ACCESS TO FINANCE FOR AGRICULTURAL ENTERPRISES

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AGRICULTURE IN NIGERIA

- It is a wide spread activity practiced across all regions
- Nigeria presents a unique bouquet of agricultural endowments (you can grow almost everything)
- Even in our relatively low productivity, agriculture still contributes 40-43% of the GDP & is growing
- It employs directly or indirectly over 80 million Nigerians especially the rural poor
- With the high unemployment rate in the formal economy – agriculture is a huge opportunity

In term of demographics;

-Nigeria has a youthful population & with high youth employment in Nigeria (33-35%), agriculture can really be the engine growth for youth employment even in the Niger delta and other regions.

Still, the sector is characterized with a number of constraints.

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".....40.63% of Nigerians are food poor":

(Nigerian National Bureau of Statistics; This Day, 14 October 2012)

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WHY AGRICULTURE ?

- It is the current development world over
- Over dependence in oil did not yield the desired impact and there is urgent need to diversify
- Increasing interest by Federal Government
- Successful project implementation in the country
- Adoption of value chain approach
- Increased commercialization of agriculture in line with global trend.

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WHY DO SMALL HOLDER BORROWERS/FARMERS NOT GET CREDIT?

- Commercial banking suffers from low consumer confidence especially in the rural finance sector,
- High collateral requirement
- Inability to extend financial services to an estimated 90 million Nigerians who are unbanked
- Lending to farmers , agro processors and MSMEs is considered as highly risky and unattractive due to inability of farmers and MSMEs to meet the basic collateral requirement, business plan development, basic record keeping & management skills and above all, they are highly mobile
- Commercial bank staff also lack the skills to properly evaluate risk at the transaction level for the rural and agricultural sectors and bank management are reluctant to lend money to these sectors given low transaction cost and high rewards of investing in quick-win sector(oil & gas, telecoms, manufacturing etc)

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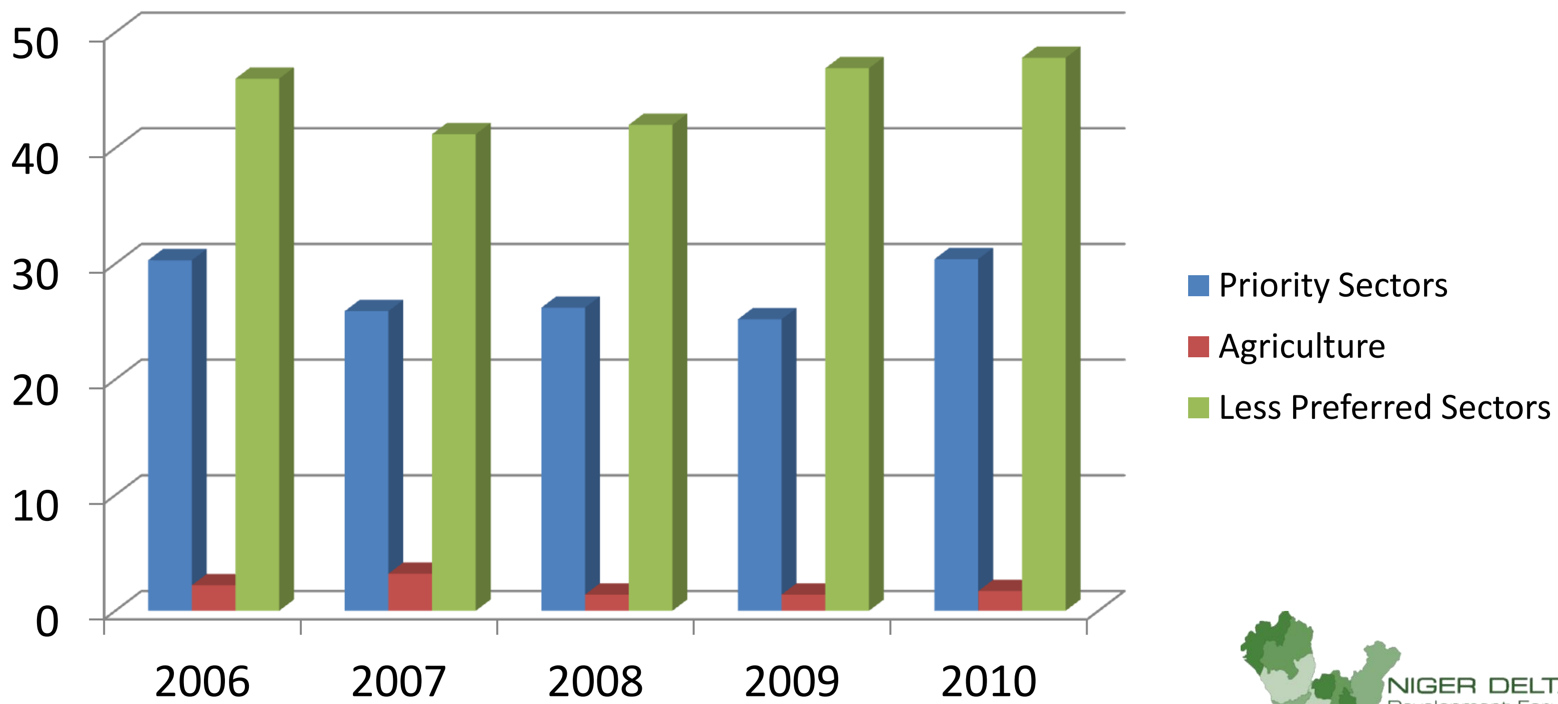
Summary of Sectoral Distribution of Credit in Nigeria (CBN 2010 Annual Report)



