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Financial Sector Reforms and Agricultural Development in Nigeria: A Review

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Abstract
The financial sector is undoubtedly an important component of any economy and is essential in the development of the Agricultural sector. The movement towards a more friendly market oriented economy has attracted considerable debate among economist and policy makers. The reason being that as perceived by policymakers, the adoption of the neo classical economic dogma is capable of moving the economy in the path of sustainability, development and growth. The financial sector has witnessed several reforms pre and post Nigeria independence. The paper examined reforms in the financial sector in relation to agricultural development in Nigeria. It highlighted some reforms in the sector under different eras to include regulatory, liberalized and regimented regulations among others. These reforms did not only provide the intermediation that pooled funds from savers and channeled to investors but also provided the payment system that facilitated agricultural trade and exchange and significantly impacted agricultural production. The financial sector should be motivated to supply the funds needed for agricultural development while government should provide the enabling environment conducive for farming as a business through concessionary interest rates, tax free and import duty concessions.

1. Introduction

One of the most important tasks before any developing country like Nigeria is to think of how to achieve higher rate of economic growth which could be achieved through reforms. Reforms are part of a change which becomes imperative for any organization or system. Financial sector reforms had been adopted by the Nigerian government as a part of their economic reform program. Through this reform program, the government intended to liberalize the financial sector and to ease the entry into the banking sector (Omankhanlen, 2012).

The financial sector does not only mean the banking sector, the banking sector only holds a major stake in the financial sector of the economy making it more pronounced than other sectors of the economy. We also have the Non-Bank Financial Institutions (NBFI) which includes insurance companies, discount houses, unit trust, the capital market institution through which bonds, stocks and other securities are traded, interest rates are determined and financial services are produced and delivered around the world. The money and capital markets along with the financial system that support them are an exciting area for study.

The capital market has also experienced a lot of reforms over the years and is still in place, especially as regards the capital requirements of the operators, the operational and ethical standards of the institutions and the modalities of the market mechanism. The reforms in the system impacted positively in the growth of the financial system and the economy in general. What goes on daily in these markets and within the financial system, as a whole, has a powerful impact on the economy. Broad changes are forever remaking the financial market as new institutions, new methods, new problems and new services continually appear. The reforms often seek to act pro-actively to strengthen the system, prevent system crisis, and strengthen the market mechanism and ethical standards.

The financial sector is in no doubt a very essential part of the economy of a nation and Any reform carried out in the financial sector extends to other parts of the economy, representing a transformational moment for the economy and its people. Financial sector reforms, however, have been a regular feature of the financial system. The reforms have evolved in response to the challenges posed by developments in the system such as systemic crisis, globalization, technological innovation and financial crisis.

Banking reforms predated Nigeria's independence in 1960. There have been six major reforms since 1892 when Africa banking corporation of South Africa opened a branch in Nigeria. The reforms, as Udendeh (2009) notes are Free Banking Era (1892-1957), Regulatory Era (1952-1991), Liberalized Regulation Era with specialist roles (1991-2000), Liberalized Regulation Era with universal roles (2000 -2005), Regimented Regulation/Consolidation (2005-2009) and Regimented Regulation/Ownership Solution (2009 to date). To boost the economy, various economic and structural reforms were introduced in the country. Although the share of the banking system credit reform to private sector improved significantly. The depth of the financial sector did not improve initially in the 1980s and 1990s but later rose significantly in 2005 and 2006. From the standpoint of improvement in agricultural production, it seems the reforms in the financial sector did not correspondingly translate to increase in food production in the country. According to Udah and Obafemi (2011) rather than resulting in a steady growth of productive activity, it generated oscillation in the business cycle. Growth in the agricultural sector, manufacturing and capacity utilization averaged 33.6 percent, 5.6 percent and 45 percent in the 1980s, 37.9 percent, 4.5 percent and 35.1 percent in the 1990s, 42 percent, 4.0 and 46.4 percent respectively on the average in 2006 (Udah and Obafemi, 2011). Since majority of the poor who reside in rural areas constitute the bulk of labour force in agricultural sector, financial sector reforms that improved the agricultural sector is likely to lift the poor out of poverty. This paper examines the various reforms eras and the performance of the agricultural sector.

1.1. The Free Banking Era (1892-1951) and Agricultural Development

The Free Banking Era (1892-1951) was also known as the laissez faire banking due to absence of control over any bank. A mere registration under the companies' ordinance, a bank was established. Banking in this era dominated by foreign banks; namely, the African Banking Corporation (1892) now First Bank of Nigeria; Colonial Bank which predated the former Barclays Bank (1917) and presently Union Bank; and the British and French Bank (1948) which became United Bank for Africa (UBA) in 1961. The reason for their existence was not for financial intermediation, but to serve the cash needs of the colonial government and the multinationals (Haruna, 2008).

