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Agricultural Financing in Nigeria Rural Areas: Problems and Prospects

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Abstract

This paper aims at highlighting the problems and prospect of financing Agriculture in rural Nigeria. It noted that lack of finance is at the root of sub-optimal performance of agriculture sector in Nigeria. The author opines that an increase in agricultural financing in the area of investment in farm mechanization, education, processing facilities, infrastructure such as road networks, power supply and agricultural extension will lead to an agricultural revolution and rapid economic development of the rural areas.

Keyword: Agricultural financing, Rural Areas, Nigeria

Introduction

Agriculture is the largest employer of labour in many countries in Sub-Sahara Africa, employing as much as 60% of sub-Sahara Africa labour force. The entire agricultural industry and its various subsidiary activities contribute significantly to the GDP and foreign exchange earnings through commodity export. According to NEPAD-OECD report (2010), Agriculture contributes 12.7% of sub-Sahara Africa economies GDP compared to an average of 3.2% globally. With large arable land and favourable weather condition, agriculture remains a goldmine that Africa can explore to emancipate its citizenry from lack and poverty and bring the much needed development across the continent. Nigeria and other Sub-Sahara countries have the potential to become the food basket of the world providing both crop and cash crops all year round.

However, the impact of the agriculture sector on the welfare of the citizens remains insignificant especially among rural dwellers that live in continuous poverty. Many part of the continent continue to experience famine, drought, youth unemployment and severe poverty. Farmers live under high level of poverty and cannot make a profitable living from their farming effort. At the national level, the industry is highly undevelopment. There is lack of access to modern equipment, inadequate access to financial services and credit facilities, lack of a clear and consistent agriculture policy from Government etc.

Rural agriculture can be defined as farming activities that are situated in rural communities and carried out by a predominantly rural population mostly at a subsistence level in village settlements across the length and breadth of a country. It is estimated that about 60 percent of the Nigeria's population earn their living from rural subsistence farming (Oluwatayo, Sekumade and Adesoji, 2008). Rural agriculture using traditional method of farming currently provides a large proportion of local food supply of stable foods such as yam, cassava, cereals etc. Families farming small plots of land are still prevalent in many communities with the use of crude hand held tools such as hoes and cutlass. Even in instances of extensive farming with large harvest; much food produce rot and are wasted during harvest season because of the absence of modern preservation, food processing plants and storage facilities. Even in the case of economic crops such as cocoa, coffee, rubber etc. These are exported in their raw or semi-processed state denying the economy and farmers the benefits of the value-adding activities. At the root of these sub-optimal performance of the viable industry is lack of finance that is much needed to mechanize the agriculture sector. An increase in investment in farm mechanization, education, processing facilities, infrastructure such as road networks, power supply and agricultural extension will lead to an agricultural revolution and rapid economic development of the rural areas. Rural agriculture has great potential to supply many of the food needs of urban settlement with surplus to earn foreign exchange. However, due to negligence and lack of investment, a large proportion of food consumption in Nigeria continue to be imported with huge foreign exchange spent on importing rice, poultry and other processed foods.

The challenges of rural development are not unique to Nigeria; the lack of rural development cannot be separated from the many woes bedeviling the development of rural agriculture. Inadequate funding of agriculture in Nigeria has aggravated rural poverty in Nigeria (Nchuchuwe and Adejuwon, 2012). Farming is regarded as the profession for the poorest of the citizenry. Most farming settlements are found in rural communities with little or no access to capital or government support.

Major Sources of Finance for Rural Agriculture

There are a number of sources of financing for agricultural activities in the rural areas. The sources of finance can be classified into two broad categories, the formal or institutional sources and the non-institutional or informal sources of finance.

The formal sources are predominantly made up of government and non-governmental firms that specializes in providing credit for farming and other productive activities. Some formal financial institutions include commercial banks, development banks, Bank of Agriculture, Micro Finance banks, Agricultural Credit cooperatives etc. However, rural communities in Nigeria suffer from severe financial exclusion. Many rural areas either have no formal banking facilities or severely under banked. A community is under banked where the ratio of customers to bank branch is significantly higher when compared to National average or as obtained in many urban areas. This situation is usually evidenced by long queues of customers waiting to use banking services. The long hours eventually discourage many potential customers from patronizing formal banks. The bank branches are usually unable to meet the requirement of the rural communities.

In addition to the challenges of shortage of banking services in rural areas, access to credit facilities for the much needed finance by the farmers for farm expansion and modernization have proven to be one major obstacle hindering the growth of the agricultural industry.

