

CHAPTER TWO

LITERATURE REVIEW

2.1 Agricultural Financing in Nigeria

Agricultural financing in Nigeria is a crucial factor in the development of the country's agricultural sector. It involves the provision of credit facilities, grants, subsidies, and insurance schemes that help farmers and agribusinesses invest in modern farming techniques, equipment, and infrastructure (Olawale & Adebayo, 2019). Despite agriculture being a significant contributor to Nigeria's economy, the sector remains underfunded, with limited access to financial services, particularly for smallholder farmers. The inability to access affordable credit has led to low productivity and food insecurity in many parts of the country (Eze et al., 2020).

The sources of agricultural financing in Nigeria are diverse, ranging from government-backed initiatives to private financial institutions. The Central Bank of Nigeria (CBN) has introduced various agricultural credit schemes, such as the Agricultural Credit Guarantee Scheme Fund (ACGSF), the Anchor Borrowers' Program (ABP), and the Commercial Agriculture Credit Scheme (CACS), all aimed at improving farmers' access to funding (CBN, 2021). Additionally, microfinance banks, cooperative societies, and international development agencies provide credit facilities to support smallholder farmers and agribusinesses (Afolabi & Bello, 2020). However, these funding opportunities often come with bureaucratic challenges and strict lending conditions that make access difficult for many farmers (Ibrahim & Sulaiman, 2021).

One of the major obstacles to effective agricultural financing in Nigeria is the high cost of borrowing. Many commercial banks impose high interest rates and require collateral that smallholder farmers often cannot provide. As a result, most farmers resort to informal lending sources such as moneylenders and cooperatives, which may not provide sufficient funds to support large-scale agricultural production (Ogunleye & Aluko, 2022). The lack of structured financial literacy programs also contributes to the problem, as many farmers lack the knowledge to properly manage loans and investments in their agricultural businesses (Umeh & Eze, 2023).

Government intervention in agricultural financing has had mixed results over the years. While policies and programs have been introduced to promote credit accessibility, their implementation has often been marred by corruption, poor monitoring, and lack of sustainability (Afolabi & Bello, 2020). For example, the Anchor Borrowers' Program, which was launched to provide funding to smallholder farmers engaged in rice and other staple crops, has faced criticisms over loan repayment issues and mismanagement (CBN, 2021). Effective monitoring and evaluation mechanisms are essential to ensuring that agricultural financing programs achieve their intended goals.

Beyond government efforts, private sector participation in agricultural financing is vital for long-term growth. Investment banks, fintech companies, and agribusiness firms have a role to play in bridging the financing gap by offering tailored loan products, agricultural insurance, and supply chain financing (Yusuf & Ibrahim, 2022). The use of digital financial solutions, such as mobile

banking and blockchain technology, has the potential to enhance transparency and accessibility in agricultural financing, ensuring that funds reach the right beneficiaries without bureaucratic delays (Oladipo & Adeyemi, 2021).

Moreover, agricultural financing in Nigeria is essential for improving food production and ensuring national food security. While the government and financial institutions have introduced various initiatives to support farmers, significant challenges remain, particularly in loan accessibility, high interest rates, and mismanagement of funds. To address these issues, there is a need for policy reforms, increased private-sector participation, and the adoption of innovative financial solutions. Strengthening the agricultural credit system will not only boost productivity but also enhance the overall economic development of Nigeria (Eze et al., 2020).

2.2 Food Production in Nigeria

Food production in Nigeria plays a crucial role in the country's economy, as agriculture remains the mainstay of livelihood for millions of people. The sector provides employment to about 35% of the labor force and contributes significantly to the nation's Gross Domestic Product (GDP) (World Bank, 2022). Nigeria is blessed with vast arable land, favorable climatic conditions, and a variety of crops that support food production. However, despite these natural advantages, food production in the country faces numerous challenges that hinder its ability to meet the growing demand of the population, which is estimated to exceed 200 million people (National Bureau of Statistics, 2023).

