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ECONOMIC  
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**PLANNING *and the*  
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NIGERIAN ECONOMY**

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**Agricultural Finance Policies and Strategies  
in Nigeria: Issues and Implications  
for Increased Outreach**

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**ABSTRACT**

*Since independence in 1960, several agricultural finance-oriented policy instruments have been deployed by government in the quest for agricultural development and reduction of poverty. These policies and strategies include the establishment of Development Finance Institutions (DFIs), special credit schemes as well other regulatory initiatives to enhance bank lending to the agricultural sector. The paper reviews the various policies and strategies as well as the institutional framework on which they are made operational*

*through the activities of the Central Bank of Nigeria, Deposit Money Banks, DFIs, NGOs/MFIs as well as development partners. Achieving the efficacy of policies to attain optimal outreach of agricultural finance products in Nigeria is however faced with several challenges from policy/institutional perspectives, supply- as well as the demand-side. To increase the outreach of agricultural finance in Nigeria calls for an all-inclusive approach through a well articulated financial inclusion strategy, improved supervision of DFIs to entrench corporate governance, policy consistency, de-risking of the agricultural sector and provision of technical assistance to banks, DFIs, and the farmers as well.*

## 1 Introduction

Agriculture is the most important sector in the Nigerian economy from the standpoint of rural employment and the provision of food and industrial raw materials (Jamaare, 2000). It employs 60 per cent of Nigerians and contributes up to 35.9 per cent of the country's GDP (CBN 2010a). The potential of the agricultural sector in Nigeria is huge. The country has a substantial base to build upon in view of its abundant natural resources, including 98.3 million hectares of which 74 million ha is good for farming even though less than half is being utilized (Omotor, 2009). In addition, the country's population represents a large domestic market that can support and sustain local production and processing.

The performance of the sector has not been too encouraging over the years, and this has resulted in the country becoming a net importer of food. For instance, the import bills for various food products and live animals were ₦574.8 billion in 2005, ₦638.8 billion in 2006, ₦713.98 billion in 2007, ₦367.13 billion in 2008 and ₦409.01 billion in 2009 (CBN, 2009a). Agriculture must be taken seriously as it remains the most important sector of the country's economy after oil. This creates the need for policies and strategies that will lead not only to improved technology, resource availability, management and marketing expertise in agribusiness but also in ensuring availability of finance to farmers. The farmers need credit as catalyst to accelerate their adoption of improved agricultural technologies, finance for the procurement, maintenance, purchase of inputs and to meet their working expenses.

Financial access to agriculture increases incomes through productive investment, helps create employment opportunities, facilitates investments in health and education, and reduces the vulnerability of the poor by helping them to smooth their income patterns over time. Financial access in rural Nigeria where farmers predominate has however, remained largely far and apart with a high level of financial exclusion. It has been estimated that 74 per cent of Nigeria's total population are unbanked with rural population accounting for about 86 per cent of the total (EFFInA's, 2008). Agricultural credit market is undeveloped with the predominance of such informal players as credit unions, cooperatives and self-help groups. This development poses a serious challenge to sustainable development of agricultural finance in Nigeria. At the moment, the agricultural sector of Nigeria accounts for only 1.55 per cent of total lending even though the sector accounts for over 35.9 per cent of the country's GDP (CBN 2010a).

Policy responses towards channelling financial resources to the agricultural sector in Nigeria have a long history. This paper reviews policy efforts at developing the agricultural finance market in Nigeria from the mid-1970s to date and presents some policy implications for increased outreach for the future. The paper, therefore, is divided into five sections. Section 1 is the introduction. Section 2 reviews relevant literature on the need for finance in Nigerian agriculture. Section 3 presents the major agricultural finance-oriented policies/programmes in Nigeria, while section 4 outlines the challenges of agricultural financing in the country. Section 6 concludes the paper with some policy recommendations for improved agricultural finance outreach in Nigeria.

## 2 Theoretical Framework and Literature Review

### 2.1 Theoretical framework

The theoretical foundation of this study was based on the theory of credit demand. The theory of credit demand, according to Nnanna et al (2003), is central to the theory of interest rates. It explains how the demand for, and supply of, credit decides the interest rate. Bannocks et al (1998) define credit funds as money available for lending to individuals and institutions

in the financial markets. Thus, credit funds represent a flow of money into the financial markets for loans of all kinds. According to Pearce (1992), credit is strictly the term used for funds that are available for lending in the money and capital markets, and is usually considered within the context of the theory of interest rate.

The modern theory of credit has its roots in the classical theory of interest rate which seeks to explain the determination of interest rate in terms of the demand for, and supply of credit. The rate that equilibrates the financial market is that which equates the supply of credit, through savings from present income plus net increase in money supply in a given period. Generally, the credit model postulates that the demand for, and supply of, credit determines the interest rate in the financial markets (Nanna et al, 2003).

$$r = f(Lf_d, Lf_s)$$

where:  $r$  = rate of interest

$Lf_d$  = demand for credit

$Lf_s$  = supply of credit

The credit funds model therefore attempts to satisfy, simultaneously, the portfolio preferences of two types of agent, firms or government. On the one side are borrowers who wish to expend their farms/holdings beyond the limit of their net worth. On the other side are lenders who wish to put part or all their net worth in assets of a stable money value, with a negligible risk or default. The borrower needs credit for investment and/or consumption. The tendency on their part is to borrow more at a lower rate than at a higher rate and vice versa, assuming that all other things are held constant.

$$\frac{Sr}{SLf_d} < 0$$

Where:  $S$  = current savings

The supplier of credit (the lending bank), on the other hand, usually through current savings by individuals (private savings), firms (corporate

savings), government (government savings) and policy actions of the Central Bank, prefers to supply more money at a higher rate of interest and vice-versa, assuming all other things are constant.

$$\frac{Sr}{SLf_s} > 0$$

According to Diagne and Zeller (2001), the lender chooses the credit limit and the amount he wants to be repaid. The borrower then chooses the amount to be borrowed within the range set by the lender. The borrower also chooses ex post (that is, once the loan has been disbursed) whether and when to pay back the loan.

