POLICY BRIEF

AGRICULTURAL DEVELOPMENT FINANCING AND FOOD INFLATION IN NIGERIA: WHAT THE GOVERNMENT MAY NEED TO DO DIFFERENTLY
1.0 Introduction

Rising food prices in Nigeria are posing severe food insecurity problems for a large percentage of the country’s population. This is driven by some factors that lead to a demand-supply gap within the food value chain. Underinvestment in the industry, lack of access to finance, infrastructural deficits, insecurity, global market disruptions, climate-related disasters, and a fast-growing population have resulted in a struggling agricultural production since the historical shift to the oil sector over sixty years ago. Consequently, Nigeria has lost its place as a strong food-producing economy and a net food exporter, with the share of food export to total merchandise exports declining drastically from 64.5 percent in 1962 to as little as 1.8 percent in 2019. Due to shortage in supply, food inflation has also climbed up, leading to increased food bills on households’ incomes. The share of food spending to total household expenditure averages 59 percent, meaning that more than half of average household incomes are spent on food. And although imports are used to supplement local production, approximately 19.5 million Nigerians are currently facing food crises, and the number is expected to increase if decisive action to address food inflation is not taken.

Over the years, the Nigerian government has deployed development financing initiatives to boost food production through increased access to finance for farmers and other small businesses in the sector. While progress may have been made in some areas, the country is still at a critical juncture, as access to food and its affordability remain a major problem for a large part of the population. This brief aims to examine how the government’s financing policies to improve food production have fared, given the prevailing economic conditions in the country. The focus is particularly on such financing programmes as administered by the Central Bank of Nigeria (CBN). It will highlight progress with these financing programmes and discuss other challenges to food production, which are possible drivers of the rising food inflation in the country.

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1 Nigeria actually relies on $10 billion of imports to meet its food and agricultural production shortfalls, according to the International Trade Administration (see https://www.trade.gov/country-commercial-guides/nigeria-agriculture-sector)
2.0 A look at Government-backed financing options for stakeholders in the agricultural sector (What has the CBN done so far?)

The CBN’s development financing initiatives in the agricultural sector involve the direct supply of needed financial resources to actors within the industry or a strategic reduction in the cost of obtaining them, such as reducing interest on loans to farmers. This would ensure that the industry has more capital and enable the expansion of production, especially in a fashion that can meet local demand for food, generate exports, and support sustainable income and job creation. Over the years, several such programmes have been set up by different governments. Some of them are discussed in the section that follows.

Figure 1: A chronology of some CBN’s intervention schemes

The Agricultural Credit Guarantee Scheme (ACGS) started operation in April 1978,\(^2\) with an initial shared fund/capital of \textbf{₦100 million} and paid-up capital of \textbf{₦85.6 million}. The fund, to be administered by the CBN, was to provide a guarantee over the loans that any bank would

grant for agricultural purposes. Loans in this context would include advances, overdrafts, and any other credit facility as obtainable from the bank.³

By March 2001, the fund was raised to ₦3 billion. The annual value of loans guaranteed under the scheme rose from ₦35.6 million in 1981 to ₦12.46 billion in 2014. In 2021, however, it declined to ₦5.79 billion,⁴ which is attributable to the emergence of new development financing programmes. These new programmes are presumably established in response to changing global and domestic economic conditions as well as the coming in of new governments.

The Commercial Agricultural Credit Scheme (CACS) was established in 2009 through a collaboration between the CBN and the then Federal Ministry of Agriculture and Water Resources (FMA&WR). The scheme was a value-chain financing initiative to increase agricultural production with a three-year ₦200 billion bond issued by the Debt Management Office (DMO).⁵ Although quarterly disbursement by the CBN for the programme has fluctuated over the years, the total amount released since the inception of the scheme has risen to ₦745.31 billion as of October 2022. Again, the expectation is that food production would increase to check inflationary pressure induced by food supply deficits.

