

Financing Agricultural Development in Nigeria: Issues and Challenges

Mohammed Ibrahim^{1*} Jamila Mukhtar²

¹Department of Accounting, Faculty of Arts and Social Sciences, Gombe State University, Nigeria

²Department of Accounting, Faculty of Arts and Social Sciences, Gombe State University, Nigeria

*Corresponding Author

Mohammed Ibrahim

Email: mifili77@yahoo.co.uk

Abstract: The importance of finance to agricultural development cannot be overemphasized. Owing to the fact that the agricultural sector is an important engine of National economic growth, the Federal Government has embarked upon series of programs and policies to transform the productive capacity of the sector. But the sector's performance remains skimpy. The aim of this study is to ascertain the factors bedeviling financing the agricultural sector. This study employed a content analysis method of research and used a literature based method for analysis. It was found among others that; low level of monitoring and evaluation of financial policies, inadequate qualified personnel to manage financial resources devoted for agricultural investment, policy inconsistency and corruption are the main obstacles to the success of financial commitments to the agricultural sector. The paper recommends that government should ensure effective monitoring and evaluation of agricultural policies instead of formulating new ones and corruption should be fettered.

Keywords: Agriculture, Finance, Nigeria, Development, Challenges.

INTRODUCTION

Finance for agricultural development has an increasing role in contemporary times. Nigeria's efforts to diversify her oil base economy, is placing much emphasis on financing other sectors most especially agricultural sector. Since it is the largest sector in term of its share in employment [1] and has the potentials to stimulate growth through the provision of raw materials, food, jobs and increased financial stability. It therefore follows that agricultural financing is one of the most important instrument of economic policy for Nigeria, in her effort to stimulate development in all directions [2]. According to Anyanwu [3], finance affects economic growth, stagnation or even decline in any economic system.

However, at the wake of emerging development financing, the decline in agricultural production has placed more responsibility on government, farmers, financiers and other stakeholders to intensify their efforts on agricultural financing. Hence, the need for insuring an effective financing approach cannot be over-emphasized, in order to attain increased productivity, growth as well as sustainability which can lead to positive effect on GDP growth which ultimately translate to the entire well being economy[2].

Nigerian Government has introduced various initiative and policies to attract finance to enhance agriculture production dating back to the 1970s. It's worrisome that upon all these efforts the sector has not

yet regain its position as the government and all stakeholders are incline to revive the sector and yet according to Iheancho et al [4], rural poverty is on the increase. This paper attempts to empirically explore the problems of financing agriculture in order to provide policy makers and stakeholders with an insight to the phenomenon so as to take corrective measures to combat the failure of financial commitment to revitalize the agricultural sector to meet objectives of economic growth in Nigeria.

LITERATURE REVIEW

The concept of agricultural finance

Agricultural finance is all about the acquisition and utilization of capital (i.e. finance), the factor of production that facilitates the acquisition, procurement and management of the other factors of production namely, land, labour, capital – physical, and entrepreneur (management), in agriculture and which, is not only a lubricant but the lifeblood of the economy. It cuts across financial management and the financial institutions serving the agricultural sector of the economy. It is the most important factor in economic development. Capital has two concepts – the physical capital which refers to the physical assets (land, buildings, plants, machinery and equipment) used in the production of goods and services either for further or final consumption, and the finance capital which is used not only to procure the physical assets but also operates and manages the assets on daily basis to ensure continuous production of goods and services. Recall,

that GDP is a measure of the total value of all the goods and services produced by a country within a year [5].

Agricultural finance as defined by Obansa [6] is the mobilization of resources at all levels in order to increase production and productivity in agriculture and to enhance the productive capacity. Agriculture financing brings about growth and solve the problems militating against the agriculture sector productivity, economic sustainability, poverty reduction, business opportunities, institutional changes, innovation incentives as well as growth [5]. Funds for agricultural finance are met through macro and micro finance aspects. The macro finance aspects pertains to financing agriculture through government capital allocation to agriculture and mobilizing resources for agricultural development using institutional credit agencies such as the Central Bank of Nigeria (CBN) and Nigerian Agricultural co-operative and Rural Development Bank up to rural development programs. While the micro – finance aspects of agriculture pertains to the individual farm, especially financing of farm management, which relate to the acquisition and use of capital in the farm business using commercial banks.