## 2.2 Literature review

Finance is an indispensable factor in the business of agriculture, which can lead to increased output and, consequently, incomes. The Nigerian farmers need credit for their farm production as it is a major catalyst required to accelerate the adoption of improved agricultural technologies (Ogunbameru, 1985). In addition, on the importance of agricultural finance, Soyingbe (1982) says although agriculture is an art and a way of life, yet it remains a business, and like other businesses, it cannot be carried out unless funds are available. Financial capital is therefore required for the procurement, maintenance and replacement of inputs and working expenses. However, low productivity and low income leaves the farmer with virtually no savings to invest in improved farm technology. Consequently, as a means of injecting financial resources into the agricultural sector to resuscitate it and lead to increased agricultural incomes, the need for agricultural financing cannot be overemphasized.

The need for agricultural credit in developing economies is evident in the works of several scholars. Oshuntogun (1983) says that unless production credit is made available on such suitable terms, most farmers will be seriously handicapped in adopting new profitable technology. Also, Stephen (1989) recognizes credit or finance as one of the necessary pre-

requisite to the development of agriculture. He points out that agricultural credit encompasses all loans and advances granted borrowers (be they beneficiaries of some agricultural reforms or some other ones) to finance and service production activity relating to agriculture. Even in the developed countries, credit has been an important instrument not only for fostering agricultural development, but also for improving efficiency and production. In developing countries such as Nigeria, where the bulk of the farmers produce at subsistence level, there is need to inject capital into agriculture in order to increase production per farm worker and per hectare (Jekanyinfa, 1981).

Ogunbameru (1985) believes that agricultural production credit is one of the major catalysts required to accelerate the adoption rate of improved agricultural credit. Moreover, it requires the proper incremental income generated through agricultural production to smoothen the loan recovery system on the one hand and mobilize deposits to the financial institution to activate economic development, on the other. This is in conformity with the work of Akinyosoye (1986), which observed that new technology and inputs being introduced such as fertilizers, animal feeds, pesticides sprays and farm implements are non-traditional factors, which have to be purchased. Since farmers in this country are generally poor, they need capital or financial injection from outside in the form of credit for purchase of these commodities (Kwaghe, 1986).

Miller (1977) had earlier observed that agricultural development involves the adoption of new and more efficient technologies, which include improved livestock breeds, agro-chemicals as well as farm implements by farmers. These technologies must be purchased but the financial resources to make such purchases constitute the limiting factors. The need for credit in economic development is further stressed by Galbraite (1982) who observed that at a certain stage in agricultural development, credit clearly becomes a strong force for improving and using resources. The need for credit cannot be over-emphasized as it helps in the use of productive inputs and, thereby, improves the standard of living of the user (Ogunbameru and Amaza, 1986).

### 3 Agricultural Finance-Oriented Policies/Programmes in Nigeria

#### 3.1 Policy/programme portfolio

Since independence in 1960, several policy instruments have been deployed by government in the quest for agricultural development and reduction of poverty. Some of the government support policies/programmes with bearing on agricultural finance include the establishment of development finance institutions and credit schemes. Some of the policies/programmes are listed as follows:

- Agricultural Development Programmes (1975)
- Rural Banking Scheme (RBS) (1977)
- The Agricultural Credit Guarantee Scheme Fund (1978)
- National Directorate of Employment (1987)
- Nigerian Agricultural Insurance Corporation (1987)
- National Economic Reconstruction Fund (NERFUND) (1989)
- Nigeria Export Import Bank (NEXIM) (1991)
- Abuja Securities and Commodity Exchange (1998)
- National Poverty Eradication Programme (2001)
- Bank of Industry (2001)
- Refinancing and Rediscounting Facility (RRF) (2002)
- Interest drawback Programme (2003)
- Agricultural Credit Support Scheme (ACSS) (2006)
- Commercial Agriculture Credit Scheme (CACCS) (2009)
- Bank of Agriculture (2010)
- Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) (2010).

These were intervention programmes designed to respond to the dwindling welfare condition of Nigerians with the aim of reducing poverty. It was believed that these programmes would lead to the growth of the agricultural economy, raise the standard of living of Nigerian farmers and reduce poverty through trickle-down effect.