The Nigerian government during the colonial period adopted the exploitative strategy for agricultural development. In the 1950s, the traditional economists observed agricultural sector as a residual, subsistence sector made up of peasant farmers. Myint (1958) in his vent-for-surplus theory particularly categorized a developing economy as consisting of a "modern sector "that is largely non- agricultural and a "subsistence sector" that is agricultural. The subsistence sector that is perceived to be unproductive but full of under-utilized resources is expected to feed the modern sectors. As such, the subsistence sector was expected to be taxed to finance the modern sector. This essentially was the basis of the agricultural strategy in 1950s in Nigeria with levies on export crops providing revenue for government to develop the modern sector (Adubi, 2004). The government established institutions such as the agricultural marketing board system to boast revenue generation efforts through taxing of peasant farmers that produce export crops such as cocoa, groundnut, palm produce, cotton etc.

1.2. The Regulatory Era (1952-1991) and Agricultural Development

During this period, many financial sector reforms took place in the economy. These include the banking ordinance of 1952, the creation of Nigerian Agricultural and Cooperative Bank in 1973, the launching of a rural banking in 1977, and the Agricultural Credit Guarantee Scheme Fund (ACGSF) was launched in 1977 to reduce the risk borne by commercial banks in extending credit to farmers. Under this scheme, the Central Bank of Nigeria guaranteed up to about 75% of the Credit. As a matter of policy, the naira was allowed to appreciate in this period. In this period three exchange rate systems were adopted from 1960 to 1972. These are the fixed rate system which was adopted from 1960 to 1972, the managed floating system from 1973 to 1978, and the pegged system, that is pegged to a currency basket was adopted from 1979 to 1985. Besides, the mandatory sectoral allocation to agriculture and the deregulation of banking in 1986 provided the impetus for the Structural Adjustment Programme (SAP).

Out of these financial sector reforms in the economy, the creation of Nigerian Agricultural and Cooperative Bank in 1973, World Bank Agricultural Development Projects in 1975, the launching of Rural Banking in 1977, the Agricultural Credit Guarantee Scheme Fund (ACGSF) launched in 1977, the mandatory sectoral allocation to agriculture and the deregulation of banking in 1986 which provided the impetus for the Structural Adjustment Programme affected agricultural development directly. It will be necessary to examine each of them in detail.

2. The Nigerian Agricultural and Cooperative Bank (NACB)

The Nigerian Agricultural and Cooperative Bank was created in 1973 as an agricultural development bank to contribute to the growth and development of agriculture through extension of credit. The specific objectives of the bank are "to assist in promoting agricultural production and rural development, as well as improving the quality of life of Nigeria's rural population and make the nation self-sufficient in food production (Ajakaiye, 1985).

Through its investment loans and small-scale farmers credit schemes, the bank has channeled more than ₦586 million to different agricultural projects from its inception until September 1984. Of this amount N433 million has been disbursed and N134 million repaid by the beneficiaries. The aggregate recovery ratio of about 1:3 is high compared to ratios attained in bank lending to agriculture. According to Ijoma (1985) the NACB devised an on-lending scheme which is a market strategy to achieve the following:

i) Maximize impact to NACB funds by reaching a large number of farmers, especially those who could have been excluded due to the small size of their holdings; and
ii) Combine credit component with extension services, input procurement, proper project formulation and supervision.

The bank lends to government bodies and cooperatives which in turn, on-lend to the ultimate beneficiaries. The on-lending institutions prepare aggregate project packages; forward them for approval and financing by the bank. At the time of recovery, they are held responsible for recovering the dues from beneficiaries. The on-lending schemes account for 63% of NACB disbursements, while investment loans to medium and large-scale farmers account for the balance 37%.

2.1. Appraisal of the NACB

Until September, 1984 the NACB had approved assistance amounting to ₦586,668,969 of which ₦367,329,525 or 63% comprised loans of small-scale farmers and ₦219,339,444 or 37% formed loans to medium and large-scale farmers. Since the objective is to accommodate small-scale farmers and help achieve self reliance in food production, the emphasis of small-scale farmers in the loan port folio is well directed.

Out of the aggregate amount approved, only ₦421,626,312.15 were disbursed. Aggregatively 3479 projects were financed. The cumulative amount repaid was ₦133, 642,584.58 giving a repayment ratio of 1:3 (Ajakaiye 1985). The corresponding ratio for the ACGSF scheme is about 1:15 (Ezegoh, 1984). Thus, the repayment ratio for the NACB loans is high and to this extent, it is a successful programme.

The problem is with the low coverage. Only 3479 loans were approved in the twelve years of its operations (1973-1985). Seen against the perspective of rural dwellers of almost 70 million, it looks like a drop in the ocean. According to Ajakaiye (1985), the expense in running the scheme is high and the number of applicants overwhelmingly large. The on-lending scheme through the state governments has not been successful because of inadequate screening and identification of farmers to ensure that only genuine farmers get the loan. Another setback is inadequate supervision to ensure correct usage of inputs. It is hope that an injection of more funds by government into the NACB would help extend facilities to a larger number and range of farmers and, therefore, help realize the objectives of the bank more expeditiously.

2.2. World Bank Agricultural Development Projects (ADPs)

This is an attempt at comprehensive integrated development of rural areas, not necessarily a financial scheme like the programme already discussed. The first set of the ADPs stated in 1975 and involved Funtua, Gusau and Gombe projects. They were referred to as enclave ADPs because they embraced several local government areas to distinguish them from state wide projects. By 1985, six enclave ADPs, (Lafia, Ayangba, Bida, Ilorin, Oyo, Ekiti/Akoko) and four state wide projects-Bauchi, Kano, Sokoto and Kaduna were operational (Okorie, 1985).

