

## **Development Finance Interventions of the Central Bank of Nigeria in Agriculture**

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### **Abstract**

**M**any Nigerians are unemployed. A functional agricultural system can significantly reduce unemployment. It can also ensure food and national security as well as fast-track industrialization which would lead to the overall economic development of a country. The Central Bank is engaged in several initiatives aimed at stimulating growth through the development of the agricultural sector, employment generation, and promoting industrialization by targeting reduction of food imports and diversification of the economy. This paper will review CBNs development intervention model, identify the achievements under the various intervention programs and highlight the challenges among others. The study presented the nexus between central banking and economic growth including experiences of some other central banks. This study shows that the initiatives have recorded some achievements. It recommended expanding outreach through guided engagement with stakeholders, enhanced monitoring and evaluation and developing the capacity of the Development Finance Institutions (DFIs) to more actively play their roles well. Public Private Partnerships were also encouraged. Collectively, these would further enhance the agricultural sector and generate more employment opportunities.

**Keyword:** *Interventions, Agricultural development, Employment*

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## **Background to the Study**

### **The Need for Development Financing**

The Central Bank of Nigeria (CBN)'s combination of monetary, credit, foreign trade and exchange rate policies have effectively helped control inflation and exchange rate depreciation in recent times. However, structural issues such as low access to finance for real sector investment, non-diversification of the economic base in terms of export earnings, inadequate infrastructure, financial exclusion and unemployment, remain. Addressing these challenges require robust policies directly targeting identified sectors and value chains that have weighty implications for national economic growth and development.

Over the years, the Bank has charted significant inroads in these areas. Specifically, Section 31 of the CBN Act No. 7 of 2007 (as amended) empowers the Bank to carry out the developmental function of promoting the development of money or capital markets in Nigeria or of stimulating financial or economic development. The Bank's developmental function is intended to mitigate financial market failure through appropriate measures that develop the capacities of the supply side to intermediate efficiently and the demand side to optimally uptake financial services. This developmental function of the Bank is conducted through development financing policy.

Development financing in CBN began in 1964 when the Bank commenced the financing of the then commodity boards as directed by the Federal Government of Nigeria. By 2009 – 2010, there was a high roll out of development financing interventions by the Bank. This was justified by the need to stimulate the economy following the 2007-2008 global financial crises. Another notable period was 2015 – 2016, when the Bank introduced several interventions to support the real sector and pull the economy out of recession. It is instructive that these interventions are not peculiar to the CBN. It is typical of developmental central banks, including those in high income economies. Developmental central banks play a more direct role in economic development.

### **Objectives of the Study**

The objectives of this study are to;

- i. Highlight the various approaches or existing schools of thought to Central Banking vis-a-vis developmental interventions.
- ii. Review CBNs development intervention model.
- iii. Identify the achievements under the various intervention programs.
- iv. Highlight the challenges and proffer recommendations.

## **Literature Review: Development Role of Central Banking**

### **The Schools of Central Banking Practice**

There are two major schools of practice in central banking: the neo-liberal and the developmental approaches. The Neo-liberal approach, mostly promoted by the International Monetary Fund (IMF) and Bank of International Settlements (BIS), is characterized by: central bank independence; a focus on inflation fighting (including

adopting formal 'inflation targeting') to the near exclusion of all other goals; and the use of indirect methods of monetary policy, such as short-term interest rates, as the exclusive tool of monetary policy, as opposed to more direct tools (Bernanke et al, 1996).

Developmental approach advocates central bank support for economic sectors, a wider and more visible role that directly influences structural transformation, by use of “direct methods” of intervention such as:

Credit Allocation; regulated interest rates; and direct lending to priority sectors, etc. (Epstein, 2005). Prevalent economic conditions and development imperatives determine whether a central bank will operate neo-liberally or developmentally.

