SUSTAINABLE FINANCIAL SOLUTIONS FOR FARMERS AND AGRO PRODUCERS

BEING A PAPER PRESENTED BY MR. CHINEDUM GODWIN ANOWURU, FCIB, FNIM, FICMA, FICA, FCAI, FIMC, LLB, JP, (FINANCE EXPERT) AT THE WORKSHOP ORGANIZED FOR THE IMPLEMENTATION OF THE EUROPEAN COMMISSION FUNDED PROJECT "PROMPTING DIGITAL FINANCIAL SOLUTIONS FOR FARMERS IN REMOTE COMMUNITIES TO ADAPT TO CLIMATE CHANGE", HOLDING 13TH – 14TH SEPT AT THE FEDERAL UNIVERSITY OF AGRICULTURE, ABEOKUTA, OGUN STATE.

1.0. INTRODUCTION

In recent years, the global landscape has witnessed significant shift, both in terms of environmental concerns and economic dynamics. As the world grapples with the challenges posed by climate change and strives a more sustainable future, the role of finance becomes increasingly critical.

Farming and its Agro producing (Agriculture) is the largest employer of labour in the country thus deserves better funding to attract more investors (both local and international) to create more employment and ensure food security to the teaming population.

Over 70% of Nigerians are engaged in farming and agro-allied production, both in the low and high levels of production. Incidentally, many of these farmers do not even have access to fertilizers and labour saving equipment. Unfortunately, the small-scale farmers and agro producers are more vulnerable. Farming (nay agriculture) as the largest industry in terms of employment and food security, remains the recipe for any economic profession. The Government's various funding initiatives have been based on the assumption that funding will boost the economic growth. As a result, finance is a sustainable vital tool for the acquisition for all the sector's instruments required for mechanized production.

The Agricultural sector's functions in the economy include inter-alia; creating large numbers of jobs; producing basic raw materials; providing food for the growing population, as well as earning foreign exchange for the country. It also ensures economic security and stability as well as providing industrial raw materials' market. Agriculture contributes immensely to the country's GDP. Nevertheless, these contributions have been short-lived and insubstantial due to limited sustainable funding and resources, thus exhibiting a complex situation.

Farming and agro production have been encountering myriad of challenges in the quest to enhancing food security in the country. Some of these problems include the following:

- Access to farmland,
- Inadequate financing,
- Poor transport system and poor road network,
- Ageing farmer population,
- Education,
- Farming system and techniques,
- Insecurity,
- Pests and diseases,
- Climate change,
- Market failures,
- Government regulations,
- Lack of access to improved seeds and stocks,
- Inadequate storage facilities,
- Policy inconsistencies of government,
- Government bureaucratic bottlenecks.

In the midst of the above challenges, we have identified lack of finance as the most critical to the farmers and the agro producers. Sustainable financial solution for them therefore, is relevant for the improvement in the efficiency and efficacy of their existence.

In the light of the above, this paper shall explore sustainable financial solutions within the context of Farmers and Agro producers, thus shedding light on the country's efforts to align its financial sector with sustainable goals.

This paper shall consider the context of sustainable financial solutions to Farmers and Agro producers by reviewing the following:-

- The need for sustainable finance;
- Sustainable financial solutions;
- Previous government efforts in the sustenance of farming and agro production;
- Sources of finance available to farmers in Nigeria;
- Current Drives of Government towards sustaining farming and agro-producers;
- Way forward/Recommendations

2.0. SUSTAINABLE FINANCIAL SOLUTION

2.1. The Need for Sustainable Finance

The urgency of addressing climate change and environmental degradation has led to a growing emphasis on sustainable finance. Sustainable finance refers to the integration of Environmental, Social, and Governance (ESG) factors into financial decision-making processes. This approach aims to drive investments towards projects that not only generate financial return but also contribute positively to societal and environmental wellbeing. The ESG is represented by "4 Ps", "PEOPLE, PLANET, PURPOSE and PROFIT". Intuitively, farmers (people) cultivate their crops on the farm (planet), for the purpose of the people, community, environment, and government as well as generation of revenue resulting in profit which would ultimately improve the sustenance of the economy.

Sustainable finance plays a key role in promoting the transition to a carbon neutral and sustainable Nigeria. This is by supporting programs that prioritize resources efficiency, healthy ecosystems and promote the circular economy. It also helps to reduce waste generation, promotes recycling and re-use, and protects the ecosystem, while also reducing greenhouse emissions as well as environmental impacts. The ESG can be described as "meeting current demands without jeopardizing future generation's capacity to fulfill their own."