Sources of agricultural credit

Funds can be obtained for agricultural purposes from the formal and informal sources [2]. The informal type of agriculture credit refers to farmers' personal income, credit from friends, relatives, farmer's association/cooperative societies the self help groups and money lender who generally provide easy access to credit but at a high cost charging the poor farmer's nominal monthly effective interest rates that typically range from about 10% to more than 100% [7]. Although several farmers rely on informal sources of credit, the focus of impact assessment is on the formal sector. This is not unbelievable because unlike in the formal system, there are considerable built-in mechanisms in the informal system which ensures effectiveness of operation [8].

Formal sources of finance

These include the Deposit Money Banks (DMBs), Insurance Companies, Nigeria Agricultural and rural Development Bank (NARDB), Microfinance Banks, other Government Agencies and International Development Agencies and cooperative societies. Through this agencies and banks agricultural lending rates are regulated by government and at times subsidized. In order to encourage the trading bank to increase their supply of agricultural credit. The federal government introduced a number of policies such as the Agricultural Credit Guarantee Scheme (ACGS), Agricultural Credit Support Scheme (2006), Nigeria Agricultural Insurance Corporation (1996) etc.

An overview of some of the current financing methods

The objective of agricultural financing policies is to establish an effective system of sustainable agricultural credit schemes and institutions that could provide micro and macro credit facilities for small, medium and large scale producers, processors and marketers in the agricultural sector of the economy. The CBN[11]asserted that robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit.

The Nigeria Agricultural Co-operative and Rural Development Bank (NACRDB)

It was formerly known as the Nigerian Agricultural and Co-operative Bank and it is the foremost development finance institution in Nigeria. The bank is traditionally active in the agricultural microfinance and agricultural finance market focusing on agricultural saving mobilization, credit delivery, inculcation of banking habits and poverty reduction. The Bank emerges from the amalgamation of Nigeria Agricultural and Co-operative Bank (NACB), the Peoples' Bank and the asset of the Erstwhile Family Economic Advancement Programme (FEAP) in 2000. It offers micro and a macro credit, and accepts deposits; it also offers loans and advances in which the interest rates are stratified according to the purpose of the loan [3].

Microfinance Banks

In 2005 most of the then existing community banks were converted to microfinance banks as stipulated by the CBN to better assist in wealth creation among enterprising poor people and to promote sustainable livelihood by strengthening rural responsive banking methodology. Community banks/microfinance banks assist in eradicating poverty through the provision of microfinance and skill acquisition development for income generation[3]. Microfinance provides financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguished microfinance from other formal financial products. These are the smallness of loans advanced, the absence of asset-based collateral, and simplicity of operations.

Nigerian Agricultural Insurance Corporation (NAIC)

NAIC was established specifically to provide insurance cover for farmers against natural disasters and risk associated with agricultural production [2]. NAIC also underwrites which guarantees prices of farmer farm produce which enable them sustain adequate and stable income. Other responsibilities of the corporation

includes; premium generation from policies issued with risk of about ₦100billion and over; claims settlement ranging from ₦500million to various farmers and co-operative groups, increased volume of lending to agricultural sector inspiring lending institutions to lend more to especially small and medium scale farmers and magnetize international appreciation in line with the Acts of the African Insurance Organization (AIO), the United Nations Commission on Trade and Agricultural Development (UNCTAD) and the Food and Agricultural Organization (FOA).

Agricultural Credit Guarantee Scheme

It was established in 1977 and commenced operations in 1978. It provides credit finance to a large number of farmers in the rural areas, for sustainable growth and financial empowerment in the agricultural sector[1]. The scheme guarantees credit facilities obtain by farmers from banks at 75% of their total borrowings and is usually security free. The Central Bank of Nigeria (CBN) [11] lever the operations of the scheme and set guidelines for farmers eligible to access the funds.

