

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Agriculture remains a critical sector in Nigeria's economy, employing about 35% of the labor force and contributing significantly to the nation's Gross Domestic Product (GDP) (World Bank, 2022). As a primary source of food and raw materials for industries, agriculture plays a crucial role in ensuring food security and reducing poverty. However, despite its importance, the sector faces numerous challenges, particularly inadequate financing, which limits productivity and growth. Without proper financial support, farmers struggle to invest in modern equipment, improved seeds, fertilizers, and irrigation systems, all of which are essential for boosting food production (Oladipo & Adeyemi, 2021).

Agricultural financing refers to the provision of financial resources to farmers, agribusinesses, and other stakeholders involved in food production. These financial resources come in various forms, including loans, grants, credit facilities, and government subsidies. The accessibility and affordability of these financial instruments determine the extent to which farmers can expand their operations and adopt modern farming techniques (Eze et al., 2020). In Nigeria, financial institutions such as commercial banks, microfinance banks, and cooperative societies play significant roles in providing credit to farmers. However, many farmers, particularly small-scale ones, still find it difficult to access funds due to high-interest rates, lack of collateral, and stringent lending conditions (Olawale & Adebayo, 2019).

Food production in Nigeria has not been able to keep pace with the country's growing population, which currently stands at over 200 million people (National Bureau of Statistics, 2023). This growing demand for food puts immense pressure on agricultural productivity. Unfortunately, factors such as climate change, outdated farming techniques, poor infrastructure, and low mechanization levels further compound the problem. The lack of adequate financing exacerbates these issues, making it difficult for farmers to expand their production capacity and invest in improved agricultural practices (Yusuf & Ibrahim, 2022).

The Nigerian government has made various efforts to address the financing gap in the agricultural sector. Programs such as the Agricultural Credit Guarantee Scheme Fund (ACGSF), the Anchor Borrowers' Program (ABP), and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) have been established to improve access to credit for farmers (CBN, 2021). While these initiatives have recorded some level of success, they have also been plagued by issues such as poor implementation, corruption, and bureaucratic bottlenecks, which limit their effectiveness (Afolabi & Bello, 2020).

Aside from government interventions, private-sector participation in agricultural financing is crucial for sustaining food production. Large agribusiness firms, investment banks, and international development organizations have a role to play in providing financial solutions tailored to the needs of farmers (Ibrahim & Sulaiman, 2021). Public-private partnerships (PPPs) can also create more sustainable funding mechanisms, ensuring that smallholder farmers have

access to affordable credit. Encouraging fintech solutions such as digital lending platforms and mobile banking can further enhance financial inclusion in the agricultural sector (Ogunleye & Aluko, 2022).

Moreover, agricultural financing is a fundamental driver of food production in Nigeria. Without adequate funding, farmers cannot scale up their production, adopt modern technologies, or improve food security. Addressing the financial challenges in the sector requires a multi-stakeholder approach involving the government, financial institutions, private investors, and development partners. With strategic reforms and targeted interventions, Nigeria can unlock the full potential of its agricultural sector, ensuring a more sustainable and food-secure future (Umeh & Eze, 2023).

1.2 Statement of the Problem

In recent years, agricultural financing in Nigeria has remained a major challenge, particularly for smallholder farmers who form the backbone of the country's food production. Despite several intervention programs and credit schemes introduced by both government and financial institutions, many farmers still find it difficult to access timely and adequate funds to support their farming activities. The situation is further complicated by issues such as high-interest rates, lack of collateral, bureaucratic bottlenecks, and low financial literacy among rural farmers. These obstacles have limited the effectiveness of agricultural financing in improving food security and boosting productivity, raising serious concerns about the sustainability of Nigeria's agricultural sector.

This study aims to examine these challenges more closely and provide evidence-based insights into how agricultural financing systems can be made more accessible and effective. By analyzing existing credit programs, financial models, and the experiences of farmers across selected regions, this research intends to identify practical gaps and offer realistic solutions. The goal is not just to highlight the problems but to contribute meaningfully to ongoing efforts aimed at reforming the agricultural finance system in Nigeria, ensuring that farmers can access the support they need to feed the nation and grow the economy.

1.3 Aim and Objectives of the Study

Aim:

The primary aim of this study is to assess the impact of agricultural financing on food security in Nigeria, with a focus on understanding the effectiveness of credit schemes and financial interventions targeted at farmers.

Objectives:

To achieve this aim, the study will pursue the following specific objectives:

To examine the types and sources of agricultural financing available to farmers in Nigeria.

To evaluate the accessibility and adequacy of agricultural credit schemes for smallholder

farmers.

To identify the major challenges faced by farmers in securing agricultural financing.

To assess the relationship between agricultural financing and food production levels in Nigeria.

1.5 Scope of the Study

This study focuses on examining the impact of agricultural financing on food security in Nigeria, specifically looking at how various financial interventions, credit schemes, and institutional supports influence agricultural productivity and food availability. The research will concentrate on smallholder farmers, who form the backbone of Nigeria's agricultural sector, and will explore their access to credit, the effectiveness of financial policies, and the challenges they face in securing funding. While the study draws examples from across the country, emphasis will be placed on recent financing trends and government-led initiatives from 2020 to 2024.

1.6 Significance of the Study

This study is significant as it sheds light on the crucial role agricultural financing plays in enhancing food security in Nigeria. By analyzing how accessible and effective credit facilities, government interventions, and financial institutions are in supporting farmers, the study provides valuable insights for policymakers, agricultural stakeholders, and financial bodies. It helps identify existing gaps in funding mechanisms and the barriers smallholder farmers face in securing necessary capital to boost productivity. The findings of this research will not only contribute to academic knowledge but also guide the design of more efficient agricultural financing strategies aimed at improving food availability, reducing hunger, and fostering sustainable agricultural development in Nigeria.