

## **NIGERIAN BANKING INDUSTRY AND AGRICULTURAL BUSINESS IN VIEW**

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### **Abstract**

*In developing countries and especially in oil producing Nations, agriculture has been neglected such that it has been left for the ruralites who happen to mainly get involved in peasant farming only, there by the need for the banking industry to get involved in the financing of farm business as an incentive for improved agriculture in Nigeria, this study used questionnaires and hypothesis tested. The sample size for the study is twenty senior staff and twenty-eight junior staff making a total of forty-eight (48) staff. This study made use of five points likert scale to award points to each of the research question responses. The research findings include that Union bank plc encourage the small-scale agricultural business in the economy in procurement of machinery and agricultural equipments. It gives special assistance to the small-scale business. The study made some recommendations amongst which are Small and medium size firms requires import licenses to bringing in machinery and equipment, spare part and raw material should be giving special attention by the government specially where such fund are to purchase goods and service with the ultimate objective of replacing imported ones. The Central Bank of Nigeria should encourage financing project through a number of commercial banks.*

**Keywords:** Agriculture, Commercial Banks, Agricultural Loans and Development

### **Introduction**

Small business in developed countries has contributed to the growth and development of these economies, especially in terms of employment, contribution to gross domestic product, export etc. For instance in the United State of America (USA), small business is seen as a means for enhanced economic opportunity innovation and growth.

The greatest value addition has occurred in the developing economies where small businesses have become the bedrock of development. This is especially true in the Middle East and Asian region. For instance, in Iran, the small business enterprises contributes more than 62% of industrial output and more than 75% of total employment in 1996. Similarly, in Israel's enterprises or small business accounted for 97% of Israel enterprises in 1996 employing some 5% of the country's work force. Recently, 4500 new jobs were created in the sector through assistance giving to new immigrant. Over 50,000, people have been assisted in opening their business and there is a high record of take off success (estimated at more than 70%) of small business after one year of operation (NDIC quarterly volume 10 No 4 page 30).

This work attempts to appraise how far and the extent by which the commercial Bank in Nigeria especially the Union Bank Plc, has being responding to the credit needs of the small scale agricultural business.

Union Bank Plc active participation in the agricultural credit guaranty scheme fund (ACGF) since its inception in 1977 is attested to by the numerous awards won in federal and state competitions by its client and those won by the bank itself.

The bank won the best performance bank award and agricultural credit guaranty scheme fund (ACGF) from 1993-2004. In 2004, the state farmer of the year award for 28 states went to farmers borrowing from Union Bank, also, the national farmer of the year award for 2004 was won by one of its customers.

The bank also participated in the agric credit support scheme (ACSS), an initiative of the federal government and the central Bank of Nigeria to enable farmers to exploit the untapped potentials of Nigeria's agricultural sector, reduce inflation, lower the cost of agricultural production (i.e. food items) generate surplus for export increase Nigeria's foreign earnings as well as diversify its revenue base.

Union Bank Plc's support for the agricultural sector is driven and executed by a full-fledged agricultural department established three decades ago. In addition, it employs graduates of agriculture and agric economics to appraise monitor and supervise agricultural projects across the nation.

This fund support was used for the expansion of poultry production, infrastructure-development of feed mills and increased egg production. It was also used for dam construction, irrigation and water supply, plantation establishment, cotton production or cultivation, processing marketing and export, arable crop production. E.g. Grains (Vanguard newspaper of Tuesday 13<sup>th</sup> of September, 2011).