### **Selected Developmental Central Banks**

The developmental role is the more preponderant practice because central banks have taken up additional roles such as the promotion of financial inclusion, alignment of the financial system with sustainable development or greening financial systems (Dafe and Volz, 2015).

In Argentina and Bangladesh, legislation expressly mandates the central bank to promote a high level of output or economic growth, employment, real income and financial stability, and the use of more tools to support credit allocation to promote productive investment and job creation (Epstein, 2015).

In the United States and Europe, early and recent central banking histories indicate that the use of 'direct methods' of intervention to support economic sectors, was among the most important tasks of central banking and, indeed, in many cases, were among the reasons for central banks' existence” (Epstein, 2015).

### **Framework for CBNs Development Financing**

The methodology is a review of the various CBN interventions and their impact on the economy. The data used are from secondary sources, mostly from CBN publications including annual reports, statistical bulletins, keynote addresses and press releases all of various years.

## Objectives of CBNs Development Financing

Objectives crystallize at the individual, firm, industry, sector and economy levels.

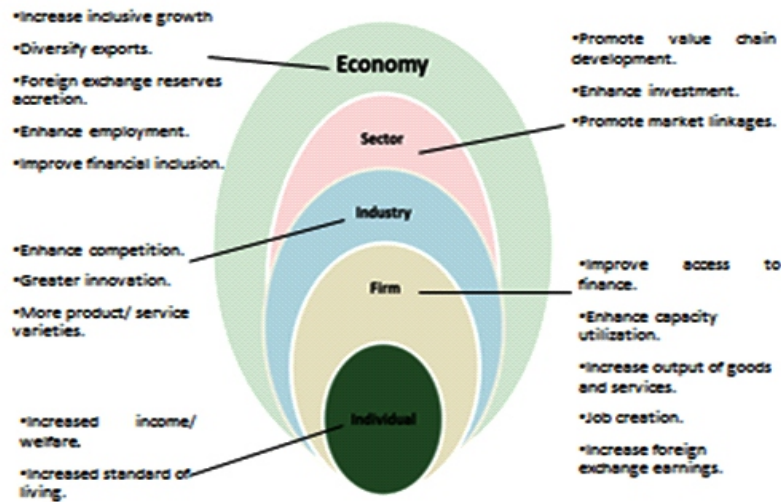


Figure 1. Objectives of CBN's Development Financing

## Intervention Model



Figure 2. The CBN Intervention Model

## Intermediate Outcomes – the 4A's

There are four intermediate outcomes of the development financing interventions:

**Availability:** Increasing availability of tailored financial products and services, e.g. through the financial inclusion strategy, collateral registry and non-interest financial products.

**Affordability:** Reducing the cost of capital by providing finance at affordable, single-digit interest rates of 5 – 9%: Should translate to lowered cost of production for benefitting enterprises.

**Adequacy of Facility:** Size of facility in some interventions is based on: The economics of production of eligible enterprise; or Some pre-determined threshold: in some others it is as high as 70% of total project cost (such as in PAIF);

**Appropriateness of Term:** Long-term term finance to match investment demands under most interventions; Short-term working capital also available. Moratorium is optional but generous in both short- and long-term financing.

### **The Interventions and the Scorecard: Overview**

#### **Agricultural Finance Interventions**

##### **Agricultural Credit Guarantee Scheme (ACGS)**

Provides guarantee to banks that grant loans for agricultural purposes, mostly to small holder farmers but also commercial small to medium enterprises. Repayment of loans as and when due attracts an interest rebate under the Interest Drawback programme (IDP).

##### **Commercial Agriculture Credit Scheme (CACs)**

Provides funding for medium and large-scale or commercial agricultural enterprises, including integrated farms, at single digit interest rate. The exit year is 2025.

##### **Anchor Borrowers' Programme (ABP)**

Intended to create a linkage between processing companies (anchors) and small holder farmers of key agricultural commodities to boost production of these commodities, stabilize input supply to agro processors and address the negative balance of payments on food. The exit year is 2025.

