Improving the agribusiness enabling environment: Lessons for state policymakers
INTRODUCTION

With a contribution over 20% to Nigeria’s Gross Domestic Product, and a significant portion of the workforce, the agricultural sector is critical to the growth and development of the Nigerian economy.

The sector has received attention from government at various levels, best reflected in the various plans, policies and initiatives deployed over the years to take on its multifaceted issues and challenges.

To further support the growth of the sector, the U.S. Agency for International Development (USAID) Feed the Future-funded Nigeria Agribusiness Investment Activity organised a series of agribusiness finance and investment summits in six focal states; Kaduna, Benue, Ebonyi, Cross River, Delta and Niger. The summits convened important stakeholders in the form of state government officials, organized private sector (including producers, aggregators and processors), business development service providers (BDSPs), researchers, as well as donors, development finance organisations (DFOs), trade and commodity associations.

During the summits, key challenges and possible solutions around agribusiness finance and investment were presented by highly respected guest speakers and then discussed in multiple question and answer (Q&A) sessions. The summits, which served as the official launch of the Activity in its focal states, offered an important platform for these stakeholders to share their experience, challenges, and propose solutions. This report summarises the findings, conclusions, and recommendations from the summits as part of our effort to better inform and advocate for a more conducive and inclusive agribusiness enabling environment.
The agriculture sector accounts for a substantial part of Nigeria’s economy with a 35.1% contribution to employment. The sector is yet to meet its enormous economic potential due to a subsistence orientation, largely driven by smallholder farmers, rather than a commercially viable, technology enabled, profit-oriented, and more collaborative approach within and amongst value chain stakeholders.

Several government bodies, at the federal and state levels, have developed policies and initiatives aiming to promote the agribusiness environment, but the plans have not been well implemented as a result of non participation of stakeholders, weak institutional structure and inadequate monitoring and evaluation. At the national level, several entities including the Bank of Industry (BOI), Bank of Agriculture (BOA), Central Bank of Nigeria (CBN), Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL), Nigeria Investment Promotion Commission (NIPC), and National Export Promotion Council (NEPC) provide specialised intervention funds and resources to support agribusinesses with finance and market access. States have also offered support around the provision of land, inputs, and extension services to rural farmers. Despite these, agribusiness owners are still faced with the same underlying challenges that include a stifling business environment and barriers to accessing finance and markets. Many agribusinesses consequently suffer significant productivity and profitability losses, thereby discouraging critically required private sector investment in the sector.
3 MAIN ISSUES

1. ENABLING ENVIRONMENT
   - Policy and Incentives
   - Land

2. ACCESS TO FINANCE
   - Credit Processing
   - MSME Awareness, Understanding, and Capacity

3. TRADE LINKAGES
   - Farming and Business Practices
   - Market Readiness and Value Chains
ENABLING ENVIRONMENT

Policy and Incentives

Government political will and commitment to driving policies and creating an enabling environment has been identified as a leading factor in agribusiness growth. However, bottlenecks within the policy environment continue to discourage agribusiness investment. These bottlenecks include weak institutions and systems, inconsistent policies; regulatory burdens, lack of incentives and supporting infrastructure, old or obsolete agronomic practices, inadequate extension services, and a low level of women and youth inclusion to mention a few. In fact, sound and coherent policies and plans may be developed but inadequate government capacity to enforce regulation and policies with unintended and unforeseen effects could lead to policy failures and the resultant consequences.

Main takeaways:

- Cumbersome regulatory frameworks including approval processes and the multiplicity of taxes and levies.
- Farmers lack access to improved inputs, and information on best practices throughout the production cycle (e.g. training in Good Agricultural Practices or “GAP”).
- Low awareness and adoption of insurance to mitigate the risk of production losses, especially among farmers in rural communities.
- Inadequate transport infrastructure and shortage of standard storage and processing facilities are responsible for the high percentage of post-harvest losses by farmers.
- Low inclusion of women and youth in agribusiness activities.
ENABLING ENVIRONMENT

Land

Agriculture in Nigeria is dominated by smallholder farmers as well as small, fragmented, and uncollateralised farmlands. Access to expansive and continuous farmlands are limited due to the huge costs associated with acquisition and clearing. As a result, the burden to acquire, prepare and allocate clustered land for lease falls on state and local governments. Fragmented farmlands pose difficulties to efficient mechanisation. Likewise, farmers have found it challenging to secure titles for their land, hampering their ability to raise funding due to collateral requirements.

Main takeaways:

- Insufficient land made available for cluster farming.
- Producers experience delays in the processing of land titles (e.g. Certificates of Occupancy “C of Os”), which limit their ability to access credit facilities.
- Lack of soil testing, mechanisation services, and infrastructure deficiencies limits the land area cultivated.
RECOMMENDATIONS

1. Reform processes around land availability. This involves government-led land development services to open more hectares for cultivation. This requires land clearing, soil testing, road and market access, and allocation of contiguous land to allow for smooth operations, and mechanisation that results in improved yield and return on investment. State governments should provide machinery leasing services, improved seeds and set up greenhouses to boost production and encourage smaller producers. Also, processes around the provision of land titles; Governors’ Consent, Certificate of Occupancy should be streamlined.