#### Problems

There are some problems facing the small-scale agricultural business which I feel that they will overcome through the assistance of the commercial Banks i.e. (Union Bank Plc Okpara Avenue Branch Enugu). These problems include:-

- i. **Trade fluctuations:** people working in large firm can always plan out their expenditures because they are paid as and when due unlike a small business manager who often faces fluctuations. In some months sales are very high, while in other months sales drops drastically.
- ii. **Poor management of competition:** this could be as a result of some of them failing to exercise the highest quality of management in so far as they are bound by tradition and are insensitive to change in policies and practice.
- iii. **Poor financial base:** insufficient finances to start off the business, has been a major problem of small business.
- iv. **Inadequate infrastructural base:** non availability of storage facilities is another big problem of small business.
- v. **Inadequate water supply:** this involve the in availability of water supply such as dam construction and pipe born water is another problem encountered (Joy N. Ugwu 2010, page 14).
- vi. **Inadequate Dam construction:** this involves the unavailability of dam construction in the urban area.
- vii. **Inadequate importation of fertilizer:** this is another big problem of small scale agricultural business.
- viii. **Inadequate standard agricultural machines:** the unavailability of agricultural machines reduces the quantity of output generated day by day.

Since the Union Bank Plc can assist financially, it means that they are encouraging the expansion of the small-scale agricultural businesses in Nigeria.

#### Research Question

The study is focusing on the role of commercial banks in financing small scale agricultural business through sustainable loan to farmers. The following questions will be evaluated in the course of this study.

- i. In what way have commercial banks contributed to the growth of small scale agricultural business?
- ii. Do the farmers have access to commercial banks credit facilities?
- iii. Are there problems faced by both commercial banks and farmers in small scale agricultural business?

#### Research hypothesis

The researcher intended to validation or nullify the following hypothesis.

- i. H0: commercial banks do not play a significant role in the growth of small-scale agricultural business.  
H1: commercial banks play a significant role in the growth of small-scale agricultural business.
- ii. H0: the farmers do not have access to commercial banks credit facilities.  
H1: the farmers have access to commercial banks credit facilities.
- iii. H0: commercial banks and farmers do not face any problems in small scale agricultural business  
H1: commercial banks and farmers face problems in small scale agricultural business.

#### The Evolution Of Commercial Banking

According to Magaji (2004), modern banking has its origin in the finance of foreign trade in the medieval trading states of Venice, Genoa and Florence, the need to exchange one currency with another and the practice of early money changes of accepting deposits of cash and valuables for safe keeping led to the development of banking, modern banking started in Italy, it is not surprising that some of its basic

vocabularies are Italian words. In the 17<sup>th</sup> century, the goldsmiths of London at Lombard developed the modern banking as it is today.

The historical development of commercial banks can be said to be an issue of late 19<sup>th</sup> century, and much of the early 20<sup>th</sup> century.

The ideas of banks in Nigeria dated back to the early period of the British rule and the introduction of the British Silver coin, as medium of exchange and means of payment. (Ekezie 1997), the activities of the financial transaction of the colonial government and then increasing acceptance of the British Silver coin, the glaring need for a proper and modern banking system especially for the proper execution and transmission encouraged the establishment of commercial banks in Nigeria necessarily for an efficient trading. This was to ensure the proper execution and transmission of funds needed for an efficient trading of the British colonial government and their corporation at the expenses of Nigeria economic development (Magaji 2004).

In Nigeria, banking activities actually started in 1892 when the British Africa banking corporation was established. The bank folded up a year later and in 1894, the bank of British West African (BBWA) was established. The bank changed its name to standard bank of Nigeria and today known as first Bank of Nigeria. The BBWA continued to have monopoly of the banking industry until 1917 when Barclays Bank (D.C.O; Dominion Colonial and oversee) now known as Union Bank of Nigeria Plc and the British and French Bank in 1949 (now called the United Bank for African Plc) were established.

These three banks dominated not only the banking sector but also the economy and they largely ignored the financial needs of Nigerian economy. Because of this neglect, attempts were made by Nigerians to establish their banks.

The first indigenous bank, the commercial and industrial bank was established in 1929 but liquidated in 1930 because of under capitalization, bad financial management and aggressive competition from the expatriate banks (Ekezie, 1997).