Credit guarantees ensure repayment of loans in part or full in order to motivate lenders to provide loans to borrowers who would otherwise not have been able to access credit on their own for reasons of inadequate collateral and the level of risks to be assumed by the lenders[9]. It is a persuasive tool that enables banks to offer massive credit facilities on more propitious terms since debtors are credit insured.

METHODOLOGY

Method of research employed is the content analysis, which requires the use of literature related to the area of the study.

DISCUSSION

It will be appropriate to maintain that, even with the pressure by government to revive the agricultural sector through various financing methods, the aim has not been achieved. To this development, one tends to assert that the current financing methods and/or policies are not fittingly or are aptly utilized. Many studies have analysed the factors responsible for the failure of the current financing approaches. These are discussed below.

The problems of uneven distribution of credit are present at levels of subsectoral allocation, the fact that most credit programmes have tended to discriminate against the smallholders. The aspect of credit distribution is the large imbalance in subsectoral distribution of credit. By and large, the livestock subsector, and especially poultry, has been favoured both in the programmes of the public and private credit

institutions. The effect of this on the spatial distribution of agricultural credit has been an undue concentration of credit users in many urban locations and the neglect of the main centers of agricultural production (that is the rural areas).

Another undesirable aspect of the agricultural financing programmes is the low level of monitoring and evaluation of implementation. As of today, most of the problems of the credit programme have not been adequately documented and this has often resulted in a superficial discussion of such problems. Most projects financed by credit are subjected to some serious analysis and evaluation which is a requirement for obtaining the credit. However, the ex-post evaluation has been very poor and, very often, default cases just surface without an adequate background of how they came about. Apparently, the credit institutions have not had the size of manpower needed for the evaluation and monitoring exercise. The efforts of many credit institutions in shaping their agricultural credit units are nevertheless commendable, but it does not seem that the institutions have done enough justice to this problem.

The agricultural sector of the economy has witnessed some structural changes since 1970, but such changes have been isolated and insignificant in relation to the size and potential of the sector. Under the circumstance, some of the agricultural credit programmes being currently executed appear to be out of context of the general level of agricultural development in the country and hence have made only little impact.

Development efforts in the agricultural sector itself have been lopsided and of limited relevance to a systematic transformation of the sector. Unduly large financial projects were embarked upon without due regard to their long-run financial requirements, this is manifested in inability of such projects to survive and consequentially leading to their replacement with new ones. As a result of these inconsistencies the agricultural sector has remained largely underdeveloped. It is very unfortunate that government policies are largely found to be consistently inconsistent and continuously somersaulting has particularly contributed to the failure of the agricultural sector. Famogbiele [5] states that every new government wants to pursue its own political agenda without consideration for the economic well being of the nation; it is forever jettisoning the policies of the predecessor to start a new policy of its own which is soon dropped by the successor. This is antithetic to continuity, a characteristic of any ideal democratic, good and progressive government, irrespective of the party in government. It is in this light one wonders what becomes the fate of the Agricultural Transformation

Agenda [ATA] of the current government after it might have completed its term. Hence any financing approach taken by government is likely to have insignificant impact, as most needs to be provided repeatedly.

The continued underdeveloped status of Nigerian agriculture is, as has just been suggested, due largely to the defective general economic policy framework of the country. There have been some ineffective agricultural policies which have not lent sufficient support to the agricultural credit programmes. For instance, the development of various agricultural cooperatives and effective extension services is vital for the success of these agricultural credit schemes. In fact, the ACGS and the NACRDB credit programmes were expected to depend to a large extent on the involvement of farmers' cooperatives through which credit would reach individual farmers. From the Second National Development Plan period, government initiated bold policies to support the cooperative system through the improvement of training facilities for cooperative personnel and credit for executing cooperative projects. The available evidence is that, actual government efforts have made only marginal impact[10].

