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THE ROLE OF THE CENTRAL BANK OF NIGERIA IN PROMOTING AGRICULTURAL PRODUCTION AND EXPORT TRADE IN NIGERIA

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INTRODUCTION

The Central Bank of Nigeria (CBN) since its establishment in 1959, has emerged from its traditional roles of lender of last resort, regulating the money supply in the economy and maintenance of the country's external reserves, among others,to engage in a variety of activities in the form of policies, programmes and project for the development of the Nigerian economy. In particular, the promotion of agricultural production and export trade has been pursed to varying degrees using various policy instruments at its (CBN) disposal under changing national and international economic and political climate. In this paper, we will examine the development in these two key and complimentary activities and highlighting the changing economic situations.

The prospects for the future are discused based on the lessons of past experiences. The paper is rounded up with a short summary and concluding remarks.

THE ROLE OF AGRICULTURAL PRODUCTION AND EXPORT TRADE IN THE NIGERIAN ECONOMY

Agriculture constitutes a very important sector of the Nigerian economy and was the dominant sector before the crude oil boom of the 1970s. In fact, some of the conventional roles ascribed to the sector include:

(i) Providing adequate food for an increasing population;
(ii) Supplying adequate raw materials to a growing industrial sector,
(iii) Constituting the major source of employment;
(iv) Constituting a major source of foreign exchange earning from trade in exportable agricultural commodities, and
(v) Providing a market for the production of the industrial sector.

However, an evaluation of the agricultural sector has shown varying levels of performance of these roles under the country's changing economic scenarios. For exampe, before the advent of the oil boom in the early 1970s, agricultural sector's share of the Gross Domestic Product (GDP) averaged 56 per cent in 1960-70 period, as compared to mining 1.2 percent and manufacturing 4.8 percent. From the 1960 peak, the agricultural sector's contribution to G. D. P started to decline and in 1970-79. the share declined to an average of 24 per cent and further plummed to between 21 - 23 per cent in 1981- 85. Also, from a position of food surplus in the early sixties, Nigeria recorded a food import bill of about N1 billion prior to the introduction of the Structural Adjustment Programme (SAP) in 1986. It is very evident, to all of us, that the country is now bent on reversing this trend.

The complementarity between agricultural production export trade is demonstrated through the generation of foreign exchange earnings from the exportation of agricultural produce either in raw form as with cocoa beans or in processed form such as cocoa powder, cake or butter. Such foreign exchange proceeds could be used to finance needed imports from the other end. Export trading also helps to improve the balance of trade/payment position in favour of the country of origin, as well as stimulate local production and processing. It allows for the exploitation of the principles of comparative advantge and economies of scale in production. Between 1988 and 1990, a total of N6,364.2 million was realised from the export of major agriculturlal commodities from the country.

3. STRATEGIES FOR PROMOTING AGRICULTURAL PRODUCTION

Deriving from its role as a prime mover of the economy and a regulatory body for the financial system (in addition to the priority accorded the agricultural sector), the CBN has adopted two broad categories of strateries to promote agriculture. These are:
(1) Stipulating policy (monetary) instruments and guidelines.
(2) Promoting institutasional arrangements/reforms.
The elements are discussed below.

4. POLICY INSTRUMENTS/ GUIDELINES

(a) PRESCRIPTION OF SECTORAL CREDIT ALLOCATION

A potent policy guideline to stimulate agricultural production is the prescription of a minimum percentage allocation of commercial and merchant banks total loans and advances to agriculture which consistently remained a

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priority sector. The policy was expected to ensure adequate provision of credit to enhance output growth. From a figure of 4 per cent in 1972, the sectoral allocation increased by 11 points to 15 per cent from 1986 to date. The "Agricultural policy for Nigeria" suggested that this figure be increased to 20 per cent. For the merchant banks, the prescribed minimum presently stands at 10 per cent. With a progressive increase in aggregate money supply to the economy and increase in aggregate credit disbursement, the volume of loanable funds to the sector had been increased in nominal terms, over the years. Whatever shortfalls there are in the sectoral allocation, are deposited with the CBN as a penalty for non-compliance. Such deposits do not count as part of the banks' required reserve asset and they are ultimately lent to the agricultural sector through the Nigerian Agricultural Co-operative Bank (NACB).

(b). THE AGRICULTURAL CREDIT GUARANTEE SCHEME FUND (ACGSF)

In order to complement the sectoral prescriptions, the Federal Government in March 1977 established the Agricultural Credit Guarantee Scheme Fund to induce commercial and merchant banks to increase lending to agriculture. The scheme is under the management of the CBN with a Board of Directors responsible for policy making.

Under the scheme, bank loans to farmers are guaranteed 75 per cent against default in payment. When a default occurs, the Fund pays the lending bank from the security pledge by the farmer. The payment is made from a Fund set up by the Federal Government (60%) and the CBN (40%) with an authorised capital of N100 million.

