

CBN Interventions and Food Security: Rationale, Experience and Challenges

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I. Introduction

Prior to the outbreak of the Coronavirus (COVID-19) pandemic, conflicts, deteriorating socio-economic conditions, natural hazards, changing climatic conditions, prevalence of pest and diseases, etc., had led to reduced incomes, disrupted supply chains, and resulted in severe chronic and acute hunger across several countries, worldwide. These conditions were exacerbated by COVID-19 impacts, leading to severe and widespread increases in global food insecurity affecting vulnerable households in almost every country. These impacts expected to continue through 2021 and beyond as the Delta variant continues its spread (World Bank, 2021). Thus, the effects of the Pandemic on national food security systems becomes critical issue for policy analysis and interventions.

Food security has been defined across a plethora of contexts and policy usage. In one context it is considered a causal pathway/chain of activities from production, through distribution, processing up to and including consumption. According to the FAO (2006), food security is 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. Thus, the FAO identified four (4) dimensions of food security to include: (i) Availability – National/Self-Sufficiency, (ii) Accessibility – Household, (iii) Utilisation – Individual, and (iv) Stability – which may be considered as a time dimension that affects all the levels. These four conditions are considered pre-requisites to the attainment of food security. These dimensions, particularly the issues of availability and accessibility, underlines the importance of proper and adequate financing of the national food production and distribution food system to achieve food security.

Development Finance is an integral part of the CBN's vision, which is to “*be the model Central Bank delivering price and financial system stability and promoting sustainable economic development*”. The real sector has been identified as the fulcrum of growth in major economies while the current consistencies witnessed in the contribution of the agricultural and services sector to the Nigeria's GDP underscores the strength of the sectors for national growth and development.

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Unfortunately, apathy of deposit money banks to lend to the real sector (less than 5.0 per cent of loan portfolio) necessitated the several efforts to deepen the flow of credit to the agricultural, Micro Small and Medium Enterprises (MSME), manufacturing and other employment elastic sectors through a number of interventions/schemes and programmes. The interventions of the CBN can be categorised into the following generational buckets:

1. **Traditional Financing Generation:** Rural Banking Programme (1977), Agricultural Credit Guarantee Scheme (1977), World Bank SME II Loan (1986), Export Refinancing and Rediscounting Facility (1987), Sectoral Allocation of Credit and Concessional Interest (1996).
2. **Micro Finance Generation:** Small and Medium Enterprises Equity Investment Scheme (2001), Microfinance Policy, Regulatory and Supervisory Framework for Nigeria (2005), Agricultural Credit Support Scheme (2006).
3. **Quantitative Easing Generation:** Entrepreneurship Development Centres (2008), Commercial Agriculture Credit Scheme (2009), SME Refinancing and Restructuring Facility (2000), SME Credit Guarantee Scheme (2000), Power and Airline Intervention Fund (2010).
4. **Development Finance Generation:** Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) (2011), National Financial Inclusion Strategy (2012), MSME Development Fund (2013), Nigeria Electricity Market Stabilisation Facility (2014), Real Sector Support Fund (2014), Non-Oil Export Stimulation Facility (2015), Anchor Borrowers' Programme (2015), National Food Security Programme (2016), Youth Entrepreneurship Development Programme (2016), National Collateral Registry (2016), Textile Sector Intervention Facility (2016), Paddy Aggregation Scheme (2017), Agribusiness, SME Investment Scheme (2017), Accelerated Agriculture Development Scheme (2017), Presidential Fertilizer Initiative (2017), Nigeria Bulk Electricity Trading-Payment Assurance Facility (2017), CBN-BOI Industrial Facility (2018), Shared Agent Network Expansion Facility (2018), DCRR Window of Real Sector Support Facility (2018), Export Facilitation Initiative (2019), Creative Industry Financing Initiative (2019), Maize Aggregation Scheme (2019), Rice Distribution Facility (2019).
5. **COVID-19 Relief and Economic Sustainability Plan Generation:** Targeted Credit facility (2020), COVID-19 Intervention for Manufacturing Sector (2020), Healthcare Sector Intervention Facility (2020), Health Sector Research and Development Intervention (Grant) Scheme (2020), National Gas Expansion Programme (2020), Solar Energy Adoption Financing Facility (2020), Family Homes Financing Initiative (2020), National Mass Metering Programme (2020), Nigeria Youth Investment Fund (2020).

