

Averting the Looming Food Crisis: A Clarion Call to Immediate and Near-term Policy Action

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I. Introduction

Nigeria suffers from food insecurity and poverty. It is estimated that the number of hungry people in Nigeria is over 53 million, which is about 25.0 per cent of the country's total population of about 212 million. Also, about 43.0 per cent of Nigerians live below the poverty line. These statistics are worrisome, given that Nigeria, in the 1950s and 1960s, was not only self-sufficient in food production, but was also a net exporter of food to other regions of the continent (Ajayeoba, 2010).

A nation is food secure when food is available and accessible in sufficient quantity and quality for a productive livelihood for every individual. The increasing issue of food insecurity, particularly in Africa has been greatly attributed to wars, conflicts, natural disasters, and bad governance (Umar, 2014).

I.1 Concept of Food Security

Food and Agriculture Organisation, FAO (1996), defines food security as "a situation that exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life". The FAO identifies the four pillars to sustainable food security as:

- availability;
- utilisation;
- accessibility; and
- stability.

In a similar definition, USAID (2021) described food security as having, at all times, both physical and economic access to sufficient food to meet dietary needs for a

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productive and healthy life. Some of the drivers of food security are highlighted in Table 1.

Table 1: Drivers of and Constraints to Food Security

Drivers	Constraints
<ul style="list-style-type: none"> • Timely availability of high-quality inputs • Macro and Micro Economic Environment • Access to Finances • Technology • Access to markets 	<ul style="list-style-type: none"> • Uncontrolled population growth • Conflict & Insecurity • Low access to agricultural financing • Poor and inadequate agricultural infrastructure

Source: Author's Compilation.

1.2 Agriculture in Nigeria

Agriculture is a priority sector in Nigeria. It serves as the key driver for food security, economic growth, employment generation, wealth creation, and poverty reduction. For instance, in first quarter of 2021, agriculture contributed 22.4 per cent to Nigeria's GDP and accounted for over 70.0 per cent of employment opportunities. However, agricultural production in Nigeria is dominated by smallholder farmers in the rural areas. This group of farmers are largely financially excluded and characterised by low productivity and output. They are, therefore, largely subsistent, and reliant on informal financing window, which is at times more expensive.

1.3 Agricultural Potentials in Nigeria

Nigeria is endowed with the following agricultural potentials that can be utilised to increase food production and ensure food security:

- Arable land of 923.8 thousand square kilometres;
- 279 cubic metres of water surface for fishery & irrigation;
- Diverse ecological zones that support various agricultural activities;
- Over 100 million youths that make up the workforce; and
- Large market of over 200 million people.

It is in view of these endowments that various administrations have come up with several initiatives to promote agriculture in the country.

II. Agricultural Financing a Panacea to Food Security in Nigeria

Agricultural programmes introduced by government over the years (1972 -2020) to promote food production include:

- National Accelerated Food Production Programme (NAFPP) – (1972 – 1973);
- Operation Feed the Nation (OFN) – (1976 – 1980);
- Green Revolution Programme (GRP) – (1980 – 1983);
- Go Back to Land Programme – (1983 – 1985);
- Elements of NAFPP restored through Directorate of Food Roads and Rural Infrastructure (DFRRI) in 1985;
- National Food Security Programme (NFSP) – (2008);
- Presidential Initiative on Agriculture – (1999);
- Agricultural Transformation Agenda (ATA) – (2011 – 2016); and
- Agricultural Promotion Policy (APP) 2016 – 2020.

In terms of agricultural financing, the Central Bank of Nigeria (CBN) has been giving incentives to financial institutions to enable them lend to the sector. These efforts, together with other institutional supports documented in Table 3, are put in place to boost agricultural production and avert food crisis in the country. The UN projects Nigeria to be the third most populous nation in the world by 2050, and warns of a likely food crisis, if food production fails to match the rising population. The financing of agriculture has, therefore, become more important now than ever before. A review of some of the most recent policies is documented in Table 2.

