

Commercial Agriculture Credit Scheme

The Importance of Agriculture in Nigeria's Economic Development

Nigeria, one of Africa's most populous countries, has a highly diversified agro-ecological condition, which makes the production of a wide range of agricultural products possible. Agriculture is one of the most potentially viable sectors of the Nigerian economy, particularly in terms of its employment generation potentials as well as its contribution to Nation's Gross Domestic Product (GDP) and export revenue earnings.

In spite of Nigeria's rich agricultural resource endowment, there has been a gradual decline in agriculture's contributions to the nation's economy: In the 1960s, agriculture accounted for 65-70% of total exports; it fell to about 40% in the 1970s, and crashed to less than 2% in the late 1990s.

The decline in the agricultural sector was largely due to rise in crude oil revenue in the early 1970s. However, by 2007 the decline in crude oil revenue had become evident and the government (state and federal) recognized the need to diversify the nation's economy by taking steps to promote the development of the agricultural sector.

Introduction of the Commercial Agriculture Credit Scheme

In collaboration with the Federal Government (represented by the Federal Ministry of Agriculture and Water Resources), the Central Bank of Nigeria (CBN), recently introduced the Commercial Agriculture Credit Scheme.

The Scheme involves the establishment of a N200 Billion Naira Bond (\$150 Million USD), through the Debt Management Office (DMO), for agricultural development.

The Scheme will complement other special initiatives of the Central Bank of Nigeria, such as the Agriculture Credit Guarantee Scheme, Interest Draw-back Scheme and Agriculture Credit Support Scheme in providing concessionary funding for agriculture.

Objectives of the Scheme

The objectives of the scheme include to fast track development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate, and to enhance national food security by increasing food supply and effecting lower agricultural produce and product prices, thereby promoting low food inflation.

Regulatory Framework

The main regulatory provision for the scheme is the **Guidelines for Commercial Agriculture Credit Scheme** issued by the Central Bank of Nigeria on 15th April, 2009, which outlines the key stakeholders as follows:

- Federal Government of Nigeria (FGN)
- Central Bank of Nigeria (CBN)
- Federal Ministry of Agriculture and Water Resources (FMA&WR)

- Debt Management Office (DMO)
- Participating Banks [United Bank for Africa; First Bank of Nigeria] (PBs)
- Borrowers (farmers, Agro-Processors, Marketers and State Governments and FCT).

Under the Guidelines, the Central Bank of Nigeria and the Federal Ministry of Agriculture and Water Resources jointly bear the responsibility of effectively monitoring and coordinating the Scheme to ensure its success. The Guidelines also provide for a Project Management Committee which is made up of representatives of the stakeholders. The committee has the responsibility of reviewing progress made and proposing changes that may be required in the running of the scheme.

Who Qualifies as a Beneficiary under the Scheme?

Private Commercial Farms and Agro Enterprises

Large-scale and medium-scale commercial farms/Agro-enterprises can participate and borrow money under the Scheme provided they satisfy the following requirements:

I. The large-scale enterprises must be a limited liability company with asset base of not less than N350 million and having the prospect to grow the net asset to N500 million (N200 Million and N350 million for medium-scale enterprise respectively) in the next three years and complies with the provision of the Company and Allied Matters act (1990).

II. The enterprises should have a clear business plan, provide up-to-date records on the business operations, have an out growers' programme, and where appropriate, satisfy all the requirements specified by the lending bank.

Public Bodies

State governments and the Federal Capital Territory Authority can also borrow- up to 20% of the DMO bond proceeds through specialized agencies established for the purpose of on-lending to farmers.

Procedure for Application

All applications for loans under the scheme shall be made to the Participating Bank in duplicates; one copy of which will be stamped by the Participating Bank concerned and forwarded to the relevant departments of the Central Bank of Nigeria and the Ministry for approval.

The Departments shall set up a joint task-force that will, within 48 hours, issue a “no objection” letter to the Participating Bank on the loan application- after confirming that the products/purposes conform to the focus of the scheme.

Thereafter, the Participating Bank can quickly process the loan and effect disbursement. Applications received by the Participating Bank must be processed within thirty (30) days.

The banks are also expected to set up Task-Forces and Fast-Track processes to ensure prompt service delivery.

Risk Management under the Scheme

As with every other enterprise, the Agricultural Scheme has its own inherent risks which must be adequately identified and effectively managed.

Below are some risks associated with the Commercial Agricultural Credit Scheme:

- **Credit Risk** - Under the Guidelines, the Participating Banks are generally responsible for bearing the credit risks involved in the Projects they finance under the Scheme.

The Agricultural Credit Scheme Fund Act, Cap A11, LFN 2004 provides a limited guarantee (which is usually 75% of the amount in default) for banks who grant loans for agricultural purposes, many more factors need to be taken into consideration. For example, what happens where the borrowers default on the repayment of the loan in amounts which exceed the specified loan guarantee? What mechanisms have been put in place to deter or at best minimize the anticipated rate of defaults, e.g. risks that arise from failure to achieve projected yields? How can the Participating Banks protect themselves against the possible risk of delayed loan recovery which may pose systemic risks to the banking sector? It is our opinion that there is a fundamental need for the adoption of the best modern risk management techniques in agriculture including a clearer distinction between risky and less risky borrowers.

- **Operational Risk** - To achieve the goals of the Agricultural Scheme, it is imperative that the Central Bank of Nigeria as well as the other stakeholders adopt a more specialized approach in understanding the peculiar agricultural credit needs and risks of different sectors and regions in the country. For example, the Central Bank of Nigeria and Participating Banks need to determine which sectors and regions are more credit worthy and which less so. This will enable the Central Bank Nigeria harness its resources in targeting the most needy and viable agricultural regions.
- **Data Management** - Generally, Nigeria has a poor data collation and management history. Therefore to ensure the success of the Scheme, it is imperative that effective data management mechanisms be replaced so has to enable the Central Bank of Nigeria, Participating Banks and other participatory agencies have access to data which will be used to ascertain credit histories as well as evaluate the performance of the Scheme.

Other Shortcomings of the Scheme

The following inadequacies have also been identified:

The Scheme only applies to "bodies corporate", whereas a vast majority of Nigerian farmers are peasant farmers and therefore would be unable to benefit from the Scheme.

Micro-finance Banks which have a "local flavour" with direct access to the rural small scale farmers are excluded from participating in the Agricultural Scheme. It is important that these Micro-finance banks be included in the implementation of the Scheme so as to fully achieve the desired objectives of the Scheme.

Presently, there is no legal regulatory framework for the Scheme. The framework for implementing guidelines of the Agricultural Credit Scheme remains weak at best.

Conclusion

The Scheme presents enormous potential for small, medium and large scale farmers and investors considering the strategic importance of agriculture to the Nigerian economy. However, the need for a regulatory framework and effective risk management mechanisms are crucial to the success of the scheme.

Hopefully we can get back to the days of the groundnut pyramids, cocoa and palm oil production!

Toolbox



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