It is intended that the ADPs would cover all 19 states of the Federation and additional state wide projects were appraised in 1984 for Anambra, Bendel, Benue, Imo, Cross River, Plateau, Ogun and Rivers State so that they could be launched between October and November, 1985.

When these new ADPs take off in 1985 all states except Lagos will be covered. The projects were developed as a new strategy for enhanced fibre and food production with the small-scale farmer as the pivot. The success of these experimental projects, as a result of the introduction of inputs like fertilizers, pesticides, improved seeds, and crop varieties and modern techniques of farming, has encouraged further government participation.

According to Okorie (1985) the existing enclave and state wide projects cover 2.5 million farming families domiciled in 92 local government areas circumscribed within 3.5 million square kilometers.

Its total cost, estimated at N1.327 billion with a foreign exchange component of $784.5 million, was financed by a loan from the International Bank for Reconstruction and Development (IBRD). The ADPs involve the following activities:

i) Construct extensive network of feeder roads in the agriculturally productive rural areas to facilitate the evacuation of farm produce and timely delivery of farm inputs such as treated seeds, pesticides and fertilizers.

ii) Construct and established farm service centres which will be storage and distribution centres of farm inputs. These are intended to ensure that farmers travel a maximum of 5 to 6 kilometers to purchase farm inputs, obtain credit or seek requisite extension advice;

iii) Provide effective extension service and train farmers in on- the farm adaptive research utilization and modern techniques of farming; and

iv) Establish a project monitoring and evaluation system.

2.3. Appraisal of the World Bank Agricultural Development Projects (ADPs)

The projects are reported to have performed well in their operational areas. The ADPs are based primarily on investment in physical and institutional infrastructure. Physical infrastructures comprise rural feeder roads, dams, ponds, wells, buildings and soil conservation embankments and institutional infrastructure includes farm service centres. The Funtua Gusau and Gombe projects scored 100% in terms of institutional infrastructure and performed well in terms of staff houses and fairly well in terms of earth dams (Okorie, 1985).

In terms of provision of farm inputs, the Funtua and Gusau projects sampled over-achieved their targets and scored 119.7% and 400%, respectively. Further, the achievement indices for major crops in Funtua, Gusau, Gombo and Ayangba were seen to be high.

A survey of the credit delivery system in the Lafia Agricultural Development Project (LADP) was undertaken by S.A.N.D Chidebelu and K.N.UEzike (CBN Annual report and statement of accounts, 1983). Of the total amount borrowed which was put at ₦21,396, the LADP accounted for 9.2%. Informal sources of credit through money lenders, adeshi (isusu), landlords and friends and relations thus predominated.

While the interest rates charged by the formal credit sources ranged from 6% to 100%, the LADP charged only 7%. The repayment rates for the LADP were, ironically the lowest (51%) while the repayment rates for cooperative societies, landlords, and church were 100% each, and the repayment rates for other informal sources ranged from 57.9% to 84.9%. Thus, the farmer repays the costlier credit faster and interest rates do not constitute a significant factor in rural credit. The repayment rates are still significantly higher than those attained for the NACB and the ACGSF.

These achievements notwithstanding, the Agricultural Development Projects have an expatriate biased project management. They have concentrated on small-scale farmers for the production of the food and fibre requirements of the nation, in spite of the fact that small-scale farmers have a limited capacity for output expansion since scale economies are absent.

2.4. The Rural Banking Programme

Following the recommendations of the Okigbo Financial Review Commission of 1976, the Rural Banking Programme came into being in July 1977. The objectives of the programme include cultivation of banking habits in rural areas, mobilization of savings and their use for profitable ventures in rural areas, development of agriculture and agro-based industries, reduction of the drift of young men to the cities and the achievement of the national objective of self sufficiency in food production.

The programme has run through two phases during which banks were directed to open branches in rural areas. Thirty percent, later raised to 40% of funds mobilized were to be retained in investments in rural areas. In the first phase, 1977 to 1980, 200 bank branches were opened in the rural areas and in the second phase, 1980-1983, 266 branches were allocated to different commercial banks for development and commissioning in the rural areas and in the second phase, 1980-1983, 266 branches were allocated to different commercial banks for development and commissioning in the rural areas. The first phase has been completed but the second phase has not been fully implemented (Ike, 1986). As at March 11, 1985, only 229 of the 266 allocated rural branches were opened. The nation is already gearing up for the third phase during which more bank branches would be established in the rural centres. Today, Nigeria has a total of 1132 bank branches which works out to a ratio of one bank branch to eighty thousand inhabitants as against a ratio of 1:170,000 at the beginning of the Rural Banking Programme in 1977.

2.5. Appraisal of the Rural Banking Programme

The first phase of the programme was successfully completed while the second phase had achieved 86% completion by March 1985. The non-completion of the second phase was due to problems of inadequate infrastructure, lack of suitable accommodation, high cost of renting properties, poor access roads and absence of police protection and security encountered in implementing the programme (Abe, 1984).

