The Influence of Murabahah Finance On The Relationship Between Farm Credit And Agricultural Output In Nigeria: A Proposed Framework

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Abstract: The objective of this paper is to explain the influence of Murabahah finance on the relationship between farm credit and agricultural output. This is because, in most of the advanced countries, agricultural output is a backbone of their economy in terms of food supply, industrial, provision of income, employment opportunities. The importance of agricultural output to the socioeconomic well being, specifically the third world countries are paramount. However, it has been shown that there is a decrease in agricultural output in African economies and Nigeria is inclusive. The decrease of agricultural output in Nigeria is resulted to increase in poverty rate, unemployment, fall in individual and government income, collapsed of the industries etc. Some researchers are of the view that poor credit facilities are part of the main problem hindering the growth of the Nigerian agricultural sector. The current paper proposed a research model which, if validated in an empirical source will assist the advancement of agriculture in Nigeria. Hence, the study seeks to propose the use of Partial Least Square Structural Equation Modelling PLS in relation to analysis of the data. This paper may directly or indirectly contribute to the policy makers of Nigerian agricultural cooperative and rural development banks and agricultural environment. It provides a sufficient approach for Murabahah finance as a potential moderator of the Model.

Key Words: Farm Credit, Agricultural Output, Murabahah finance

1.0 Introduction

Agriculture is a catalyst of the world food security, individual and public income and the supply of raw material to the industries for the production good and services for human satisfaction and poverty reductions (Anthony, 2010; Aburaida, 2014; Ogunbado & Ahmed, 2015). Agriculture is the act of soil management for crop production, animals rearing, production food and raw materials to the industries (Chisasa, 2014a). Agriculture is an activities that engages soil cultivation for the purpose of food supply to man and raw materials to the productive sectors of the economy that resulted to earned income, job opportunities and economic growth (Chisasa, 2014b).

Agriculture is a way and manner in which economic growth is used to sustain and yield a transformation of socioeconomic growth and development of a nation (Ahungwa, Harun, & AbduSalam, 2014). Agriculture remained a channel of financing majority of the developing economies and African is not different. Equally, it is an ingredient for funding industrial stability and economic growth in Nigeria (Anthony, 2010; Oyejinka & Bolarinwa, 2009; Ugwa & Kanu, 2012).

The economic growth of Nigeria was funded from agriculture to the extent that the country was among the highest exporters of agricultural output in Africa (Ugwu & Kanu, 2012; Larbani, Mustafa & Oladokun 2013). The sector also, lead to the generation of more revenue as in export tax from farm output that includes: hide and skin, Groundnut, palm-oil cotton and rubbers etc (Larbani, Mustafa & Oladokun 2013). The sector used to sponsored the discovery and explorations of the oil sector. Similarly, the sector serves as the second in terms of income to the government and first in employment generation (Awe, 2013). It employed 60 percent of the estimated Nigerian population that is over 81 million in 2015 (Odufote, 2012). Agricultural sector has contributed to the Nigerian Gross Domestic Product with the total amount of 18,295,631:91k that is 24.39% in 2013 (Ezike, 2012; GDP, 2014).

However, despite the role of agriculture in the socio-economic growth of Nigeria, The output is declining due to the insufficient farm credit that resulted to the decline in GDP from 100 percent in 1981 to 24.39 percent in 2013 (Larbani, Mustafa & Oladokun 2013; GDP, 2014). This has lead to the emergence of the problem of poor modern mode of transportation, communication network, poor
storage facilities and closure of industries. Other problems including: unemployment, importation of food and increase in poverty rate. This issue necessitate research in the sector, since, previous findings revealed inconsistent result. According to Baron and Kenny (1986) incorporation of moderating variable is necessary in the case of inconsistent results. Hence, the current research proposes Murabahah finance to serve as a moderator on the relationship between farm credit and agricultural output in Nigeria.

After the introduction, the study reviewed literature on farm credit and agricultural output, Murabahah as a potential moderator is considered. Methodology are also conversed. Equally, the paper demonstrated the Proposed framework in order to aid the comprehensive understanding of the content. Likewise, conclusion and implication were discussed.