### 3.2 Players in Nigeria's agricultural finance market

Agricultural finance involves financial services offered and used by farm populations of all income levels through a variety of formal, informal and semi-formal institutional arrangements and diverse types of products and services, such as loans, deposits, insurance, leasing, remittances, etc. In Nigeria, agricultural finance comes in three major forms:

- a. Informal financial institutions, which are not regulated by banking sector, such as rotating and savings groups, church groups or similar groupings of people.
- b. Semi formal institutions, which are not regulated by banking sector but are usually licensed and supervised by other government agencies, such as self-help groups, farmer's cooperatives, MFIs, and NGOs involved in provision of financial services.
- c. Formal institutions, which are subject to banking regulations and supervision. In Nigeria, the major formal financial institutions that are directly or indirectly involved in agricultural financing include the Central Bank of Nigeria, Deposit Money Banks, the Bank of Agriculture (BOA), Micro-finance Banks, the Nigerian Agricultural Insurance Corporation (NAIC), etc.

#### 3.2.1 *The Central Bank of Nigeria (CBN)*

The CBN is the apex regulator of the Nigerian banking sector. The Bank undertakes development financing in Nigeria. The policy focus of the CBN in its development finance activities is to protect the livelihood of the majority of the rural dwellers who are engaged in agriculture, the major contributor to GDP, and assist urban dwellers with gainful employment. To discharge its developmental functions over the years, the bank promoted several agricultural finance programmes/schemes. Among them are the following:

##### 3.2.1.1 *The Agricultural Credit Guarantee Scheme (ACGSF)*

The CBN acts as a guarantor under the Agricultural Credit Guarantee

Scheme (launched in 1977) to reduce the risk borne by commercial banks in extending credit to farmers. Under this scheme, the Central Bank of Nigeria guarantees 75 per cent of the value of the principal and interest on loans granted to farmers by any commercial bank up to a maximum of ₦100,000.00 for individuals without tangible collateral, ₦1 million to individuals with adequate and realizable collateral and ₦10 million for loan to cooperatives and corporate bodies with adequate and realizable collateral. The decree that established the scheme also provided for a fund of ₦100 million subscribed by the federal government (60 per cent) and the Central Bank of Nigeria (40 per cent). In 2001, the capital base of the fund was increased to ₦3.0 billion in order to enhance its coverage and performance. As at 2009, the scheme has granted over ₦34.41 billion to 647,351 beneficiaries since inception (CBN, 2009a). Performance of the ACGSF with respect to number and value of loans guaranteed and fully repaid are summarized in Figures 1 and 2.

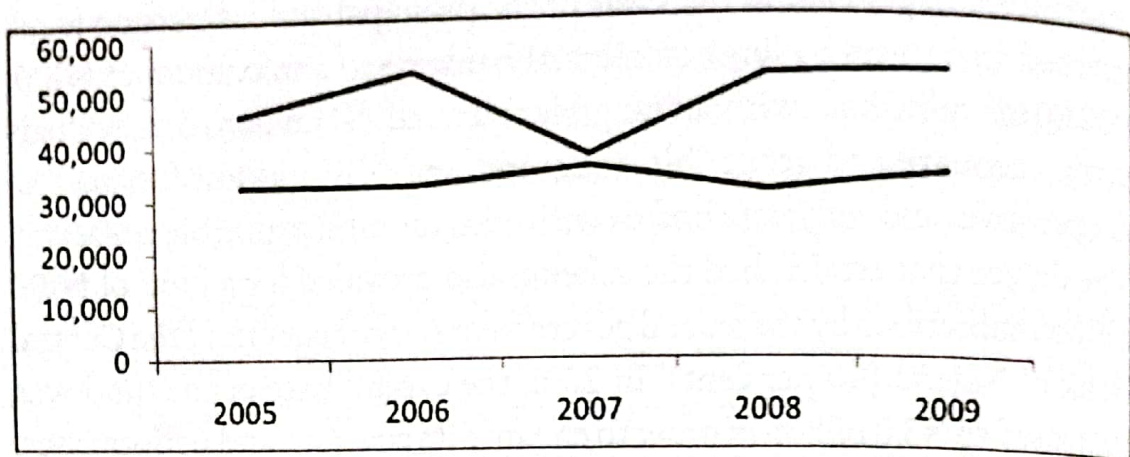
#### *3.2.1.2 Interest Drawback Programme (IDP)*

The Interest Drawback Programme (IDP) was introduced with effect from 2003 lending season with a capital of ₦2.0 billion, separate from the ACGSF. The scheme is funded jointly by the Federal Government of Nigeria and the Central Bank of Nigeria in 60:40 shareholding ratio. The purpose of the fund is to assist borrowers under the ACGSF to reduce their effective borrowing rates. Here, farmers borrow from lending banks at market-determined rates but are given interest rebate of 40 per cent if they repay their loans as at when due. A total of 71,981 IDP claims, valued ₦275.2 million has been settled by the Central Bank of Nigeria as at December 2008 (CBN, 2009b).