2. Conduct a thorough review of relevant federal and state legislation and edicts, including State Agricultural Policies, to identify areas of reform to effectively encourage agribusiness investment. Governments should embark on an agricultural incentives regime, starting with the sharp reduction in multiple taxation and road-related levies. Government should consider prioritising the development of specific produce by paying insurance premiums for smallholder producers and partner with the private sector to encourage value chain development to create more opportunities for the development of agribusinesses.

3. Capacity building programmes should be developed for smallholder farmers that focus on the adoption of modern agricultural practices and techniques to increase their yield and business information to ensure they attain profitability. The timely and efficient provision of improved seeds and the correct types of inputs for farmers to increase yield and income will ultimately improve livelihoods. Private sector off-takers should be encouraged to form longer term offtake relationships (e.g. multiple seasons) and be incentivised to champion the drive to curb post-harvest losses and improve the yield of smallholder producers.

4. Governments need to develop a gender specific strategy to ensure the inclusion of women in the state’s agriculture sector. This can be achieved by creating dedicated gender desks across services to support women agribusiness owners.

5. Embark on a social and behavioural change communications campaign to attract more youth to agribusiness by raising awareness and promoting economic opportunities in the agriculture sector.
ACCESS TO FINANCE

Credit Processing

Despite the availability of several credit facilities to agribusiness owners, the processes involved in obtaining these loans are too cumbersome for most of the target beneficiaries. In addition to this, the requirements for obtaining these loans; including land titles, audited accounting records, and business projections are typically out of reach for the average smallholder farmer or Micro, Small, and Medium Enterprise (MSME) agribusiness owner. Since the loans are difficult to obtain, and often take much longer than anticipated, prospective borrowers are discouraged from taking advantage of these low interest rate funding opportunities.

Main takeaways:

- Farmers believe that their chances of securing loans are meagre, and this perception deters them from applying for funding, leading to the under utilisation of multiple agricultural sector intervention funds.

- The process of obtaining documents and land titles such as the Certificate of Occupancy (“the C of O”) is overly burdensome and takes far longer than necessary.

- Prospective borrowers do not have the required financial records and other information on their agribusiness. This makes it hard for their funding request to be appraised by financial institutions.

- Farmers and agribusiness owners have a poor attitude towards loan repayment because most of them assume it is an opportunity to bite from the state largesse or take it as a generous gift or grant by the government that does not need to be repaid.

- Farmers and prospective borrowers lack sufficient information and understanding of agric loan schemes – from selection criteria to application to repayment.
As a result of weak capacity around systems and processes, many agribusinesses are unable to access funding to grow their business. This includes the lack of information about essential business practices as well as information about the various funding schemes (e.g., ABP, AGSMEIS, CACS, etc.) and how to access them. This results in their non-participation or inability to meet the eligibility requirements to obtain capital.

Main takeaways:

- Most agribusinesses lack adequate knowledge of government intervention funds.
- Agribusinesses are unable to keep proper financial records and create a business plan for their businesses because they lack the understanding, training, and capacity to do so.
- Farmers lack knowledge on how to manage their business efficiently due to inadequate business planning, management, and entrepreneurial skills.
- Farmers do not appreciate or understand the role of insurance products and other mediums that are available to help them succeed.
RECOMMENDATIONS

1. Knowledge sharing workshops should be organised to increase awareness of agriculture funding opportunities. The sessions should be delivered in multiple languages and formatting to ensure that farmers and small business owners, especially in rural communities, can quickly assimilate the information and are not left behind.

2. Agribusiness support desks should be established that will position farmers and agribusiness to meet eligibility requirements to access credit, grants, and investment facilities. This includes providing advisory and support around issues such as accurate financial record keeping, cost control, market access, quality standards, and business planning to enable them to fulfil their obligations.

3. The public and private sectors should come together to jointly organise an advocacy and behavioural change campaign to encourage farmers to embrace credit and change their attitudes towards repayment. This will increase lending activity as borrowers would be more committed to repaying their loans. A rise in loan repayment will in turn encourage banks and other financial institutions to make more funding available to agribusinesses.

4. The establishment of credit guarantee schemes and provision of insurance to farmers should be emphasised as an incentive to encourage the private sector to make affordable credit available to small scale producers and MSME agribusinesses. This would create an opportunity for expansion and growth of the sector’s production, competitiveness, and employment, not to mention the contribution to Nigeria’s food and nutritional security.
TRADE LINKAGES

Agribusiness trade is primarily driven by the private sector, principally between farmers and off-takers (e.g., aggregators and processors). However, the government plays a key role in providing an enabling environment that facilitates trade and investment in this sector. This includes ensuring that private sector partners can access relevant information, critical infrastructure, and incentives that promote trade. In spite of the enormous potential and the government’s political will to plug the import substitution gap, factors such as lack of efficiency, land availability, infrastructural support, poor produce quality, high cost of production, and poor execution of contracts persist across the agricultural sector.

