Agricultural Investment Risk Relationship to National Domestic Production

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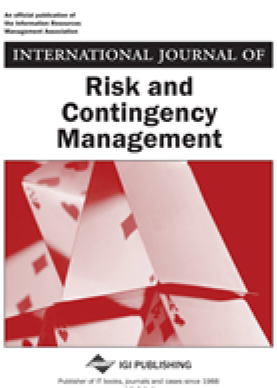

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Abstract

This empirical case study investigated the uncertainty of agricultural investment schemes in Nigeria and their relationship to national domestic production. Government administrations have invested a substantial amount of money into the agricultural

sector, yet thus far, there have been very few visible results to show for it. The private sector does not seem to be interested in developing agriculture even with government incentives. The purpose of this study is to identify investment risk factors for national agriculture development as perceived by business stakeholders. Ordinary Least Square (OLS) was then used to examine the strength of the cause-effect relationship for the agricultural investment factors in terms of expected domestic production. The findings were that there was no significant relationship between commercial bank credit granting to businesses for agricultural development and therefore no impact on national domestic production. On the other hand, the regression analysis did support the hypotheses that there was a significant relationship between government funding towards the agricultural sector and national domestic production as well as a significant relationship between the public agriculture credit guarantee scheme and national domestic production, respectively. Based on this positive finding, the study closes with several unique recommendations for policy makers in order to stimulate the investment into the agricultural sector to increase national production.
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Introduction

Nigeria has a developing economy with fertile agricultural conditions and a tropical climate (Johnston, 1970; Kibly, 1969) but its oil reserves propelled the country into becoming the most industrialized nation in the African continent (Ojo & Akanji, 1996). However, the oil reserves have an uncertain future since they are already becoming depleted.

In addition to investing in the oil reserve extraction, the Nigerian government have tried to accelerate the rate of agricultural development in a bid to transform the nation into a more stable developed economy. The economy held so much hope for attainment of such goals within a short period and this was even before the advent of oil as the main export commodity (Ukpong, 1993).

Agriculture is the principal source of food and livelihood in Nigeria. This industry employs 70% of the nation’s work force and is a major source of livelihood for the majority of the population in Nigeria (Abayomi, 1997). Over the past two decades, agricultural yields have stayed the same or declined. Although there has been a recent rise in agricultural productivity, it is derived more from expanded planting areas for staple crops rather than from yield increases. Increasing and sustaining agricultural productivity should be a critical component of programs that seek to reduce poverty and attain food security in Nigeria (Ukpong, 1993).

Notwithstanding the oil reserves, agriculture is still the most dominant sector, which contributes to national domestic production. In spite of this Abayomi (1997) pointed out that private businesses are predominately unwilling to invest more into agricultural development, which is contrary to the government objectives, and puzzling considering the publicly funded incentives which have been available.

The World Bank (2011) studied agricultural investment in developing nations and identified three actions, which countries like Nigeria should do to improve the economy:

- *1.*

  Increase food production which

would increase business income;

- *2.*

  Make household food, water and energy production secure;

- *3.*

  Restore and maintain the natural resources.

The World Bank (2011) claimed that nations such as Nigeria often fail to effectively develop their agricultural section to its full potential because they purchase rather than develop their imports, they do not use mechanization to facilitate agricultural production, and most significantly there is a lack of credit to stimulate development.

In Nigeria, the lack of credit to finance agricultural investment is a major problem. However, since the availability of adequate credit is central to the improvement for agricultural production in the economy, the Federal Government of Nigeria recently prioritized the agricultural sector, and directed commercial banks to through the Central Bank of Nigeria (CBN) to allocate a certain percentage of their loan funds to the agricultural sector (Ukpong, 1993).

In fact, to encourage the commercial banks to meet this target, the CBN introduced the Agricultural Credit Guarantee Scheme (ACGS) in 1977 to guarantee credit disbursed by commercial banks to the sector. The loan amount was raised and the guarantee rate was raised to 75% against default payment of loans (CBN 1981).

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