Challenges facing small-scale farmers in Nigeria (MARKETS II 2012 FINANCIAL SERVICES Market Study)

Key Challenge	Stakeholders		Small-scale farmers	
	Rank	%	Rank	%
Poor farming skills, knowledge, technology and practices	1	79%	4	50%
Lack of finance	2	74%	1	90%
Lack of inputs	3	57%	2	80%
Lack of markets	4	50%	3	60%
Lack of basic business management skills	5	43%	8	10%
Lack of collateral	6	40%	5	40%
Poor understanding of farming by banks	7	31%	6	30%
Lack of storage facilities	8	21%	9	10%
Poor infrastructure	9	21%	7	20%
Poor land tenure system	10	17%	10	0%

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Challenges facing agro-processors in Nigeria (MARKETS II 2012 Market Study)

Key challenge	**Score (total 11)**	**Percentage**
Lack of working capital	9	82%
Lack of competitiveness	8	73%
Lack of integrity (small-scale farmers)	7	64%
Under-developed supply chain	5	45%
Poor relationship management by banks	4	36%
Poor infrastructure	3	27%
Lack of collateral	2	18%
Corrupt business environment	2	18%

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Challenges facing Commercial Banks in Nigeria (MARKETS II 2012 Financial Market Study)

Key challenges	Score (total 8)	Percentage
Lack of agricultural lending skills and knowledge	7	88%
Lack of agricultural lending strategy	5	63%
Lack of integrity (farmer)	4	50%
Low literacy rate (farmer)	3	38%
Lack of long-term deposits	2	25%

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Definition of Agricultural Value chains

- A **'value chain' in agriculture identifies the set of actors and activities** that bring a basic agricultural product from production in the field to final consumption, where at each stage value is added to the product. A value chain can be a vertical linking or a network between various independent business organizations and can involve processing, packaging, storage, transport and distribution. The terms "value chain" and "supply chain" are often used interchangeably.
- **Traditional agricultural value chains are generally governed through** spot market transactions involving a large number of small retailers and producers.
- **Modern value chains are characterized by vertical co-ordination,** consolidation of the supply base, agro-industrial processing and use of standards throughout the chain.

Source: Adapted from FAO, 2005.

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Agricultural Value Chain Borrowers

- Entities including "emerging smallholder farmers". Emerging smallholder farmers are those farmers who produce a marketable surplus; adopt new techniques and who treat agriculture as a business. They may be individual SMEs, organized in groups, associations or co-operatives. They engaged in farming and/or production (including cereals, vegetables, cash crops, and tree crops), production of livestock including aquaculture, and tree farming.

- Entities engaged in all aspects of agribusiness, including suppliers of inputs (fertilizers, chemicals, etc.), processors (grain milling, dehydrating, freezing, etc.), suppliers of equipment, wholesalers, and service providers (storage, truckers, etc.).

- SMEs (on 2-100 hectares) producing staple crops, horticulture vegetable crops, cash crops.

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Agricultural Value Chain Lenders

- Financial institutions, include commercial banks and non-bank financial institutions (NBFIs). NBFIs include MFIs, savings and loans, credit unions and their Federation/ Association.

- Suppliers that often extend credit in the normal course of selling their product or service. Examples include input suppliers, equipment suppliers, and service providers.

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Agricultural Value Chain Lending products

- Short-term credit, defined as credit extended for 12 months or less, including pre- and post-harvest financing, financing of accounts receivable, and inventory financing.

