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ANALYSIS OF THE ROLE OF BANKS IN FINANCING THE AGRICULTURE AND MANUFACTURING SECTORS IN NIGERIA

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ABSTRACT

This study analyzes the role of banks in financing the agriculture and manufacturing sectors in Nigeria from 1981 – 2010. Data were generated from the Central Bank of Nigeria Statistical Bulletin (2010) and analyzed using both descriptive and inferential techniques. Two multiple regression models were estimated using the Software Package for social Sciences (SPSS). The tolerance values are greater than zero in the estimated models. The absence of multicollinearity among the independent variables (IVs) is further supported by an engenval that is less than 0.5. The descriptive results show that Nigeria's commercial and merchant banks lagged behind in financing agriculture when compared to manufacturing. Average bank credit to agriculture, within the period, ranged between 9.0% and 10.1%. Average bank credit to the manufacturing sector ranged between 32.0% and 36.8%. Within the period, average contribution of agriculture to GDP was 33.5% while contribution of the manufacturing sector to GDP averaged 5.4%. The inferential results show a significantly weak correlation between commercial bank lending and the contribution of agriculture to GDP. However, there is a significantly positive correlation between merchant bank lending and agricultural contribution to GDP. The beta coefficient shows that agricultural contribution to GDP increased significantly by 48.22% with a 100% increase in merchant bank lending to agriculture. With a 100% increase in commercial bank lending, the contribution of manufacturing to GDP declined by 27.32%.

However, the contribution of the manufacturing sector to GDP increased by 40.08% as merchant bank lending to manufacturing increased by 100%. There is also a significantly inverse correlation between commercial bank lending and manufacturing contribution to GDP. The model R^2 shows that 23.04% of the variation in agricultural contribution to GDP is explained by an increase in bank lending to the sector. It also shows that 18.75% of the variation in manufacturing contribution to GDP is explained by a change in aggregate lending. The results, however, indicate that the role of banks in facilitating the contribution of the agriculture and manufacturing sectors to economic growth is still significantly limited. The rise of numerous public intervention funding programs in these sectors is evidence of the lagging banking intermediation. The growing risk aversion of Nigerian banks is indicative of the liquidity and funding shortages in the agriculture and manufacturing sectors. Monetary policy should, therefore, emphasize mandatory sectoral allocation of credit with appropriate incentives to boost the flow of bank credit to these sectors.

KEYWORDS: Bank Credit, Agricultural GDP, Manufacturing GDP, Regression Analysis

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