A major challenge confronting food production in Nigeria is the dominance of smallholder farmers who rely on traditional farming methods. Most of these farmers operate on a subsistence level with limited access to modern farming tools, quality seeds, fertilizers, and irrigation systems (Olawale & Adebayo, 2019). The reliance on rain-fed agriculture further compounds the problem, as unpredictable weather conditions, drought, and flooding often result in low yields and food shortages (Eze et al., 2020). Without adequate support and modernization, Nigeria's food production will continue to lag behind the country's consumption needs.

Poor infrastructure and post-harvest losses are also significant barriers to food production in Nigeria. Many farming communities lack good road networks, storage facilities, and efficient transportation systems to move agricultural produce from rural areas to urban markets (Yusuf & Ibrahim, 2022). As a result, a substantial percentage of harvested crops are lost due to spoilage before reaching consumers. The absence of proper storage and processing facilities means that perishable food items such as fruits, vegetables, and dairy products have short shelf lives, leading to increased wastage and reduced farmer incomes (Ogunleye & Aluko, 2022).

Insecurity has also become a serious threat to food production in Nigeria. Over the past decade, conflicts between farmers and herders, banditry, and insurgency have disrupted agricultural activities in various parts of the country, particularly in the North (Afolabi & Bello, 2020). Many farmers have abandoned their farmlands due to fear of attacks, leading to a significant decline in food production. Insecurity not only affects production but also disrupts the supply chain,

making it difficult for food to reach markets, thereby increasing food prices and worsening food insecurity (Ibrahim & Sulaiman, 2021).

Despite these challenges, the Nigerian government has introduced several policies and initiatives to boost food production. Programs such as the Agricultural Transformation Agenda (ATA), the National Food Security Program (NFSP), and the Anchor Borrowers' Program (ABP) have been designed to support farmers with inputs, access to credit, and improved farming techniques (CBN, 2021). While these initiatives have recorded some successes, poor implementation, corruption, and lack of continuity have limited their impact. To achieve sustainable food production, these programs must be properly monitored, and funds must reach the intended beneficiaries (Oladipo & Adeyemi, 2021).

Moreover, food production in Nigeria is essential for economic growth, food security, and poverty reduction. However, challenges such as outdated farming techniques, poor infrastructure, insecurity, and policy inconsistencies continue to hinder progress. To improve food production, there is a need for increased investment in mechanized agriculture, better storage facilities, improved road networks, and innovative financing options for farmers. With the right policies and effective implementation, Nigeria can achieve self-sufficiency in food production and reduce its dependence on food imports (Umeh & Eze, 2023).

2.3 Role of Commercial and Microfinance Banks in Agricultural Financing

Commercial and microfinance banks play a crucial role in agricultural financing by providing financial services that enable farmers and agribusinesses to invest in production, improve productivity, and expand operations. Agriculture is a capital-intensive sector that requires adequate funding for the acquisition of modern equipment, high-quality seeds, fertilizers, irrigation systems, and transportation facilities (Olawale & Adebayo, 2019). Without access to affordable credit, many farmers, especially smallholder farmers, struggle to maximize their potential, leading to low productivity and food insecurity.

Commercial banks contribute to agricultural financing by offering credit facilities, investment loans, and other financial services to large-scale farmers and agribusinesses. These banks provide long-term and short-term loans that enable farmers to invest in mechanized farming, purchase inputs, and cover operational costs (Eze et al., 2020). Some of the notable commercial bank-driven initiatives in Nigeria include the Commercial Agriculture Credit Scheme (CACS) and the Agricultural Credit Guarantee Scheme Fund (ACGSF), which aim to support commercial farmers and agro-industrial businesses (CBN, 2021). However, access to commercial bank loans remains a challenge for smallholder farmers due to high interest rates, stringent collateral requirements, and complex loan application processes (Yusuf & Ibrahim, 2022).