The informal sources of agricultural finance are more prevalent in rural communities. Example of non-institutional sources include remittances from family relatives from urban centers and abroad, borrowing from families and friends, money lenders and merchants etc. This source of funding constitutes a significant portion of the funding requirement of the rural farmers. From raising funds to buy improved seedlings and fertilizers, to meeting personal and family needs such as feeding, school fees etc especially during period of bad harvest, many rural farmers live in perpetual deficit. The presence of money lenders who will often not insist on collateral to provide credit to farmer with little or no administrative bottleneck, make the services of money lenders very popular in this communities.

While, family and friends are often willing to give interest free loans, this is not the case with money lenders who charge very high interest rates. The exorbitant interest charges often lead to further impoverishing of the farmers as they continuously have to depend on the money lenders year in, year out.

Challenges of Financing Agriculture in Rural Nigeria

Rural agriculture has remained underdeveloped for many decades in Nigeria despite various government initiatives. Many rural farmers remain challenged by access to capital for expansion and mechanization of the farm process thereby remaining in the cycle of poverty. Proper channeling of finance has the capacity to enhance both the performance and economic returns of agricultural activities within rural communities which will have multiplier effect on the entire economy of rural dwellers. Some of the challenges identified as hindering the achievement of capital flow to rural agriculture are listed below:

Access to Banking Services in Rural Communities

Lack of access to banking services in addition to many modern comforts of living have been major obstacle to rural development. Various Government over the years have put in policies to encourage establishment of rural branches of major commercial banks but all have not yielded the expected results. Some of the excuses commercial banks and other formal financial institutions have presented for their inability to fully comply with some of Government initiative to foster rural banking include:

- General low level of family earned income with little disposable income for savings
- Poor infrastructure in place. Banks need to provide basically everything they need to operate.
- Often dispersed and scattered settlement leading to higher cost of operation
- Agricultural activities are perceived as high risk businesses further discouraging investment in provision of rural banking services.

Lack of Acceptable Collateral/ Security

Many rural farmers lack acceptable collateral with which they can secure credit facilities from formal financial institutions. Rural women are particularly disadvantaged in this regard. Title over the farmland properties are often not tenable as they are usually not easily perfected nor transferrable. The land tenure system continue to be a stumbling block for financing agricultural activities especially in rural areas as farmlands are the only tangible asset available to prospective credit seekers.

Perceived High Agricultural Risk

Agriculture is regarded as a highly risky sector. Ranging from changing weather condition to disease to pest attack etc. In addition to the business related risk there is also market risk due to the seasonality of most agricultural products. Lack of storage and processing facilities further worsen the market risk that faces many farmers. Due to all these risks, financial institutions are wary of providing credit to many farmers for expansion of their activities.

Lack of Access to Credit Information

Lack of Knowledge of funding opportunities available to rural farmers are a major obstacle that has hindered many from accessing funds through many Government schemes. Illiteracy and lack of requisite education among rural farmers especially women deny them access to vital information and technologies required to manage and expand their productive capacity (Omeire 2016). Low level of education and inability to read has limited access to information on available credit schemes. Often inability to comprehend regular publications of various ministries and agencies and the requirements needed to qualify for government support have impeded many farmers from enjoying various funds made available.

High Cost of Credit Administration

Administration cost of rural loans credit is often high. This is due to poor road network and communication facilities. Likewise rural credits have high default rates due to exposure of various rural farming risks.

Access to Market

Market access is a major constrains faced by many rural farmers. There is generally low capacity to access both urban market for food produce and export market for producers of economic crops. Road network to local markets are bad and transportation system highly inadequate. Poor access to market constitutes a major risk for bank credit.

Infrastructural challenges

Lack of power supply makes processing and preservation of perishable items very challenging. Likewise bad road network and poor transportation system also hinder movement of farm goods to the neighboring towns and cities where a good return can be earned by the farmers. Rural farmers are at the mercy of urban settlers who buy perishable farm produce at ridiculously low prices which discourage further investment by the farmers.