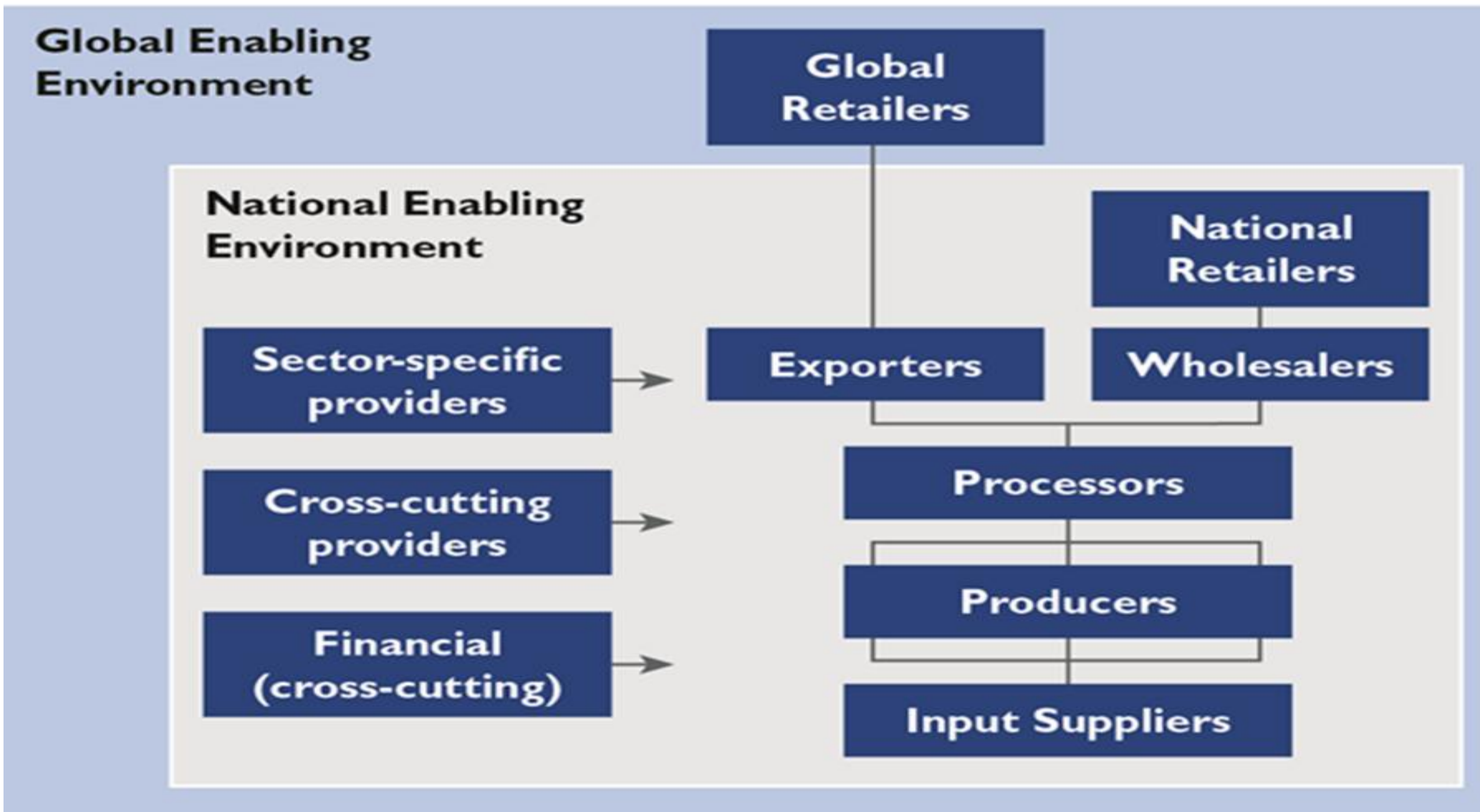
- Medium-term credit, defined as credit extended for 13 months through 60 months, including equipment financing and other term loans.

- Long-term credit, defined as credit extended for more than 60 months, including financing for real property and other types of long-term credit.

- Leasing Products

Agricultural Value Chain Finance

Exhibit 2. Value Chain Structure



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Barriers to Increased Lending to Agriculture Value Chains

- Impediments to expanding agricultural lending include:

- The need for a paradigm shift in the way that financial institutions finance agricultural value chains and SMEs. In the old model, financial institutions staff are generally passive waiting for the client to come to the branch office. Agricultural value chain and SME finance require credit staff to actively seek and interact with the clientele and provide a higher level of monitoring through field visits.