Other indigenous banks established were Nigerian mercantile bank in 1931, National Bank of Nigeria in 1933, Agbonmagbe Bank in 1945 (now Wema Bank), the Nigerian penny Bank in 1940, Nigeria farmers and commercial Bank in 1947, the African continental Bank. Between 1930 and 1952, a lot of indigenous banks were established but only a few of them survived. These are mercantile Bank and African continental Bank. Because of the failure of many banks, the period has always been regarded as free banking era in the history of Nigerian banking. This failure necessitated the then colonial government to introduce the 1952 banking ordinance to regulate banking. This ordinance defined a bank as any company of person carrying on banking business or using bank or banking as a part of the title under which it carries on business (Ekezie 1997).

Commercial bank is a financial institution that provides services such as accepting deposits, making business loans and offering basic investment products. The main functions of commercial banks are accepting deposits from the public and advancing them loans. There are many other functions which commercial banks perform. It includes the followings.

#### **Accepting Deposits:**

The most important function of commercial banks is to accept deposits from the public. Various section of society, according to their needs and economic conditions, deposit their savings with the bank.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes.

#### **Giving Loans:**

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the account of borrower. In other words, they create loan out of deposit and deposits out of loans. This is called credit creation by commercial banks.

#### **Over-Draft:**

Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

**Discounting of Bills of Exchange:**

This is the most prevalent and important method of advancing loans to the traders for short-term-purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way businessmen get loan on the basis of their bill of exchange before the time of their maturity.

**Investment of Fund:**

The banks invest their surplus funds the three types of securities-Government securities and other approved securities. Government securities include both, central and state governments, such as treasury bills, national saving certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of land development banks units of UTI, shares of Regional Rural banks etc.

**Agency Functions:**

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

- Banks collect cheques, drafts, bills of exchange and dividend of the shares for their customers.
- Banks make payment for their clients and at times accept the bill of exchange of their customers for which payment is made at the fixed time
- Banks pay insurance premium of their customers. Besides this they also deposit loan instalment, income-tax, interest etc. as per directions.
- Banks purchase and sell securities, shares and debentures on behalf of their customers.
- Banks arrange to send money from one place to another for the convenience of their customers.

**Miscellaneous Functions:**

Besides the functions mentioned above, banks performance many other functions of general utility which are as follow:

- Banks make arrangement of lockers for the save custody of valuable assets of their customers such as gold, silver, legal, document etc.
- Banks give reference to their customers.
- Banks collects necessary and useful statistic relating to trade and industry.
- For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.
- Bank does the under writing of share and debentures.
- Bank issues letter of credit.
- Bank advises their clients relating to investment decision as specialist.

**The Economic Importance of Financing Small-Scale Agricultural Business**

Financing has been an important instrument for the development of small scale agricultural business. Agricultural sector therefore needs to borrow money in order to develop to its full capacity. (Toro, 2005) contends that the development of Nigeria remains partly dependent upon increasing the productivity of agricultural sector. This sector is expected to contribute in no small measure to transforming the Nigeria economy into industrialised economy. The importance of agriculture which include the following

**Provision of Food for the Populace**

When agricultural sector is properly financed it will provide food stuff for the increasing population particularly that which is concentrated in the urban areas. The availability of an adequate food supply is vital because food shortage will lead to higher prices which in turn may lead to demand for higher wages. This could have some adverse effect on the level of investment and therefore on the level of economic growth. As the nation foreign exchange will be used to finance equipment which is necessary for the development programme, the development programme is improved by agricultural financing.

**Source of Tax Revenue**

When agriculture is adequately financed, it will provide enough raw materials which will be exported and the export duty imposed on the exported raw material is a source of revenue to the government.

### **Provision of Employment for Many People**

Financing agriculture will lead to the provision of employment opportunities for the teeming population which will help to reduce the number of unemployment in the country and thereby increase the standard of living for many.

### **Provision of Raw Material for Industrial Sector**

Proper finance of agriculture will lead to the provision of raw materials needed by industrial sector of the economy, For example, cocoa for cocoa drinks production, maize for corn flour, hides and skin for textile industries.

