

Agricultural Funding and Challenges of Deposit Money Banks in Nigeria

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Abstract

The study examined agricultural funding and challenges of money deposit banks in Nigeria using secondary data collected from Central Bank of Nigeria and National Bureau of Statistics reports. Data were analyzed using line graphs. Results showed that money deposit banks funding of agricultural sector was the least compared to other sectors of the economy from 1984 to 2009. The banks being profit oriented do not have the capacity to fund agriculture in Nigeria due to the concessionary interest rates of the Central Bank of Nigeria. More so, portfolio prescription policy of CBN constrained the ability of money deposit banks to maximize returns on their investment in agriculture. Similarly, money deposit banks were faced by so many challenges in their course of funding agriculture. Such challenges include: financial resources, economic, human resources, environmental, and political challenges, all these act and react with one another to incapacitate money deposit banks from funding agriculture more than other sectors of the economy. Recommendations include a regulatory and legal policy reforms to empower corporate investors and other institutional investors to provide sustainable sources of long-term fund for the agriculture sector. The CBN should consider an intensive performance rating for all money deposit banks to determine their effectiveness in agricultural funding and also relevant agencies that are charged with protecting the environment from soil degradation and pollutions of varied kinds to take more proactive measures in sustaining the environment to encourage agricultural funding and food security in Nigeria.

Keywords: Concessionary portfolio; Funding; Challenges; Investment; Commercial banks; Resources; Nigeria

Introduction

Nigeria is an agrarian country with over 70 percent of her over 140 million people engaged in agricultural production [1] and provides subsistence for two-thirds of Nigerians who are low income earners [2], while the northern part can guarantee the production of cereals and legumes, the middle belt and the south potentials for the production of root and tuber crops, palm produce and other tree crops including plantains as well as maize crops [3]. In addition to crops, the country is also involved in the production of livestock, fisheries, forestry and wildlife. Nigeria is generally endowed with abundant natural resources numerous all-season rivers and a favorable tropical climate. Rainfall is generally adequate and fairly well distributed throughout the country, except in the event of climate change [4]. Out of the 98.321 million hectares of land available in Nigeria, about 75.30% may be regarded as arable land, which 10% is under forest reserves and the remaining 14.70% is assumed to be made up of permanent pastures, built up areas and uncultivable waste [5]. In the light of the foregoing, agriculture is still a major sector as well as remains the corner stone of the Nigeria economy [6].

The 1962-1968 development plans was Nigeria's first national plan. Among several objectives, it emphasized the introduction of more modern agricultural methods through farm settlement scheme, cooperative plantations, supply of improved farm implements and a greatly expanded agricultural extension services. During this periods government intervention in agriculture was minimal. The small scale farmers in Nigeria bore the brunt of agricultural development efforts [7]. Some of the specialized development schemes initiated or implemented during this period, included farm settlement schemes; and National Accelerated Food Production Programme (NAFPP), launched in 1972. Others are Operation Feed the Nation (OFN) launched in 1976; Green Revolution programme of 1980; and the World Bank funded agricultural development project (ADP). Each of these programme sought to improve food production as a result of the abundant natural resources of Nigeria as evidenced in the claims of Buwai 1998, who asserted that

Nigeria is endowed with abundant natural resources which include 30.2 million hectares of arable land, 12 m hectares of fresh water sources covering about 960 km of coastline and significant ecological diversity which enables the country to produce a wide variety of crops, livestock, forestry, and fisheries product, as well as petroleum. Similarly, the years since the early 1960s also witnessed the establishment of Agricultural research institutes and their extension research liaison services (AERLS) of 1963, international Institutes of tropical agriculture (IITA) Ibadan and International Livestock centre for Africa (ILCA).

However, the Nigeria economy during the first decades after independence could be described as an agricultural economy because agriculture served as the engine of growth of the overall economy [8]. In the sub-Saharan Africa, agriculture occupies a prominent position in national economies as the sector serves as the key driver of growth, wealth creation and poverty reduction. It is also the leading economic activity in the continent as it contributes between 20% and 30% of its Gross Domestic Product [9]. From the view point of occupational distribution and contribution to GDP, agriculture was the leading sector. During this period, Nigeria was the world's largest producer of cocoa, largest exporter of palm kernel and largest producer and exporter of palm oil.