#### *3.2.1.3 The Agricultural Credit Support Scheme (ACSS)*

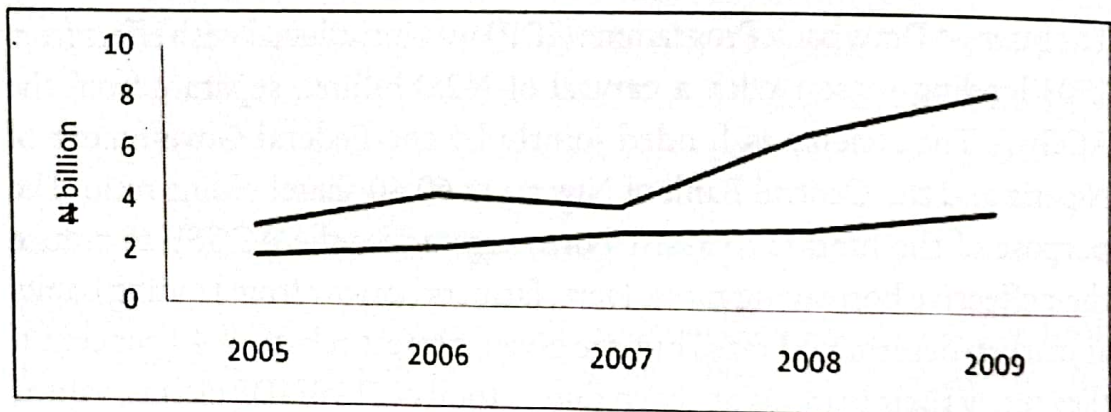
The Agricultural Credit Support Scheme is an initiative of the Federal Government and Central Bank of Nigeria with the active support and participation of the Bankers' Committee. The Scheme has a subscribed fund of ₦50.0 billion. Under ACSS, the banks will disburse the loans at

Figure 1. Number of Loans Guaranteed and Fully Repaid Under the ACGSF (2005-2009)



Source: Plotted using data from ACGSF annual reports and financial statements (various issues)

Figure 2. Value of Loans Guaranteed and Fully Repaid Under the ACGSF (2005-2009)



Source: Plotted using data from ACGSF annual reports and financial statements (various issues)

14.0 per cent interest to farmers. Promoters who pay back on schedule will enjoy an interest rebate of 6.0 per cent payable by the CBN, thereby reducing the effective rate of interest to 8.0 per cent. As at December 2008 a total of ₦296.84 million has been paid as 6 per cent interest rebate to 29 projects (CBN, 2009b).

#### *3.2.1.4 National Micro-Finance Policy*

The Microfinance Policy as well as the Regulatory and Supervisory Framework was launched in 2005 by the government. The policy provides the enabling environment for wider participation of various stakeholders, including banks in microfinance activities. The MF policy was launched to, among other things, enhance service delivery by microfinance institutions to micro, small and medium enterprises (MSMEs), contribute to rural transformation, make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services, promote synergy and mainstreaming of the informal sub-sector into the national financial system and improve women's access to financial services.

#### *3.2.1.5 The Commercial Agriculture Credit Scheme (CACs)*

The ₦200 billion Commercial Agriculture Credit Scheme (CACs) was launched after its approval on 10 March 2009. The Fund was introduced to quicken development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate, and enhancing national food security by increasing food supply and effecting lower agricultural produce and product prices, thereby promoting low food inflation. In addition, it would help to reduce the cost of credit in agricultural production to enable farmers exploit the potentials of the sector and increase output, generate employment, diversify the revenue base, and increase foreign exchange earnings as well as provide input for industrial sector on a sustainable basis. The Scheme is focused on the entire agricultural value chain from input supply, production, storage and marketing.

The Scheme has a seed fund of ₦200 billion being proceeds of the ₦200 billion 7-year bond raised by the Debt Management Office (DMO). The Fund is being made available to participating banks at zero per cent interest rate to finance state governments and private agricultural enterprises at a maximum rate of 9 per cent. While the single obligor limit for private projects is ₦2.0, state governments, on the other hand, can

access a maximum of ₦1.0 billion for on-lending to farmers' cooperatives within their areas of coverage as well as enable them finance areas of agricultural intervention projects of interest within their various states. As at March 2011, the Central Bank of Nigeria has released the sum of ₦16.1 billion for disbursement to 121 beneficiaries made up of 99 private promoters and 22 state governments that accessed ₦1.0 billion each (CBN, 2011).

### 3.2.1.6 *Refinancing and Rediscounting Scheme (RRF)*

The CBN established the refinancing/restructuring facility of banks' existing loan portfolios to Nigerian Manufactures with the objective of fast-tracking the development of the manufacturing sector of the Nigerian economy by improving access to credit to manufacturers and to improve the financial position of the Deposit Money Banks. It was also meant to increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide inputs for the industrial sector on a sustainable basis. The ₦200 billion fund is managed by the Bank of Industry (CBN, 2010c).

### 3.2.1.7 *The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL): A Value-Chain Approach to Rural Finance*

Currently, there is considerable interest in using the value-chain approach to extend agricultural rural finance. The importance of this approach arises from the observations that integrated operations are emerging between real and financial sectors to facilitate the smooth flow of commodities and services from producers to consumers within the activity clusters or subsectors.

The Central Bank of Nigeria (CBN) on 9 August 2010 signed an agreement with the Alliance for a Green Revolution in Africa (AGRA) to develop an innovative mechanism for unlocking billions of naira of financing to serve the needs of all farmers, especially smallholder farmers, agro-processors, agribusinesses and input suppliers in the agricultural value chain. The initiative tagged 'Nigeria Incentive-based Risk Sharing

Table 1. Disbursements under CACS by Deposit Money Banks (DMBs)

Financing Bank	Projects	Amount Released to Banks (₦bn)
1 Access Bank Nigeria Plc	5	5.18
2 Fidelity Bank Plc	4	4.50
3 First Bank of Nigeria	26	10.74
4 Guaranty Trust Bank Plc	7	5.25
5 Oceanic Bank International Plc	1	2.00
6 Skye Bank Plc	7	10.67
7 Stanbic IBTC	6	3.83
8 Union Bank Plc	16	16.15
9 United Bank for Africa Plc	34	36.46
10 Unity Bank Plc	4	6.00
11 Zenith Bank Plc	10	13.84
12 Citibank	1	1.50
Total	121	116.11