A significant number of these interventions across the various generations have targeted agricultural production as part of the larger focus towards attaining self-sufficiency in production of key agricultural commodities and national food security in the long-run.

The objective of this paper is to review the role of interventions in supporting the Nigerian food security strategy. The paper is organised into four sections, following this introduction, Section II examines the rationale for CBN Interventions, while Section III reviews some key interventions in the agricultural sector. Section IV identifies the challenges and Section V conclude.

II. The Rationale for CBN Interventions

Financial intermediation is an age long practice of channeling funds from areas of surplus to areas of deficit. Such intermediation processes have been ineffective due to several factors including: information asymmetry between the lender and borrower, collateral challenges by borrowers (type, quality and ease of realisation), banks' apathy to lend to certain sectors due to perceived risks, inappropriate financing products for specific sectors, among others. These have justified the need for interventions that will enhance banks' confidence and reduce the risks around lending to key sectors of the economy. The core objectives of the interventions include to:

- i. Increase lending to high-impact and employment-elastic sectors of the economy;
- ii. Provide affordable and accessible credit through the lending institutions;
- iii. Catalyse the diversification of the economic base towards creating jobs and improve macroeconomic stability;
- iv. Boost the capacity of MSMEs in priority sectors of the economy;
- v. Encourage exports and accretion of non-oil exports to external reserves;
- vi. Facilitate import substitution options and reduce food import bills; and
- vii. Expand output of agriculture, manufacturing, and service sectors.

The potential of the Nigerian agricultural sector is enormous but plagued with perennial challenges of poor access to input, low productivity per hectare, lack of access to finance, little or no mechanisation, poor agronomic practices and extension services, post-harvest losses, ineffective markets etc., its contribution to the realisation of food security is consequently undermined. In realisation of the fact that increased production is critical to the attainment of food security, the Bank has developed a number of complementary interventions using an organic growth pattern to pursue the realisation of these deliverables.

III. CBN Interventions towards attaining Food Security in Nigeria

Various CBN interventions targeted at food security in Nigeria have been implemented to address specific objectives along the agricultural value chain. The implementation of the interventions have been characterised by unique experiences of identified problems, recommended solutions and impacts. An enterprise view of these interventions is presented in Table 1.

Table 1: Summary of CBN Interventions on Food Security

S/No.	Intervention	Identified Problem	Recommended Solution	Output	Impact
1	Agricultural Credit Guarantee Scheme (ACGS)	Encouraging banks to lend for agricultural production from their balance sheet.	Establish a credit guarantee scheme that provides a contingent liability for 75.0 per cent of amount net in default.	₦127.39 billion disbursed to 1.217 million beneficiaries from the balance sheet of banks.	Banks' lending to agriculture increased to 13.0 per cent from about 3.0 per cent over the first 5 years.
2	Commercial Agriculture Credit Scheme (CACGS)	Lending banks unwillingness to finance large scale agricultural projects due to perceived high risks.	Establishment of single digit interest funding option to stimulate credit to large ticket agro-allied firms.	657 projects have accessed ₦708.39 billion across all nodes of the agricultural value chain.	Revival of moribund agro-allied firms, capacity expansion for funded projects and backward integration from processing to primary production.
3	Anchor Borrowers' Programme (ABP)	Apathy to finance smallholder farmers and preference for node financing as against value chain financing.	Development of an ecosystem that promotes value chain financing through lending in-kind to smallholder farmers and market assurance.	₦788.04 billion disbursed to 3.793 million farmers for the production of 4.796 million hectares through 23 participating Financial Institutions for 21	Increased production of key agricultural commodities, strengthening of Commodity Associations and re-birth of grains pyramid.