According to Somoye [10] stated that the period (1959-1969) marked the establishment of formal money, capital markets and portfolio management in Nigeria. In addition, the company acts of 1968 were established. This period could be said to be the genesis of

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serious banking in Nigeria. With the CBN in operation, the minimum paid-up capital was set at 400,000 naira in 1958 and by January 2001, banking was fully deregulated with the adoption of universal banking system in Nigeria, which merged merchant bank operation to money deposit banks system preparatory towards consolidation programme of 2004. The major aim of the consolidation programme was to step up the capital base of banks consolidated through mergers and takeover of local banks. This also allowed foreign banks to participate in the banking industry by providing additional capitalization through investment infrastructure, in new banking products, operating technologies and buying shares of the existing banks. By this time, the capital base of banks had been raised to twenty five billion naira (₦25B). The banks became more in terms of their ability to generate enough returns to justify the increase in the equity base as well as the resources put at their disposals by their stakeholders. The funding capacity of banks improved significantly as a result of the consolidation

More so, as at 2004, an average bank could only lend about ₦4,371 billion, but by 2006, a typical bank in Nigeria could lend an average of ₦80,788 billion. This represents a growth of 462.13 percent (CBN, 2005). The history of the Nigeria money deposit banks was redefined, post consolidation, which of course witnessed dramatic growth, characterized by the following increase in capitalization, reduction in number of banks from 89 to 24, industry revolutionized with competition, leading to increased product roll out and growth in credit to economy, Nigeria money deposit banks accounting for over 65% of stocks markets capitalization.

According to Sanusi [11], the formal banking system in Nigeria and the continent at large did not have the capacity, skills and resources to single-handedly finance the expected exponential growth in the agricultural sector. In view of this, there was need to evolve strategies to attract long term financing in the form of bonds, debentures and venture capital funds. He further argued that the agricultural sector of the country accounts for only 1.7 percent of total lending of banks even though the sector accounts for over 42 percent of the country's GDP, compared to banks in Kenya and Brazil which contributed 6 and 18%, respectively to agriculture. This may be attributed to the perception of banks that agriculture is a non attractive and profitable sector to deploy shareholders fund to. It is on these premises that the study sets to examine agricultural funding and challenges of money deposit banks in Nigeria.

Overview of Agricultural Funding in Nigeria

The future of the agricultural sector of the nation's economy is faced with several uncertainties such as resource scarcity, heightened risks from climate change, higher energy prices, demand for bio-fuels and most importantly inadequate funding. Funding agriculture in Nigeria entails provision of funds for short term and long term agricultural production. It begins with provision of funds for research on agricultural production to the funding of the packaging, communication and adoption of the findings of such research until consumption. Provision of the required funding is a major factor for achieving any measure of success in agricultural production in Nigeria.

Agriculture in Nigeria has been funded essentially by private savings, governmental allocations, agricultural credit schemes and foreign investments. Few farmers can save enough from their meager earnings to take full advantage of the ever increasing range of improved agricultural technologies [12] or to fund development of new ones. As a result, many farmers are caught in the vicious cycle of poverty. Many farmers in Nigeria are poor because they produce very little output

and hence sell very small amounts, which in turn cannot help them to expand their farms and increase production; this is as a result of their inaccessibility of adequate funds as Sanusi [11] argued that about 90 percent of Nigeria's food requirement is produced by small scale farmers who constitute the majority of the nation's poor. He claimed that a myriad of factors are blamed for this condition, both natural and man-made. Key is lack of access to finance and the resultant inability to invest in basic farming inputs such as seedlings, fertilizers, implements and irrigation. As a result, their yields have remained largely stagnant, leading to pervasive hunger and poverty. Similarly, little or no commercial funding is available to those aspiring to build businesses that could enhance food production and enable farmers to earn sustainable profit. Therefore they need credit, aids, grants or subsidies to supplement personal sources. Essentially, agricultural funding aims at facilitating the flow of funds to farmers to enable them adopt new technologies and farm practices designed to raise productivity and incomes. In other words it aims at insuring that adequate funds are provided to the agricultural sector, on reasonable terms from the main stream of the financial system. This is important since left on its own, the financial system continue to discriminate against agriculture as a risky and unprofitable enterprise. Efforts of the government to ensure that substantial financial resources gets to the farms include the Nigerian Agricultural and Co-operative bank at the national level, the Agricultural credit co-operations at the state levels and the concessional interest rates on agricultural loans [13]. Furthermore the government established the Agricultural Credit Guaranty Scheme Fund in 1978 to substantially reduce the risks involved in lending to agriculture [14].

Agricultural funding creates access to capital for the purpose of farming which payment is to be made at an agreed future time. Essentially, agricultural funding aims at facilitating the flow of credit to farmers to enable them adopt new technologies and farm practices designed to raise their productivity and incomes. Its target is to ensure that adequate funds are provided to the agricultural sector on reasonable terms from the mainstream of the financial system. Left on their own, the financial institutions prefer lending to large scale investment outside the agricultural sector because of their huge profits, prompt returns, shorter gestation periods of enterprise and quick turn over.

Private foreign investment in agriculture has been relatively insignificant in Nigeria [13]. Foreign companies and nationals have made little direct investments in agricultural production and research. However, since the late 1970s, there has been an appreciable inflow of loans, grants and technical assistance from the foreign governments and international financial institutions such as the World Bank Group. One of such foreign financial involvements is the Agricultural Development Projects (ADPs). It is estimated that since inception, nearly N2 billion have been invested in the projects which are basically designed to enhance the productivity of peasant farmers and facilitate their access to basic farm inputs [13].