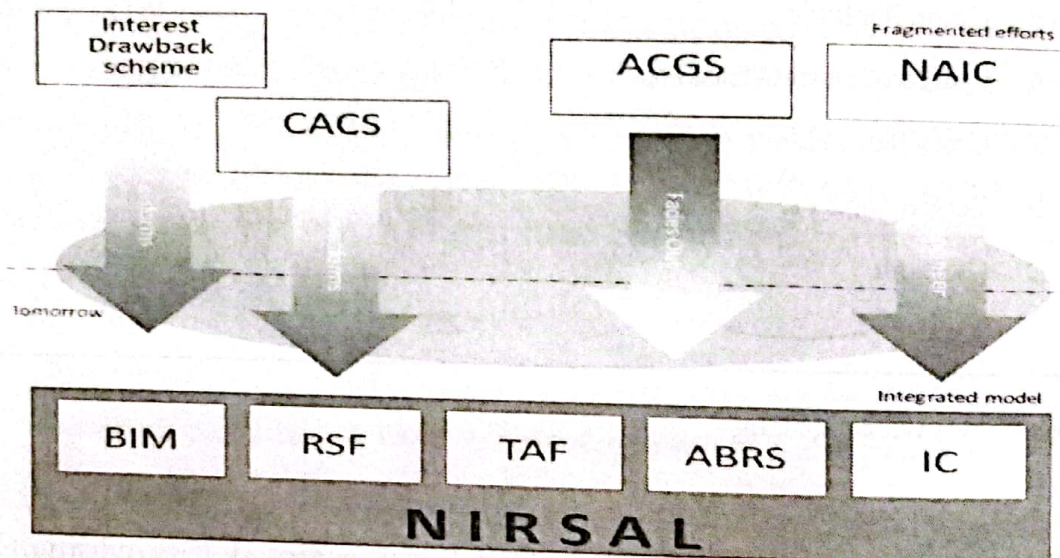
Source: [www.cbn.gov.ng](http://www.cbn.gov.ng)

System for Agricultural Lending (NIRSAL) is aimed at providing them with affordable financial products, while reducing the risk of bank lending to the agricultural sector. It will also build capacities of banks to expand lending to agriculture, deploy risk sharing instruments to lower risks of lending and develop a bank rating scheme to rate banks based on their lending to the agricultural sector.

NIRSAL constitutes five pillars, namely, Risk Sharing Facility (RSF), Technical Assistance Facility (TA), Agric Bank Rating Mechanism (ABRM), Insurance Component (IC), and Bank Incentive Mechanism (BIM). These components are designed to build capacities of Nigerian banks to lend to agriculture, deploy risk sharing instruments that will

lower the risks of lending, provide technical assistance for farmers and banks and develop a bank rating scheme that will incentivize and showcase/situate banks based on their capacities to lend to the agricultural sector. NIRSAL is designed to organize and connect various stakeholders in rural finance like banks, insurance firms, agricultural cooperatives, mobile networks and various government apparatus to extend financial services to agribusinesses. It is expected that financial inclusion would be greatly enhanced after NIRSAL implementation and the Nigerian rural communities will have improved access to financial services.

Figure 3. Transition from the Current Agricultural Support model to NIRSAL



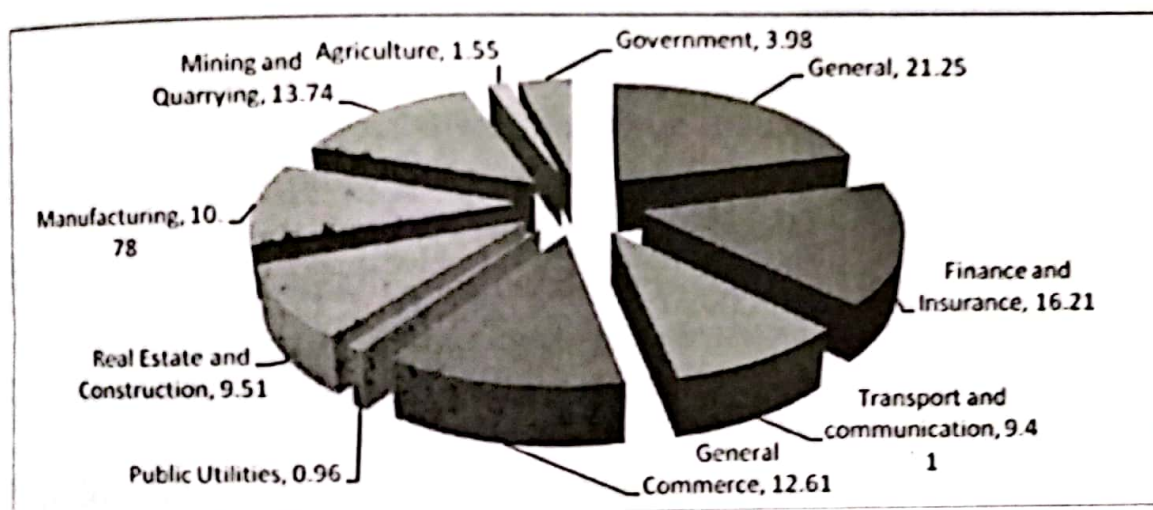
Source: Alliance for a Green Revolution in Africa.