From the returns rendered as at September 30, 1983 by 15 out of the 20 banks that participated in the programme, it was shown that the rural branches accounted for ₦350,863,863 or 3% of the ₦13,475,600,000 deposits generated within the banking system. They also accounted for ₦110,029,650 or 1.0% of the total loans and advances of ₦9,877,241, 521 granted by the banks. Over 31% of the deposits generated at rural centres were given out as loans and advances to projects in rural centres. This is seen as an improvement over the 19.2% granted at the end of the first phase in 1980. The minimum requirement is 30%.

Since, in number, rural branches now form 35% of all branches (389 against 1,132) their deposit and loan capacity is still minuscule. Thus 35% of the banks accounted for 3% of deposits generated in 1983 and 1% of total loans advanced in the same year. The rural banking programme thus has a long way to go in mobilizing savings in the rural agricultural sector and channeling them into asset creation. The mandatory 30% loans and advances to the rural sector from rural bank deposits was overshot for 1983 showing the relative success of the programme.

In the 1985 budget, the head of state announced an increase of the minimum credit of rural areas from the deposits collected from such areas to 40%. Thus 40% of the funds generated from the rural areas would be on-lent for the specific benefit of the area. This, it is hoped, will greatly aid agricultural development since farming is the major occupation of rural dwellers.

There is evidence that the Rural Banking Programme is achieving the desired results. There is an increased awareness on the part of the public regarding the programme. Applications are received by the central bank daily from rural centres requesting for a rural bank. Two state governments are reported to have submitted lists of centres to be taken up in the third phase. The Rural Banking Programme has led to improved rural banking habits, provision of credit for small-scale ventures and increased rural employment opportunities (Abe, 1984).

Further, the banks population ratio in Nigeria has been brought down to 1:80,000 as against 1:170,000 at the beginning of the rural banking programme in 1977. This does not as yet compare favourably with the developed countries. For instance, Britain has a ratio of 1:4,000. USA 1:6,000 and India 1:30,000. Thus Nigeria is the still relatively under-banked.

2.6. The Agricultural Credit Guarantee Scheme Fund

The Agricultural Credit Guarantee Scheme Fund (ACGSF) is a policy instrument of the Federal Government of Nigeria on Agricultural Credit. The scheme was established by Decree number 20 of 1977 but started effectively in 1978, the scheme was established to provide guarantee an loans granted by banks to farmers for agricultural production and agro-allied processing (NwosuandOguoma2010).

2.7. Roles of the Scheme

The general purpose of the Nigerian Agricultural Credit Guarantee Scheme Fund is to encourage banks to lend to those engaged in agricultural production and agro-processing activities. Thus, the specific objectives of the scheme is the stimulation of total agricultural production for both domestic consumption and export; and the encouragement of financial institutions to participate in increasing the productive capacity of agriculture through a capital lending programme. The scheme is expected to provide guarantee on loans granted by financial institutions to farmers for agricultural production and agro-allied processing. The funds liability is limited to 75% of the amount in default net of any amount realized by the lending bank from the sale of the security pledged by the borrower. Since the inception of the scheme in 1978, there has been a continuous aggregate increase in the number of loans to agriculture from a paltry 341 loans amounting to N11.28 million in 1978 to 3,571 loans amounting to N218.6 million as at May 2006. Also, data at the Central Bank of Nigeria show that a total number of 453,748 loans valued at N11.28 billion were guaranteed from the inception of the scheme in 1978 to May, 2006. This translates to an average of 16, 205 loans valued at N402.86 million per annum. The agricultural activities that can be guaranteed under the scheme include the:

a) Establishment and /or management of plantation for the production of rubber, oil palm, cocoa, cotton, coffee, tea and other cash crops.
b) Cultivation and production of cereals, and root crops, fruits of all kinds, beans, groundnuts, peanuts, banana, beniseed, vegetables and plantains
c) Animal husbandry that covers poultry, piggery, rabbitry, snail farming, rearing of small ruminants like goats, sheep and large ruminants like cattle.

The scope of (c) above was expanded in the amendment decree of 1988 to include fish culture, fish captives and storage. The scheme guarantees loans to farmers from lending institutions up to the tune of 5 million naira for individual farmers and 10 million naira for group/cooperative farmers (CBN, 2007).

2.8. Problems of the Scheme

According to Akinyeet al (2005), a number of problems have been identified as militating against the smooth performance of the scheme. These include increasing incidence of loan defaults among borrowers, the non-cooperation among participatory banks to lend to farmers, the failure of the bank to explain "personal guarantee" as a security that may be offered to a back for the purpose of a loan and also the N20, 000 loan which the scheme allowed to be collected through "personal guarantee" cannot do much for any farmer in his farming activities. Also, the other securities recognized by the decree that could be offered to the bank for the purpose of any loan under the scheme pose problems in the smooth operation of the scheme. The securities are legal title to land, and a life assurance policy. It is a common knowledge that most people especially in the rural area do not have clear titles to their land which could serve as collateral for loan under the scheme (Okorie, 1998).