### **Role Of Commercial Banks In Financing Small Scale Agricultural Business**

Lending in agriculture has continued to receive a boost from commercial banks reflecting priority attached to it toward the country's economic programme. Lending to agriculture by banks dated back many year ago, i.e. in 1986, the minimum lending rate stipulated was 12% of commercial banks loans to be distributed (Asala, 2002).

Despite the presence of agricultural banks which emerged to finance agriculture from a wider perspective, this does not preclude commercial banks towards loan distribution to farmers.

It is common knowledge that lending to agricultural sector is associated with high risk necessitated by drought, pest and other environmental hazard. Hence all consideration of giving out loans by the banks is applicable in agricultural lending which also has the following.

- a. Confessional interest rates
- b. Solid repayment terms
- c. Long monotorium grace period

Commercial banks also in addition to extending credits to farmer's top priority in extending credit facilities. This was made possible and even more realistic when the federal government of Nigeria gave its blessing to the effect of commercial banks by introducing the rural banking programme in July, 1977 (Usman 2002). The objectives of the programme are:

- i. Cultivating banking habits among the rural dwellers
- ii. Mobilization of saving from rural areas for the purpose of lending such savings to profitable ventures
- iii. Creation of credit by way of equity and loans for small scale industry.
- iv. Development of small scale agriculture and agro allied industries in the rural area with a view to achieve the national self-sufficiency in food production in the country in general
- v. Increase the income of the rural farmers by enlightening them on the various sources of agricultural income and possibly to make them increase production not only in food crops but cash crops too.
- vi. To avoid seasonal flucation in agricultural production by giving them financial assistance.

### **Problems Of Small Scale Agricultural Business**

Agriculture financing was known to be non-institutional, that is, the finance came normally from friends, relatives of the farmers or local money lenders. It was later on, that modern institutions started giving finances in the form of credit to farmers. The traditional financing institutions were the early ones that give credit to farmers for the purpose of agricultural production. This later took another turn after the country became independent in 1960, whereby modern institutions became fully involved in agricultural financing (Asala, 2002).

Agricultural financing in Nigeria by commercial banks has been faced with so many problems. Some of these problems are associated with agriculture itself, some also related to financial institutions, some created by government, while others are created by farmers. The problems can be grouped as follows:

- i. Problems inherent in agricultural production.
- ii. Problems created by farmers.
- iii. Problems created by credit institutions.
- iv. Other problems.

### **Problems Inherent in Agricultural Production**

Natural hazards like unfavourable wind, flood, drought, soil factors and pests which are unpredictable, some which of course have no immediate feasible solution.

Absolute inelastic nature of land, relative scarcity and immobility of farm labour also contribute to the risky nature of agricultural projects (Asala 2002).

Poor and inadequate infrastructural facilities like good roads, electricity and facilities in the rural areas where farming is mainly carried out, further scare away would-be-labour from the farming communities. This is accentuated by the erroneous belief that farming is tradition rather than business.

Some agricultural projects have slow rate of return and therefore take long time to generate income. Example of such project includes tree crops and beef farming (Asala, 2002). The high rate of perishability of some agricultural products has also been a serious problem to small scale agricultural business.

**Problems Created By Farmers**

There is deliberate misconception of the objectives of government in instituting credit programmes. Agricultural loans especially those which are communicated with government or its parastatals are regarded by most farmers as a national cake, a bonus, a grant or rather a subsidy that must necessarily be distributed equally to masses at the grass root level. According to Asala (2002), many big farmers with tangible securities prefer to use their securities for agricultural loan ‘‘after all’’ the remarked ‘‘our federal government has provided 75% guarantee’’. This makes the commercial banks to accept only security which can easily be disposed

**Problems Created By Credit Institution**

There has been cases where an applicant has offered something in kind before he will be allowed to submit his form that will qualify him for the loans, or the applicant will abandon the loan he is about to receive because of the difficult long procedures that must be followed (Asala, 2002).