In 2015, the Anchor Borrowers’ Programme (ABP) was set up to create "important" economic linkages between smallholder farmers and processors. An anchor (which may be a state government or private large-scale processor) provides a guaranteed market for the farm produce by off-taking from smallholder farmers and in addition, finance is provided to these farmers. The ultimate targets were to: increase agricultural output and reduce reliance on imports for food.⁶ As of October 2022, the cumulative disbursement by the CBN under the programme had reached ₦1.07 trillion.

⁴ CBN statistical bulletin 2021
More recently, the Agri-Business, Small and Medium Enterprise Investment Scheme (AGS-MEIS),\(^7\) was launched in 2017 to promote access to affordable finance by agri-businesses, as well as small and medium enterprises. As at October 2022, a total of \(\text{₦150.22 billion}\) has been expended for the scheme since its inception. The Brown Revolution was also started in 2021 to transform the wheat value chain in Nigeria. With about 5 to 6 million tons of wheat consumed annually, local production stands at just about 63,000 tons. Thus, over \(\text{₦381 billion}\) worth of wheat is imported every year to make up for the local supply shortage. The \(\text{₦41 billion}\) brown revolution is expected to boost local wheat production and reduce the country’s dependence on imported wheat.

Despite these disbursements, domestic food supply has not significantly improved to meet the country’s food demands, and food imports have generally not reduced (perhaps due to fast rising population). This raises critical questions about the effectiveness of the financing programmes. Food prices have been mostly rising for the past ten years, indicating that access to finance is not the only issue confronting the country’s food production.

3.0. The Trajectory of Food Inflation in Nigeria

Generally measured as year-on-year change in the food component of a country’s consumer price index (CPI), food inflation has been on the rise in Nigeria. Although there have been a few declines, particularly during the harvest seasons\(^9\) when food supply normally improves, the rising pattern resumes almost immediately and persists for a long time, suggesting that excess demand quickly absorbs supply.

Figure 2 shows the quarterly trend of food inflation in Nigeria, which reflects the impact of certain economic and socio-political factors on food availability and food price.

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\(^8\) Average annual wheat imports based on NBS’s quarterly reports for 2017, 2018 and 2019.

Food inflation has risen considerably from 9.3 percent in the first quarter of 2015 to 22.83 percent in Q3 2022. The current level (October 2022) is 23.72 percent. As food inflation goes up, general inflation has also increased from 8.37 percent to 20.31 percent over the same period and is currently at 21.09 percent. This is because in the construction of headline inflation, food contributes more than 50 percent of household consumption spending. As a result, an increase in food inflation drives up overall inflation.

A rise in food and general inflation rates implies that it is becoming increasingly difficult for Nigerians to afford essential food items. In fact, about 89 percent of the Nigerian population found it too expensive to afford a healthy diet in 2017 (see Figure 3). The share of population that cannot afford a healthy diet is determined by how much of income is expended to buy the diet. This is more alarming when compared to the 18 percent in Mexico, 13 percent in Brazil, and 0.42 percent in the United Kingdom. In 2020, the figure for Nigeria had risen to 95.9 percent.

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10 By obtaining an average for each quarter from the monthly data reported by the CBN.
The socio-economic implications of this trajectory can be severe, as high inflation (food or headline) erodes consumers’ purchasing power. This is particularly problematic in a country where more than half of the population (63 percent) are living in multidimensional poverty and threatens the country’s pursuit of sustainable development. Therefore, a pertinent question for policymakers would be: why, despite numerous financing interventions in the agricultural sector over the years, has food inflation not decreased, and the risk of food insecurity is on the rise?