As at December 1990, a total of 122,246 projects with loan amounts totalling N765.44 million had been guaranrteed. From the outcome of the operation of the scheme, the enabling Decree No 20 of 1977 had been amended by Decree No 18 of 1988 thereby making it responsive to the changing characteristics of the operating environment. In particular, the amended decree formally provided a waiver of pledging of tangible security for loans of N5,000 and below.

(c.) MORATORIUM ON AGRICULTURAL LOANS

This policy was put in place in order to match the in-flow of revenue with loan repayment and therefore ensures easy repayment of loan by farmers. Although, the grace period allowed has varied from the inception of the policy in 1977/78, the existing grace periods on agricultural loans shall be retained in 1991 as follows:

(a) for small-scale peasant farmers growing staples and seasonal cash crops such as grains, cotton and groundnut, the grace period shall be one year;

(b) for loans to farmers of cash crops with relatively long gestation period such as oil-palm, rubber and cocoa plantations, the grace period shall be four years;

(c) for medium and large-scale mechanised farming involving large capital outlay, the grace period shall be five years; and

(d) for ranching, the grace period shall be seven years. However, a borrower under (a) and (d) may choose to start repayment before the stipulated grace period expires.

(d.) INTEREST RATES ON AGRICULTURAL LOANS

Before the introduction of the Structural Adjustment Programme in 1986 and the liberalisation of interest rates, loans to the agricultural sector had attracted concessionary interest rate charges as stipulated by the monetary authorities. For example, between 1978 and October 1984, the general lending rates within the economy varied from between 6 - 9 per cent, while loans under the ACGSF attracted interest rate pf between 4-7 per cent over the same period.

Under SAP, while interest rates have been liberalised, a maximum spread of 4 per cent is permissible between deposit and lending rates. The present interest rate on agricultrural loan ranges between 20-21 per cent. However, interest payable on agricultural loans are exempt from tax, a measure designed to enhance credit flow to agriculture under the deregulated regime.

(e.) RURAL LENDING PROGRAMME

The policy on rural finance derives from the need to complement the efforts of government to expedite economic tranformation of rural areas and thus stem the tide of rural - urban migration. Under the programme, commercial banks are required to grant a minimum percentage of total deposits generated in rural areas to such areas. In 1988, the requirement was increased from 40 to 45 per cent and further to 50 per cent in 1991, and such loans are to finance exclusively economic activities based in those areas.

(f.) ARRANGEMENTS FOR AGRICULTURAL PRODUCE MARKETING

Before the abolition of the Commodity Boards system in 1986, the CBN provided funds to the six Commodity Boards (cocoa, rubber, palm produce, cotton, groundnut and grains) for the purchase of produce for export. The transitional periods that followed the Board's dissolution also saw the CBN extending financing facilities to the State Governments for the purchase of grain which were reported to be in excess of immediate requirements - in order to trigger price stabilisation effects. A total of about N84.2 million was provided to all the states for this purpose in 1985/86 season. It should be mentioned that presently, commodity marketing /export is now liberalised, mainly a private sector affair, with financing from the commercial and merchant banks as well as other financial institutions.

Future arrangements for improving the marketing of exportable commodities in the country include the proposed Nigeria Commodity Exchange (NICOMEX) in which the CBN is playing a major facilitating role. Already, an Inter-ministerial Committee chaired by the CBN has submitted a two volume report on the development of a framework and modalities for establishing a commodity exchange in Nigeria.

5. INSTITUTIONAL ARRANGEMENTS/ REFORMS

Coupled with the array of policy initiatives, the CBN has evolved some institutional arragements for the promotion of agricultural production.

(a.) NIGERIA AGRICULTURAL AND

CO-OPERATIVE BANK LIMITED (NACB)

Notable among these agencies is the NACB which is jointly owned by the Federal Government of Nigeria (FGN) (60%) and the CBN (40%). The NACB was set up specifically to provide soft financing for agriculture. Established in 1973, the NACB can be described as an "Agricultural Financial Supermarket" offering a range of finanacial services tailored to suit the needs of different categories of farmers involved in the various aspects of production - horticulture, poultry, animal husbandry, fishery, forestry, food marketing of agricultural products. It also gives on-lending facilities to state governments and co-operative societies. With equity participation of 40 per cent shareholding by the CBN, the NACB has in addition access to the CBN shortfall Account funded with resources accruing from shortfall of fund by banks who fail to meet the minimum prescribed credit allocation to agriculture.

A number of reforms have taken place in the structure and operation of the NACB to make it more responsive to the yearnings of its clientele. First, the minimum amount loanable without tangible collateral has been increased to N10,000. The Bank has also increased its coverage of the agricultural population through the establishment of more branches and state offices and representative offices in the LGA thereby decentralising substantially its operation and ensuring better grassroot coverage.