				commodities in 36 States and the FCT.	
4	National Food Security Programme	Glut of grains and need to mop up as part of strategic reserves and encourage farmers to go back to production.	Wholesale finance to targeted grain merchants to mop up strategic reserves and supply to National Emergency Management Agency.	₦ 59.09 billion released for the mop up of grains.	Market stabilisation for grains and liquidity injection to encourage increased production by farmers.
5	Presidential Fertilizer Initiative	Moribund indigenous fertilizer blending plants due to lack of access to raw materials.	Bulk financing through Nigeria Sovereign Investment Authority (NSIA) to facilitate raw materials supply to local blending plants through the MoU with Morocco.	₦ 35.00 billion released through NSIA to facilitate raw materials supply to blending plants.	Resuscitation of about 30 indigenous fertilizer blending plants and formed basis for the ban on importation of NPK.
6	Paddy Aggregation Scheme	Inadequate finance to mop up paddy during harvest season to take advantage of price and guarantee raw materials for sustained production.	Working capital support for millers targeted at paddy aggregation during harvest periods.	₦ 100.19 billion released for the mop up of paddy.	Increased capacity utilisation of Integrated Rice Mills and moderation of paddy prices across seasons. Modified to discourage aggregation by middlemen and now to provide market only to farmers financed under the ABP.

7	Maize Aggregation Scheme	Inadequate finance to mop up maize by major feed mills and large poultry farms to secure their maize stock for sustained all year production.	Working capital support for major feed mills and large poultry farms to aggregate maize during harvest periods.	₦6.35 billion was released for maize mop up to major feed mills and large-scale poultry farms.	Increased capacity utilisation of feed mills and large poultry farms across seasons. Modified to discourage aggregation by middlemen and now to provide market only to farmers financed under the ABP.
8	Accelerated Agriculture Development Scheme (AADS)/Private-Sector Led AADS	Fragmented farm holdings and need to open up farm lands in contiguous locations to facilitate mechanisation.	Long term financing for land clearing, mechanisation services, irrigation facilities, rural access roads and other agricultural infrastructure.	₦19.69 billion accessed to open up new agricultural land and provision of farm infrastructure.	P-AADS just started and too early to measure impact. AADS didn't achieve much as State Governments couldn't provide ISPO to secure their loan requests.

Source: Author's compilation.

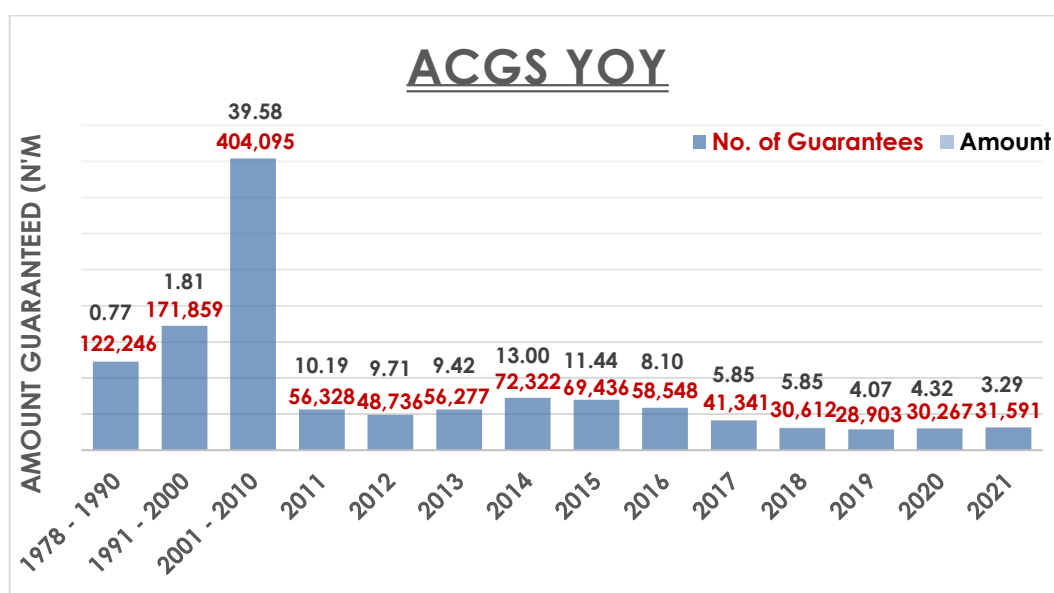
Further insights will be provided on 3 flagship interventions that have contributed significantly to the food security drive in Nigeria.