We have observed that banks are often located in urban centres whereas the bulk of the farmers reside in the villages. This means that most of the banks do re-cover their money when there is default in paying back the loan which many farmers cannot provide. There is diversion of loans meant for agricultural projects. This diversion may be partial or complete; it is complete diversion when the whole money approved for an agricultural project is used for non-agricultural purpose. The partial diversion is when only a small portion of the loan for the agricultural project is used for agriculture so as to avoid a possible penalty like the one in section 14 of the guideline for the agricultural credit guarantee scheme (Asala 2002).

There is also prevailing reluctance on the part of farmers to borrow from agricultural credit institutions. This may be due to nonchalant attitude of the farmers or are ignorant of these credit facilities and their operations. This can be justified by the fact that majority of our farmers are in rural areas and are illiterate and they are not making any effort to have modern form of education.

**Prospects For Small Scale Agricultural Business**

Nigeria is indeed a country rich in human and material resources. The inhabitants only need efficient and judicious exploitation of the natural resources and other factors of production to raise their standard of living. Presently, very serious efforts are made by both state and federal government in encouraging and supporting small scale agricultural business so as to increase production of food, crops and cash crops to meet local demands and provide raw material for industry as well as provide more for export.

Also, people have started realising that small scale agricultural business is a profitable business as against erroneous belief that farming is tradition. Also with the advancement in science and technology, agro based industrial that introduced so many agro chemical like pesticide, insecticides and herbicides that farmers can use, it is expected that small scale agricultural business will play a more prominent role in future.

Therefore, based on the above, it is clear that small scale agricultural business has a bright prospect in Nigeria.

The entire population of the staff of Union Bank Plc will be used. The sample size is made up of twenty senior staff and twenty-eight junior staff making a total of forty-eight (48) staff.

Table 1 Gender Distribution

<b>Gender</b>	<b>Frequent</b>	<b>Percentage</b>
Male	22	46
Female	26	54
<b>Total</b>	<b>48</b>	<b>100%</b>

Source: field survey 2016.

This shows that forty six percent of respondents were male while fifty-four percent were female and they form majority of the staff.

Research question two: what is your marital status?

The answer relevant to the research question will be treated in the table below.

Table 2 Marital Status

<b>Marital</b>	<b>Frequent</b>	<b>Percentage</b>
Married	30	63
Single	18	37
<b>Total</b>	<b>48</b>	<b>100%</b>

Source: filed survey 2016.

This shows that sixty-three percent of the respondents were married while thirty-seven percent were single.

Research question three: what is your age of staff at the Union Bank Plc?

Answer relevant to the research question will be treated in the table below.

Table 3, Age Distribution

<b>Age</b>	<b>Frequent</b>	<b>Percentage</b>
Under 30 years	5	10
30-40	23	48
41-50	15	31
50 years and above	5	11
<b>Total</b>	<b>48</b>	<b>100%</b>

Source: filed survey 2016.

The table below shows that 10% of the respondents were under thirty-years (30yrs), forty-eight percent (48%) were of age ranging from 30-40, thirty-one percent (31%) were of age ranging from 41-50 and fifty years and above were 11%.

Research question four: in what ways does Union Bank Plc, encourage small-scale agricultural business.

Answer relevant to the research question will be treated in the table below.

Table 4, Frequency Table 1

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly agreed	48	100
Agreed	0	0
Strongly disagreed	0	0
Disagreed	0	0
<b>Total</b>	<b>48</b>	<b>100%</b>

Source: field survey 2016

The entire respondents said yes that the bank encourages small-scale agricultural business in the economy.

Research question five: what type of special assistance does the bank render to the small-scale agricultural business in the economy show below.

Table 5, Frequency Table Two

<b>Types</b>	<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
It gives loans to small-scale business without demanding collecteral.	Yes	48	100
They give advice to the small-scale agricultural business on what crops to invest their loans	Yes	48	100
They charge little interest on loans.	Yes	48	100
The bank grant loan to rural and urban small-scale dealers on their personal recognition in economy.	Yes	48	100

Source: filed survey 2016.