Finally, the ACGSF has the problem of publicity. According to Oguoma (2002) most state of the federation have low out of farmers because of lack of awareness.

2.9. Prospects of the Scheme

From various studies on the Agricultural Credit Guarantee Scheme Fund in Nigeria, it is evident that the scheme has increased the flow of funds to agriculture. However, stakeholders in the scheme viz: the farmers, lending institutions and government must show greater commitment and dedication for the scheme to achieve its laudable objectives. Farmers should be encouraged to be applying for loans from the participating banks to enhance their agricultural activities and productivity; and also to repay the loans as and at when due.

The lending institutions should make efforts to grant agricultural loans to the appropriate time to farmers who met the conditions. Late release of loan to a farmer leads to loan diversion /misuse which has been established to be a major cause of poor loan repayment. Secondly, it behooves on the lending institution to ensure that the loan being granted to a farmer is "quite adequate" for the purpose, as granting of an inadequate loan for a purpose is a prelude for loan repayment ability. The government should take a second look at the securities that may be offered to the bank for the purpose of a loan under the scheme. There is the need for government to review the idea of a farmer using a certificate of occupancy on a land as "security" before any amount above ₦20,000 in approved. It is a common knowledge that small farmers (especially in the rural areas) do not have legal title on their farmlands. Therefore, there is the need to review this subsection so that the traditional ruler or President General of the applicants community or a civil servant of a particular category could stand as surety for loans under the scheme. The scheme still needs publicity as most farmers especially in the rural areas are oblivious of the schemes objectives. It therefore behooves on the government (Federal, state and local governments) to use its agencies like National Orientation Agency (NOA). Agricultural Development Programme (ADP) extension officers and other relevant bodies to organize lectures on the scheme in the farmers' locality.

Finally, government should ensure that bank claims as a result of default and borrowers' interest draw backs are paid without delay. This will not only motivate both participating banks and farmers in the scheme but will also attract others who are skeptical. The end result is the nation reaping the dividend of adequate credit into our agricultural sector and that is increased productivity which is a sine qua non in agricultural development.

3. Mandatory Sectoral Allocation to Agriculture

Commercial and Merchant banks were mandated to extend a minimum of 6% of their loan portfolio to agriculture which was later increased to 12%.

Trade policy on abolition of export duties on scheduled export crops in 1973 in order to promote agricultural export trade. Liberation of imports in respect of food agricultural machinery and equipment. A summary of the micro-economic policies in Agriculture during the era were as follows:

1. Agricultural Commodity Marketing and Pricing Policy: In 1977, Six national commodity boards were established which include; commodity boards for cocoa, groundnuts, palm produce, cotton, rubber and food grains
2. Land use Policy was promulgated by the Federal Government in 1978 vesting the ownership of all lands on the government as to give genuine farmers access to farmlands.
3. Agricultural extension and technology transfer policy aimed at improving the adoption of improved agricultural technology by farmers with the National Accelerated Food Production Project (NAFPP) and Agricultural Development Projects (ADPs) as implementing agencies.
4. Input supply and distribution policy was promulgated to ensure adequate and orderly supply, of agricultural inputs notably fertilizers, agro-chemicals, seeds, machinery and equipment.
   a) In 1975 Government Centralized Fertilizer Procurement and distribution with numerous agro-service centers nationwide.
   b) In 1972 Government created National Seeds Service (NSS) to produce and multiply improved seeds such as rice, maize, cowpea, millet, sorghum, wheat and cassava.
5. Agricultural input subsidy policy on fertilizer, seed (50%) agro-chemicals (50%) and tractor hiring services (50%).
6. Agricultural research policy: The policy was aimed at coordination and harmonization of agricultural research and extension linkage. Agricultural research council was established in 1971. The 1973 Decree empowered the Federal Government to take over all state research institutions. The 1975 reconstitution by the Federal Government of the Nigerian Agricultural Research Institute network led to the establishment of 14 institutes which were later increased to 19 and the creation in 1977 of the National Science and Technology Development Agency to coordinate all research activities in Nigeria.
7. Agricultural cooperatives policy: In 1979, a department of agricultural cooperatives within the Federal Ministry of Agriculture, Water Resources and Rural Development was created to actualize this policy aimed at encouragement of farmers to form cooperatives and the use of same for the distribution of farm inputs and imported food commodities.
8. Water Resources and irrigation policy brought about the establishment of eleven River Basin Development Authorities in 1977 charged with the responsibility of developing Nigeria's lands and water resources.
9. Agricultural mechanization policy: The policy was instrumental to the creation of the Ministry of Science and Technology and the establishment of some universities of science and technology. The operation of tractor hiring units in all the states of Nigeria reduced import duty on tractors and agricultural equipment and implements, generalized and liberalized subsides on farm clearing and establishment of a centre for agricultural mechanization.