- Poor Rural Infrastructure. Lack of paved or well-maintained roads and electricity add to the cost of doing business and the ease of access for VC members and FI personnel.
- Poor credit culture due to government intervention/debt forgiveness and projects which provide grants for equipment.

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Barriers to Increased Lending to Agriculture Value Chains

- Limited branch coverage in agricultural areas. With the probable exception of large vertically integrated corporate farming operations, successful lending to the agricultural sector depends on "knowing your customer." This is difficult if a branch is located hundreds of miles away.

- Limited knowledge of agricultural value chains and modern agricultural techniques among lending officers

- High interest rates. This is often a challenge for MFIs where the majority of the clientele is involved in trade based upon high turnover. In certain countries it can also be a challenge for banks that have a variety of fees which push up the effective cost of credit.

- Potential asset/liability mismatch. Deposits in banks and other FIs, and debt funding are generally short to medium term. This hampers FIs ability to finance medium to long term investment needs.

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Barriers to Increased Lending to Agriculture Value Chains

- Legal constraints. Legal constraints may include banking regulations, which impose loan collateral requirements that are difficult for farmers to meet or which require overly strict provisioning requirements for non-collateralized or non-traditional forms of collateral; complicated or costly collateral registration processes; and extreme difficulties in enforcing contracts.

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Barriers to Increased Lending to Agriculture Value Chains

- Land ownership rights are also a significant problem and particularly detrimental to the agricultural sector. In many African countries, acquiring land and securing land-use rights is a time-consuming process with questionable outcomes. As a result, many rural residents do not have a clear title to the land on which they live or work. Land ownership and title issues create an impediment to lending for purchase of land or making a lien against a plot of land.

- Limited access to technology. While this is changing, the majority of FIs do not have the necessary technology to allow them to effectively work in rural areas. This technology includes but is not limited to ATMs, mobile banking units, hand-held devises with printers linked in real time to FI's MIS software, IT platforms allowing FI's to track and integrate smallholders with banks and markets.

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Who and What is succeeding in Agricultural Value Chain Finance (AVCF)

- FIs are succeeding in AVCF using a variety of different models. This is taking place primarily in environments where there is no or limited credit bureau access in rural areas or outside the formal banking sector. Successful FIs are often making smallholder loans without traditional forms of collateral or conventional credit assessment systems.
- In a World Bank survey of 15 financial institutions, of which five were from African and Asian countries, (Nair, 2008) Key findings included:

❖ Most of the financial institutions studied, which had large agricultural portfolios, had significant expertise in agriculture, at the loan officer and management levels, diversified loan portfolios. -- Across sectors, across geographies, and within the AVC portfolio. Total VC portfolio size ranged between 10 and 20 percent.

Who and What is succeeding in Agricultural Value Chain Finance (AVCF)

- While many of the FIs used more traditional credit assessment tools for large clients those financing smallholders used simplified cash flow analysis; others used parametric, area-based scales that are standardized to fit certain crops in a given geographical area. Some Banks in smallholder assessment look at all revenue streams and household costs . Some required evidence of land ownership, without requiring mortgage or any other form of collateral.

- Some of the FIs that made small loans accepted joint liability by groups of between 5 and 20 individuals, to individual members of the group or to the group collectively. Others delegated credit risk assessment to third parties – either individuals with local knowledge or field officers of partner organizations, such as a commodity buyer.

WHAT CAN BE DONE TO IMPROVE ACCESS TO FINANCE FOR AGRICULTURE/MSMEs

SUPPLY SIDE

- Strengthen the lending institutions capacities in agricultural lending – MARKETS II is doing great
- Ensure common understanding and goal for farmers, banks, and agribusinesses
- On the commercial banking side, improve their risk and portfolio management by educating them to understand Value Chain and concept of guaranteed markets.
- Promote the concept of understanding the business and focusing more attention to cash flow and relaxing the principle of heavy collateral requirement
- FGN/CBN support through NIRSAL and other donors support
- Guarantees and Insurance

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DEMAND SIDE

- Identifying and linking the players effectively with a credible end market is very important
- Respect for contracts (avoid side selling & reneging on contract – buy back issues
- Business support services – promoting commercial orientation
- Improving productivity through technology up scaling – enhancing value addition
- Promoting financial literacy for small and medium borrowers
- Promoting alternative/viable collateral mechanisms (social collateral/movables)
- Alternative funding packages – leasing, venture capital funds for agricultural purposes
- Borrowers need to keep records even if it is rudimentary

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CONCLUSION

Opportunities are there; let us work together to support various initiatives to improve access to finance for this sector in Nigeria

THANK YOU