

# **Agricultural Financing and Rural Economic Diversification in Nigeria: Do Access to Credits Challenges Matters?.**

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# INTRODUCTION

- ▶ In spite of the mounting evidence of the importance of agricultural financing and rural economic diversification in recent years, there has been little systematic study on the effect of agricultural financing on rural economic diversification in Nigeria.
  - ▶ This can be contrasted to the greater study of this area in developed countries.
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# Introd. Cont'd

- ▶ Nigeria for instance, is endowed with a large expanse of arable land, highly populated, abundant crude oil deposit and diverse solid minerals.
  - ▶ Despite these various natural endowments, Fifty six years after attaining political independence and over 100 years of existence (1914–2016), Nigeria still exhibits characteristics of a developing nation.
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# INTRODUCTION CONTD

- ▶ Per capita income is low, unemployment rate very high and there is wide spread poverty across regions. Inflation rate has continued to soar while industrial sector contributions and capacity utilization have remained in a declining state over the periods.
  - ▶ In the midst of all these problems, prior studies have argued that the extent of agricultural financing would affect per capita income, unemployment rate and inflation rate. This to a great extent would influence the rate of rural economic diversification.
  - ▶ This study therefore sought to investigate the effect of agricultural financing on rural economic diversification with a view to determining whether or not access to credit challenges matters Between the period 1970 to 2015.
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# OBJECTIVES OF THE STUDY

- ▶ To determine the effect of percentage of BA on RED in Nigeria
  - ▶ To find the effect of BC on RED
  - ▶ To find the effect of DMBIR on RED in Nigeria
  - ▶ To evaluate the effect of Ddopt on RED in Nigeria
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# Review of Related Literature and Hypotheses development

- ▶ Prior studies have identified that smallholder farmers are constrained by many problems Such as
  - poor access to modern inputs
  - Credit facilities,
  - poor infrastructure,
  - inadequate access to markets,
  - land
  - environmental degradation,
  - and inadequate research and extension services.

Diversification of production and exports is critical for African countries to promote sustainable growth and economic transformation

Recently, following the various economic crisis, economic meltdown and recession in most Africa Countries and in particular Nigeria today, the issue of export diversification has appeared more prominently in economic and finance related literatures.

# Theoretical Motivation of the study

- ▶ We anchored our work on Lewis theory of development.
- ▶ The theory assume that the underdeveloped economies consist of
  - the traditional agricultural sector characterized by zero marginal labour productivity
  - and the modern industrial sector.

The primary focus of the model is the labour transfer and the growth of output and employment in the modern sector.

Todaro and Smith (2003) argued that, if development is to take place and become self-sustaining, it will have to include the rural area in general and the agricultural sector in particular.



- ▶ Theoretically well funded sector would ordinarily produce increased output.
  - ▶ In this study, two aspect of the debates are combined together; govt involvement and private sector driven effort.
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# DATA AND VARIABLE DESCRIPTIONS

- ▶ The primary aim of this paper is to investigate the effect of agricultural financing on rural economic diversifications in Nigeria.
- ▶ To achieve this objective, Secondary data were extracted from three different sources viz CBN Statistical Buletin, Publications of Bureau of Statistics and UNCTAD database.
- ▶ In quantifying the dependent variable (RED), we adopted normalized Herfindhal Hirschman Index(HHI) widely used by other scholars. See for instance Gelb and Sina (2010). Although there other measures such as the entropy index, the ogive index, That study argue that the HHI is more robust in estimating Rural economic diversification.

# DATA AND VARIABLE DESCRIPTIONS CONTD

- ▶ For the independent variables, ie agricultural financing;
- ▶ we decomposed it into four ;
  - percentage of government allocation to agricultural sector(BA),
  - Banks credit facility made available to agriculture sector(BC),
  - Interest rate charged by the bank on loans (DMBIR),
  - Demand deposit of banks which serves as the stock of loans to agriculture sector(Ddopt).
- ▶ These data were extracted from CBN Statistical bulletin and Publication of Bureau of statistics.

# REGRESSION MODEL AND INSTRUMENT

- ▶ Based on our earlier discussion, we can hypothetically assume that Rural Economic Diversification (RED) is a function of agricultural financing.
- ▶ I.e.  $RED = f(AGF)$ -----1
- ▶ Applying the decomposition done earlier
- ▶  $RED = f(BA, BC, DMBIR, Ddopt)$ -----2
- ▶ Implying that

▶  $RED = b_0 + b_1BA_t + b_2BC_t + b_3DMBIR_t + b_4DDopt + E$  -----3

▶ Where

▶  $B_0$  is the intercept of the equation

▶  $E$  is the disturbance term

▶  $b_1, \dots, b_4$  is the parameters to be estimated.

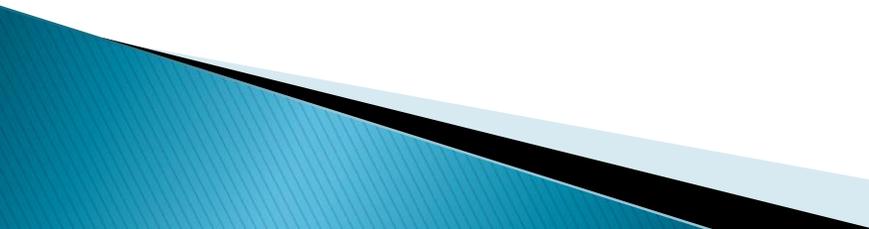
▶  $T$  is the time

- ▶ Theoretically, we expect that
  - ▶ BA +vely related to RED
  - ▶ BC +
  - ▶ DMBIR -
  - ▶ Ddopt +
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# FINDINGS

- ▶ Link between agricultural financing and rural economic diversification in Nigeria appears non-monotonic,
- ▶ Finding showed that public spending on agriculture in Nigeria is less than 2 percent of total federal expenditure during the period
- ▶ Specifically, Budget allocation of govt to agriculture sector has a positive relationship with RED
- ▶ Moreover, BC has a positive relationship with RED
- ▶ Again it was found that DMBIR has a negative relationship with RED
- ▶ Finally, Ddopt has a positive relationship with RED

# IMPLICATIONS OF FINDINGS

- ▶ The practical implication of the study is that the current diversification effort of the federal government is not holistic.
  - ▶ budgetary allocations and actual expenditures for the period covered showed that though the government put up ambitious policies , their financial commitment and consideration has been inadequate.
  - ▶ Inadequate funding of agriculture in Nigeria has aggravated rural poverty in Nigeria.
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# RELEVANCE OF THE STUDY/LIMITATIONS

- ▶ The paper is unique in that it uses data from an emerging economy characterized by weak capital market to investigate the causal link between agricultural financing and rural economic diversification in Nigeria

# REFERENCES





THANKS FOR LISTENING.