		-12.92093	F-statistic	7.951898	
Durbin-Watson stat		1.668708	Prob(F-statistic)	0.001265	

Source: E-View Software 9.0

Unit Root

The variables were tested for stationarity. The test aimed to understand the state at which the variables can be held stable for regression analyses. This test becomes pertinent because time series variables are often prone to non-stationarity which is capable of distorting the reliability of regression results. The variables used in the analysis were subjected to Augmented Dickey Fuller (ADF) Tests for Unit Root, to determine whether they are stationary series or non-stationary series. The variables were tested for stationarity at “intercept only” and at “intercept and trend”. The null hypothesis that is tested in both Unit Root Tests is the presence of Unit Root.

4.3 DATA INTERPRETATION

From the above regression coefficients, we can express the model as follows:

$AGO = 15.73210, CAS = 3.668951, GSA = 1.342700, ACGS = 2.14547, INTR - 0.537317I + u$ From the results of the OLS, it is obvious that the constant parameter (B_0) is positive at +15.73210. This means that if all the independent variables are held constant, AGO as a dependent variable will grow by 15.73210 units in annual-wide basis.

Credit to Agricultural Sector: For credit to agricultural sector, the coefficient of (CAS) is +3.668951 with t-Statistic of 2.683245 and prob. Value of 0.0012 which means that t credit to agricultural sector has positive and significant effect on Agricultural output, a unit increase in credit to agricultural sector (CAS) will cause Agricultural output (AGO) to increase by 3.668951 units.

Government Spending on Agricultural Sector: For Government Spending on Agricultural Sector, the coefficient of (GSA) is +1.342700 with t-Statistic of 2.339468 and prob. Value of 0.0521 which means that government spending on agricultural sector has positive and significant effect on Agricultural output, a unit increase in Government Spending on Agricultural Sector (GSA) will cause Agricultural output (AGO) to increase by 1.342700 units.

Agricultural Credit Guarantee Scheme Fund: For Agricultural Credit Guarantee Scheme Fund, the coefficient of (ACGS) is + 2.145270 with t-Statistic of 2.208798 and prob. Value of 0.0312 which means that t Agricultural Credit Guarantee Scheme Fund has positive and significant effect on Agricultural output, a unit increase in Agricultural Credit Guarantee Scheme Fund (GSA) will cause Agricultural output (AGO) to increase by 2.145270 units.

Interest Rate: For interest rate, the coefficient of (INTR) is -0.537317 with t-Statistic of -1.274907 and prob. Value of 0.64235 which means that interest rate has negative and insignificant effect on Agricultural output, a unit increase in interest rate (INTR) will cause Agricultural output (AGO) to decrease by -0.537317 units

Finally, the Adjusted R-squared is 0.7108550. This means that 71% of total variation in Agricultural output, (AGO) can be explained by changes in the values of the independent variables while the remaining 29% is due to other stochastic variables outside the model.

CHAPTER FIVE

5.0 Summary, Conclusion and Recommendations

5.1 Summary

There are growing literature on the effort of the Apex Bank of Nigeria over the years in promoting the agricultural sector on deliberate policies including provision of agricultural credits to small, medium scale famers. However, there is perceived shortage of food and other agricultural produce which has led to unstable price in the domestic market and has adversely caused hardship in Nigerian economy. The study was motivated to assess the impact of agricultural credits in cash crops, food crop and livestock on the Nigeria economic growth. This motivates the desire to examine the impact of agricultural loan applicant access to credit from deposit money banks on agricultural output in FCT Abuja, Nigeria. Primary data were collected with the aid of questionnaires that were administered in FCT-Abuja. The study employed descriptive and logit regression to empirically determine the impact of agricultural loan applicant access to credit on agricultural output in Nigeria. The result of findings that a positive significant correlation exists between agricultural loan applicant access to credit and agricultural output in Nigeria. Thus, in light of the result analysis the study has been able to established based on the research question and objective of the study that agricultural loan applicant access to credit have significant impact on agricultural output in Nigeria. Thus, in contribution to knowledge in line with the demand- following theory, the study has been able to establish that the growth of the economy driven by the growth of the various sector such as the agricultural sector generates additional and new demand for financial services, which further drives economic growth. Thus, it is suggested that rapid economic growth (farm output) generates a need for contemporary financial institutions' services, assets, liabilities, and arrangements to support the expansion of a variety of economic sectors.

5.2 Conclusion

The study shows that bank credit on agricultural output, government spending on agricultural sector and Agricultural Credit Guarantee Scheme Fund has positive and significant effect on agricultural output while interest rate has negative and insignificant effect on agricultural output

The study therefore, concludes that commercial bank credit have positive effect on agricultural output in Nigeria and has achieved agricultural production in Nigeria within the period under review

5.3 Recommendations

In the light of the above findings the study made the following recommendations

- ❖ Government should strengthen the Agricultural Credit Guarantee Scheme by meaningful budgetary allocation in order to enhance its capital base significantly.
- ❖ The Agricultural Credit Guarantee Scheme (ACGS) should improve on their conditions for credit guarantee in order to make agricultural financing attractive to deposit money banks.
- ❖ Government should subsidize loan to the agricultural sector
- ❖ Government should formulate policies that will encourage the banks to give loans to farmers at a concessionary interest rate.
- ❖ Agricultural extension services should be provided to farmers so as to keep abreast of modern techniques in farming (proper use of pesticides, fertilizers, genetically improved seedlings, amongst others). These extension services should be provided by private firms contracted by the government and they should be paid based on services rendered

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