Educational facilities for cooperative personnel were modestly expanded, but could not adequately cope with the problem of inadequate qualified personnel to manage the existing cooperatives. The problems of inadequate finance for cooperatives have also remained intractable. What may be observed is that cooperative development policies have not been adequately backed up by effective programmes, while implementation of current programmes has been very poor. Another serious gap which has affected the credit programmes is the weak position of many extension services throughout the country. The extension system could have been very effective in monitoring the activities of borrowers and hence provide a good feedback to the credit institutions. The extension service system has traditionally been under the control of the State Governments. But owing to lack of funds, the extension services in the states have virtually collapsed and are generally ill-equipped to perform effective intermediary roles between farmers and other agencies such as credit institutions[6].

Over the years, the inability of this sector to expand and as well contribute meaningfully to the growth of Nigerian economy was due to inadequate financing to improve on the situation that is, facilitating agricultural credit. Also, the problem of rapid agricultural development in Nigeria indicates that efforts directed at achieving expanded economic base of the rural farmers according to CBN[11] were frustrated by the scarcity of and restrictive access to loanable fund. One of the reasons for the decline in the

contribution of agriculture to the economy is lack of formal National credit policy and paucity of credit institutions which can assist farmers.

The low volume of business in the rural areas where poverty is most prevalent cannot guarantee sustainable business activities to encourage the establishment of commercial banks to provide the needed finance for agricultural production. Moreover, the cost implication of processing agricultural loans in the rural economy makes it unattractive for conventional banks to channel their resources to farming. Although, the commercial banks finance agricultural activities but their credits are urban based and so small that their impact cannot be felt in the rural areas where farming actually takes place. Lack of priority attention to rural population in credit delivery by commercial and other banks in the economy contributed to the depressed economic conditions in the rural economy, and this situation also affects the overall economic growth and development of the nation [2]. Although this can be said to be halted by government efforts through various persuasive scheme but the situation makes one to wonder if this efforts are really working based on report by Awwoke [8] who reviewed small farmers access to agricultural credit in Nigeria and found that small scale farmers have relatively more access to informal and semiformal credit in situations than to formal credit institutions, in spite of the higher volume of credit offered by the formal institution. Also, the high repayment rate of loans recorded by informal and semi formal institutions indicate that the loans are granted at affordable rates to the small-scale farmers which is in contrast to the findings of Oboh [7] as earlier noted and hence the latest overrides.

Oboh [7] used error correlation model to investigate farmers' allocative behavior in credit utilization in Benue state. The study reveals that the usefulness of any agricultural credit policy does not only depend on it's availability, accessibility and affordability, but also acts proper and efficient allocation and utilization for intended uses by beneficiaries. In spite of the importance of credit in agricultural production, its acquisition, management and repayment are enclosed with number of problems. Thus, it can be affirm that the financial resources committed are perhaps not utilized efficiently.

Awoke [8] examined the factors affecting loan acquisition and repayments patterns of small holder farmers in Nigeria. The study reveals that high rate of default arising from poor management procedure; loan diversion and unwillingness to repay loans have been threatening the sustainability of most public agricultural credit scheme in Nigeria.

It must be stated however that, in the quest to overcome the known problems in channeling finance effectively clear, as we noted earlier, that more problems of agricultural credit have evolved over time, while some are within the context of finance, some are not but have adversely affected financial commitment in the sector. In line with this Famogbiele [5] maintains that it is important to stress that finance, per se, cannot perform the magic of economic revival without the elimination of these other constraining factors which have been bedeviling the economy for a long time and have actually set the country back rather than progressing. They include corruption and policy inconsistency and summersault. Finance, no doubt, is strategically important in the revival and growth of agriculture but equally important are the other factors of production from which finance cannot be isolated if it was to be effective and efficient. Others include lack of storage facilities and the scrapped of commodity boards. In the light of the above challenges, management stands out of the factors. Management of the resources and infrastructures namely, funds, roads, power, farm produce, marketing and pricing, etc. Resuscitation and management of the commodity boards, efficient storage facilities without overlooking the value added chain possibilities should also be looked into. But, more importantly is the issue of policy somersaulting, inconsistency, and especially, corruption. Olowo [2] said that the missing link in Africa's growth process is the absence of adequate policies and efficient institutions. He said Nigeria has not grown because of institutional constraints and corruption which has been deleterious to her growth. He believed that corruption cannot be dealt with in isolation but needs a multipronged approach to its elimination.