Subsistence Nature of Farming

Often small scale farmers are left with no option but to explore microcredit providers such as thrift societies and money lenders which will usually offer short term loans at very high interest rates. Credit is usually for purchase of fertilizers, plant seedlings etc

Due to the continuous underdevelopment of the economy of the rural areas, massive rural-urban migration persists. The exodus of young able men from villages and rural settlements means loss of man power to work on farms further impoverishing the people left behind in the rural areas. There is little or no land in the urban settlements for any form of meaningful farming. While in the rural areas, there exist large expanses of land that can be cultivated

Government Interventions

Realizing the challenges and the inherent opportunities in rural farming, Governments from time to time have continued to intervene through various scheme that are targeted at impacting the economic welfare of rural dwellers. Many of these policies over the years have failed to achieve the set objectives due to poor implementation and a number of socio-cultural factors.

Significant among those policies are those that target rural farmers since large portion of the rural economy are majorly dependant on farming. Schemes set up by Government to ameliorate the challenges confronting Nigerian farmers with regards to accessing finance include:

- Agricultural Credit Guarantee Scheme Fund (ACGSF)
- Agricultural Credit Support Scheme (ACSS)
- Commercial Agricultural Credit Scheme (CACS)
- Rural Banking Scheme (RBS)

These various pilot agricultural credit schemes were introduced by different Governments. The significance placed on these policies as at the time they were introduced revealed Government's acknowledgement of the pivotal role of agriculture in the nation's economy. The first Credit Guarantee scheme was established in 1977. The main goal of the scheme was to guarantee credit

facilities granted to farmers by banks. The Central Bank of Nigeria and Federal Government were the shareholders of the fund while the former were the fund managers.

Another feature of the Agricultural Credit Guarantee Scheme fund that is of interest to the issue of rural agriculture financing was the introduction of the Trust Fund Model. The trust fund model was set up to ensure availability of credit for rural farmers which hitherto had no access to credit facilities. According to Ayegba and Ikani (2013), under this model, identified stakeholders such as oil companies, state/local government and Non-Governmental Organizations (NGOs) place funds in trust with lending banks with lending banks to augment small group savings of the farmers as security for agricultural loans. This fund was then used to secure the lending banks against risk exposure from lending to rural farmers.

The other schemes provided low interest financing to agricultural projects often at single digit rates. Rebates were also introduced to encourage loan repayments. However, one major feature of most of these schemes were that rural farmers still needed to access these available facilities through lending commercial banks. This has proven to be a major challenge for many farmers.

First, as earlier identified many rural dwellers are excluded from formal banking services. With the closest commercial banks often many kilometers away, banking services and credit is considered to be difficult and inaccessible.

Secondly, access to information on credit opportunities is often out of reach to the farmer who needs them desperately. Research work carried out among rural farmers in 2013 by Ayegba and Ikani (2013), revealed that only 33% of the rural farmers who formed the respondents in this study were aware of the presence of these various government credit schemes. About 67% of the respondents were not aware.

With regards to ease of accessing credit from formal financial institutions, loan application processes continue to be stringent despite the various government interventions. In the above reported study, a dismal 3% of the respondents said they have been able to access credit from the Bank of Agriculture, zero percent (0%) have accessed credit from commercial banks while over 85% continue to source for credit from local money lenders, personal savings, families and friend. This research among others show that there is still more to be done on the part of the Central Bank of Nigeria to ensure ease of accessing credit by deserving and hardworking farmers.

Conclusion and Recommendation

The key to food security in Nigeria and many other African countries will depend on the ability of Government and private investors to inject finance into rural development and rural agriculture. Development of rural agriculture will have multiplier effect on various aspect of our national life. However, the traditional approach of using formal financial institutions appears not to be getting the desired result. It is believed that innovation financing schemes such as the globally acclaimed Grameen bank founded by Professor Yunus Muhammad have performed creditably well. While the microfinance bank model have been widely adopted for rural banking in Nigeria, the interest rate regimes currently obtainable remains very high and inhibitive to support activities of rural farmers.

In addition, creation of farming clusters and collaborative schemes financed by government will also go a long way to empowering rural farmers. Example of such schemes will include joint food processing zone set up within communities such as industrial milling complex for cassava planting areas etc. This will help to reduce cost of processing, reduce wastages and increase the income of rural farmers. These type of complexes can be operated on a 'pay as you use basis'. This will ensure the schemes are self sustaining and replicable across various regions and communities

One of the significance of empowering rural agriculture is the resultant economic renaissance of rural communities which will encourage more able men and women to return to cultivate abandoned farmlands. Agriculture continues to remain Africa's comparative advantage with vast arable and fertile land spread across the length and breadth of the continent. Nigeria and other African countries have great potentials of becoming the food basket of the world but this can only be realized by a concerted effort to provide innovative funding that can be easily accessed.

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