### 3.2.2 Deposit Money Banks (DMBs)

Deposit Money Banks (DMBs) or commercial banks are the largest participants in the Nigerian money market. Under agricultural finance, they serve as transmission mechanisms for CBN schemes like the Rural Banking Scheme, ACGSF, ACSS and CACS. There are 24 deposit money banks in Nigeria but not all lend to the agricultural sector. Over the years, Nigerian banking system has shown a strong preference for short-term lending, as such, this has remained the dominant form of bank finance to

Nigeria's agriculture. As at June 2010, outstanding loans and advances of less than 1 year maturity accounted for 75.4 per cent of all loans. Taking into account the peculiar need of the agricultural sector (requiring long-term finance), the capital needed by the agricultural sector in the country has been in short supply. The agricultural sector of Nigeria accounts for only 1.55 per cent of total lending even though the sector accounts for over 35.9 per cent of the country's GDP (CBN, 2010a).

Figure 4. Sectoral Distribution of Loans and Advances by DMBs in Nigeria (2010)



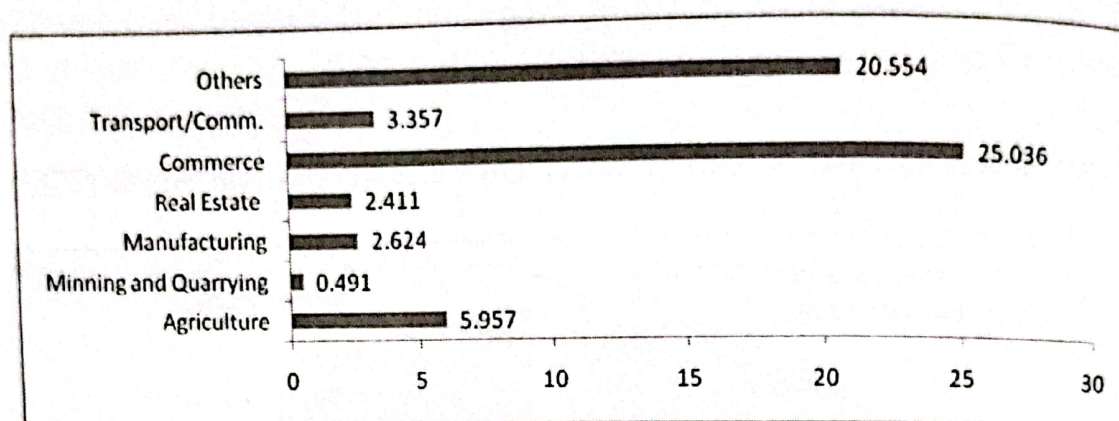
Source: Central Bank of Nigeria: Financial Stability Report (June 2010).

### 3.2.3 Micro-Finance Banks

Microfinance banks play a significant role in agricultural finance because they are closest to the small farmers and extend micro-credits to them at the community/village level. As at June 2010, there were 951 MFBs in Nigeria engaged in the provision of financial and banking services to communities inadequately supplied with such services (CBN, 2010b). The sectoral distribution of loans and advances by MFBs in 2009 is summarized in Figure 5. The figure shows that in 2009, micro-finance banks advanced loans to the agricultural sector amounting to ₦5.957 billion – far below commerce which was advanced ₦25.036 billion. This indicates that some improvements are necessary as far as lending to the agricultural sector is

concerned in view of the fact that MFBs are expected to be closest to the small-scale farmers who constitute the bulk of the Nigerian farming population.

Figure 5. Sectoral Distribution of Loans and Advances by MFBs in Nigeria (2009)



Source: Central Bank of Nigeria: Annual reports and statement of accounts for the year ended 31st December 2009.

#### 3.2.4 *The Bank of Agriculture (BOA)*

The Bank of Agriculture is a development finance institution established to deliver credit to the agricultural sector of the Nigerian economy. Its specific objectives are to promote agricultural production and rural development; improve the incomes and quality of life of the Nigerian rural population which are predominantly farmers; and contribute to the overall growth and development of the Nigerian economy.

Specifically, the functions of the bank include providing loans to individual farmers, cooperative societies, limited liability companies, as well as state and federal government agencies; financing direct investment in the equity capital of major agricultural and agro-allied industrial ventures; providing guarantees for viable agricultural and agro-allied ventures to enable them raise financing either locally or from abroad; providing finance for the marketing of produce for both the domestic and international markets; and financing agro-allied projects, including tractor hiring operations and agro-processing. From inception, the BOA has disbursed ₦41.3 billion and posted a 72.07 per cent repayment rate in

recent years (BOA, 2010). Weak management and low capacity, high running cost and undercapitalization, among other things, led to high volume of sticky and non-performing loans. Currently, the BOA is being re-positioned and re-engineered to function as a strategic business entity with the capacity to operate as Nigeria's foremost agricultural finance institution.