Table 2: Agricultural Financing Policies

Policy	Financing targets/achievements / issues
Agricultural Transformation Agenda (ATA) 2011 - 2016	<p>The policy is said to achieve the following:</p> <ul style="list-style-type: none"> ▪ In partnership with Central Bank and Bankers Committee, set up of NIRSAL credit guarantees; ▪ Revival and partial recapitalisation (₦15 billion) of Bank of Agriculture; ▪ Engagement with commercial banks to finance the Growth Enhancement Scheme (GES) and boost lending to agriculture from, approximately, 1.0 per cent to 6.0 per cent of all formal credit by 2015; and ▪ Creation of special funds to support farmers e.g. ₦10 billion Cassava Fund and FAFIN/KfW Facility of \$US35 million
Agricultural Promotion Policy (APP) 2016 - 2020	<p>The policy noted the following:</p> <ul style="list-style-type: none"> ▪ Insufficient access to credit and insurance products; ▪ Inadequate mechanism and channels for agricultural financing; ▪ Prohibitive interest rates for agricultural lending; ▪ Non-recognition of cooperative and other farming-based organisations by financial institutions; ▪ Inadequate capacity of financial institutions to lend to the agricultural sector; and ▪ Inadequate capacity of Federal Ministry of Agriculture and Rural Development (FMARD) to facilitate agribusiness investment
Agricultural Promotion Policy (APP) 2016 - 2020	<p>The policy provides among other things the following:</p> <ul style="list-style-type: none"> ▪ Availability of credit for all farmers and agribusiness through: <ul style="list-style-type: none"> • Stimulating cooperative banking and affordable loans through commercial banks • Increase in capacity and size of market-driven guarantee and risk schemes (e.g. NIRSAL) legislation recognising alternative finance mechanisms e.g. • Warehouse-receipt financing, commodity-trade financing, crowdsourcing, private equity, etc; ▪ Deepening of FMARD's capacity to facilitate agribusiness investment agreements; ▪ Engagement with the Legislature to increase public sector funding to the minimum recommended 10 per cent of the national budget;

	<ul style="list-style-type: none"> ▪ Access to savings; ▪ Improved financing for agro-dealers to offer trade credit ▪ Policies that support quasi-equity financing for growth of agribusiness companies, etc.; ▪ Access to multi-year finance as well as seasonal shorter-term capital.
<p>Agricultural Promotion Policy (APP) 2016 - 2020</p>	<ul style="list-style-type: none"> ▪ Review structure of agricultural insurance markets in partnership with the Insurance Commission to intensify competition and product innovation; ▪ Encourage NIRSAL Plc to expand access and grants to actuarial training; ▪ Drive for mass market access to insurance contracts including multi-peril insurance, improvement of leasing, lowered transaction costs for financial services; ▪ Improved use of existing collateral (and asset-based lending); ▪ Revision to existing subsidies regimes; ▪ Move GES to more pareto optimal targeting and structure; and ▪ ATM cards pre-loaded with cash and redeemable only at inputs suppliers.

Source: Author's Compilation.

Table 3: Key Players in Agricultural Financing and their Mandates

Institution	Mandate/Role in Agricultural Financing
Central Bank of Nigeria (CBN)	<ul style="list-style-type: none"> • Agricultural financing intervention • Agricultural Credit Guarantee Scheme
Federal Ministry of Agriculture & Rural Development	<ul style="list-style-type: none"> • Policy and supervisory function • Agricultural financing intervention
Bank of Agriculture Ltd (BoA)	<ul style="list-style-type: none"> • Financial services along the entire agricultural value chain • Encouraging rural banking services (financial inclusion)
Development Bank of Nigeria (DBN)	<ul style="list-style-type: none"> • Wholesale lending to Participating Financial Institutions (PFIs) • Partial credit guarantee to PFIs
Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)	<ul style="list-style-type: none"> • Credit guarantee (Risk sharing) • Incentive mechanism • Lending to agriculture
Bank of Industry (BOI)	<ul style="list-style-type: none"> • Financing agro processing/allied industries • Lending to agricultural production
Nigeria Export Import Bank (NEXIM)	<ul style="list-style-type: none"> • Financing export of commodities • Provide insurance & credit guarantee for exports
Nigerian Agricultural Insurance Corporation (NAIC)	<ul style="list-style-type: none"> • Agricultural insurance
Nigerian Agricultural Land Development Authority (NALDA)	<ul style="list-style-type: none"> • Agricultural land development • Agricultural lending
Federal Ministry of Humanitarian Affairs	<ul style="list-style-type: none"> • Disaster management & humanitarian interventions • Micro interventions (FarmerMoni)
Small & Medium Enterprises Development Agency (SMEDAN)	<ul style="list-style-type: none"> • Promote the development MSMEs • Capacity building for MSMEs • Lending to MSMEs through financial institutions
NIRSAL Micro Finance Bank	<ul style="list-style-type: none"> • Micro lending to agricultural and non-agricultural activities
Deposit Money Banks	<ul style="list-style-type: none"> • PFI for government interventions • Agricultural Lending
Research Institutions	<ul style="list-style-type: none"> • Soil fertility testing • Seed quality assessment
Farmers Associations	<ul style="list-style-type: none"> • Sensitising Farmers • Spearheading access to government Intervention programmes
Micro Finance Banks	<ul style="list-style-type: none"> • Micro lending to agricultural and non-agricultural activities

