# Bank Credits and Agricultural Development: Does it Promote Entrepreneurship Performance?

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## Abstract

*The study investigates banks credits and agricultural development: does it promote entrepreneurship performance? The paper used primary and secondary sources of information that were extracted from five (5) banks and ten (10) agricultural enterprises in Delta State. A simple random sampling technique through the lottery method was adopted to select the sample. The data were analysed using percentage, mean, and Standard Deviation and Pearson Product moment correction to test the hypotheses. The research findings include; the deregulation of bank credits (non-regulated bank interest rates) to agricultural entrepreneurs; adequate bank credits should be granted to small scale agricultural farmers to increase productivity; and their farms land should be used as collateral instead the usual banks loans security to promote entrepreneurship performance.*

## *Introduction*

The banks are the largest financial intermediaries in our economy. The commercial banks credits and loans are the heart of the financial institutions; these they channeled to investors in forms of overdrafts, medium and long credits. Hanson (2002) concludes that whether bank credits by overdraft or by means of loan account, the result is the same, it increases the total volume of deposits and the purchasing power for the purpose of investment, distribution and consumption. And so, banks credits are anticipated to impact positively on the investible sectors of the economy and engender significant economic growth and development through production of goods and services.

The commercial banks function of financial intermediaries is capital acquisition; debt financing and working capital requirements in financing productive projects are critical roles in economic advancement in nation development. These as concluded by Adelinan and Morris (2000), as the best indicators of a country’s potential ability to follow and meet its real growth rate. It is of this purpose and intent that the Federal Government of Nigeria through the Central Bank of Nigeria (CBN) directed that the commercial banks accord priority to the real, agricultural, manufacturing and industrial sectors of the economy in granting loans and advances through monetary and credit guidelines.

In Nigeria, the agricultural sector employed the largest economic workforce; however, these workers are mostly in the rural areas and aging. In light of this, agriculture need to be mechanised and modemised to attracts young able men and guarantee food security. Food, as basic necessity of life, cannot be obtained without robust agricultural practice; which include the use of modern tools and adequate finance. Sufficient financing of agricultural projects, will not only promote food security, but also enhance the entrepreneurship performance of our young investors.

There is the need especially in Nigeria to look at the banks credits and loans in relation to agricultural development as well as the impact on the entrepreneurship performance in the economy. This is borne out of the expectation that a good match between adequate bank credits and advances to agricultural sector will ensure agricultural development and promotes entrepreneurship performance.

## *Objectives of the Study*

The main objective of the study is to determine the connectivity between banks credits policy and agricultural development; the evaluate of entrepreneurship performance.

Specific objectives are to:

1. Determine to what extent bank credits and advances promote agricultural development in the economy.
2. Examine whether the accessible banks credits and financing encouraged productivity and entrepreneurship performance.
3. Determine the impact of regulated Bank Credits ad against voluntary Bank Credits to the agricultural entrepreneurship performance.

## *Hypotheses*

$Ha_1$: The granting of adequate bank credits and advances to agricultural entrepreneur promotes agricultural developments.
$Ha_2$: Banks Credit financing enhance productivity and entrepreneurship performance.
$Ha_3$: Regulated Banks Credits to agricultural entrepreneurs have positive impact on entrepreneurship performance.

## *Review of Related Literature*

### Banking and Banking Business

The early period of banking regulation commenced in 1952, which led to the enactment of banking ordinance. The ordinance provided for licensing requirements as well as procedures and standards for the conduct of banking business (Osamwonyi, et at, 2012). It also provided prudential requirements for capital and reserves and CBN had been engaged in the establishment of modern financial system, where the Nigerian economy and the financial sector were indigenised; building new generation of privately owned banks.

The Nigerian baking system has undergone remarkable changes over the years, in terms of the number of institution, ownership structure as well as depth and breadth of operations (Soludo, 2004). In the year 200, the CBN introduced the universal banking system, which practically removed and operational impediments and created a level playing field for merchant and commercial banks. This makes banks to accept different forms of deposits, perform agency and credit services, lend money and undertake investments, foreign exchange, trade in government treasury bills and sometimes indirect importation (Holikteas, 2001).