Microfinance banks, on the other hand, focus on providing financial assistance to small-scale farmers who lack the collateral and financial history required by commercial banks. These banks play a vital role in rural communities, offering microloans, savings accounts, and advisory services tailored to the needs of smallholder farmers (Afolabi & Bello, 2020). Unlike commercial banks, microfinance institutions use group lending models and social collateral mechanisms to

enable farmers to access credit. This approach has been effective in promoting financial inclusion among rural farmers who otherwise would not have access to formal banking services (Ibrahim & Sulaiman, 2021).

One of the key contributions of commercial and microfinance banks to agricultural financing is the provision of financial literacy and capacity-building programs. Many farmers in Nigeria lack the necessary knowledge to manage loans effectively, leading to high default rates and financial losses. To address this issue, banks often provide training on loan management, record-keeping, and investment strategies, helping farmers to maximize the benefits of their financial support (Ogunleye & Aluko, 2022). Financial education is essential for ensuring that farmers make informed decisions about borrowing and repayment, ultimately enhancing their productivity and profitability.

Despite the crucial role that commercial and microfinance banks play in agricultural financing, several challenges limit their impact. The high risk associated with agricultural investments, including climate change, price fluctuations, and pest infestations, makes many financial institutions hesitant to provide loans to farmers (Oladipo & Adeyemi, 2021). Additionally, poor rural banking infrastructure and limited access to banking services in remote areas further restrict farmers' ability to obtain financial support. To overcome these challenges, there is a need for improved government policies, increased risk-sharing mechanisms, and the expansion of digital banking solutions to enhance accessibility for farmers (Umeh & Eze, 2023).

Moreover, commercial and microfinance banks are key players in agricultural financing in Nigeria, providing essential credit, savings, and financial advisory services to farmers. While commercial banks primarily support large-scale agribusinesses, microfinance banks cater to smallholder farmers who require flexible and accessible financial solutions. However, challenges such as high loan default rates, limited financial literacy, and the risks associated with agriculture hinder the effectiveness of these financial institutions. Strengthening agricultural financing policies, improving rural banking infrastructure, and leveraging digital financial services can help commercial and microfinance banks better support Nigeria's agricultural sector and enhance food production.

2.4 Role of Cooperatives and Farmers' Associations in Agricultural Financing

Cooperatives and farmers' associations play a vital role in agricultural financing by providing farmers with access to credit, inputs, technical support, and market opportunities. In Nigeria, where many smallholder farmers face difficulties in securing financial assistance from traditional banks due to high interest rates and strict collateral requirements, cooperatives and farmers' groups serve as alternative funding sources (Olawale & Adebayo, 2019). By pooling resources and leveraging collective bargaining power, these organizations help farmers overcome financial constraints and improve productivity.

One of the primary ways cooperatives facilitate agricultural financing is through collective savings and credit schemes. Members contribute small amounts of money regularly, which can then be used to provide low-interest loans to farmers within the group (Eze et al., 2020). This

model enables farmers to access funding without the bureaucratic hurdles associated with commercial banks. Additionally, cooperatives often collaborate with microfinance institutions and government agencies to secure larger funding opportunities for their members (Afolabi & Bello, 2020).

Farmers' associations also play a crucial role in securing government-backed loans and grants. Many agricultural financing programs, such as the Agricultural Credit Guarantee Scheme Fund (ACGSF) and the Anchor Borrowers' Program (ABP), require farmers to be part of a registered group to qualify for funding (CBN, 2021). By joining an association, farmers increase their chances of obtaining credit, as financial institutions view organized groups as lower-risk borrowers compared to individual farmers (Ibrahim & Sulaiman, 2021).

Beyond financial support, cooperatives and farmers' associations help reduce production costs by engaging in bulk purchasing of agricultural inputs such as fertilizers, improved seeds, and machinery. Through collective purchasing, members benefit from lower prices and better quality inputs, ultimately increasing their productivity (Ogunleye & Aluko, 2022). This approach also extends to marketing efforts, where farmers collaborate to sell their produce in bulk, ensuring better pricing and reducing post-harvest losses.