##### **Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMEIS)**

Established to ensure access to finance for small and medium enterprises and develop the agricultural value chain by leveraging equity contribution of commercial banks. The exit year is 2027.

##### **National Food Security Programme (NFSP)**

Provides financing for identified off-taker companies to support the Federal Government's Strategic Grain Reserves. The funding is used to mop up and procure grains, such as soya, corn/ maize, sorghum and millet and to fund commercial farming and processing. The exit year is 2025.

##### **Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)**

To de-risk the agricultural value chain and encourage banks to lend with confidence to the sector by offering them strong incentives and technical assistance.

**Accelerated Agricultural Development Scheme (AADS)**

Designed to engage a minimum of 10,000 youths per state and the FCT in agricultural production across the country over the next three years and increase agricultural production towards food security, job creation and economic diversification. Focus is on crops where the states have comparative advantage.

**Paddy Aggregation Scheme (PAS)**

This is a short-term working capital facility under the Commercial Agriculture Credit Scheme to boost the capacity of integrated rice millers to purchase paddy during harvest period when prices are lowest. This should bring down the high cost of local rice, making it affordable and competitive against imported and smuggled brands. The exit year is 2025.

**Manufacturing/Export Finance Interventions**

**Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)** Provides guarantee cover of 80% of principal and interest on term loans for SMEs.

**Small and Medium Enterprises Refinancing and Restructuring Facility (SMERRF)**

Established to fast-track the development of the manufacturing sector by improving access to credit to manufacturers.

**Micro, Small and Medium Enterprises Development Fund (MSMEDF)**

This is to channel low interest funds to the MSME sub-sector to enhance access by MSMEs, especially women entrepreneurs, to credit. The exit year is 2025.

**Real Sector Support Facility (RSSF)**

To support start-ups and expansion financing needs of large enterprises in manufacturing, agricultural value chain and selected service sub-sectors with potentials for high growth, increasing accretion to foreign reserves, expanding the industrial base and consequently diversifying the economy. The exit year is 2025.

**Presidential Fertilizer Initiative (PFI)**

To facilitate the local production of 1 million metric tonnes (mmt) of blended Nitrogen, Phosphorous and Potassium (NPK) Fertilizer for the 2018 wet season farming and 0.5 mmt for the dry season. The exit year is 2025.

**Non-oil Export Stimulation Facility (NESF)**

A financing scheme to improve access of exporters to concessionary finance for expansion and diversification of the non-oil export basket. The exit year is 2026.

**Textile Sector Intervention Facility (TSIF)**

Targeted at reviving the cotton, textile and garment industry. The fund facilitates takeover of existing debts and provides additional long term loans and working capital to existing companies. The exit year is 2025.

### **Infrastructure Finance Interventions**

#### **Power and Airline Intervention Fund (PAIF)**

Introduced to provide leverage to motivate and stimulate private sector involvement in the power and airline sectors. The exit year is 2025.

#### **Nigeria Electricity Market Stabilization Fund (NEMSF)**

The fund is aimed at providing liquidity to the Nigerian Electricity Supply Industry (NESI) by settling certain outstanding debts (the legacy debts) and the shortfall in revenue during the Interim Rules Period (IRP) up to end-December 2014. The exit year is 2025.

### **Other Interventions**

#### **Youth Entrepreneurship Development Programme (YEDP)**

The programme is to enhance the deployment of the ingenuity and resourcefulness of Nigerian youths for maximum economic development.

#### **Microfinance Policy, Regulatory and Supervisory Framework for Nigeria**

The policy, revised in 2011, seeks to enhance the provision of diversified microfinance services on a sustainable basis for the economically active poor and low income households. It also provides appropriate machinery for tracking the activities of development partners and other non-bank service providers in the microfinance sub-sector of the Nigerian economy.