Source: Author's Compilation.

II.1 Challenges of Agricultural Financing

Agricultural financing in the country is plagued with the following challenges:

- i. Inadequate funding of government-owned agricultural finance institutions;
- ii. Inconsistency in government policies on agricultural financing;
- iii. Poor financing of agricultural infrastructure;
- iv. Skill inadequacy in service delivery;
- v. Lack of acceptable collateral by small scale farmers;
- vi. High dispersion of farmers, which leads to high transaction cost on lending to agriculture;
- vii. Lack of access to financial services by rural farming communities;
- viii. Low management capacity of farmers;
- ix. Poor awareness and lack of confidence in insurance and credit guarantee institutions;
- x. Seasonality and low profitability of subsistence farming; and
Risky nature of agricultural financing.

II.2 Financial Institutions' Perception of the Agricultural Sector

II.2.1 Perceptions

Financial institutions are usually reluctant to lend to agriculture due to certain perception and risks involved in agricultural financing. Some of these are:

- i. Inconsistency in government policies on agricultural financing resulting in:
 - a. non-continuity of agricultural policies; and
 - b. poor implementation of policies on agricultural financing;
- ii. Infeasibility of agricultural financing due to:
 - a. non-market determined interest rates; and
 - b. high cost of credit administration;
- iii. Long term nature of some agricultural investments that leads to:
 - a. low turnover of funds; and
 - b. loss of business opportunities;
- iv. Low management capacity of farmers, which dovetails into:
 - a. poor farm management; and
 - b. poor farm and financial record keeping;
- v. Lack of infrastructure, causing challenges to farmers including:
 - a. post-harvest losses; and
 - b. lack of access to markets;
- vi. Difficulties in repayment of loans, occasioned by:
 - a. adverse climatic conditions;
 - b. unpredictable cash flows; and
 - c. lack of collaterals; and

- vii. Market challenges creating hardship on farmers, including:
 - a. unstable pricing; and
 - b. erratic demand for produce.

II.2.2 Mitigants

To address the concerns of financial institutions regarding the agricultural sector, the following need to be attended to:

- i. Strengthening and full implementation of agricultural credit guarantee scheme and risk sharing to reduce anticipated loan defaults from farmers;
- ii. Encouragement of agricultural cooperative societies to organise farmers, provide avenues for capacity building, and create opportunities for obtaining inputs and disposal of produce at reasonable prices;
- iii. Effective agricultural insurance scheme to assuage farm losses caused by unexpected events including floods, fire, droughts, insecurity, theft etc.
- iv. Establishment of agro cities that will pull farmers together into established settlements that are provided with adequate infrastructure, including agro processing industries and markets for produce;
- v. Mop up of excess produce in times of boom by relevant governmental agencies, thus creating funding for farmers to continue in business and also pay up their loans to financing institutions;
- vi. Revival of agricultural commodity boards to encourage marketing of produce and also the strengthening of the commodity exchange as instruments of stabilising prices of commodities and preventing excessive losses by farmers due to seasonal price fluctuations; and
- vii. Establishment of agro processing zones to enhance value addition and produce offtake; thereby boosting farmer's liquidity for improved and continuous farming activities.

III. Bank of Agriculture Limited

The Bank of Agriculture Ltd. was incorporated in 1972 as Nigerian Agricultural Bank Ltd, but had its name changed in 2010 after a rebranding exercise. The Bank was set up purposely to provide agricultural financing to support agricultural value chain activities in the country. It has 152 business outlets spread across the 36 states of the Federation and the FCT, with experience in financing both large scale and smallholder farmers, including self-help groups and organised cooperatives. It is able to reach its numerous clienteles through its customer tailored products (Table 4).

