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RESEARCH ARTICLE

FINANCIAL INCLUSION AND AGRICULTURAL SECTOR PRODUCTIVITY IN NIGERIA: AN EMPIRICAL INVESTIGATION

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Abstract: This study examined the impact of financial inclusion on agricultural sector productivity in Nigeria. The study adopted the Classical Linear Regression Methodology. The Johansen co-integration test showed the existence of long run relationship between financial inclusion and agricultural sector productivity. The regression result showed that commercial bank credit to agriculture, agricultural credit guarantee scheme fund, rural deposit and exchange rate has a significant and positive relationship with agricultural sector productivity, while inflation has a negative relationship with agricultural sector productivity. Based on these findings, the study recommended that government should provide appropriate policies that will facilitate sustainable financial inclusion. Commercial banks should be encouraged to participate in rural banking, thus, encouraging high involvement in rural areas through the building of bank branches and also providing soft loans to farmers in rural areas. Finally, the government should ensure that the conditions and terms of accessing financial products and services, such as loans and credits are properly monitored to ensure that the conditions are not detrimental to agricultural sector productivity.

Keywords: *Financial Inclusion, Agricultural Sector, Productivity, Empirical.*

JEL Classification: B26; D14; G21; Q14; O47

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INTRODUCTION

The agricultural sector plays a crucial role in a country's economic growth, sustainable development, employment creation and poverty reduction (Okoh, 2015). It was instrumental in reducing poverty in China and India and is currently one of largest employer of labor in Nigeria (Anthony-Orji *et. al.* 2020). Despite the potentials of the agricultural sector, Nigeria has not really exploited it to her advantage.

Though agriculture remains the largest sector of the Nigerian economy and employs two-thirds of the entire labor force, production hurdles have significantly stifled the performance of the sector. Over the past 20 years, value-added per capita in agriculture has risen by less than 1 percent annually. It is estimated that Nigeria has lost USD 10 billion in annual export opportunity from groundnut, palm oil, cocoa and cotton alone due to continuous decline in the production of those commodities. Food (crop) production increases have not kept pace with population growth, resulting in rising food imports and declining levels of national food self-sufficiency (FMARD, 2008). Lack of access to financing has been constantly sited as a major reason for below par performance of Nigeria's agricultural sector (Orji *et. al,* 2020).

The Nigerian economy was a predominantly agrarian one at independence in 1960, with agriculture contributing 63.8% to GDP, but the share of agriculture in output has dropped over the years. Agriculture contributed 41.2% to GDP in 1970, but this had dropped to 20.6% in 1980. Although it rose to 37% in 1990, it had fallen to 27% in

2000. New figures based on the rebased GDP show that agriculture's contribution to GDP had fallen further to 23.8 % in 2010, 20.2% in 2014 and 21.42 % in 2018 (Central Bank of Nigeria, 2019). The primary trigger of the decline in agricultural output was the discovery of oil. The country has moved from being self-sufficient in food production to become an importer of food. In 1981, the value of Nigeria's imported food and live animals was N1.8 billion, but this had surged phenomenally to N1.4 trillion by 2018 (Central Bank of Nigeria, 2019).

According to Manyong *et. al.*, (2005), The 2006 population census put Nigeria's population at 140,003,542, which makes it the country with the largest population in Africa. Nigeria occupies a land area of 923,768 kilometres, thus providing ample land for agricultural production. However, less than 50% of the cultivable agricultural land is under cultivation by small-holder farmers who use outdated techniques, thereby resulting in low yield.

Low agricultural productivity has been identified as an important contributing factor to rural poverty in Nigeria (McKinsey Global Institute, 2014). Nigerian agriculture is characterised by low yields which reflect the dominance of small-holder farmers who lack knowledge about agricultural best practices and are unable to invest in seeds and fertiliser (McKinsey Global Institute, 2014). Yield and fertiliser use in Nigerian agriculture are far below the global benchmarks in places such as China, Indonesia, Brazil, India and Ghana, and this is largely as a result of farmers' lack of access to finance (McKinsey Global Institute, 2014).

Although the share of agriculture in Nigeria's GDP has fallen significantly, agriculture still remains an important source of livelihood for many Nigerians. Agriculture is the largest employer of labour, with 30.5% of employed persons engaged in agriculture (National Bureau of Statistics, 2010). There is an even greater percentage of young people engaged in agriculture, as 44% of youths are employed in agriculture (National Bureau of Statistics, 2013).

Thus, agriculture features prominently in the lives of Nigerians, and there is hardly any family that does not have someone involved in agricultural activities.

However, despite agriculture's prominence in economic activities and employment, the sector still suffers from a chronic inability to obtain finance from financial institutions. In the second quarter of 2019, agriculture received only 4.2 % of commercial bank lending, while manufacturing received 15.3%, oil and gas received 22 % and services broadly received 36.5% (National Bureau of Statistics, 2019).

This suggests that agriculture is largely excluded from formal finance. This is supported by recent statistics which show that farmers are the largest group of financially excluded persons in Nigeria, as 37.6 % of farmers are financially excluded (Efina, 2017). Thus, agriculture is largely excluded from formal finance in Nigeria.

Finance is very important in increasing agricultural productivity because, it can facilitate mechanized agriculture, agricultural research, mass production and processing activities amongst others that are key to attaining a respectable productivity in the 21st century. However, because majority of Nigeria's farmers are rural dwellers, access to finance is stunted. Many of them have no transaction account, they have no credit history, no means to receive payments without personal contact, In fact, they are financially excluded. This financial exclusion could have contributed to impeding agricultural productivity in Nigeria because of the limitations it poses as stated above.

Financial inclusion is the improved access to formal financial services such as obtaining a bank account and using credit, savings and other banks services in an economy (Anthony-Orji *et. al.* 2023a, Anthony-Orji *et. al*, 2023b, Efobi, Beecroft and Osabuohien, 2014). It is the delivery of financial services at affordable costs to some disadvantaged and low income segment of the economy (Anthony-Orji *et. al.*, 2019a).

A first step towards a broader financial inclusion is the provision of a transaction account. A transaction account serves as a gateway to other financial services (e.g. access to financing) which in turn could assist the farmer in enhancing productivity. Providing access to a transaction account allows people to store money, send and receive payments: essential commercial agricultural activities.