Farming and Business Practices

Many farmers produce without an understanding of market requirements. As a result, a lot of the agricultural produce cultivated in Nigeria does not meet the market standards or supply requirements. In some cases, there is a lack of demand (or glut in the market) but moreover, it is a lack of being able to produce at a consistent volume and at a certain quality threshold. Consequently, many farmers have had the experience of having their produce rejected or underpriced due to low quality and/or insufficient demand. Processors are also impacted as they are unable to obtain sufficient raw materials to sustain their operation. At the core of this is the lack of information available and shared between the supply and demand sides of the transaction. These information gaps include understanding of Good Agricultural Practices, consumer trends, and specific quality and quantity requirements. The effect of this is that producers produce without speaking with and understanding the exact requirements of the offtakers, and the processors set up factories without sufficient consideration of the sources for their raw materials.

Main takeaways:

- Owing to a lack of knowledge on farming best practices, market demand, and food standards, farmers supply products that fail to meet market requirements. Many farmers do not know how to apply the right seeds and standard post-harvest practices.

- Farmers produce too little because of seasonal farming, low productivity and crop yield. In many cases, they are unable to sell directly to producers who often require more quantity and stable source for their raw materials.

- Lack of storage affects the production of farmers who are reluctant to produce more quantity to avoid losses from perishable supplies.

- Poor roads and infrastructure is a barrier to outreach and supervision of farmers in remote areas.

- Lack of a full functioning commodity exchange market, including platforms such as warehouse receipts, further constrains the growth and expansion of the sector.
TRADE LINKAGES

Market Readiness and Value Chains

The majority of agribusiness trading activity occurs through informal markets. The informal markets are typically unstructured and laden with uncertainties and characterised by non-enduring, non-contractual relationships. As a result, trading activity has not been able to generate significant economic value as it is largely dominated by low-value trade. This is due to several factors including poor infrastructure for production, aggregation, storage, and processing. These factors have negatively affected value chain development.

Main takeaways:

- Processors do not have the required quality machinery and equipment to meet demand.
- Processors are unable to source required quantity or quality of produce from the farmers to sustain their production leading to losses as large scale processing plants run at insufficient capacity.
- Farmers suffer from a bandwagon mentality and produce what they are familiar with, rather than what the markets demand.
- Contracts are hardly respected and adhered to by both processors and outgrowers. In the period of glut, processors crash prices while in the periods of scarcity, side selling by producers.
- Institutional private sector participation is low because of the enormous risks involved in such transactions.
RECOMMENDATIONS

1. Invest in capacity development of farmers to keep them abreast of Good Agricultural Practices and other production and post-production techniques and standards. This can be accelerated by supporting farmer associations (e.g., AFAN) to develop their own extension services programme and training for their members.

2. Undertake a behavioural change campaign to encourage farmers and other actors involved to adopt a business mindset and let go of the old traditional ways of doing business. This programme should focus on educating farmers on the enormous potential of the agribusiness sector to enable them to take advantage of the opportunities that abound. The focal point of this programme should be on changing the orientation of rural farmers for them to see farming and agriculture not just as a subsistence sideline but rather as a profitable and sustainable business.

3. Simplify the process for processors by opening aggregation and cleaning centers. This will make it easier for processors to buy from hubs instead of the existing and tedious practice of travelling to various villages to purchase small quantities.

4. Develop Special Agro-Industrial Processing Zones (SAPZ) in select states for effective processing of selected commodities to develop a value chain. This should be driven through Public-Private Partnerships.

5. Support outgrower schemes to ensure guaranteed markets for producers. This could involve de-risking production by obtaining insurance policies for farmers.

6. Develop innovative means such as media programs to teach farmers on market demand and trends, pricing, and the modalities of contracts.
THE WAY FORWARD

Sound policymaking is the bedrock for enabling agribusinesses. As such, governments must prioritise the reform of existing policies and operationalise current policies that are designed to encourage agribusiness finance and investment. While agribusiness investments are private sector driven, the government has a significant role to play, mainly to provide a conducive policy, legal and regulatory framework and act as an enabler for all stakeholders within the value chains. One way this can be at least partially achieved is through the creation of one-stop shops for finance and investment promotion with a focus on agribusiness services, including; information and advisory services, credit processing assistance, investment incentives and market linkage services. Critically, governments can ensure there is more access to finance by reducing risk factors and encouraging financial institutions to increase their agricultural lending portfolios. Likewise, PPPs should be explored to support more large scale agribusiness projects, especially in capital intensive segments. Strengthening the capacity of public officials to implement these reforms will be a critical step forward.