Nigeria's numerous small holders on the aggregate make substantial investment in addition to relying on informal funding, this has proved inadequate. The basic agricultural funding problems remain poverty amongst peasant smallholders, because of their inability to access credit. This entraps them at low equilibrium level, with factors and inputs beyond their purchasing power, while they are compelled to sell in times of surplus but low prices to meet urgent family needs or enhance their agricultural activities such as storage, transport and processing facilities. The formal institutions would rather finance other sectors because of perception of risks and returns. Realizing this, Nigeria's governments have tried various policies and programmes.

These range from the creation of specialized agencies and institutions for agricultural funding such as the Nigerian Agricultural and Co-operative Bank (NACB) established in 1973 and Agricultural Loans Boards at the various states to enacting policies and programmes to induce the money market especially money deposit banks to fund agriculture. The federal government has also engaged in direct funding of agriculture through budgetary provisions. The role of the state in financial markets remains contentious [15,16]. In Nigeria however, government direct interventions have been less than satisfactory.

Review of Commercial Bank Performance in Agricultural Funding

Until the liberalization of the financial markets as part of the Structural Adjustment Programme in 1986, money deposit banks were induced to fund agriculture through a number of policies. These include *concessionary interest rates, the agricultural credit guarantee scheme, portfolio prescription, and the rural banking scheme*. However, even in the pre-SAP era, most small holder farmers patronized the formal credit market. This has been compounded by the discontinuation of most of those instruments used to induce formal credit to agriculture. Consequently, issues of contemporary relevance to agriculture funding in Nigeria include the distress of money deposit banks and liberalization of the financial system. The reliance on the informal sector is also hampered by segmentation of the credit market with minimal integration of the formal and informal credit markets.

Formal sources

Formal funding for agriculture in Nigeria was through:

1. Government fiscal policies and budgetary allocations including recurrent and capital expenditures, prominent amongst these are subsidy for fertilizer and the supervised credit loans scheme. Fertilizer procurement and distribution is a prominent element in one of governments fiscal policies, recognizing it as a key farm input, government has continued to pursue this policy to ensure its use by farmers. Its supply has been increased virtually annually. For example, between 1989 and 1990, it increased by 33 percent, in 1991 by 14 percent, in 1993, by 15 percent. To increase access by farmers, the numbers of depots were increased and the federal government took up the responsibility of bearing the cost of transportation from domestic plants and seaports to the depots. In addition to allowing states to monitor the delivery from the depots, an allocation formula of 80:20 ratios for allocation of the commodity between local and state governments was introduced in 1994. Subsequently, budgetary allocations to agriculture were substantially increased to accommodate recurrent and capital expenditures. However large budget deficits were recorded. The capital expenditure on agric declined from 6.2 per cent of total capital expenditure by Federal government in 1973 to 4.0 per cent in 1985. The expenditure of state government followed similar pattern for the period under review [7].

2. The Central Bank of Nigeria monetary policies and the guidelines controlling the creation and management of credit in the economy.

3. Commercial and merchant banks implementation of Central Bank guidelines through interest rates, agricultural credit guarantee schemes, rural banking scheme and sectoral prescription.

4. Development and specialized banks and other agencies including the Nigerian Agricultural and Cooperative Bank (NACB), Nigeria Industrial Development Bank (NIDB), Peoples Bank, Community Banks.

The Nigerian Agricultural Insurance Company (NAIC) and the World Bank supported Agricultural Development Programmes (ADP). Nigeria has relied almost extensively on the ADPs for extension purposes. But fund for the ADP's has shrunk considerably [17].

We, however, concentrate on funding from commercial banks, because of their unique position in the financial markets.

Formal credit in the pre-SAP era

In the pre-SAP era, that is before 1987 emphasis was on inducing the banks to finance agriculture. Money deposit banks were particularly pressured. The basis for this was that money deposit banks had substantial funds available to them because of their ability to mobilize savings [18]. The policies and programmes enacted to achieve this by government included.

The rural banking scheme

The rationale for the rural banking schemes stems from the realization of the fact that rural banking would serve the rural agricultural population or what Joshua [19] describes as the submerged majority, who earn their living by working on the land. Money deposit banks were forced to open rural branches. This was to mop-up rural savings while granting credit to rural entrepreneurs, which are mostly agricultural. Olashore (1983) stated that the institution of the rural banking scheme by the Central Bank came after the report of the financial systems review committee in 1977. The goal was to achieve one bank branch in each of Nigeria's 774 Local Government Areas. This goal was met in 1991. Each of these branches served about 127,000 people (Figure 1). The CBN believed in the capacity of the money deposit banks to undertake the programme, by reason of the fact that they outweigh by sheer volume of transaction, all the non-banking financial institutions put together."

Lot [20] lists the objectives of the rural banking scheme as follows:

The mobilization of rural savings;

- The allocation of credit among productive activities;
- The institution of money deposit banks as a back-up for newly introduced government development programmes such as Operation Feed the Nation (OFN);
- The linkage of money markets in these fields, especially in the rural areas with capital markets of the rest of the economy; and
- The efficient allocation of resources among different areas and regions.