#### **Entrepreneurship Development Centres (EDCs)**

They EDCs provide technical, managerial and financial training for start-ups and experienced entrepreneurs to increase their capacity and productivity.

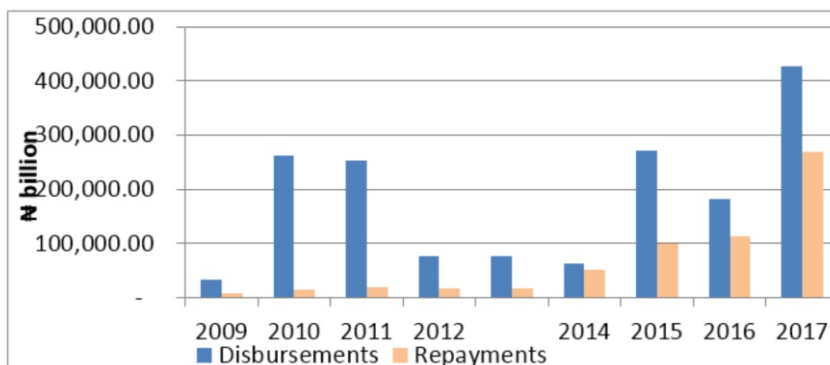
#### **National Collateral Registry (NCR)**

The NCR is a public database of ownership of assets, allowing borrowers to prove their creditworthiness and potential lenders to assess their ranking priority in potential claims against particular collateral.

#### **National Financial Inclusion Strategy (NFIS)**

Launched in 2012 to set a clear agenda to significantly increase access to and use of financial services by 2020.

**Figure 3:** Disbursements and repayments in CBN development financing interventions 2009 - 2017



**Source:** Development Finance Department and CBN Annual Reports (various years)

Disbursements peaked in 2017, after declining in 2016, due to increased disbursements in the ABP and the large ticket interventions. Aggregate repayments have been on the increase since 2013 owing to enhanced credit risk management measures and intensified Monitoring & Evaluation.

Repayments (as a percentage of disbursements) have been increasing as more facilities fall due after initial moratorium periods.

### Disbursements and Outstanding

Between 2009 when the CACS was introduced and end-December 2017, a total of ₦1.65 trillion has been disbursed to MSMEs in agriculture, industry and services. The sum of ₦0.61 trillion or 37.1% of this amount has been repaid while ₦1.04 trillion or 62.9% is outstanding, owing to moratorium and term structures of facilities.

### Outreach

Since inception in 1977, the ACGSF has guaranteed loans to over 1.1 million. The ABP has financed over 256,000 farmers while the enterprises financed have increased to 9 commodities – cassava, cotton, fish, groundnut, maize, poultry, rice, soya beans and wheat. SMERRF has served a total of 604 projects. Similarly, many enterprises have been financed through the sub-sector-specific programmes TSIF and Presidential Fertilizer Initiative.

### Specific Sector Impacts

**Agriculture:** In the ABP, increases in rice yields from 2 – 3 tons/ ha to 5 - 7 tons/ ha and wheat yields from 1.0 – 1.3 tons/ ha to 2.5 – 3.0 tons/ ha have been recorded. 67%, 33% and 83% declines in import bills of rice, wheat and fish respectively in 2017; and Improvements in milling capacities of Umza, Labana, Mikap and Coscharis; and establishment of new mills by WACOT and Crown Mills in view of the programme.



**Power Supply:** Through PAIF, a total 1,374 megawatts (MW) of electricity have been generated;

These include 478MW on-grid, 895.8MW off-grid (captive and Independent Power Plants) and 2.4MW from renewable energy.

**Manufacturing:** Due to the Presidential Fertilizer Initiative, over 18 of the 28 fertilizer plants in the country have been resuscitated. This resurgence has led to the availability of affordable fertilizer for farmers. In other words, both capacity utilization and increased output have been achieved.