2.1 Agricultural Output

Agriculture refers to an act of soil cultivation, animal rearing and forest management for food production and industrial raw material for the production of goods and services (World Bank, 2008; Ahungwa, Haruna & Abdusalam, 2013). It is also, regarded as a science of crop growing and animals rearing with the aims of food and production of primary raw materials for the sustainable human living and economic growth (Akoum, 2008; Amman, 2012 & 2013). Similarly, Agriculture is the production of food and the industrial raw material for the benefit of man and animal for the betterment of living and economic (Akanji, 2006; Chisasa, 2014a). More so, agricultural output refers to the yield of farming activities that comprises of successful combination of farm input (Anthony, 2010). It is further regarded as farm produce or ingredients for food, feed and raw material as well as the key drive for income and employment generations, market and industries and major way of reducing poverty (Chisasa, 2014b; Ogunbado & Umar, 2015).

2.2 Farm Credit

Agricultural funding is regarded as farm credit, which is referred to an instrument for boosting factors of production and enhancing employment opportunities for the reduction of poverty and production and production of goods and services (Onyechanya & Ukoha, 2007, Ogunbado, 2011). Also, Awe, (2013), regarded farm credit as any valuable material either in cash or in kind used to employ farming satisfaction through formal or informal financial institutions. Similarly, it can also be seen as an amount of money ready to release by the formal and informal money market for enrolment of agricultural production based on repayment conditions (Saibel, 2010; Awe, 2013). It is equally, be described as a financial transaction set to enhance farming activities with due respect to the received and repayment conditions over a period of time (Nwosu, Oguoma, Ben-Chendo, & Henri-Ukoha, 2010).

Consequently, farm Credit serves as a certain amount of money under the custody of financial institutions ready to lend out to the needy farmers as per repayment condition at a specific future period of time (Anthony, 2010). Furthermore, it can be a systematic procedure of power acquisition of control of money for the purpose of agricultural activities within a design period and conditions (Simtowe, Zeller & Diagne 2009).

2.3 Farm Credit and Agricultural Output

The relevance of farm credit and agricultural output is a critical circumstance regarding to the farm production input and output (Chisasa, 2014a). Eyo (2008) established relationship between credit to the farmers and agricultural output in Nigeria. It is a major ingredient for enhancing factors of production (Ahiaikpor & Asmah, 2012). Farm credit plays a role towards enhancing farmers to employ farm input such as: initiate or boost capital, employ labour, and routine management (Chisasa, 2014b).

In addition, it is a structural framework to improve the livelihood of needy farmers to achieve their agricultural aims and objectives (Yunus, 2014). It is equally, can be seen as financial support and effort with the aim of upgrading productive output. Also, accessibility of credit to the needy farmers is a great and technical support to the rural farmers and is significant to the production process of increasing output and speedy the growth of the economy (Onyechanya & Ukoha, 2007).

Chisasa (2014a) established a positive relationship between farm credit and agricultural output and revealed a positive result in South Africa. Data obtained from Mpumalanga province and North West region were analysed by Cobb-Douglas production function in which 362 farmers were responded. Also, in his different research Chisasa (2014b) reported a positive and significant relationship in South Africa. His research utilized ordinary leased square multiple regression, multi-stage sampling and analysed 300 data from subsistence farmers. Never the less, Amman (2012) revealed positive results in Nigeria where he established relationship between farm credit and output. SPSS 16.0 and time series data from 1981-2009 periods were analysed using Theory of production functions.

Matthew and Uchechukwu (2014) reported a negative result on the relationship between credit to the farmers and agricultural output in Nsuka, Nigeria. Data generated from 60 rural farmers through interview were analysed by descriptive statistic. In addition, Onyenchenya and Ukala (2007) reported mixed findings in their study related to Agriculture cooperatives and rural Development Bank (NACB) in Nigeria. Data were generated through random sample from 90 small scale farmers. Thus, the study state the following
developed Hypothesis. Hypothesis 1: farm credit influences the agricultural output.