The main handicaps were the gulf in objectives between money deposit banks and rural dwellers. Money deposit banks are profit oriented and find the cost of administration of credit facilities to numerous small holders too high. In addition money deposit banks are too bureaucratic for rural dwellers that often have low formal education. Inability to provide security and collateral required by the banks was also a constraint. While Figure 1 shows that many branches were opened in the rural areas under the rural banking scheme, Nwajuba [21] argues that there was little evidence of significant relationship between proximity of rural branches and credit to rural entrepreneurs.

Concessionary interest rates

This was a policy that compelled the banks to lend to agriculture at a rate of interest lower than credit to other sectors of the economy. It in effect amounted to a subsidy on agricultural credit vis-à-vis the cost of

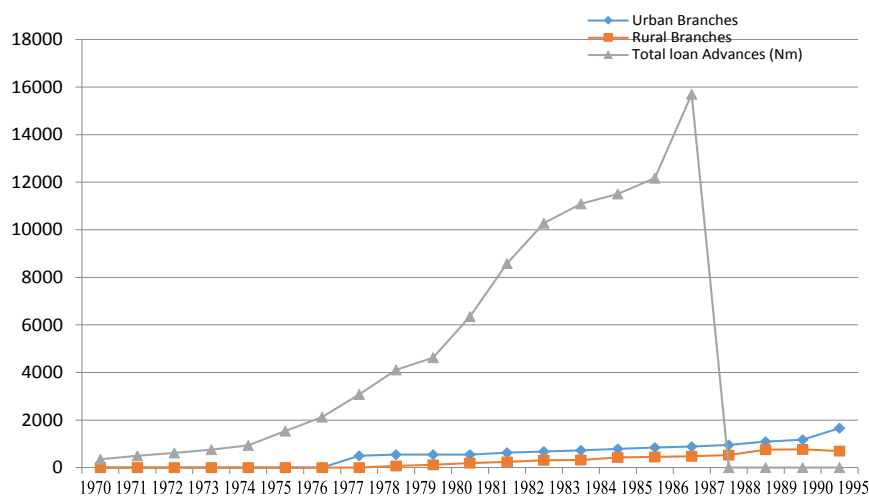


Figure 1: Growth of money deposit banks in Nigeria.

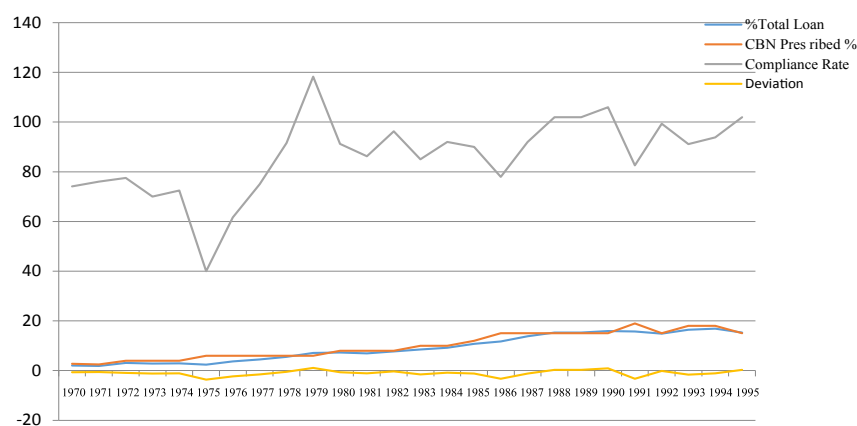


Figure 2: CBN prescribed minimum credit to agriculture by money deposit banks and deviation 1970-1995.

lending to the other sectors of the economy. In an inflationary economy with negative real interest rate, this policy was a penalty on the banks (Figure 2). Agwagom [22] went ahead to study a number of banks and the role of interest rates in their lending's to agriculture and concluded that concessionary interest rates is a disincentive to supply of credit by banks to agriculture. He recommended raising the levels of interest rates for agricultural lending's to the same level as for other sectors of the economy, which is a serious challenge to the money deposit banks and the rural farmers thus the deviations as a way of reducing default rate (Figure 2).

Portfolio prescription

By this policy, the Central Bank under the credit guidelines prescribed the minimum proportion of banks credit to the preferred sectors (agricultural and manufacturing). This ranged from 2.7% in 1970 to 15% in 1995. All money deposit banks were mandated to allocate a minimum of 40 percent of their total loan portfolio to agriculture or be penalized. Virtually all the banks opted to pay the penalty. Performance of this policy was relatively satisfactory but the banks kicked against it for constraining their ability to maximize returns to their investment (Appendix 1).

The direct intervention by government in lending to small-scale

farmers, did not only fail, but it also planted a seed in farmers that government-backed loans are mere grants or "gifts", which are often times diverted to non-farming activities. Traditionally, repayment defaults are very high for almost all of these government-supported efforts. This explains the unwillingness of money deposit banks to finance small-scale farmers because of the poor loan repayment history, despite credit guarantees provided by the government. Currently, agricultural funding in Nigeria only enjoys 1 percent of total commercial bank loans, compared to other developing countries like Kenya and Brazil which reportedly registers 6 percent and 18 percent respectively (Appendix 2).