### Stimulation of Job Creation

The Bank has stimulated the creation of over 6 million direct and indirect jobs in the following areas:

- i. Manufacture of agro-chemicals to support farm production – herbicides, organic and inorganic fertilizers, pesticides, etc.
- ii. Manufacture of small-scale machines such as planters, weeders, chemical applicators, feeders, drinkers, etc.
- iii. Production of certified seeds, cultivars and other planting materials.
- iv. Production of improved bird, animal and fish breeds.
- v. Extension services.
- vi. Veterinary services.
- vii. Tractor/ other machine operators.
- viii. Manufacture of small scale harvesting and processing equipment such as threshers, mills, etc.
- ix. Haulage/ transportation of inputs, output or finished products, from farm to factory and vice versa, and to markets.
- x. Ancillary retail services springing up or expanding around farms and factories that have been financed under the interventions.

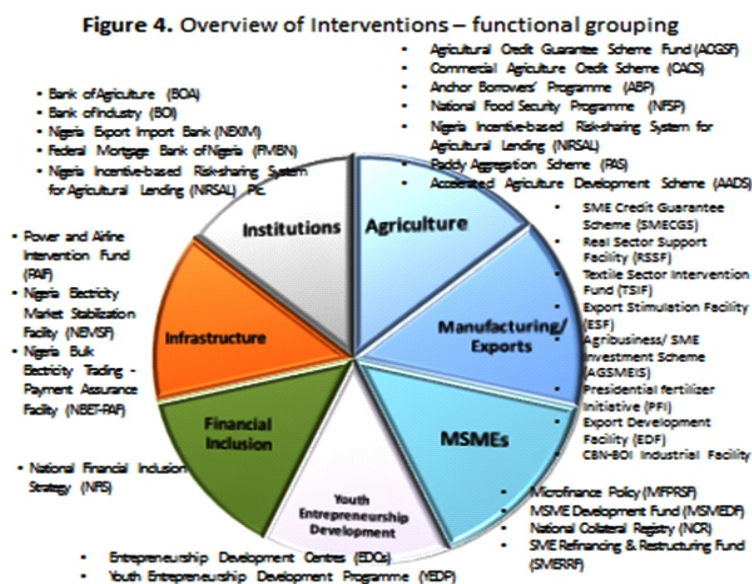


Figure 4. Overview of Interventions - functional grouping

S/N	Intervention & Year of Establishment	Seed Fund	Total Disbursements		Principal Outstanding	Balance of Fund	Remarks
			Number	Value			
1	Agriculture Credit Guarantee Scheme Fund (ACGSF) (1977)	N3 billion	1,102,801	N110.204 billion guaranteed	-	N5 billion	The Scheme is a contingent liability fund.
2	Commercial Agriculture Credit Scheme (CACS) (2009)	N200 billion Funded from CACS	542 projects	N524.423 billion	N242.77 billion		
3	Paddy Aggregation Scheme		8 projects	N30.373 billion	N29.632 billion	Nil	
4	Power & Airline Intervention Fund (PAIF) (2010)	N300 billion Funded	59 projects	N279.81 billion	N159.95 billion	N20.81 billion	
5	Nigeria Electricity Market Stabilisation Fund (NEMSF) (2014)	N215 billion	29 participants	N120.211 billion	N104.659 billion	N108.361 billion	
6	Nigeria Bulk Electricity Trading (NBET) Payment Assurance Facility (2017)	N701 billion		N109.669 billion	N109.669 billion	N591.30 billion	
7	Rural Sector Support Facility (RSSF) (2010)	N300 billion	14 projects	N57.01 billion	N56.097 billion		
8	National Food Security Programme (NFSP) (2016)			N59.959 billion	N59.959 billion		
9	Presidential Fertiliser Initiative (PFI)	Funded from RSSF		N65 billion	N65 billion	N158.944 billion	
10	SME Credit Guarantee Scheme (SMCGS) (2010)		88 projects	N4.251 billion guaranteed	-		The Scheme is a contingent liability fund.
11	SME Re-structuring and Refinancing Facility (SMRRF) (2010)	N200 billion	604 projects	N381.99 billion	N281.35 billion	N99.533 billion	