4.0. Why are expected outcomes not being achieved?

By economic theory, more access to finance in the agricultural sector should result in increased food production and lower food prices. However, it is the case that in Nigeria, much like in many (developing) countries, other factors also limit access to food, either by directly

constraining food supply, even where production is high, or by disrupting actual food cultivation so that limited amount is produced even when facilities (including finance) are available to the farmers. These include, among other things, infrastructural decay (as depicted by poor road and other transport networks), insecurity, climate change, and middlemen activities. They represent areas, beyond financing, where the government should increase their efforts.

i. **Poor Transport Network and General Infrastructural Decay:** As an important driver of national development, infrastructure enables trade, powers businesses, and creates opportunities for struggling communities.\(^\text{12}\) Infrastructure, especially if well-planned, has the capacity to ease inflationary pressure, by increasing productivity, creating jobs, and improving access to markets.\(^\text{13}\) Unfortunately, infrastructure in Nigeria, especially in the transport industry, has been largely inadequate. Inefficient transport system, characterized by bad road network, leads to post-harvest losses by delaying connection to markets. As food produce rot without adequate storage, this constitutes a significant loss which the suppliers would have to recover by raising prices.

A 2021 report based on an indicative survey and in-depth interviews conducted on farmers and food transporters across seven Nigerian states (Lagos, Ogun, Oyo, Nasarawa, Katsina, Osun and Benue) revealed that bad roads and weak transport systems are a major driver of food insecurity in the country. For transporters, bad roads and lack of access to markets represent 53.3 percent of the challenges they face. Farmers have poor access to markets, making it difficult to sell harvested products. Given that nearly half of them (47 percent) do not have storage facilities, a lot of the food produced would be lost,\(^\text{14}\) which leads to reduced supply.

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ii. Insecurity

Insecurity has been one of Nigeria's biggest challenges. Conflicts and violence across different parts of the country, such as the Boko Haram insurgency, herdsman-farmers clashes, activities of bandits, kidnappers, and unknown gunmen, are interrupting economic activities, and have displaced over 3.14 million Nigerians from their homes. These violent activities are posing limitations to agricultural production, impeding access to markets for food supply and other livelihood opportunities.\(^{15}\) Boko Haram insurgency, for instance, has had severe impacts on northern farmers, livestock breeders, and dealers in farm produce. Conflicts between herders and farming communities have gained more intensity since 2014,\(^{16}\) and they have far-reaching consequences.

Farmers have had to abandon their farmlands and flee their homes for safety.\(^{17}\) Loss of lives also translates to reduced human resources for agricultural and other economic activities. As a result, food production is reduced significantly, as the affected states are among the top food producers in the country. For instance, in Borno state, previously the largest wheat-producing state (30 percent of Nigeria’s wheat production), the activities of Boko Haram have stalled the cultivation of over 400 hectares of wheat in the area. This has affected the state's contribution to wheat supply in the country,\(^{18}\) and led to higher wheat imports from ₦101.58 billion in Q1 2020 to ₦258.31 billion in Q1 2022.

iii. Climate Change: Drastic shifts in climate patterns have greatly impacted humans, plants and animals. And in the recent times, these effects have become increasingly severe, ranging from desertification to changing rainfall patterns, higher temperatures, and so on. In Nigeria, there are issues of desert encroachment due to

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droughts and rising heat, land degradation due to floods, and a gradual disappearance of the clear distinction between the rainy season and the dry season. These climate change issues affect food availability and price in various ways, especially by disrupting agricultural production.

In Sayne (2011), rising sea level and flooding farmlands were reported to be rendering soils too salinized for planting along the Southern coast, just as soils are being eroded in the South-East. These lead to loss of nutrients and poor crop yields. There are also incidents of heat stress and drought, resulting from climate change, which impact negatively on plant growth and animal reproduction. A 2017 survey carried out in Kaduna and Oyo states showed that 10 percent of all farmers experience product losses (such as death of chicken and rotting of eggs) due to heat waves.

Between July and October 2012, Nigeria witnessed one of its worst flood incidents. The flooding submerged hundreds of thousands of acres of farmland, forcing about 1.3 million people out of their homes, and claiming at least 431 lives, with important transportation routes severed. In 2022, more devastating flooding occurred, affecting 34 of the country’s 36 states. At least 4.4 million people were affected, with 2.4 million displaced, 660 lives lost, and over 676,000 hectares of farmlands destroyed by the floods.