III.1 Agricultural Credit Guarantee Scheme (ACGS)

Over the years, smallholder financing has thrived under the ACGS with focus mainly on production. Innovative approaches like the Self-Help Group Linkage, Interest Drawback Programme (IDP) and the Trust Fund Model (TFM) have sustained the Scheme since 1977. Farmers in rural areas, civil servants and major agro-allied firms have been able to access loans at market determined interest rates to enhance their production activities. The scheme has also spurred the participation of micro finance banks (MFBs) in agricultural lending through incentive programmes like the IDP that offers post-payment interest rebate for their customers and ultimately reducing the interest rate on the facility. Lending banks have shown comfort while lending under salary domiciliation conditions for civil servants and significant cash

collateral for smallholder farmers. However, the Scheme had faced some challenges. These include funds diversion, ineffective insurance coverage by the Nigeria Agricultural Insurance Corporation (NAIC), natural disasters (such as: flooding, bird-flu, among others) and other challenges that have limited the participation of most banks under the Scheme. Accordingly, banks had made a strong case for the claims process to be phased according to the gestation period and not the current post-payment contingent liability approach, to assist them with liquidity during the lifetime of the project. The performance of the ACGS is presented in Figure 1.

Figure 1: Performance of the ACGS from inception till date

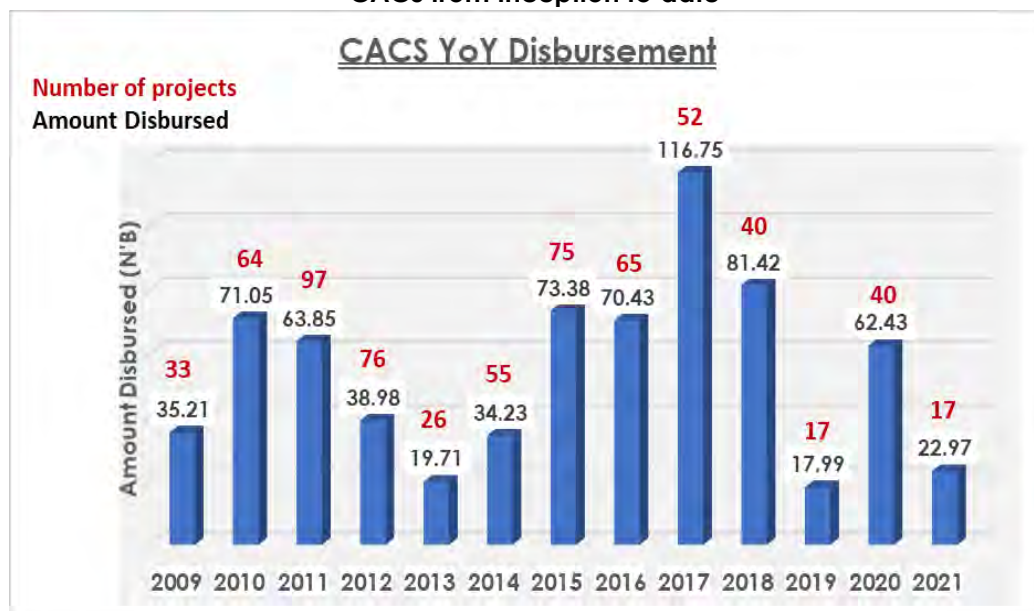


Source: Central Bank of Nigeria.