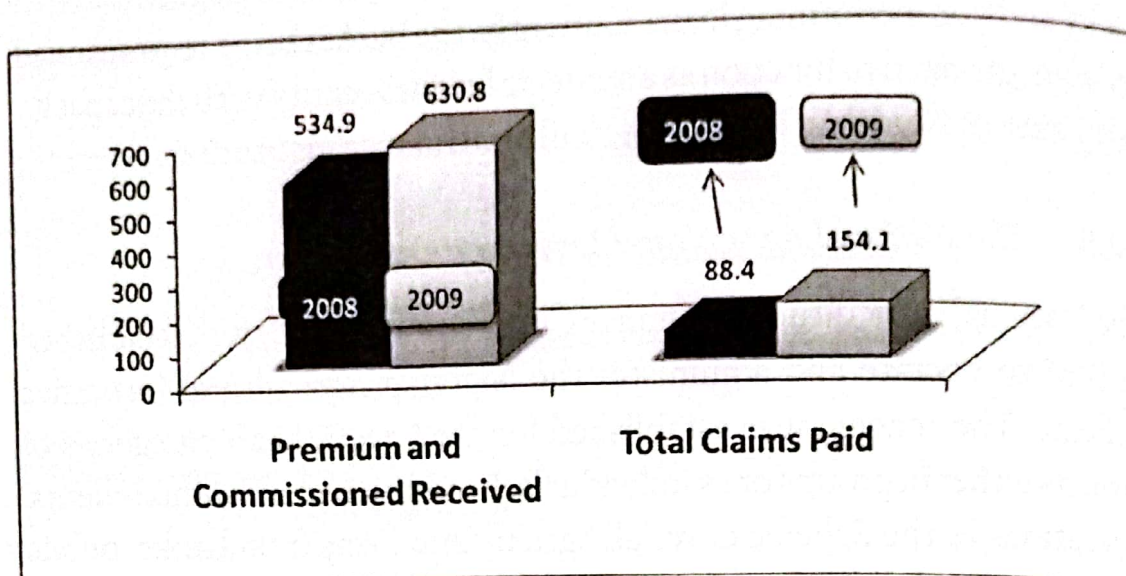
### **3.2.5 *The National Agricultural Insurance Corporation***

The National Agricultural Insurance Corporation (NAIC) was established in 1987 to operate and administer the Nigerian Agricultural Insurance Scheme. The scheme was established for the benefit of all categories of farmers either in groups or as individuals. In addition to individual clients, operations of the Scheme cover all agricultural loans from banks, public funds, various levels of government and the BOA. The approved premium rate for the Scheme ranges between 5 per cent and 8 per cent of the sum insured for crops and 3.5 per cent to 7.5 per cent for livestock. The National Agricultural Insurance Company Scheme is subsidized to the tune of 50 per cent by federal and state governments in the proportion of 37.5 per cent and 12.5 per cent, respectively. The farmer is required to pay only 50 per cent of the premium payable. Currently, NAIC has an outreach of about 500,000 farmers in Nigeria. The corporation has, since inception, issued out almost a million policies earning a premium sum of about ₦2 billion and settled claims worth about ₦500m to various farmers and cooperative groups. NAIC's performance by premium received and claims paid in year 2009 are summarized in Figure 6. The figure indicates that ₦534.9 million and 630.8 million were received as premiums in 2008 and 2009, respectively, while ₦88.4.8 million and 154.1 million were paid as claims in 2008 and 2009, respectively (NAIC, 2009).

### **3.2.6 *The National Economic Reconstruction Fund (NERFUND)***

The National Economic Reconstruction Fund (NERFUND) was established in 1989 with the main objective of acting as a catalyst for stimulating the rapid rise of real production enterprises in the country.

Figure 6. Premiums Received and Claims Paid by NAIC (N'million) in 2008 &amp; 2009



Source: Plotted using data from Nigerian Agricultural Insurance Corporation: Audited Financial Statements for the year ended 31st December 2009.

The Fund provides term loans to real sector micro enterprises through banks and development agencies like SMEDAN, NDE, etc. About US\$130m & ₦3,061,500,000 have been disbursed to 266 projects by the Fund ([www.nerfund.gov.ng](http://www.nerfund.gov.ng)). The projects spread across the 36 states of the federation and the FCT. The projects are in the agro-allied, food and beverages, chemicals, wood and wood products, rubber plastics and industrial support service sectors of the economy.

### 3.2.7 *The Nigerian Export-Import Bank (NEXIM)*

The Nigerian Export-Import Bank (NEXIM) was established in 1991 as an Export Credit Agency (ECA) with a share capital of ₦50 billion held equally by the Federal Government of Nigeria and the Central Bank of Nigeria. The Bank, which replaced the Nigerian Export Credit Guarantee & Insurance Corporation, provides short- and medium-term loans to Nigerian exporters. It also provides short-term guarantees for loans granted by Nigerian Banks to exporters as well as credit insurance against political and commercial risks in the event of non-payment by foreign

buyers. The Bank is also the government's national guarantor under the ECOWAS Inter-state Road Transit programme. The Bank's authorized capital as at 31 December 2008 was N50.0 billion with a fully paid-up portion amounting to ₦13.59 billion with an outstanding balance of ₦36.41 billion. As at December 2007 NEXIM had disbursed ₦7.2 billion as loans and advances ([www.neximbank.com.ng](http://www.neximbank.com.ng)).

### 3.2.8 *Abuja Securities & Commodity Exchange (ASCE)*

The Abuja Securities & Commodity Exchange (ASCE) was originally incorporated as a Stock Exchange on 17 June 1998. It commenced electronic trading in securities in May 2001 and was converted to a commodity Exchange on 8 August 2001 and brought under the supervision of the Federal Ministry of Commerce. The conversion was premised on the need for an alternative institutional arrangement that would manage the effect of price fluctuations in the marketing of agricultural produce which has adversely affected the earnings of farmers since the abolishment of Commodity Boards in 1986.