All respondents said yes that the bank gives special assistance to the small-scale agricultural business in the economy, by giving qualified person loans without demanding for collateral security, advising them to invest on only the activities considered as viable and charge little.

### **Test of Hypotheses**

A hypothesis has been formulated for valid action in the course of the research. The hypothesis has to do with whether commercial banks play a significant role in the growth of small-scale agricultural business or not. The findings of the research support the alternative hypothesis that commercial banks played an effective role into the growth of small-scale agricultural business through their annual loans given to farmers and advisory services offered to farmers.

**Hypothesis 1:**

H0: commercial banks do not play a significant role in the growth of small-scale agricultural business.

H1: commercial banks play a significant role in the growth of small-scale agricultural business.

Test will be based on table 1

Table 6, Data analysis hypothesis 1

Gender	Frequent	Percentage
Male	22	46
Female	26	54
<b>Total</b>	<b>48</b>	<b>100%</b>

The formula for Z - test is

$$Z = \frac{P_s - P}{\sqrt{\frac{P(1-P)}{n}}}$$

$$P_s = \frac{x}{n} \quad \frac{\text{no of female staff of Union Bank Plc}}{\text{sample size}}$$

Where P= proportion of success

n = sample size

z = confidence level (computed)

e= level of significance

$$\therefore P_s = \frac{26}{48} = 0.54$$

$$P = 0.3$$

$$N = 48$$

$$Z = \frac{0.54 - 0.3}{\sqrt{\frac{0.3(1-0.3)}{48}}}$$

$$= \frac{0.24}{\sqrt{\frac{0.0044}{0.24}}}$$

$$= 3.62$$

**Decision Criteria**

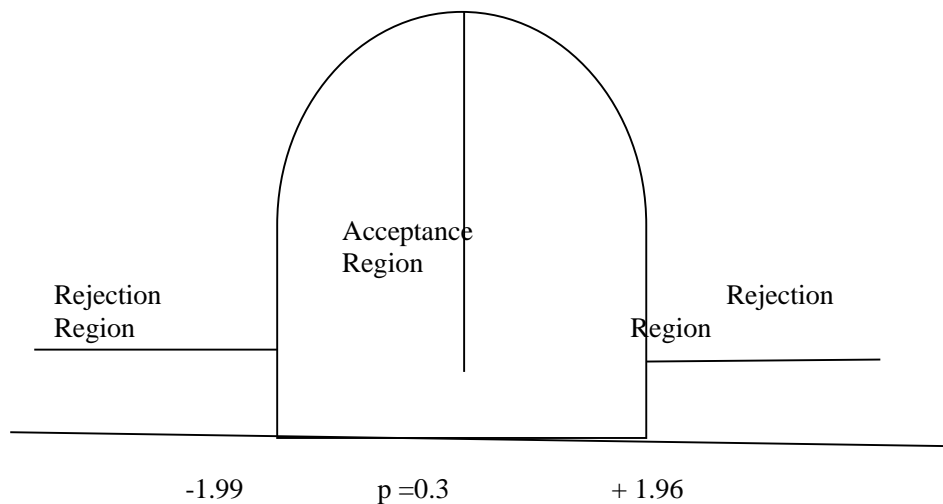
If + Z > its critical value

Or - Z < its critical value Reject H0

If + Z < its critical value

Or - Z > its critical value Accept H1





Since  $3.62 > 1.96$ , reject null hypothesis ( $H_0$ ) and accept alternative hypothesis ( $H_1$ ) this indicates that commercial banks play a significant role in the growth of small-scale agricultural business.

**Hypothesis II**

$H_0$ - the farmers do not have access to commercial banks credit facilities

$H_1$ - the farmers have access to commercial banks credit facilities.