Moreover, these organizations provide financial education and capacity-building programs to their members. Many farmers lack knowledge of proper financial management, record-keeping, and loan repayment strategies. Cooperatives and associations organize training sessions to improve members' understanding of credit management and investment planning (Yusuf & Ibrahim, 2022). This knowledge helps farmers make informed financial decisions, thereby reducing default rates and ensuring the sustainability of agricultural financing initiatives.

Despite their numerous benefits, cooperatives and farmers' associations face challenges that limit their effectiveness. Poor leadership, mismanagement of funds, lack of transparency, and internal conflicts often weaken these groups, reducing their ability to secure and manage financial resources effectively (Oladipo & Adeyemi, 2021). Additionally, inadequate government support and weak regulatory frameworks sometimes hinder the growth and sustainability of these organizations. Addressing these issues through improved governance, regular audits, and stronger policy support can enhance the role of cooperatives in agricultural financing (Umeh & Eze, 2023).

2.5 Impact of Agricultural Financing on Food Production

Agricultural financing plays a critical role in enhancing food production by providing farmers with the necessary capital to invest in modern farming techniques, improved seeds, fertilizers, irrigation systems, and mechanized equipment. In Nigeria, where agriculture remains a major contributor to the economy, access to financial resources is essential for increasing food production and ensuring food security (Olawale & Adebayo, 2019). However, the availability and accessibility of agricultural financing determine the extent to which farmers can expand their operations, improve productivity, and contribute to national food supply.

One of the significant impacts of agricultural financing on food production is increased productivity. When farmers have access to loans, grants, or subsidies, they can invest in high-yield seeds, fertilizers, and pesticides, which enhance crop yields (Eze et al., 2020). Studies have shown that farmers who receive financial support tend to produce more per hectare than those who lack access to credit (Ibrahim & Sulaiman, 2021). For instance, government-backed financing programs such as the Anchor Borrowers' Program (ABP) have led to an increase in rice production in Nigeria by providing funding to smallholder farmers to purchase inputs and modernize their farming practices (CBN, 2021).

Agricultural financing also contributes to the adoption of mechanized farming, which enhances efficiency and reduces post-harvest losses. Traditional farming methods often limit productivity due to excessive manual labor and reliance on outdated techniques. With access to credit, farmers can acquire tractors, harvesters, irrigation systems, and storage facilities, which help reduce production costs and improve food supply (Ogunleye & Aluko, 2022). Mechanization ensures that large areas of land are cultivated within a shorter period, leading to an increase in food production and a reduction in food shortages (Yusuf & Ibrahim, 2022).

Furthermore, agricultural financing plays a key role in reducing post-harvest losses, which is a major challenge affecting food production in Nigeria. A significant portion of farm produce is lost due to poor storage, transportation, and processing facilities. Financial support enables farmers to invest in modern storage systems, cold chains, and processing equipment, which help preserve food and extend its shelf life (Oladipo & Adeyemi, 2021). For example, the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) has helped many farmers improve their post-harvest management practices by providing funding for storage facilities and value addition initiatives (Umeh & Eze, 2023).

In addition, access to agricultural financing strengthens rural economies and encourages more people to engage in farming. Many young people in Nigeria are discouraged from pursuing agriculture due to financial constraints and the perception that farming is unprofitable. When financing options are available, more individuals, especially youths, are willing to invest in agriculture, leading to an increase in food production and economic growth (Afolabi & Bello, 2020). Programs such as the Youth in Agriculture Program (YAP) have demonstrated that financial empowerment attracts more participation in the agricultural sector, which ultimately boosts food production (Ibrahim & Sulaiman, 2021).

Despite these positive impacts, several challenges hinder the effectiveness of agricultural financing in Nigeria. Many farmers still struggle with limited access to credit due to high interest rates, lack of collateral, and bureaucratic loan processes. Additionally, inconsistent government policies and poor implementation of financing schemes sometimes reduce their effectiveness (Eze et al., 2020). To maximize the impact of agricultural financing on food production, there is a need for improved policies, reduced interest rates on agricultural loans, and increased government-private sector collab