FINANCING AGRICULTURE IN NIGERIA: ISSUES AND SOLUTIONS

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Abstract
There exists a huge financing gap in agricultural financing in Nigeria. Specifically, this paper is meant to discus and exposes farmers to various areas where they can source agricultural financing in Nigeria. Two main sources were identified, the informal and the formal sources. While the informal sources are easier to access, they are inadequate in financing commercial agriculture, but farmers access to formal institutions prove difficult. Some reasons were identified to include; high cost of loan administration, seasonality and time lag in agricultural production, lack of collateral, ignorance of many farmers, urban locations of lending institutions etc. Based on these, several recommendations were made which include that government should use policies like tax incentives to encourage lending to genuine farmers.

Keywords: Agriculture; Financing, Farmers, Credit

1.0: Introduction:

Agricultural development remains very vital to the growth and development of every economy. The sector's roles include improving food security, resource employment and poverty alleviation. Currently, agriculture accounts for the single largest portion (about 40%) of national economic output (GDP) in Nigeria (Attah; 2008). But so far, both private and public sectors investment in terms of loans and credit to agricultural development have been meager and disappointing.

The private investment in agriculture in terms of banks' credits is the least among all economic sectors. Banks are generally reluctant to finance agriculture. For instance, from 2006-2008, the average total annual flow of bank credits to agriculture was only 2.27% of their total credit (Eboh, 2011).

In public sector investment to agriculture, within 2002-2007, federal government spends 4.3% while state governments spend on the averaged 3.4%. Moreover the long term average ratio of agriculture to GDP is about 0.07, indicating less than one tenth of the sector's share of the GDP. This collaborates with the observation by Sackey (2011) that public policy towards agriculture in Nigeria prior to 1974 has been taxing agriculture to finance other sectors.

The huge financing gap in agricultural sector also manifests itself in Federal government budgets. The projected federal government funding for agriculture and food security over a four year period (2008-2011) is about N935 billion. But, total federal budget for agriculture and water resources in 2008 was less than N120 billion, as against the projected funding needs of about N319 billion for 2008. This meager flow of credits does not correspond with agriculture's status in the national economy.

2.0 Sources of agricultural financing in Nigeria: Apart from the financial resources that is directly provided by the owner or owners of the farm, several organizations exits which serve as sources of fund for the operators of the agricultural sector. They are broadly grouped into formal sources and the informal sources.

2.1 Informal sources of funds: Informal source is distinguished from the formal source because strict rules and conditions are not normally observed before accessing the fund**.**

2.1.1* farmer's personal income*: It includes the *equity capital* and the *retained earnings*. *Equity capital* is the financial resources that are provided by the owners of the farm business. Such funds may be accumulated overtime through savings or may be monthly earnings or retirement benefits. Profits made by the farmers, which are ploughed back into the business are called *retained earnings*. Its availability depends on the size of profit which the business earns at a particular time.

2.1.2 **Friends, relatives and neighbors:** The farmers using their own resources generally sustained peasant production. Where the requirement for production cannot be met, farmers look up to friends, relatives and neighbors for immediate assistance. Borrowing farmland, farm equipment, inputs or funds are common among rural farmers. When land or equipment is borrowed they are usually returned at no cost after use. When financial resources are borrowed they are mostly repaired without interest. Sometimes these are borrowed on sharing agreements or other non monetary reward like labor is rendered to the lender.

***2.1.3* Money lenders**: Many rural farmers are served by informal money lenders, who generally provide easy access to credit but at higher cost, charging poor borrower's nominal monthly effective interest rates that typically range from about 10 percent to more than 100 percent (Robinson (1999:7). In fact borrowing from the money lenders in Nigeria save time and remove the additional expenses incurred by farmers in borrowing from formal financial institution, but usually on short-term basis and exorbitant interest rates higher than that of formal institutions.

2.1.4 Farmers associations/ cooperative societies: Farmers associations are informal groups usually formed by farmers involved in a given line of production. They are formed primarily for members to benefit from the financial services of the associations, government, and to speak with one voice on matters concerning their operations.

2.1.5 The self – help groups (SHGs): A good example of these SHGs is the Rotatory Savings and Credit Associations (ROSCAS) and ESUSU groups, which exits in various parts of Nigeria.

2.2 Formal sources of funds: Law to perform the function of mopping up financial resources and allocating such to investors establishes formal lenders. These include the Commercial Banks, Merchant Banks, Insurance Companies, Nigerian Agricultural and Cooperative Bank, Microfinance Banks, Government Agencies and International Development Agencies, Co-operative Societies etc.

2.2.1*: Commercial banks*: A major job of these banks is to take in deposits from people who want to save and use these deposits to make loans to people who want to borrow. Just like any other private enterprise, the primary objective of a commercial bank is profit maximization. Because they are profit oriented, they usually request for a collateral security so as to ensure that the amount on credit will be recovered if the borrowers cannot repay (Mankiw; 2004). Examples of commercial banks in Nigeria include UBA plc, First bank plc, Zenith Bank etc.

2.2.*2 Insurance Companies*: Insurance companies are important source of credit in many countries. They mostly give long-term and intermediate loans for the purchase of equipment or real estate. They obtain financial resources from policy holders and use excess liquidity to provide credit to farmers. However, in Nigerian only a small portion of insurance company loans go to agricultural sector.

***2.2.3*: The agricultural banks:** The main objective for establishing the agricultural bank in to enhance the availability of credit to farmers at reduced costs. All classes of farmers' (large scale, medium scale and small scale farmers) benefit from the credit programmes of these banks. Repayment of loan starts after a period of grace, during which the farmer must have successfully marketed at least the first batch of the farm output.

***2*.2.4: Microfinance banks:**

Microfinance is about providing 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. However, observations show that microfinance banks require collaterals from borrowers and also charge higher interest rates. Because of these sharp practices, CBN withdrew the license of many in September, 2010.

2.2.5: government agencies:

The ministry of agriculture and related government establishments are established to enhance increased productivity of farmers. In Nigeria one area of concern of these agencies is the provision of uncollateralized loans to farmers. Farmers also access other non-monetary incentives from the government through these govern. Examples of these are fertilizer and other farm inputs.

***2.2.6:* International Development Agencies (IDAs):**

IDAs like World Bank, Food and Agricultural and Organization (FAO), United Nation Development Programme (UNDP), International Fund for Agricultural

Development (IFAD) also give financial assistance to qualified farmers in Nigeria.

3.0: conclusion:

Growth in any sector of an economy is premised upon capital accumulation and increased individual and household savings. Savings, to a large extent, determine the growth rate of the productive capacity and output. Regrettably, the relative poverty of the rural populace in Nigeria hampers savings and investment potentials and this has continued to perpetuate low growth and productivity in agricultural sector. Prompt and adequate financing is important in the growth and development of the agriculture as it enables farmers to move on to the level of technology that could create a sustained basis of production. Some of the reasons given why farmers found it difficult to access funds from formal financial institution include amongst others; seasonality and time-lag in agricultural production , high rate of default, lack of collateral, High cost of loan administration, ignorance of some farmers, urban locations of the lending institutions, lukewarm attitude of most lending institutions towards lending to productive sectors etc. Government should use necessary incentives to encourage financial institutions grant more credits to farmers.

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