III.2 Commercial Agriculture Credit Scheme (CACCS)

The implementation of CACCS was a lifeline to the poultry industry and coincided with the period when over 60.0 per cent of poultry products consumed in the country were either imported or smuggled. Capacity utilisation of financed agro-allied firms grew by 40.0 per cent and it also supported the backward integration plans of a number of firms. Challenges around importation of plant and machinery, collateral requirements by lending banks, and poor power supply among others, limited the impact of this Scheme. A number of State Governments acquired tractors and other farm implements under the Scheme but could not create sustainable agencies to manage the farm assets. An overview of the year-on-year disbursements under CACCS is shown in Figure 2.

Figure 2: Year-on-Year Disbursements and Number of Projects Financed under CACS from Inception to date



Source: Central Bank of Nigeria.

III.3 Anchor Borrowers' Programme (ABP)

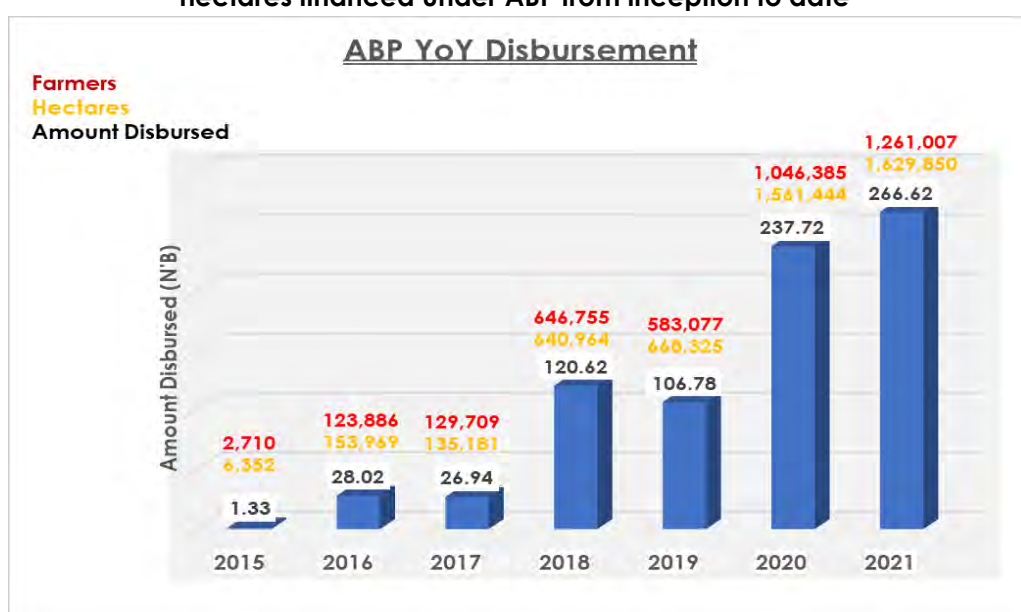
This has remained a transformational programme and a game changer for financing smallholder farmers in Nigeria. The implementation has evolved from the State Government window to more embracing models like the Commodity Associations and the Prime Anchors. Robust stakeholders' engagement, timely delivery of farm inputs, and inputs price discovery through a competitive process have enhanced farmers' trust in the programme. The Bank has leveraged technology and innovation to change the dynamics around smallholder financing under this Programme through the adoption of the following:

- i. Biometric identification of farmers;
- ii. Mapping of farmers to their farms using GPS;
- iii. Use of biometric cards to facilitate input distribution;
- iv. Provision of mechanisation services as part of the economics of production (EoP) to make mechanisation services available to smallholder farmers;
- v. Adoption of area yield index insurance in place of the traditional indemnity insurance;
- vi. Use of digital extension services to disseminate best practices and enhance farmers education;
- vii. Intensive monitoring and digital reporting of farm visits;
- viii. Use of farm produce for loan repayment as the preferred option;
- ix. Mapping of Anchors to processors to reduce logistics challenges of handling produce aggregation and reduce post-harvest losses; and