Specifically,Adekanye, (2004) identified the functions of the commercial banks as:

1. Acceptance and keeping of deposits.
2. Granting of loan and overdrafts to customers.
3. Transferring of funds on the instruction of their customers.
4. Management of customers' investment.
5. Acting as executor and trustee of wills.
6. Proving facilities for the safe keeping of important documents.
7. Providing foreign exchange facilities.
8. Providing services to importers and exporters.
9. Buying and selling of stocks and shares.
10. Proving business status report and references.

However, Anyanwaokoro (2001), concludes that there are two basic historical functions of the banks as a financial intermediaries of deposits collection and lending. The deposit collection function includes the operation of savings accounts, current accounts and fixed deposits, while the lending function is activated through overdrafts and loans.

### Bank Credits: Principles, Processes and Procedures

The process of assessing bank loan(s) may differ from one bank to another, but the issue is for the analyst to evaluate the risk of the loan not being paid on schedule or not being paid at all, this usually follows a process (Onugu and Ozegbu, 2001). Bank credits investigation and analysis are obtained from both primary and secondary sources. Reads (2000) categorized these sources of information into three groups; information from the credit applicant (borrower), bank own records and other sources of information.

The credit applicant applies for the loan and supplies information about himself, the purpose, the amount and period of the loan, method of repayment, source(s) of repayment and other necessary information often, the borrower must have kept account with the bank, and sometimes met have borrowed money from the bank in the past; all these give an idea as to the customer's credit worthiness.

Bank credit investigation has no definite route to be followed as each loan applicant differs on what to be investigated. And so, the bank credit officer(s) needs to acquaint himself with the general bank credit policies; the lending policies and the economic and political environment before delving into the analysis of bank credit. Generally, the investigation on the part of the borrower centered on company history and experience, competency of management, financial records; balance sheet, income statement, cash flow, capital base and profitability index.

The other sources of information are predicted on analysis on the general condition of the industry, competitors, suppliers, characters of the officers, or individuals, insurance policies, loan repayment duration, presented collateral or security policies; like land and building, stocks and shares, bill of sale and trust deeds. The purpose of all the different stages of credit analysis is to arrive at the decision to lend or not to lend. The bank credit officer(s) advices the bank based on his opinion, the suitability of the loan and its safety, the risks involved and the customer's ability and willingness to repay the loan (Nwakwo, 1998).

**The Contributions of Agricultural Sector to the Nigeria Economy**

Agriculture contributes greatly to the gross domestics' product (GDP) and consequently, the economic growth of the nation (Aigbiremolen, 2004). The agricultural sector employed about 70% of the country labour force, increased foreign exchange earnings through the export of agricultural products. Today, agriculture still remain the mainstay of the Nigerian economy as it provides greater employment, income and food, raw materials for industries and investment opportunities for the populace.

Various successive Nigerian governments and the transformation agenda of the present government headed by Dr, Goodluck Ebele Jonathan, have shown remarkable appreciation over the contributions of agriculture to the Nigerian economy. These culminated in different Agricultural National Development plans; the ultimate goal for all is the attainment of self-sustaining growth and food security to boost the socio-economic development of the economy. Specific objectives of the plan policy documents include:

1. The attainment of self-sufficiency in basic food commodities.
2. Increased employment opportunities.
3. Modernisation of agricultural production, processing, storage and distribution through the infusion of improved technology and management.
4. Increased production of agricultural raw materials to meet the growing needs of the expanding industries.
5. Increase production and processing of export crops with a view to increasing their foreign exchange capacity.
6. Improved protection of agricultural land (CBN, 2008).

**Agricultural Programmes, Funding and Performance**

Various institutions had been set up to implement various stands of agricultural policies in Nigeria (Abayomi, 2013). In these various national development plans, the Federal and States Governments had taken up greater responsibilities, especially with the formulation of agricultural policies and project implementation. Governments of both the Federal and States had been involved in the areas of agricultural research, training and development, investment in large scale irrigation and mechanized food crops farms through her agencies like CBN, River Basin Development Authority, Commodity Boards, the Federal Ministry of Science and Technology and Federal Ministry of Agriculture even currently the SURE-P.