Since the Abuja Securities and Commodity Exchange commenced trading activities in selected grains on 25 July 2006 it has not been able to achieve desired liquidity and operate optimally due to domination of the Nigerian agricultural sector by peasant farmers and absence of vibrant farmers' cooperative societies that would have made commodity aggregation and volume building very easy for the exchange to meet most of the orders that come to its floors on regular basis.

Out of ₦36.521 billion bids by major agro processing companies for different commodities on the exchange from 2006 to date, only ₦57.647 million could be met ([www.abujacomex.com](http://www.abujacomex.com)). The performance of the Exchange was impaired by:

- i. Absence of Warehouse Receipt Financing Scheme that would have provided the required bridging finance for the Nigerian farmers and made commodity aggregation easier.
- ii. Commodity merchants' unwillingness to deliver before payment.
- iii. Commodity buyers' unwillingness to fund their clearing account

before coming to the floor to bid so as to shorten the transaction cycle.

- iv. Absence of national grading system for all agro commodities.

### 3.2.9 *NGOs and Micro-Finance Institutions*

Non-Governmental Organizations/Micro-finance Institutions (NGOs-MFIs) are important financial providers for the rural poor in Nigeria though their overall impact remains small. According to World Bank (2008), there are about 500 registered NGO-MFIs in Nigeria with an average of 42,000 borrowers. These institutions are prohibited from mobilizing deposits from the general public but strictly from membership of their institutions who borrow from them. They are however able to request mandatory savings as loan collateral.

## 4 Challenges to Agricultural Finance in Nigeria

### 4.1 Institutional and policy-oriented challenges

These include:

- i. Lack of a proper integrated financial system approach to agricultural finance. A great part of Nigeria's experience with agricultural finance falls considerably outside the tenets of a well articulated financial systems' approach as the rural farming population remains largely unbanked. The bulk of Nigerian agricultural finance is essentially characterized by a supply-driven agricultural approach where finance is seen as a means to allocate resources to poor rural farmers. While it is good to target rural areas, a more integrated and demand-driven approach is needed if agricultural finance is to be sustainable.
- ii. Poor corporate governance by Development Finance Institutions (DFIs). This leads to misdirection of priorities and unwarranted wastes. In addition, management responsibilities do not always lie with the shareholders of DFIs. For example, CBN is a major shareholder in BOA, BOI, NEXIM and NAIC but the apex bank does not directly supervise their operations.

- iii. Paucity of rigorous data on the demand for financial services in Nigerian agriculture due to information asymmetry. The rural finance landscape is dominated by informal providers such as *adashi* with their activities and operations not captured in the mainstream financial sector.
- iv. Inconsistency in the rural financial policy and sometimes lack of appropriate policy.
- v. Poor infrastructure such as water for irrigation, electricity, good roads for evacuation as well as warehousing and storage facilities.

#### **4.2 Supply-side challenges**

- i. Financial institutions' lack of capacity to develop suitable products to meet the needs of rural clients.
- ii. Inability of financial institutions to assess the level of risks involved in lending to agriculture.
- iii. High cost of doing business in the rural areas where most small-scale farmers are based.
- iv. High cost of obtaining information on scattered farmers.
- v. Improper client services and delivery strategies
- vi. Political instability and social insecurity have hindered foreign investments in the agricultural sector.

#### **4.3 Demand-side challenges**

- i. Lack of collateral for small rural borrowers.
- ii. High interest rate charged by financial institutions and inability to afford insurance coverage by poor rural people.
- iii. Lack of good business plan to convince banks to lend.
- iv. Repayment problems.

### **5 Conclusion and Policy Implications for Improved Agricultural Finance**

The federal government realized the leading role it is expected to play in the provision of financial services to accelerate economic growth and development in Nigeria. This necessitated the establishment of a plethora

of agricultural financing initiatives targeted at both small- and large-scale farmers. The CBN, DMBs and other development finance institutions have been useful as channels for making resources available to the otherwise deprived segments of the society by the Deposit Money Banks and other financial institutions like MFBs and MFIs.

In ensuring that the agricultural sector has improved access to financial services, the following recommendations are made for immediate policy focus.

1. **Financial Inclusion Strategy.** The need to establish a financial inclusion policy and strategy as a most viable approach to ensuring greater access to financial services for all, particularly the rural agricultural populace. This is with a view to creating the desired linkage between the formal and informal financial sectors as well as between the rural and urban areas. This will require investments in rural finance infrastructure, active promotion of savings groups, non-interest banking, deployment of a mobile banking system in Nigerian rural areas and creation of regional banks and other retail credit institutions.
2. Supervision of DFIs should be brought under the purview of the Central Bank of Nigeria for increased efficiency and adequate corporate governance.
3. Agricultural finance must be viewed as a strategic business by both finance institutions and practitioners.
4. The Nigerian government should strictly adopt the Maputo (2003) declaration by committing a minimum of 10 per cent of the national budget to agriculture.
5. Consistent and appropriate agricultural policies by government is germane to sustainable agricultural financing in Nigeria.
7. Development of appropriate schemes and products that would focus on de-risking the agricultural sector.
8. Provision of technical assistance to banks. It is imperative that performance-based capacity building take place and for organizational innovations to be introduced for Nigeria banks.

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