- x. Single loan creation along the value chain through a coordinated transfer of resources from one node to another. This has greatly moderated the Bank's exposure under the agricultural interventions.
- xi. The fungibility of cash has made cash repayment challenging under the Programme due to the adverse effect of aggregators and commodity hoarders who entice farmers with cash incentive. The Bank's resolve to accept produce for loan repayment is changing this narrative on repayment as evidenced in the re-birth of grain pyramids nationwide.

The ABP disbursement profile from inception to 2021 is presented in Figure 3.

Figure 3: Year-on-Year disbursements, number of farmers and number of hectares financed under ABP from inception to date



Source: Development Finance Department, Central Bank of Nigeria.

IV. Challenges

Institutional lending to smallholder farmers is considered extremely challenging worldwide. Food security is considered a national objective, and that explains Government supports for the agricultural sector in areas of credit, input subsidy, guaranteed minimum pricing policy or market support.

On a macro level, the deliverables of these interventions ranging from increased national output, reduced food import bills, increased farm productivity per hectare, increased employment along the agricultural value chain, among others, have all been largely met considering the percentage of funds channeled towards the interventions relative to the total funds required for agricultural production in Nigeria.

However, loan repayment is a micro level deliverable that is commonly used to appraise the performance of any credit programme.

Generally, loan repayment for the large ticket interventions have been very impressive (75.0 per cent to 85.0 per cent). This is a function of the level of due diligence, securitisation (collateral requirement), and monitoring for such loans by the lending banks. Large scale projects are easier to administer as the promoters have invested heavily before seeking interventions to scale up their projects. However, lending to smallholder farmers is often seen as a poverty alleviation intervention and this perception affects the entire structure of the intervention. There are two (2) dimensions to loan repayment: (i) ability to pay, and (ii) willingness to repay. The transaction dynamics fully takes care of the cash flow analysis by ensuring that the farmers make enough margin to cover loan repayment and make profit on the transaction. However, willingness to repay is an attitudinal issue, which is based on the perception, orientation as well as impositions of sanctions against defaulters. Loan repayment averages (45.0 per cent to 60.0 per cent) for the micro credit interventions.

The challenges limiting the optimisation of CBN's intervention funds towards achieving the food security targets of the country are multi-faceted and include the following major factors:

- i. Underdeveloped agricultural infrastructure to encourage mechanisation;
- ii. Poor irrigation facilities to guarantee all year production;
- iii. Ineffective extension services to facilitate the dissemination of best practices;
- iv. Absence of an effective commodity exchange and warehouse receipt financing system to facilitate efficient price discovery and minimise commodity hoarding and post-harvest losses;
- v. Enormous funding gap as total CBN intervention funds on food security is less than 5.0 per cent of total funds required for agricultural production in the country; and
- vi. Government's reluctance to invoke sanctions on defaulters in the wake of rising poverty levels, lingering adverse effect of COVID-19 on the economy and growing concerns around insecurity.

V. Conclusion

Food security is a primary delivery of government. Thus, fiscal and monetary authorities should ensure concerted efforts at addressing this critical national need. Economic growth and development are difficult to achieve in the midst of hunger, insecurity and most especially food insecurity. The CBN's interventions aimed at ensuring national food security have faced daunting challenges due to the operating environment but have contributed significantly to the successes

recorded in the Nigerian agricultural sector. A proper analysis of these interventions will further underscore the importance of these contributions. A recent indication of these successes is the ability of the nation to feed itself during the COVID-19 lockdown when imports were not possible. Farm output from the ABP and other CBN interventions ensured domestic food supply and guaranteed raw materials for our agro-allied firms. With consistent improvements in the implementation structures and sustainability of the interventions, the country's framework to attain food security through the CBN interventions is firmly on the right trajectory.

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