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Agricultural Financing and Agricultural Output Growth in Developing Economies: Any Causal Linkage in Nigeria?

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Abstract:

Purpose: *In many developing countries, the agricultural sector has been seen as a major sector that should drive economic development and industrialization because of its importance in the provision of food for the increasing population, the supply of raw material to the growing industrial sector, generation of foreign exchange earnings, creation of employment opportunities, and provision of market for the product of the industrial sector. This study therefore investigates the causal linkage between agricultural financing and agricultural output growth in Nigeria.*
Design/Methodology/Approach: *The data were mainly sourced from Central Bank of Nigeria statistical bulletins and World Bank Economic Indicators and the study adopted the Pairwise Granger Causality test.*
Findings: *The result showed that there was no causal linkage between agricultural financing and agricultural output growth within the period under review.*
Practical Implications: *With these findings it is therefore imperative for Nigeria to take more careful look into why agricultural financing has not made significant impact on agricultural output growth. There should exist massive education and enlightenment of farmers to know the different sources of agricultural financing available. When such funds are accessed, it should be properly monitored to ensure efficient utilization in order to increase agricultural output.*
Originality/Value: *The study adds to literature on agricultural financing in Nigeria and it has serious implications for agricultural output growth and other areas of the economy. The findings of this study is novel and it is a pointer to the government to more proactive in ensuring that the agricultural sector is well financed and monitored in order to increase agricultural productivity.*

Keywords: *Agricultural financing, agricultural output growth, causality.*

JEL codes: *E24, J21, J43, O13, Q13, Q14.*

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1. Introduction

In many developing countries, the agricultural sector has been seen as a major sector that should drive economic development and industrialization because of its importance in the provision of food for the increasing population, the supply of raw material to the growing industrial sector, generation of foreign exchange earnings, creation of employment opportunities, and provision of market for the product of the industrial sector (World Bank, 2016). Nigeria, a developing economy is endowed with large expanse of arable land and favourable climate for agriculture. As in 1990 the estimated arable land was 81 million hectares out of the Nigerian total land of 91 hectares of which 18 million hectares of this land was classified as permanent pasture for livestock production. This enables the production of a wide variety of crops, livestock, forestry and fishery products (Ewatan, Urhie, Fakile and Oduntan, 2017).

Agriculture has linkage with other productive sectors such as the manufacturing sector and it has a high potential of generating employment for the different forms of skilled and unskilled labour that constitute the labour force. Agricultural products have been recognized to have industrial value and great export potential, increase farmers' income and many other economic agents involved in the processing and marketing of agricultural produce. Agricultural products serve as major raw materials for industries and non-oil foreign exchange earnings for the nation. Food items and even some cosmetic products that are usually imported such as sardine and coconut oil can be manufactured in Nigeria through the processing of agricultural commodities thereby increasing output and generating more employment opportunities in the country (Orji, Ogbuabor, Okeke and Anthony-Orji, 2019).

In Nigeria, there are numerous opportunities that are yet to be fully exploited and these opportunities have a great potential of generating employment in the agricultural sector. Such opportunities include agricultural production, processing, storage and marketing, agricultural input production and supply, agricultural business management and agricultural research amongst many others. Exploiting all these opportunities in the agricultural sector will promote increased commercialization and generate higher income for those engaged in small scale farming as well as large scale agro based industries (Olukunle, 2013). Adequate financing and proper management of funds are important for successful exploitation of these opportunities. Inadequate financing and lack of proper management has been identified as a major cause of the low performance of the Nigerian agricultural sector (Orji, Ogbuabor, and Umesiobi, 2014).

Currently in Nigeria, a high proportion of those engaged in agricultural practices are rural dwellers with low level of education, these rural dwellers make up about half of the Nigerian population, yet rural poverty is on increase. These rural dwellers find it very difficult to access useful information and credit facilities so as to acquire the necessary inputs needed to increase output. The lack of necessary inputs such as