This era experienced imbalance in the flow of financial resources as reflected in Nigeria's foreign trade. During this period imports rose by 46.5% more than the planned targets, with food, capital equipment and raw materials being the fattest growing categories of imports. Food imports as a share of total imports increased from 7.67% in 1970 to 10.26% in 1979 (Osemeobo, 1992). At the same time as imports were increasing agricultural production was suffering due to the latent impact of the civil war (1967 to 1970) and the drought of 1972 to 1974 that led to a massive loss of crops and livestock. Despite government efforts in agricultural production, the performance of the agricultural sector was poor in terms of its growth, its export value, its contribution to GDP, and its share in Nigeria total export earnings.

There was rapid decline in agricultural production with large food supply gaps (Sanyal and Babu, 2010) with attendant rapid increase in food imports from 7.7% in 1970 to 10.3% in 1979.

3.1. The Structural Adjustment Programme (SAP)

As the economic problems became more evident which range from stagnant growth, rising inflation, unemployment, food shortages and mounting external debts, which confronted the country since the early 1980's. Besides, the sharp reduction in crude oil prices resulted in deterioration in government's finances and foreign exchange earnings. As the country plunged into economic recession, stricter measures were imposed. The measures relied largely on complex administrative controls which brought in their make additional costs, such as fraudulent mal practices and corruption of officials administering the stringent control measures particularly the import licensing allocation of foreign exchange. These had negative rather than the desired positive recovery effects, since the problems worsened as it became difficult to procure raw materials and spare parts, thus resulting in extensive plant closures, drop in capacity utilization, fall in industrial production and increased unemployment (Ojo, 2010).

As these problems became more unmanageable, the Government in July 1986, launched the Structural Adjustment Programme (SAP) that had economic and financial deregulation as a major feature. According to Olomola(1994) SAP was designed to restructure and diversity the productive base of the economy, achieve fiscal balance of payment equilibrium, intensity growth potential of the private sector and set the economy on the path of steady and balance growth. A major blank of this programme is the restructuring of the fiscal sector and the liberalization of the control and regulation of financial institutions and markets.

3.2. Effects of Structural Adjustment Programme (SAP) on Agricultural Development

With the adoption of the Structural Adjustment Programme(SAP) in 1986, government admitted the failure of past policies to significantly improve the economy and reverse the declining trend of production in the agricultural sector. The Structural Adjustment Programme relied mostly especially on the agricultural sector to achieve the objectives of its far-reaching reforms on diversification of exports and adjustment of the production and consumption structure of the economy (Adubi, 2004).

3.2.1. The Objectives of SAP were to

1) Restructure and diversity the productive based of the economy so as to reduce dependency on the out sector,
2) Achieve fiscal stability and balance of payments viability over the medium term; and
3) Promote economic growth with single digit inflation rates.

3.2.2. Some of the Key Policies Designed to Achieve These Objectives were

a) Measures to stimulate domestic production and broaden the supply base of the economy;
b) Liberalization of trade and export controls;
c) Elimination of price control and commodity boards;
d) Decontrol of interest rates; and
e) Further rationalization and restructuring of the tariffs to smooth the way toward industrial diversification (Sanyal and Badu, 2010)

In spite of the above policy measures the agricultural sector did not register significant overall growth for several reasons. First, SAP had more of an impact on the distribution of farm incomes than on agricultural growth and productivity. (Kwanashie et al 1998;Ugwu and Kanu, 2012). Second, on average, real producer prices of tradable goods did not change significantly after the policy reforms. The decline in output of the export crop subsector contributed to a reduction in foreign exchange earnings that could affect the foreign exchange requirement of the agricultural sector. As a result of this reduction and subsequent loss of export earnings from crops, the country is dependence on crude petroleum export earnings between 1988 and 1992 increased substantially (Colman and Okorie, 1993).

In this era (regulatory 1952-1991), which marked the SAP period, there was lower agricultural and economic growth with high rates of unemployment export earnings declined to less than 5%. As well as widening gap in food supply and demand, food prices increased from 2.6% in 1970 to 1979 period to almost 20% during 1980 to 1989.

The environmental implications of these policy reforms were quite significant during this period there was increased deforestation with adverse impact on biotic resources, loss of biodiversity, increased desertification arid areas and flooding in lowland areas. There was also evidence of increased use of chemicals and abuse of fertilizer use which led to soil degradation in certain agro ecological zones.

With respect to the index of real agricultural sector GDP between 1985 and 1990, it was fluctuating over these years; it was negative in 1985 and 1986 and positive in 1987 to 1990.

3.2.3. The Liberalized Regulation Era with Specialist Roles (1991- 2000)

This era witnessed the following financial reforms:

1) 1991 -Embargo on bank licensing, strengthening of bank regulation and supervision and partial privatization of banks.
2) 1992-Privatization of banks commenced
3) 1993-Restructuring of distressed banks
4) 1994 -Liquidation of banks
5) 1995 -Liberalization of capital flows
6) 1996 -Liberalization of the capital
7) 1997 - Capital market reforms (partial in 1993)
8) 1999 -Re-entry of foreign fully owned banks
9) 2000 -Institutionalization of foreign currency deposits (Omankhanlen, 2012).

Among the above financial reforms, financial liberalization will be looked at in detail. Financial liberalization is viewed as a process of moving towards market determined interest rate as well as market determined prices on all classes of financial products. It also involves banking systems characterized by symmetric entry and exit conditions of all participants, increasing internationalization or the opening up of the domestic market to international competition and limited barriers to the introduction of new financial products" (Ikhide, 1998).