Materials and Methods

Study area

Nigeria has a population of about 140 million and an area of 923,000 square kilometers. The climate of the area determines the vegetation and by extension the different crops grown in Nigeria. Cereals, legumes, root and tuber, tree crops, among others are grown in the area.

Data sources

Data were collected from Central Bank reports and National Bureau

of Statistics. Other information was obtained from journals, textbooks, newspapers and bulletins of Central Banks among others.

Analytical techniques

Deceptive statistic such as line graphs and percentages were used to analysis the data collected for the study.

Results and Discussions

Figure 1 showed the growth of money deposit banks in Nigeria and their total loan and advances to the agricultural sector of Nigeria.

The graph above refers, despite the increase in loan advances; there is still a significant difference in the number of rural and urban branches, which is an indication of the unwillingness of the money deposit banks in funding agriculture in the country as seen in the rural branch graph lying horizontally with the urban branch graph lying above. The sharp decrease of total loan advance graph from 1987 to 1995 can be attributed to lack of data on loan advances within that period (Figure 2).

Money deposit banks participation and challenges

Soludo [23] placed agriculture ahead of oil and gas to propel growth in the economy. This came just after the conclusion of the first phase of the consolidation programme. He claimed that the banks were well recapitalized to help drive a combination of government incentives and financing strategies. The assumption was that banks were well positioned for real sector funding; however, the weakness of Soludo's view as stated above came with the assertion by Sanusi [9] that the current funding needs of the agricultural sector, was largely due to its peculiarities. Sanusi [11] further asserted that the peculiarities are long gestation periods for agricultural production: the risks and uncertainties from natural causes and the predominance of small scale producers with little asset base and working capital. He further opined that the formal banking system in Nigeria and the continent at large did not have the capacity, skills and resources to single-handedly finance the expected exponential growth in the agriculture sector. In view of these, he said there was need to evolve strategies to attract long term financing in the form of bonds, debentures and venture capital funds. Sanusi [9] argued that the agricultural sector of the country accounts for only 1.7 percent of total lending by banks even though the sector accounts for over 42 percent of the country's GDP, which was attributed to the perception of

banks on agriculture as a non attractive and profitable sector to deploy shareholders fund to. He however, recommended that regulatory and legal reforms be undertaken in order to empower corporate investors such as trusts and insurance companies, pension funds and other institutional investors to provide sustainable long term fund through instruments such as bonds, warrants, leases as well as equity (Figure 3).

From the graph, from 1984-1992 the funding of the agricultural sector was zero compared to other sectors. Similarly, post consolidation from 2004 up to 2009, the average percentage of funds that went to agriculture from the banking sector, was only about 11.49 percent even after the consolidation of banks and strengthening of their initial weak capital base. This is simply attributed to lack of interest by money deposit banks to finance agriculture as a result of their supposedly challenges, and of course the result is evident, following the inability of the sector to meet the basic needs of the Nigerian populace in terms of food security, resulting in a progressive increase in import bills for food and industrial raw materials. This further justifies the assertion by the current minister of Agriculture, Akinwumi Adesina, who stated thus, that Nigeria is now one of the largest food importers in the world. So large is the import, he said, that the country spent 62.8 billion dollars importing food from 2007 and 2010 with one billion naira spent on rice alone per day! So poorly has agriculture been managed that, though the world's largest producer of cassava, Nigeria contributes zero to global value-added in cassava, compared to Thailand, which, with 10 per cent of global production, provides 80 per cent of value-added Punch (Appendix 3).

However, from the graph, between the periods of 2006 and 2009, the bulk of banking sector funds, went to both the quarry and mining, and manufacturing sectors as seen in the upward rising their graphs, respectively from 1993-2009 at the detriment of the agricultural sector as depicted by horizontal nature of its graph. The banks justifies this position by their claim that the funds held in the sector, are short term funds and as such can only be complemented with credit facilities not exceeding a lifecycle of 365 days or 24 months at most, which puts the funding of the agricultural sector at a disadvantage as a result of long gestation periods.

Amongst other challenges confronting the banking sector from full participation in the transformation of the agricultural sector are but not limited to the following;

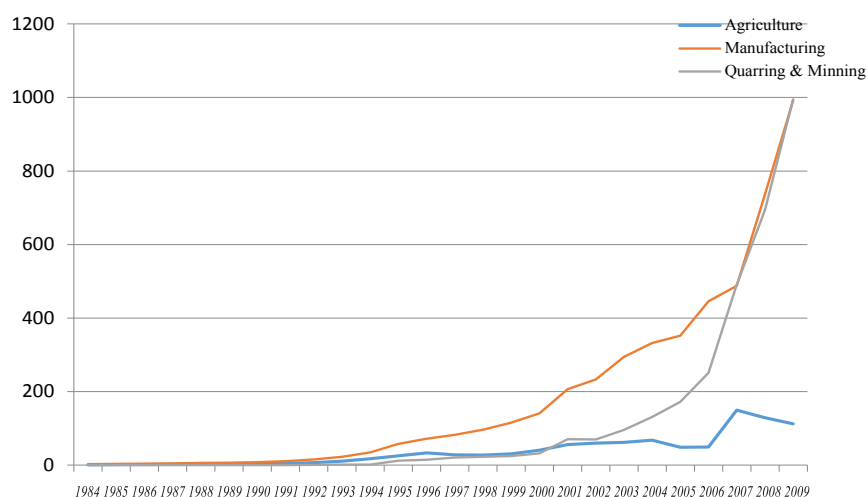


Figure 3: Graph that shows the sector distribution of money deposit banks funds to the major production sectors from 1984-2009.