This test will be based on table 2

Table 7; Data Analysis hypotheses 2

Marital status	Frequency	Percentage
Married	30	63
Single	18	37
<b>Total</b>	<b>48</b>	<b>100%</b>

The formula for Z – test is

$$Z = \frac{P_s - P}{\sqrt{\frac{P(1-P)}{n}}}$$

$$P_s = \frac{x}{n} = \frac{\text{No of married staff of Union Bank Plc}}{\text{sample size}}$$

Where P = proportion of service

n = sample size

z = confidence level (computed)

e = level of significance

$$\therefore P_s = \frac{30}{48} = 0.63$$

$$P = 0.3$$

$$N = 48$$

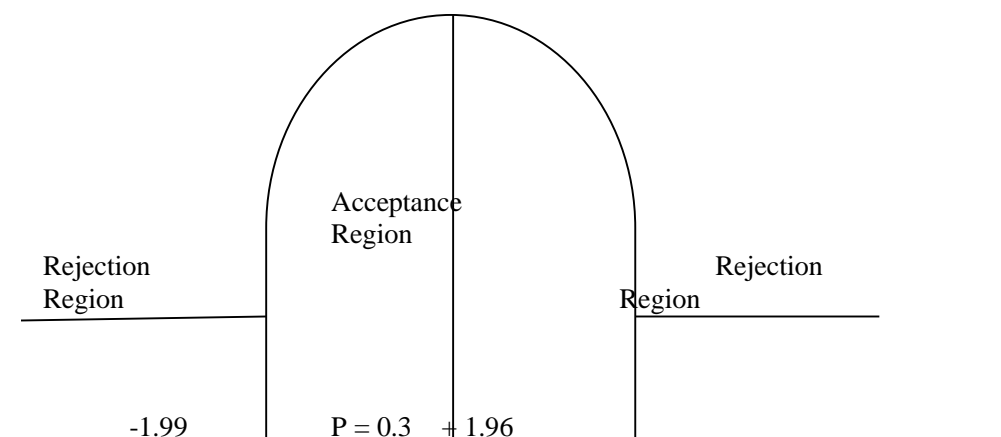
$$Z = \frac{0.63 - 0.3}{\sqrt{\frac{0.3(1-0.3)}{48}}}$$

$$= \frac{\frac{0.33}{\sqrt{0.0044}}}{0.06633} = 4.98$$

Decision criteria

If  $Z >$  its criteria value reject  $H_0$

If  $Z <$  its critical value accept  $H_1$



Since  $4.98 > 1.96$ , reject null hypothesis ( $H_0$ ) and accept alternative hypothesis ( $H_1$ ). This indicates that the farmers have access to commercial banks credit facilities.

Findings

From the analysis of the result presented above an observation was made that the recipients of the loans find it difficult to retire the loan giving to them and a lot of problems and factors were analyzed as responsible for the problem.

As stated in the table above, the responsibility or assistance offered by the bank to encourage the small-scale agricultural business in a way to use loans granted to them.

### Conclusion

Based on the research findings, the researcher concludes as follows

- The Union Bank Plc, Enugu, assists development of the economy in encouraging small-scale enterprises through the granting of credit facilities
- The appointment of incompetent individuals to the board of directors or management of its operations.
- The banks do not provide a means through which the small-scale business dealers can procure machinery and equipment for agricultural massive production of food and other agric input.
- Most of the recipients of the Union Bank loan do find it difficult to retire because of the interest rate attached to it.

### Recommendations

The following recommendations have been made in the light of the findings and the discussion with the relevant major conclusions such as been highlighted.

1. Small and medium size firms requires import licenses to bringing in machinery and equipment, spare part and raw material should be giving special attention by the government specially where such fund are to purchase goods and service with the ultimate objective of replacing imported ones.
2. The Central Bank of Nigeria should encourage financing project through a number of commercial banks and penalise such commercial banks that show some tendency to frustrate such policy
3. State and federal government should increase their assistance to small and medium scale enterprises instead of shifting the burden entirely to the financial institution.
4. There should be intensive recovery effort through application of sanctions and use of police and court should be encouraged throughout the state.

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