This was explained in simple words by Tseng and Coker (1991) saying "that financial liberalization involves changes in the financial structure by going further to list the changes as liberalization of interest rate, reduction or abolition of credit controls, removal of limits on scope of banking activities, banking system reforms, reduction or abolition of foreign exchange controls and free entry of foreign institution to domestic financial markets". Financial liberalization consists of the deregulation of the foreign sector capital account, the domestic financial sector and the stock market sector viewed separately from the domestic financial sector (Kaminsky and Schmukler, 2003). The Financial liberalization that took place in developing countries in the late 1990s was part of a general move toward giving markets a greater role in development; a desire for cheaper and better finance; and the growing difficulties of using capital controls in a world of increased trade, travel, migration and communications. It differed in timing speed and content across countries, but it always involved freeing interest rates and allocations, privatizing state banks and pension payments, developing financial markets, and encouraging competition between banks (and sometimes non-banks).

3.3. Effect of Financial Liberalization on Agricultural Development

According to Hansan et al (1996) financial sector reforms especially liberalization are necessary as it attracts greater savings due to higher interest rate. This would make available more loanable funds to investors for investments and faster agricultural growth. However, low interest ceiling is noted to discourage savings that are supposed to make credit available to investor for investments.

The Liberalized Regulation Era with Universal Roles (2000 -2005)

The era of liberalized regulation with universal roles started in 2000 – 2005 which witnessed the combination of commercial banking and investment banking. It is a supermarket for both wholesaler and retailer financial services as it offers a wide range of financial services Sanders and Walter (1994) seeit as the conduct of a range of financial services comprising deposit taking and lending, trading of financial instruments and foreign exchange (and other derivatives)underwriting of new debt and equity issues, brokerage, investment and insurance. Alegieuno (2000) corroborates this but expanded its scope. Universal banking was seen as the business of receiving deposits on current, savings or other accounts; paying or collecting cheques drawn or paidin by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters: making or managing investment on behalf of any person; and the provision of insurance marketing services and capital market business or such other services as the Governor of the Central Bank of Nigeria (CBN) may regulate or designate as banking business. Under this concept, banks are free to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities. The universal banking system allows banks to operate in all sectors without differentiation as merchants, commercial or mortgage banks. In this respect, Jimoh (2010) defines universal banking as a system where banks are allowed to provide a variety of services to their customers. Through the system, commercial banks are encouraged to operate and extend their primary mandated financial functions and incorporating along other operations such as Mutual Funds, Merchant Banking, Factoring, insurance, credit cards, retail loans, housing financial, trusteeship and Allied services, stock broking Onu(2013) stated that universal banking was designed to ensure a diversified strong and reliable banking that would stimulate the economic growth of the nation. The adoption and implementation of universal banking system and other reforms that accompany it would herald rapid and sustainable development and economic growth in the country.

3.4. Effect of Liberalized Regulation Era with Universal Roles (2000-2005) on Agricultural Development

The universal banking allows banks to choose which activity or activities to undertake (money or capital market activities or insurance marketing services or a combination thereof) and are expected to comply with the guidelines specified for such activity or activities (Onu, 2013). The growth rate of real GDP-agriculture increased from 41.37 to 65.13 percent between 2000 and 2003 respectively (Ugwu and Kanu, 2012). The Universal banking reform in the financial sector, which has deepened the financial system, made finance to be on a steady increase from 30.9 to 43.5 percent respectively (Nnanna, et al 2004). This could be attributed to the renewed confidence of investors in the economy due largely to the introduction of democratic government.

The Regimented Regulation/Consolidation (2005 -2009)

This reform which began in 2004 was necessitated by the need to strengthen the banks. The policy thrust at inception was to grow the banks and position them to play pivotal roles in driving development across the sectors of the economy. As a result banks were consolidated through mergers and acquisitions raising the capital base from N2 billion to a minimum of N25 billion, which reduced the number of banks from 89 to 25 in 2005, and later to 24.

Beyond the recapitalization of banks, the regulatory reforms also focused on:

a) Risk and rule based regulatory framework;
b) Zero tolerance in regulatory framework in data/information rendition/reporting and infractions;
c) Strict enforcement of corporate governance principles in banking;
d) Expeditions process for rendering of returns by banks another financial institutions through e-fass an automated solution installed by the CBN;
e) Revision and updating of relevant-laws for effective corporate governance and ensuring greater transparency and accountability in the implementation of banking of laws and regulations, as well as;
f) The introduction of a flexible interest rate-based framework that made the monetary policy rate the operating target. The new framework has enabled the CBN to be proactive in countering inflationary pressures. The corridor regime has helped to check wide fluctuations in the interbank rates and also engendered orderly development of the money market and payment system reforms; amongst others (Nigeria's banking reforms, 2014).

3.5. Effect of the Regimented Regulation/Consolidation (2005-2009) on Agricultural Development

In 2006, there was liberalization of the utilization and disbursement of export proceeds by exporter (Omankhanlen, 2012).