- Financial resource challenges of the banking sector
- Economic challenges of the banking sector
- Human resource challenges of the banking sector
- Environmental challenges of the banking sector
- Political challenges of the banking sector.

Financial resource challenges of the banking sector

The ability of Banks to generate funds is one of the greatest challenges militating the funding of agriculture by the commercial banks. Nigerian banking sector's greatest challenge is deposit mobilization. Banks can only create risk assets from liability generation. Loans and advances of a bank will never exceed its deposit base, considering that a bulk of the deposit base of banks comes from both banks deposit and public equity funds. This agrees with the claims of Sanusi [11], "that bank deposit liabilities usually constitute the largest component of the liabilities of a bank's balance sheet. A thorough analysis of the types and sizes of deposits mobilized by banking institutions plays an important role in ensuring an effective asset/liability management".

Recent studies have shown that a lot of funds are trapped outside the Nigerian banking system. This funds if recovered could be invested in Agriculture. So much of these funds are in Nigerian homes. So many scholars see this singular action as a result of confidence crises on the banking system by the Nigerian people. Some of the funds trapped outside the system are government funds. A clear indication of this is the 480 million US dollars (about ₦74.4 billion) recovered from the African Finance Corporation, (AFC) which lies idle in JP Morgan Bank in New York, United states of America [24]. Where these funds are warehoused with the banks, by way of placements of ten years or more, this could be invested in the Agricultural sector which has long gestation periods for production, hence the conventional fear of quick recovery by banks would not arise.

Economic challenges of the banking sector

Central bank of Nigeria and the Federal government are major determinants in the nation's economy. High core inflation and lending rates are components of the economic challenges of the commercial banks. Lending rates within the banking system is strongly influenced by the Central Bank prime lending rate (PLR) which is always PLR+3. The implication is that whatever is the Central Bank bench mark rate, the banks add an additional 3 percent to lend and break even. High lending rates discourage borrowing. Agricultural lending/funding cannot benefit properly from a costly loan thereby impede commercial bank funding of agriculture in Nigeria.

The economy is controlled by both monetary and fiscal policies. These are tools used by the CBN to achieve its macroeconomic objectives. While the main objective of the monetary policies is to control the interest and inflation rates, the objective of the fiscal policies is to increase the aggregate output of the economy, by the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The effect of the fiscal policies on the banking sector by way of government spending is that excessive government spending can lead to inflation and the higher the inflation, the higher the interest rate. At high interest rates, the cost of funding Agriculture will be too high, thus making pay back difficult. Hence, banks are confronted by this challenge and find it difficult to fund agriculture. Research also has shown that the most frequently encountered way in which government destroys financial sector confidence is through double digit or higher

rates of inflation [25]. Whenever inflation substantially exceeds the nominal interest rates charged on funds/loans to the sector, it turns the loan portfolio itself into a major cost factor.

Further review reveals that sustainable finance and credit systems, flourish under the conditions of macroeconomic stability. Sound public finances and a stable currency are essential to allow private financial institutions to develop and function. A sustainable macroeconomic frame work is also conducive to attracting foreign direct investment (FDI), which can be an important source of critically needed credit, as well as bringing access to markets, modern management and technology. In the agricultural sector, macroeconomic stability strengthens confidence and predictability for producers and facilitates risk assessment for lenders. In those transition countries where macroeconomic stability has been achieved, the establishment of viable financial markets is the farthest advanced. Distortions in the economy will prevent a market based agricultural credit system from evolving. Where the financial market is slow to develop, agriculture may be at the mercy of the alternative arrangements outside the finance and banking sector, including protracted reliance on the state to provide credit-often with the expectation that such credit will be on preferential terms.

Banking sector reforms and fear of regulatory authorities clamping down on banks for none performing loans and provisioning, is a major factor that will affect direct funding of the sector. In most transition countries, reforms have taken place in the financial and banking sector at the same time. The requirements to introduce sound banking practices, greater commercialization, stronger prudential supervision, and the cleaning up of bad debts, have introduced a reluctance to lend to agriculture. This stems from banks' increased aversion to risk and conservative, cautious approaches to lending. Their tendency to avoid exposure to a single sector and to diversify risk works against any focus on the particular needs of agricultural borrowers.