CONCLUSION AND RECOMMENDATIONS

Owing to the fact that finance is an important engine of agricultural growth and which ultimately translate to National economic growth. All federal governments have come up with their own version of support services. In this regard, the Government of Nigeria had introduced schemes, programmes and institutions aimed at boosting agricultural production among the rural dwellers for economic development. These measures could not achieve the intended objectives because, agriculture being labor and capital intensive venture requires adequate and effective financing. And from the above analysis several factors were identified to bottleneck the achievement of this level. These include among others; low level of monitoring and evaluation of financial policies, inadequate qualified personnel to manage financial programs, inefficient utilization of credit by farmers, insufficient funds, rural poverty, corruption and policy inconsistency.

Unless these problems, identified as factors, are dealt with, with honest of purpose agricultural and economic revival through finance will continuously be an illusion. In Nigeria, we have had enough of agricultural revival and poverty alleviation policies, initiatives and programmes without serious efforts in implementation. The regional Commodity Boards, over the years, had set the pace. It could be done again. All that is required is the seriousness and loyalty of committed Nigerians and the governments to have good intention, sincerity of purpose, integrity, transparency and accountability and put hands on deck to hit the delinquent through effective monitoring and evaluation of agricultural financial polices and initiatives and provision of adequate funds that is proportionate to the needs of the sector.

REFERENCES

1. Olaitan MA; Finance for Small and Medium Term Enterprises: Nigeria's Agricultural Credit Guarranty Scheme Fund. *Journal of Information Farm Management*, 2006; 3(2):345-365.
2. Olowu AU; Agricultural Financing and Performance in Nigeria: A Case Study of the Agricultural Credit Guarantee Scheme (ACGS). 2011.
3. Anyawu CM; Microfinance Institutions in Nigeria: Policy Practice and Potentials. Presented at the Workshop on Constraint to Growth in Sub-saharan Africa, South Africa. 2004.
4. Iheancho AC, Abdullahi AB, Ibrahim A; Determining and Managing Appropriate Agricultural Policy Variables for Rural Poverty Reduction in Nigeria. *Journal of Agriculture Science*, 2006; 2(3):1813-2235.
5. Famogbiele G; The Challenges of Agricultural Finance Institutions in Nigeria: Constraints to Sustainable Agricultural and Economic Growth. 2012.
6. Obansa SA, Madukwe D; Agriculture Financing and Economic Growth in Nigeria. *European Scientific Journal*, 2013;7(1):345-354.
7. Oboh VU; Farmer Allocative Behavior in Credit Utilization: A Case Study of Arable Crop Famers in Benue State. PhD Dissertation, Agricultural Economics and Extension Programmme, Abubakar Tafawa Balewa University, Bauchi Nigeria. 2008.
8. Awoke MU; Factor Affecting Loan Acquisition and Repayment Patterns of Small Holder Farmers in Ika North East of Delta state, Nigeria. *Journal of sustainable Agricultural Resources*, 2004; 9(5):61-64.
9. Najavas AR; Credit Guarantee Schemes Conceptual Framework: Financial System Development Project. *Technical Bulletin*, 2001; 6(1):70-89.

10. Olowa WO, Olowa O; Issues, Problems and Policies in Agricultural Credit: A Review of Agricultural Credit in Nigeria. Bangladesh e-journal of Sociology, 2011; 8(2):286-295.
11. Central Bank of Nigeria; Economic Report, 2010;10.