Figure 5a. The Interventions and the Scorecard

S/N	Intervention & Year of Establishment	Seed Fund	Total Disbursements		Principal Outstanding	Balance of Fund	Remarks
			Number	Value			
12	Micro Small and Medium Enterprises Development Fund (MSMEDF) (2013)	N220 billion	303 PFA/States	N87.065 billion	N56.976 billion		
13	Anchor Borrowers' Programme (ABP) (2013)		256,405 farmers 294,652 farmers 31 States	N55.708 billion	N40.556 billion		17 financial institutions
14	Youth Entrepreneurship Development Programme (YEDP) (2016)			N903.754 million	N209.754 million		
15	Accelerated Agriculture Development Scheme (AADS) (2017)	Funded from MSMEDF	None	No disbursement yet	Nil	N116.476 billion	
16	Textile Sector Intervention Facility (2015)	N50 billion	31 projects	N26.38 billion	N26.38 billion		
17	Non-Oil Export Stimulus Facility (ESF) (2016)	N300 billion		N17 billion	N17 billion	N485 billion	
18	Export Development Facility (EDF) (2017)	N50 billion	Nil	Nil	Nil	N50 billion	
19	Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMES) (2017)	-	-	None yet	-	-	Received N26.87 billion from 17 banks
20	CBN-BOI Industrial Facility (2017)	N50 billion	Nil	Nil	Nil	N50 billion	

Figure 5b. The Interventions and the Scorecard (cont'd)

## **Challenges**

- i. Unfavourable disposition of financial institutions to the financing of SMEs and small holder farmers.
- ii. Low institutional capacity of some Participating Finance Institutions (PFIs) on specialized areas such as agricultural value chain financing.
- iii. Lack of synergy among agencies of government.
- iv. Infrastructure issues – power, poor internet connectivity in remote locations, poor feeder roads, lack of irrigation facilities, etc.
- v. Low commitment from key stakeholders (states, etc.).
- vi. Delayed coordination and application for funds by PFIs.
- vii. Delayed disbursement of funds by PFIs.
- viii. Slow loan repayment/ recovery.

## **Conclusion**

The Bank has been involved in development financing since 1964 and has built and developed capacity in this regard over the years. This is evidenced by the regular formulation of programmes and design of programmes, including the recent introduction of non-interest financial products, that address the socio-cultural concerns of many Nigerians. In addition, the interventions all have exit strategies which fall into one of three broad categories, namely: review, cede out or wind down. Efforts are on-going to carry out periodic impact assessment of the interventions to enable a proper evaluation of their effectiveness. The agricultural sector has the capacity to boost distributive trade and commerce through the production of raw materials for industries.

## **Recommendations**

1. To ameliorate the problems of unemployment from the ailing agricultural sector perspective, we recommend that greater access to credit through the provision of credit facilities by banks is very important. Incentives should be made available for banks to give loans. Private Public Partnerships are also encouraged. This can provide funding for entrepreneurship and skill acquisition programs.
2. Also, expanding outreach through guided engagement with stakeholders ranging from commodity/ producer associations, organized private sector (OPS) and business member organizations to the public.
3. Thirdly, top level engagement with PFIs such as at the Bankers' Committee and other apexes to advocate for more effective participation is encouraged. Enhanced monitoring and evaluation. In the same vein, ministries, departments and agencies (MDAs) of government overseeing target sectors must exercise ownership and greater commitment to the success of interventions.
4. Lastly, helping to develop the capacity of the Development Finance Institutions (DFIs) to more actively play their role. Likewise, both the public and private sectors must commit to investment in human capital development in order to key into the abounding potentials offered by the relatively cheap and surplus labour from agriculture.

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