Human resource challenges of the banking sector

One major constraint militating the funding of the agriculture sector is the incompetence of Human resource managers to source for competent, well knowledgeable and fully equipped agricultural officers and managers to man agricultural desks in the banks. Recent studies have shown that human resources are the life blood of an organization. Despite the application of technology in modern business management, human resources are still relevant and most adaptive resources of the organization. The strategic values of human resource stems from the fact that apart from other resources employed in the course of production (land, capital, technology etc.) which are passive, human resources are endowed with discretionary decision-making power and thus have competitive advantage over the other resources. Besides, human resources combine other resources in the right mix to formulate appropriate strategies for the accomplishment of the desired goals. Various authors Kane; Burton and Nel et al. [26-28] have identified factors which act as barriers to effective human resource. Some of the pertinent issues are: top management has a low priority, and offer a short term view of what the real issues in human resource and the profession are according to various researchers [27,29].

Environmental challenges of the banking sector

Environmental challenges confronting banks in Nigeria, has been a major factor restraining banks from committing funds to the agricultural sector.

Nigeria has a total land area of 983,213 square kilometers of which 773,783 sq kilometers are in the savanna zones and 133,717 sq

kilometers are in the forest zone. Nigerian population is more than 120 million people, yielding an average density of more than 120 persons per sq kilometer. The interaction of these millions of Nigerians with their respective environment has left indelible mark on the landscape. The unwise use of the natural environment due to ignorance, poverty, overpopulation and greed amongst others has led to the degradation of the environment [30]. These unwise use of the natural environment according to NEST [30], has affected agricultural production activities. Money deposit banks over time funded agricultural projects that eventually got submerged by environmental issues.

Agricultural lands/production is exposed to environmental threats which in turn discourages lending/funding. These environmental threats includes but not limited to the following.

Flooding: This is a major environmental challenge hindering Nigerian money deposit banks from fully participating in the Nigeria agricultural sector. Studies have shown that every year, thousands of farm lands are under water having been inundated by floods from heavy rain falls and releases of water from some dams. The implication amongst others is loss of investment. In cases like this, Return on Investment (ROI) is very low; the money deposit banks look at return on asset (ROA). This environmental challenge has reduced the interest of the banking sector to fully participate in the funding of agriculture; the implication is that the value on Nigerian agriculture will continue to dwindle, as claimed by Nasir El-Rufai [31] "that before the devastating flood of 2012, Nigeria's agricultural value was worth about N15 trillion, as against its true potential of N40 trillion. That Nigeria has about 50 million farmers and abundant land and water resources, but out of an estimated 3 million hectares of land that can be irrigated, only about 60,000 hectares is currently irrigated. The implication of the above statistics is that the other hectares of land that could have been irrigated, has been washed away by flood.

A report from the Nigerian Channels TV website on November 9, 2012, revealed that flood in 2012 destroyed over 460,000 hectares of cultivated land, and total crop loss was put at 467,000/hectares, this represents 1.17 percent of total cultivated crop area in Nigeria with an estimated 1.2 million metric tons of crop production lost. Until the sector is heavily de-risked, the banking sector finds this experience worrisome and as such would not commit funds into the sector for fear of this.

Communal clashes: In recent times, Nigeria has suffered polarization along ethnic and religious lines, and the resultant effect of this is incessant communal clashes. Recent observation on crises in Nigeria in the past ten years shows that every communal clash leads to destruction of farm lands, animal lives and valuable production plants and of course, a relocation of people to safer areas. Nigerian banks especially money deposit banks will not fund agriculture in trouble spots especially as their greatest concern is fund recovery and returns. Proposal for banks to fund agricultural production plants in northern Nigeria will receive a second look by banks. Areas prone to clashes will not be attractive.

Land disputes: Most land disputes are the products of land tenure systems. Customary land tenure is frequently considered to be an impediment to agricultural development. The lack of secure and clearly defined rights is often held to lead to a disincentive or an inability to invest in agriculture, while the inflexibility of traditional systems is said to prevent the transfer of rights between groups and individuals and thus inhibit the mobility of factors of production.

Adegboye [32] identifies defects in land tenure, farm tenancy

and the provision of agricultural credit as obstacles to increasing productivity per acre and per farmer. With regard to land tenure, he states that: 'The present structure of land tenure makes it virtually impossible for enterprising young farmers to mobilize their labour and capital as freely as they would like to. Banks would rather fund commercial agriculture on a large scale of land especially as they consider potential borrowers for such purposes, as serious minded. Unfortunately, Nigerian agriculture is characterized by small and medium scale farming, made up of small scale farmers who farm on small basis in rural areas. Some of the lands used for such small scale purposes, are family lands, communal lands and sometimes lands under dispute. Agricultural funding to this regard is indeed threatened. Some of the lands cannot also be placed as collateral especially as the banks would demand. This is further strengthened by the assertion by Adegboye [32], that the principal problem with regard to agricultural credit is also held to stem from customary land tenure: 'A piece of land which is communally owned cannot be used for collateral' and thus the money deposit banks do not lend to farmers.