Agricultural programs that had be coordinated by Federal Ministry of Agriculture, some of which may include, Operation Feed the Nation, National Accelerated Food Production Project, Green Revolution, National Seed Multiplication Program and Agro Service, and the transformation agenda of the E-Wallet program of the present administration. However, in all these agricultural programs and projects, the issues of agricultural funding always dominate discourse. Abe (2002) concluded in his research paper "Human Resources Development and Economic Growth in Development Countries: a Simultaneous Model" that in spite of the good policies and programs, Nigeria farming is still fraught with so many problems and this is seen to revolve a great deal on financing.

Agricultural credit schemes are plans to find the agricultural sector at a reasonable interest rates or cost so as to increase productive investments. Abe (2002) also opined that the need for institutionalized credits becomes more obvious as we move away from subsistence farming, which is usually funded from non-institutional sources like friends, relations, professional money lenders and personal savings. And so, capital loans, which are usually of long-term duration, are required to finance fixed assets such as land, plants and equipment's, purchase of livestock and other development purposes, which brings changes in the productivity and financial assets of the farmer.

However, most Nigerian banks have had to restructure their portfolio owing to the constraints in credit creation and the attraction offered by treasury income. The results is that they rather provide more loans and advances, which to some banks, are rather risk averse, tend to place more funds in investments at a more predictable income. On the contrary, Risk (2001) concluded that there is positive relationship between farmers' access to credit and increase agricultural output.

## *Methodology*

The data used in the study of the primary and secondary sources. The study adopted the expost facto research design because the secondary information is productive and recorded loans data that cannot be manipulated. A simple random technique through lottery method was designed to select the banks and agricultural enterprises.

The population of the study is all the quoted banks in Nigerian Stock Exchange (MSE) and Agricultural Enterprises in Delta State. A sample size of 5 (five) banks was selected and ten (10) agricultural enterprises in Warri. 90 Questionnaires were designed and administered on the respondents; 50 questionnaires on the banks staff and 40 questionnaires on the agricultural entrepreneurs.

The data generated was analysed using percentage, mean, standard deviation, simple regression and F-distribution statistics to test the hypotheses at 0.05 level of significant and the relationship between bank credits and agricultural development in terms of entrepreneurship promotion. SPSS were used in analysing the information.

## *Data Analysis and Presentation*

The data analysis was based on the research questions and the hypotheses that guide the study.

**Table 1: Percentage Distribution of Responses of Banks Granting Credits to Agricultural Entrepreneurs**

| **Responses** | **No. of Respondents** | **(%)** |
|---|---|---|
| Yes | 70 | 77.78 |
| No | 20 | 22.22 |
| **Total** | 90 | 100.00 |

**Source:** Survey Data, 2014

**Table 2: Percentage of Respondents of Agricultural Entrepreneurs Aware of Banks Credit to Agricultural Enterprises**

| **Response** | **Number of Respondents** | | | **Total** |
|---|---|---|---|---|
| | **Agric Ent.** | **Agric Co-operative** | **Individual Agric Farmers** | |
| **Yes** | 15(71.43%) | 9(64.29%) | 3(60%) | **27(67.5%)** |
| **No** | 6(28.57%) | 5(35.71%) | 2(40%) | **13(32.5%)** |
| **Total** | 21(52.5%) | 14(35%) | 5(12.5%) | **40(100%)** |

**Source:** Survey Data, 2014

**Table 3: The Preferred Sectors for Banks Credits and Loans**

| Sectors | No. of Respondents | (%) |
|---|---|---|
| Manufacturing | 12 | 13.33 |
| Construction | 6 | 6.67 |
| Oil and Gas | 20 | 22.22 |
| Telecommunication | 11 | 12.22 |
| Agriculture | 10 | 11.11 |
| Housing | 7 | 7.78 |
| Government | 15 | 16.67 |
| Education | 9 | 10.00 |
| **Total** | 90 | 100.00 |

**Source:** Survey Data, 2014

**Hypothesis 1 Testing**

**$Ho_1$**: The granting of adequate bank credits and advances to agricultural entrepreneurs do not promotes agricultural development.