These represent serious damages to harvest and can result in limited access to income, thereby elevating food scarcity and hunger crises in the country. Farmers record losses not only in terms of damaged crops and animals, but also in terms of capital committed to the business. And it is particularly more serious, when consideration is given to the fact that only less than 5 percent of farmers in Nigeria have insurance covers against disasters.

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iv. **Activities of Middlemen:** Bad infrastructure (such as poor transport network), lack of storage facilities, lack of market information, and the resultant inability to access the market compel farmers to sell their produce to middlemen. As intermediaries, middlemen play key marketing roles in the supply chain of agricultural products. However, they often inflate the prices of food produce, after buying at affordable rates from farmers. They set the prices of these food items according to their targeted huge profit margins and sell in urban regions where there is a sizable population of well-off people who can easily afford them.22

In some other cases, they hoard farm produce (for instance during festive periods), thus creating artificial scarcity that allows them to raise prices to a point that is distressing to consumers, majority of whom are living on very low income.23 The artificial scarcity created by these middlemen bring about high prices, making food items more unaffordable and consequently undermining access to finance.

5.0. Conclusion: What can be done differently?

Food insecurity in Nigeria is a complex problem; and a keen observation can reveal that the factors that contribute to this problem are structural. While provision of finance supports food production, access to finance alone cannot adequately address food supply shortages and the attendant food inflation problem. A different and better approach would be to address other relevant constraints, as recommended in the following action areas:

**Bridging Infrastructural Gap:** Increasing food supply to the level that meets Nigeria’s food demands requires bridging the infrastructure gap in the country, which should essentially include providing a functioning transport system. More than just access to finance, Nigeria also needs quality road networks and an efficient alternative, such as railways, to transport

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22 Asiabaka, C. C. (2010). Scaling up Agricultural technology for food security and poverty reduction: whose knowledge counts, the Farmer or the Scientist? 16th Inaugural Lecture of Federal University of Technology, Owerri


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goods to customers in distant markets. This can ensure faster supply, address shortages resulting from wastage/damages and delayed delivery, raise productivity for the agricultural sector, and promote access to food for the general populace.

**Improving Peace and Security:** Given the level of terrorism and conflicts that Nigeria’s food production has experienced, enforcing stronger security infrastructure across Nigerian states is a requisite condition for agricultural sector financing to yield desired outcomes. Finance has been provided, at least according to statistics, but the government also has to put in more deliberate strategies to address insecurity problems that are impeding agricultural activities in the country. Resolving farmers-herdsmen clashes and other related security issues can alleviate food supply shortfalls and stabilize escalating uncertainties around food prices.

**Deliberate Climate Actions:** The ravages by floods and other climate-related disasters call for urgent government actions. These should include adaptation and mitigation measures, such as early warning improvement, preparedness and contingency planning, extensive afforestation schemes to check desert encroachment and effective drainage systems against floods. Dredging of the Niger and Benue rivers and responsible refuse disposal are also imperative. Also, the implementation of the National Flood Emergency Preparedness and Response Plan must include the enhancement of resilience to future disasters, such as more access and subscription to insurance services among smallholder farmers.

**Regulating the Roles of Middlemen:** Finally, the activities of middlemen should be checked to control artificial scarcity and the high prices arising thereof. Since these middlemen fill gaps in the market by acting as aggregators between farmers and consumers, government action should be aimed only at curtailing their excesses. For instance, providing more extension services to farmers can help them obtain more information on best markets to supply their produce and on what value additions they can make on their produce to make more sales. Also, improving infrastructure, with emphasis on transport network, can deepen connectivity and access of farmers to these markets. This way, middlemen’s influence over the price of foods is at least kept minimal.