Table 4: BoA Existing Products

SmallHolder Farmers Loans	Commercial Agricultural Loans	Youth & Women Loans
Direct Loans <ul style="list-style-type: none"> • Micro Agric • Micro Non-Agric • Nano • BoA Rural Business Initiative (BOARBI) 	Direct Loans <ul style="list-style-type: none"> • SMEs • Agribusinesses 	Direct Loans <ul style="list-style-type: none"> • Youth Agricultural Revolution in Nigeria (YARN) • Grow and Earn More (GEM)
On-lending Loans <ul style="list-style-type: none"> • State Governments • MDAs • Cooperatives • Farmer/Trade Groups • Self Help Groups • Micro Finance Banks (MFBs) • Micro Finance Institutions (MFIs) 	Wholesale Loans <ul style="list-style-type: none"> • State Governments • MDAs • Cooperatives • Farmer/Trade Groups • Self Help Groups • Micro Finance Banks (MFBs) • Micro Finance Institutions (MFIs) 	Group Loans <ul style="list-style-type: none"> • BOARBI

Source: Author's Compilation.

III.1 BoA's New Products to Support Food Security

i. Farm Land Acquisition Scheme

This shall be implemented in partnership with the States, FCT, Local Governments, and potential private investors.

ii. Input supply credit

This is to support producers of agricultural inputs, such as seeds, fertilizer, etc.

iii. Agricultural mechanisation

This aims to partner with the private sector in the provision of agricultural machineries.

iv. Post-harvest process, logistics & storage finance

The initiative is aimed at financing investment in post-harvest technologies pertaining to processing, storage, packaging, transportation, marketing, and distribution.

v. Livestock production

This is to finance ranching and sustainable Goats Production Scheme.

Table 5: BoA Partnerships in Supporting Food Security

Collaborators	Description
ECOWAS	On-lending bank for the US\$4.5 million ECOWAS Fund for artisanal fish production.
IFAD/UNDP	Implemented the credit component of US\$8.5 million IFAD/UNDP Artisanal Fisheries Development Project.
European Investment Bank	Oil Palm Development Projects in South East and South South regions of Nigeria.
National Sugar Development Council (NSDC)	Implementation of the National Sugar Master Plan (NSMP), in collaboration with the NSDC.
Federal Ministry of Water Resources	Loan facility to the River Basin Development Authorities (RBDAs) via Fed Min. of Water Resources for irrigation purposes.
AFFCOT Ltd.	Cotton contract-growing with AFFCOT in Adamawa State.
Savanna Sugar Company Ltd.	Sugar-cane contract farming for Savanna Sugar Company, Numan, Adamawa State.
Niger Delta Development Commission	Entrepreneurial Development Scheme to promote the growth of Agribusiness in the Niger Delta to the tune of ₦1.25 billion.
Anambra State Government	Credit Support to farmers and agro enterprises in Anambra State to the tune of ₦1.2 billion.
Sokoto State Government	Credit support to small scale dry season farmers in Sokoto State to the tune of ₦1.0 billion.
Kogi State Government	Credit support to farmers, processors, and other Intermediators in various commodity value chains to the tune of ₦0.75 billion.
Osun State Government	Agricultural Quick Impact Intervention Programme II to provide credit support to smallholder farmer groups to the tune of ₦0.60 billion.
Cross River State Government	To provide credit support to MSMEs to the tune of ₦0.40 billion
Kano State Government	Working with the Dangote Group, BOI, and CBN to finance tomato out-growers for tomato processing plant in Kadawa to the tune of ₦10.00 billion
Jigawa State Government	Solely financed the Three Brothers Rice Mill in Hadejia to the tune of ₦0.50 billion
Federal Ministry of Agriculture & Rural Development	₦3.60 billion mechanisation programme to establish 72 Equipment Hiring centres across the country.
Federal Ministry of Agriculture & Rural Development	Support for the National Cassava Growers Association with ₦2.40 billion to produce cassava flour as substitute to wheat flour (to the tune of 20.0 per cent) in bakeries and the confectionary industries.
Central Bank of Nigeria	CBN Anchor Borrowers Programme in all states of the Federation to tune of ₦105.36 billion.

Federal Ministry of Agriculture & Rural Development	Ten (10) Integrated Rice Mills (4 Tonnes per hour capacity) across the country to the tune of ₦10.00 billion
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Source: Author's Compilation.