Besides, the Commercial Agriculture Credit Scheme (CACS) was established in 2009 to finance large-ticket projects along the agricultural value claim. The scheme is administered at a single digit rate of nine percent to beneficiaries. State Governments, including the Federal Capital Territory (FCT), can access a maximum of N1.0 Billion each for on-lending to farmers' cooperatives or other areas of agricultural interventions that suit them.

In addition, the Nigerian Incentive-based Risk Sharing system for Agriculture Lending (NIRSAL) was introduced by the CBN in August, 2009 to provide farmers with affordable financial products and reduce the risks of such loans to the benefiting farmers. The apex bank in August 2009, signed an agreement with the Alliance for Green Revolution in Africa (AGRA) to develop the mechanism for unlocking the access of farmers, agro processors, agribusiness and input suppliers to financing in the agricultural value chain.

It is aimed at de-risking the sector by repackaging agriculture to become a real business that will guarantee food security, create employment, supply needed raw material to the industrial sector as well as serve as a veritable vehicle for wealth creation.

NIRSAL was expected to break the age old transition (small-holding subsistence agriculture production that is not commercially viable) in two ways. This would be done by fixing the agricultural value chain in order for banks to lend to the sector without much apprehension and encouraging banks to lend to agricultural value chain from their balance sheets and without recourse to government funds, by offering the unprecedented incentives and technical assistance.

This is to be achieved through NIRSAL-fire solution components of Risk sharing facility (RSF) Insurance Component (IC) Technical Assistance Facility (TAF), Bank Incentive Mechanism (BIM) and Agricultural Bank Rating System (ABRS).

The Risk Sharing Facility (RSF) is designed to support the deployment of different risk-sharing instrument to reduce the risk of lending to agriculture by commercial banks.

The Insurance Component (IC) is intended to identify existing insurable risks, existing solutions for coverage in the development of such solutions and link such products to the loans provided by the banks to beneficiaries.

The Technical Assistance Component (TAC) is created to support banks that have clearly demonstrated interest and verifiable commitment to enter into agricultural lending especially small-holder agricultural lending.

Bank Incentive Mechanism (BIM) is designated to ensure that all deposit money banks (DMBs) which show strong commitment to lending to agriculture are further incentivized through the use of low guarantee fees, the RSF and scaling up access to capital for agricultural lending at a lower rate from the CBN.

The Agricultural Bank Rating System (ABRS) is planned by the CBN to stimulate SMEs in the country (Business news: Nigeria's Banking Reforms, 2014).

The Regimented Regulation/Ownership Solution (2009 –Date)

This era witnessed the following financial reforms:

2010-Abolishment of Universal Banking

2010-Creation of Asset Management Company (AMCON)

2010-Comprehensive review of provisional guideline for margin loans.

2010-Institutionalizing corporate governance for regulators and operators.

2010-Creation of risk department for micro guideline (Omankhanlen, 2012)

3.6. Effects of the Regimented Regulation/Ownership Solution (2009 to Date) on Agricultural Development

One of the financial sector reforms from the period 2009 to date that affected agriculture positively is the creation of the risk department for micro guideline. Credit risk is the risk of loss caused by the failure of a counter party to meet its obligations. “In other words, it refers to the delinquency and default by borrowers, i.e failure to make payment as at when due or non-payment by those owning the firm. Credit risk and default management has become a complex subject and its mitigation to acceptable levels is a major concern for all financial institutions (Ejike et al, 2013). Efforts are being made by management of the banking industry to reduce the risk exposure of banks in lending to borrowers, generally, but especially to the agricultural sector which is traditionally prone to credit risk management practices typified by high levels of insider loans, speculative lending and high concentration of credit in certain sectors among other issues.

However, with the creation of the risk department the proper application of credit such as supervision, viability collateral, sanctions, proper appraisal of loan and insurance banks are likely to reduce both risks and defaults associated with agricultural lending, hence increase bank lending to agriculture that will enhance sustainable agricultural growth in Nigeria.

4. Conclusion

This paper examined financial sector reforms and agricultural development in Nigeria. The financial sector did not have much impact on agricultural development in Nigeria especially during the “Free Banking Era. This is because the existences of the banks were not for the financial intermediation, but to serve the cash needs of the colonial government and the multinationals. Besides, the agricultural sector was not seen as a commercial sector.

The mandatory sector allocation to agriculture and the deregulation of the banking in 1986 provided the impetus for the structural Adjustment performance which affected agricultural production directly. The financial liberalization reform made more loadable funds with high interest rate available for agricultural production. There was growth rate of real GDP in the agricultural sector during the reform era.

Government should adopt strong macroeconomic policies targeted at bringing meaningful growth in the agricultural sector against foreign-based economic policies since financial sector reforms significantly impact on agricultural development in Nigeria both in the short-run and long-run. This could be done by creating a well secured bank-based financial regulation, good supervision, regular and sustainable institutional reforms.

The financial sector should be motivated to supply the funds needed for agricultural sector, while government should provide the enabling environment conducive for farming as business through concessionary interest rates, tax free and import duty concessions. These financial and fiscal incentives when provided would encourage agricultural production in Nigeria.

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