Pest and diseases outbreak: One of the greatest environmental challenges militating against agricultural funding by banks is the prevalence of pest and diseases. There is high mortality rate with agricultural products especially poultry, and banks will never want to fund poultry production, because of the perception of a high risk venture. A typical case study was the incidence of *Avian Influenza* in 2006 that first emerged from Sambawa farms in Igabi LGA Jaji, which led to the destruction of a lot of birds. This outbreak affected 3,037 farmers and led to the depopulation of 1.26 million birds Daily Trust. Where such farms enjoyed funds from the bank, repayment would be very difficult, and this would eventually crystallize into a bad debt. These and many more are the challenges confronting Nigeria banks from funding agriculture whole heartedly.

Environmental pollution: Land surface pollution, is the occurrence of unwanted materials or waste on land. The commonest pollutant on land is the waste products that are often scattered on land area in the cities. According to Onwioduokit [33], most environmental problems are due to the production or consumption of goods whose waste products translate easily into pollutant. Ayeni [34] and Sada [35] believed that the emergence of Urbanization is responsible for the rapid accumulation of solid waste. Generally it would appear that the growth of urbanization and industrial development coupled with improper wastes management control have added a great dimension to land area pollution in Nigeria. This is one of the environmental challenges, depriving the agricultural sector from receiving funding from the banks. The rate of control on land use in Nigeria is really poor. A clear indication of this is the Bayelsa experience where industrial waste and oil spillages from industries, consume aquatic life. Farm lands are no longer productive as a result of the effect of chemical waste. The banks will not be too comfortable to fund projects in this environment, for fear of low yield or anticipated loss due to environmental pollution and subsequent default of prescribed loan.

Political challenges of the banking sector

The commercial bank is confronted by political challenges restraining it from funding agriculture. This challenges range from policy somersault of various governments to sabotage of government programmes towards agriculture, by interest groups. The banking sector does not want to get caught up in the web of unstable policies/programmes by successive governments. The reason for some of this instability sometimes is attributed to divergent interest of different governments. More so, following the peculiarity of agricultural

production with long gestation period, sometimes, the maturity of an investment may not be realized by the end of an administration typical to the Nigerian conventional 4 year term for government officials. The implication is that a new government with different ideas and programmes will definitely short-circuit an existing programme, thereby jeopardizing investment made in such programme. The strength of this statement is also supported by the claims made by CBN Enugu zone, that both OFN and Green revolution were set up to boost agricultural production and improve the general performance of the agricultural sector among other things. These programmes made some laudable impacts; they enhanced the quality of life of many Nigerians. But the programmes could not be sustained due to lack of political will and commitment, policy instability and insufficient involvement of the beneficiaries in these programmes". The bank is heavily involved in the funding of some of these programmes.

It is also pertinent to note that the Structural Adjustment Programme (SAP), a product of government policy in the political dispensation of 1986, abolished marketing boards and since then, there has been drastic decline in agricultural produce in the international market, post-harvest waste, inappropriate pricing of farm produce, reduced labour force, and drastic decline in agricultural productivity.

Conclusion

It has been said that Nigeria's agricultural value was worth about ₦15 trillion, as against its true potential of ₦40 trillion. That Nigeria has about 50 million farmers and abundant land and water resources. Regrettably, the agricultural sector of the country accounts for only 1.7% of the total lending by banks even though the sector account for over 42 percent of the country's GDP. It is now dear that the commercial banking system does not have the capacity, skills and resources to single-handedly the expected exponential growth of the agriculture sector. This is as a result of the challenges confronting the banking sector as early discussed. With these challenges not much can be expected from the commercial banking system.

The challenges of financing small holder farmers, is more than just the provision of finance, it is also about providing a complete solution to small holder farmers to ensure long-term sustainability, food security, and higher standard of living. Nigeria represents a macrocosm of agricultural opportunities and offers immense opportunity for growth. By transforming the sector via funding, Nigeria can produce more food to feed itself, lower the cost of food imports, and even become the major food exporter and a breadbasket for the whole of West Africa.

Conclusively, if Nigerian agriculture must step up to its true potential, then a proper funding mechanism by way of forming a coalition between federal government, central bank of Nigeria and Nigeria money deposit banks must be put in place to truly change financing landscape and reposition Nigeria's agriculture for increased food security, job creation, raw material supply, poverty reduction and industrialization.

Recommendations

The study recommends thus:

1. There is need for legal and regulatory reforms to empower corporate investors (trusts and insurance companies, pension funds etc.) and other institutional investors to provide sustainable source of the needed long-term fund for agricultural transformation.
2. The apex bank (CBN) should also consider an intensive performance rating for all money deposit banks to determine their

effectiveness in agricultural funding and other ways of sustaining agricultural funding.

3. The environmental protection agencies should take more proactive measures to reduce land degradation and other forms of soil pollution to reduce crop and animal failure to ensure food security.

4. Farmers should be encouraged to insure their crops and livestock to mitigate total losses and encourage funding from money deposit banks vis-à-vis repayment of borrowed funds.

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