**Murabahah finance as a potential moderator**

*Murabahah* finance is one of the Shariah modes of transaction which Islamic financial institutions are using to finance trade and agricultural production (Ayub, 2007). *Murabahah* (cost-Plus financing) is a contract in which a customer or client wishes to purchase a commodity or equipment request the financial institution to purchase the equipment and sell the equipment to the customer under agreement on cost-plus and profit margin (Jinjiri-Ringim, 2014). *Murabahah* finance is described as interest free financial transactions that payment at the spot or by deferred payment. *Murabahah* finance is a transaction that must involve the sales of equipments at a knowing price and profit and margin agreed by the parties involved (Mohsin, 2005).

### 2.5 Farm credit, Murabahah Finance and Agricultural Output

*Murabahah* finance is an Islamic banking product used on behalf of the customer to purchase item (farm input) and resale it to the customer (farmer) while, all the parties knew and agreed with the price and the profit margin (Saddiqi, 2006). Similarly, *Murabahah* finance is a designated Islamic financial product set to boost trade including agricultural inputs such as tractors, harvesters, planters, fertilizers etc (Obaidullah, 2015; Sayim, 2015) Murabahah finance serves as a transaction that involved farmers and traders and Islamic financial institutions to be agreed on price and profit. It can be described as a transaction that is free from interest rate, gambling, manipulation and exploitations etc (Ayub, 2007). It allows customers or farmers to know the cost and profit margin during the sales contract (Ahang, Padder & Ganie, 2013). *Murabahah* finance is a good Islamic financial product for financing trade of agricultural equipment that involved input and output (Saddiqi, 2006).

Mohammed and Hussien (2012) reported positive relationship between *Murabahah* and Gezera irrigation activities in Sudan. The official farmer’s credits preference was used during data collection. Mohsin (2005) established a significant relationship between farm credit and agricultural production in Sudan. This was done in his study on practice of Islamic banking products scoping in the agricultural sector of Sudan.

Obaidullah (2015) revealed a positive and significant relation between *Murabahah* finance and agriculture in Sri Lanka. Equally, Putri and Dewi (2011) revealed a positive relationship between *Murabahah* and agricultural production in Indonesia. Ahmad (2015) viewed that, *Murabahah* finance provide farm credit to agriculture and other economic sectors. Based on the above literature also, this study developed Hypothesis 2: *Murabahah* finance influence agricultural output

Previous studies revealed inconsistent results on the relationship between farm credit and agricultural output. Therefore, the current research proposes the moderating influence of *Murabahah* finance on the relationship between farm credit and agricultural output. This study also developed a Hypothesis that: Hypothesis 3: *Murabahah* finance moderates the relationship between farm credit and agricultural output.

### 4.0 Methodology

#### 3.1 The current paper proposes the use of Partial Least Square Structural Equation Modelling (PLS-SEM). The paper also uses Smart PLS software for data analysis. As viewed by Hair, Black, Babin and Anderson (2010), PLS has more advantageous on testing course and effect analysis on relationship between latent variables of the research. Equally, PLS-SEM modelling approach is friendly, superior, stronger and flexible statistical approach for theory prediction (Ringle, Wande & Becker, 2014).

### 4.0. Proposed Framework

As mention above, there were inconsistent results on the relationship between farm infrastructure and agricultural output in the previous studies. According to Baron and Kenny (1986), the revelation of the inconsistent findings lead to the inclusion of moderating variable. Therefore, this study employed *Murabahah* finance to be a potential moderator on the relationship between farm credit and agricultural output in Nigeria. Below is a developed frame work indicating the moderating effect of *Murabahah* finance.

![Figure 1.1 Proposed Framework of Farm credit, Murabahah finance and agricultural output.](image-url)
5.0 Conclusion and Implication

This study explains the moderating effect of Murabahah finance on the relationship between farm credit and agricultural output as depicted in figure 1. The current model if validated in an empirical research is expected to add more value to the literature and discipline of Islamic Economics, management and finance. Moreover, the model is hoped to provide some suggestions that may lead to the improvement of the agricultural output in Nigeria. The paper also introduces a framework in Nigerian agriculture. It is hoped to be used by the State branches of Ja’iz bank (Islamic bank), Stanbic IBTC bank and Keystone bank (Islamic banking window operators), Islamic micro finance banks and other non interest financial institutions. Also, the model hope to be a great benefit to rural farmers.

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