III.2 Challenges Facing the Bank of Agriculture

At ₦50.00 billion, the bank's authorised share capital is inadequate and yet to be fully paid up, as only ₦33.61 billion of the share capital has been received by the bank in its 49 years of existence. This has created paucity of funds to finance smallholder farmers not to talk of commercial agriculture and other activities in the agricultural value chain. It has also hampered the financing of the bank's activities. For instance, the bank is manually driven and this impacts negatively on its ability to reach out to the farmers where no physical branch presence exists.

The implications of these challenges for food security include:

- i. The inability of the bank to expand financing to smallholder and commercial farmers;
- ii. Limitation in terms of the size and number of farms supported; thus, leading to low production and productivity;
- iii. Lack of financial support to smallholder farmers who constitute about 70.0 per cent of the farming population; thus, denying them of the ability to obtain quality and improved high yield input to grow their farms and increase production;
- iv. Poor financing, which affects the ability of the rural farming group to grow the variety of crops required for their dietary needs;
- v. Inadequate and poor processing facilities, which lowers the quality of processed food to satisfy the needs of urban dwellers; thereby making them to prefer imported foodstuff to locally processed food items; and
- vi. Poor preservation and storage facilities, which lead to high post-harvest losses and transportation costs; thereby raising the price of food items above the reach of the low-income earners.

Thus, in general, poor financing of agricultural activities leads to food insufficiency, low quality processed food items, high cost of food, and dietary deficient meals; which in effect create high food insecurity in the country. Other impacts are in the areas of unemployment, increased poverty levels, etc.

VI. BoA's View on Agricultural Policies as they Affect Financing

Whereas the Agricultural Transformation Agenda (ATA) proposed a revival and partial recapitalisation of Bank of Agriculture by ₦15.00 billion, this has not been

achieved. The Bank was only supported with ₦7.50 billion, while the balance is yet to be paid.

The Agricultural Promotion Policy (APP), like many other policies noted, amongst others, that the constraints confronting agriculture in Nigeria are:

- Insufficient access to credit;
- Inadequate capacity of financing institutions;
- Non recognition of cooperatives and other farming groups by financial institutions;
- Inadequate mechanism and channels for financing agriculture; and
- Prohibitive interest rates.

In view of the above constraints, the APP provided for the following (FMARD, 2016):

- Stimulation of cooperative banking and affordable loans;
- warehouse-receipt financing, commodity-trade financing and crowdsourcing;
- Improved use of existing collaterals; and
- At least 10.0 per cent of all formal credit should go to agriculture by 2017 to 2018; amongst others.

Given that agriculture remains one of the major drivers of the nation's economy, it is important that all stakeholders continue to support the sector, especially in terms of policy, regulation, and legislation. In addition, policy pronouncements should be backed with practicable implementation plans. For instance, we note the aspect of the APP that provides for allocation of 10.0 per cent of all formal credit to agriculture. The policy, however, did not provide guidance on how the target was to be achieved. Furthermore, penalties need to be applied where there are defaults, including cases where funds transferred to BoA for lending to agriculture are not disbursed. We also note that, for improved use of collaterals to be achieved, policies on recognition and acceptance of collaterals and the ease of realising same need to be fine-tuned by the relevant governmental agencies.

V. Recommendations for Improving Agricultural Financing Policies

While the Bank of Agriculture Ltd. agrees with the policy makers on their concerns on agricultural financing, it is important to state that the bank has continued to not only encourage and finance rural agriculture through cooperatives, it has also provided loans to farmers at very low interest rates.

The BoA has products to finance the entire agricultural value chain from production to the final consumption, but lacks the capacity to effectively finance the sector due to inadequate funding. The BoA has the potentials to drive the financing

aspects of Agricultural Promotion Policy (APP) of the Federal Republic of Nigeria if well-funded and given the necessary policy and regulatory support.

Consequently, we make the following recommendations:

- i. Improve funding of agriculture in Nigeria to attain food security;
- ii. Harmonise and create of synergy in the activities of key players in agricultural finance to ensure effectiveness of their services;
- iii. Create Agricultural Production Revolving Fund (APRF) to be domiciled in Bank of Agriculture Ltd.; and
- iv. Develop a framework for mopping up of excess produce in times of boom and releasing same in times of scarcity by relevant governmental agencies. This will help in stabilising prices, and also creating liquidity for farmers to continue in business, and pay up their loans.

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