(b.) THE NIGERIAN AGRICULTURAL INSURANCE COMPANY (NAIC)

NAIC was set up to induce lending to agriculture and stimulate production. With a mutally re-inforcing effect on the Agric. Credit Guarantee Scheme, the NAIC was set to provide insurance cover against risks (fire, pest and disease outbreak, etc) associated with agricultural production activities. The insured (farmer) pays an assessed premium that is subsidised by government and in case of a disaster, the NAIC pays a compensation, necessary to keep the farmer in business. Presently, the scheme covers rice, maize and mix-cropping and two livestock, poultry and cattle. The scope will be expanded as more experience is gained. The CBN is a part financier of the scheme which has an initial reserve fund of N200 million.

(c.) STRATEGIES FOR PROMOTING TRADE

Until June 1986, trade in respect of exportable agricultural commodity was the sole responsibility of the Commodity Boards. At that time. producer prices were fixed for each of the scheduled commodities. Since the introduction of SAP, the commodity marketing scene including arrangements has resulted in better remuneration for farmers who cashed-in on this to increase output. In addition, a number of other export incentives had been put in place within the context of SAP to promote non-oil exports towards sustained growth and development.

(d.) THE RE-FINANCING AND RE-DISCOUNTING FACILITIES

As part of this effort, the CBN in April 1987, introduced the Refinancing and Rediscounting Facility (RRF) to assist banks in their export finance operation. Under the RRF, the business community obtained export credits from banks at concessionary interest rates, which means reduced costs and enhances profit. For the banks, the profits from export credits, etc. remain tax free thereby ensuring enhanced flow of credit from the banking to the business sector.

Since inception, the CBN had provided the banks with some N53.6 million, N552.4 million, N713.5 million, N1,371.7 million in 1987, 1988, 1989 and 1990, respectively under RRF. The progressive increase could be attributed to the growing requirement of the banks and their increased awareness of the facility. Thus, while only 13 banks utilised the RRF in 1988, as many as 26 and 41 banks availed themselves of the facility in 1989 and 1990, respectively.

(e.) THE FOREIGN INPUT FACILITY (FIF)

The Foreign Input Facility (FIF) was introduced by the CBN in May 1989. It was designed to give exporters access to foreign exchange required to produce foreign raw materials and capital goods needed to produce for export. It involved the signing of the African Development Bank Export Stimulating Loan (ADB/ESL) Agreement between the ADB (the lender) and the FGN (the borrower). The revolving loan of unit of Account (UA) 180 million (equal to about US S245 million) was disbursed in three tranches to stimulate non-oil exports.

The two export financing facilities (RRF and FIF) were managed by the Export Credit Division of the Agricultural Finance Department of the CBN until December 1990 when the provisions of Degree No.15 of 1988 establishing the Nigerian Export Credit Guarantee and Insurance Corporation (otherwise called NEXIM-Nigeria Export-Import Bank) were activated. The major objectives of the Corporation are to:

(i) frame and implement scheme for export credit guarantee and export credit insurance in favour of parties exporting goods or services from Nigeria;

(ii) provide credit in local currency to Nigerian exporters;

(iii) operate a foreign exchange revolving fund form where exporters will be granted loans in foreign currency; and

(iv) buy and sell foreign currency and accept money for transmission to all companies with a view to promoting Nigeria's export business.

The NEXIM Board of Directors was inaugurated in November 1990, and from January 1991, the Corporation started existing as an autonomous export credit agency for Nigeria.

Other incentives geared towards promoting the export trade in which CBN actively participated include the Duty Draw Back Scheme which allows many exporting companies to obtain refunds of duties they paid for the importation of raw materials for producing export items. This has served to boost the profit colum of their respective profit and loss statement s and enhance the competitiveness of their exports.

A related point worthy of mention is the Foreign Currency Domiciliary Accounts which had allowed the repartriation of proceeds accuring as a result of export trading activities. The export trading procedures continued to be simplified through the activities of the Committee on Trade Procedures (NITPRO) in which the CBN actively participate. The currency Retention Scheme also provide additional incentives.

6. SUMMARY AND CONCLUSION

In this paper, we have demonstrated that the CBN has adopted a number of strategies in the course of promoting the two areas of concern - agricultural prodution and export trade. These roles/strategies can be variously described as co-ordinating, including, monitoring, supervising, etc. The strategies have been adopted in different mix depending on the dictates of the operating environment and in line with government policy objectives. In particular, the consistent priority accorded by government to the agricultural sector as well as the desire to pursue an exported development of the economy under SAP has been major determinants.

The emerging decade of the 1990s offers tremendous challenges not only for the Central Bank o f Nigeria but also the other operators in the financial system and the economy in general, to strive to achieve a turn-around in agricultural production and export trade. Obviously, new problems would also emerge, which we should be prepared