**Table 4**

| Variable | N | $\bar{X}$ | SD | DF | r-calculated Value | r-critical Value | Remark |
|---|---|---|---|---|---|---|---|
| Banks | 5 | 3.04 | 1.25 | 6.06 | 0.3768 | 0.3632 | Significant |
| Agriculture | 10 | 4.60 | 2.01 | | | | |

df = 3 at 0.05 significant

**Decision Rule**

We accept the alternative hypothesis since r-calculated is greater than r-critical value ($r_c = 0.3768 > r_t = 0.3632$). Therefore, conclude that adequate banks credits and advances to agricultural entrepreneurs promote agricultural development.

**Hypothesis 2 Testing**

**$Ho_2$**: Bank credits financing does not enhance productivity and entrepreneurship performance.

**Table 5**

| Variable | N | $\bar{X}$ | SD | DF | r-calculated Value | r-critical Value | Remark |
|---|---|---|---|---|---|---|---|
| Banks | 5 | 2.95 | 1.20 | 5.96 | 0.7416 | 0.3632 | Significant |
| Agriculture | 10 | 4.88 | 2.75 | | | | |

df = 3 at 0.05 significant

**Decision Rule:**

Since the calculated value is greater than the tabulated value ($r_c = 0.7416 > r_t = 0.3632$),we accept the alternative hypothesis and reject the null hypothesis. It indicated that, bank credits enhanced productivity and entrepreneurship performance.

**Hypothesis 3 Testing**

**$Ho_3$**: Regulated bank credits to agricultural entrepreneurs do not have positive impact on the entrepreneurship performance.

**Table 6**

| Variable | N | $\bar{X}$ | SD | DF | r-calculated Value | r-critical Value | Remark |
|---|---|---|---|---|---|---|---|
| Banks | 5 | 3.01 | 1.06 | 3.98 | 0.2324 | 0.3632 | Not Significant |
| Agriculture | 10 | 4.00 | 1.41 | | | | |

df = 3 at 0.05 level of significant

**Decision Rule**

We accept the null hypothesis and reject the alternative hypothesis, since the calculated value is lesserthan the tabulated value ($r_c$ = 0.7416 >$r_t$= 0.3632). Therefore, we can conclude that the regulated bank credit to the agricultural entrepreneurs has no or little positive impact on the entrepreneurship performance.

## *Findings*

1. The granting of credits facilities by the banks to the agricultural farmers will boost agricultural entrepreneurship performance.
2. Bank credits and advances granted to agricultural firms will increase agricultural products and encourage young farmers to put up agriculture ventures and businesses.
3. Government should deregulate bank credits to agricultural entrepreneurs by encouraging non-regulated interest rate and quota that is attached to the agricultural sector through CBN.
4. Adequate credit facilities to the agricultural farmers will not only increased productivity, but increases manpower development economic growth and the education of the farmers.
5. The impediments to loan facilities like collaterals securities, high interest rate, rate and structure of deposit tenure should remove from bank credits for agricultural farmers but their farmland used as collateral.

## *Recommendations*

Based on the above findings, the following recommendations are made:

1. Considering the strategic position of the agricultural sector in food security in the economy, there is an urgent need to raise the status and the educational awareness of entrepreneurs in respect to bank credits as against other sectors of the economy.
2. Governments at all levels should evolve agricultural programs tagged at the small scale enterprises with enabling credit facilities that are well monitored and effectively distributed to the grass root individual and cooperatives farmers.
3. We do also recommend that the Federal Government through the CBN should deregulate the credit and advance facilities (Negotiable interest rate and loanable amount) the removal of the impediments/conditions of accessing agricultural loan to the individual and corporate farmers to negotiate; their farms land should be their loan security or collateral.
4. Government should only be involved in implementation, supervision and control by creating the enabling environment and allowed the private sector be solely involved in the production and processing of agricultural products and services; making agriculture a business.

## *Conclusion*

Sustainable food security cannot be obtained without the deliberate concerted effort of all to encourage and promote agricultural development. As a growing economy and a merging market, agricultural expansion through the adoption of modern farming techniques and equipment should be developed. This called for adequate financing, and therefore, the banks are encouraged to give more sustainable and revolving loans to the agricultural entrepreneurs to increase entrepreneurship performance.

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