Environmental considerations typically include climate change adaptation, mitigation, and environmental. The Term "Social Consideration" can describe issues with human rights, human capital investment, labour relations, inequality, and inclusivity. On the other hand, Governance is concerned with the regulation of public and private institutions. Thus, this plays a vital role in ensuring that social and environmental considerations are included while making decisions. In a way, sustainable finance disclosure regulation is becoming increasingly important as investors and other stakeholders demand greater transparency and accountability from organizations and financial institutions.

Let us demonstrate this scenario with a related example: Assume that a renewable energy organization is looking to finance the establishment of a new organic farm. Thus, the organization issues green bonds instead of seeking the traditional financing products to fund the project. The Green bonds are structured to ensure the funds raised are used solely for the development, construction and operation of the organic farm. Thus, the organization must regularly report on the project's environmental impact and the energy production.

Hence, investors investing in the green bonds would be aware that their investment is contributing to a sustainable farm project that reduces carbon emissions and promotes the transition to low-carbon economy. Therefore, the organization would benefit from lower financial costs due to issuing of the green bonds, as there is growing demand for sustainable investment opportunities. In summary, this example of sustainable finance can illustrate how farmers can use innovative financing methods to support environmentally friendly projects and promote sustainability while achieving their financial goals.

2.1.1. Green Finance

This represents any structured financial activity that leads to better environment with financial instruments used for sustainable initiatives. Its objective is primarily to reduce risk perceptions for green projects. Some of the benefits of Green financing include to encourage sustainable business through financing regular flow of investments into environmental objectives and creation of jobs and businesses. However, it has some challenges including lack of coordination between the financial and environmental objectives as well as mismatch between the short-term and long term green investments. E.gs. of Green Finance include green bonds, green banks, green investment funds that are majorly concerned in lessening pollution or green house emissions with simultaneous concern in improving the economy.

2.2. Sustainable Financing Solutions

This is the process through which farmers and Agro-producers are expected to get access to products and services that can enable them make sustainable choices in order to fulfil their obligations and aspirations especially on key socio-economic issues such as climate change. Sustainable financing solutions are aimed to support long-term social and economic sustainability; transition to a more climate resilient, lower carbon and sustainable inclusive economy.

Some of the sustainable financing solutions may be in the form of sustainability-linked loans, which sometimes are referred to as “ESG Linked Loans”. These are lending facilities which incentivise the achievement of ambitious, predetermined sustainability performance targets (SPTs). This may be illustrated with the following example.

Some Nigerian banks teaming up to grant a consortium loan in form of revolving credit facility that would boost the farmers' capitals' sustainability target KPIs in line with the Global Sustainability Goals. This is expected to have direct impact to the farmers and their portfolio. This facility would also assist the farmers in strengthening their ability to make positive contribution to the society through these investments. This syndicate facility shall be run in a way that the cost would be reduced in line with the goals, such as reducing its carbon footprint, improving gender quality while also demonstrating strong corporate governance.

Sustainable Financing Solutions are geared towards helping to progress farmers and Agro-producers in the ways that farming and agro-producing activities must be able to "maintain at a specific rate or level" in order to be sustainable. Their operations must be with the aim of improving the stakeholders, most importantly, the consuming public; although profit and bottom line have always been in the fore-front of their objectives.

2.3. Previous Governments' Efforts in the Sustenance of Farming and Agro production in Nigeria.

It is a well known fact that the Federal Government in collaboration with the CBN has over time introduced some far-reaching fund schemes geared towards the sustenance of both farming and agro farming production in the country. Some of these schemes include the following:

(I) **Agricultural Credit Guarantee Scheme (ACGS):** This is a scheme guaranteed by the government to the tune of 75% of any amount in default (net of security) realized. This scheme though still in existence, could not satisfy the requirements of the farmers due largely to consistent defaults and unwillingness of the banks to lend to these farmers.

(II) Agricultural Credit Support Scheme (ACSS): This was introduced by the CBN with the active support of the Bankers' Committee. It was introduced to enable farmers exploit the untapped potentials of the Agricultural Sector, reduce inflation, lower the cost of agricultural production, generate supplies for export and increase foreign exchange while also diversifying revenue. It was meant for farmers and agro-allied producers at a single-digit interest rate of 8% per annum.

Again, this scheme could not be sustained due to failure of most farmers to procure the facility, although it was remodelled for continued implementation.

(III) Commercial Agricultural Credit Scheme (CACS): This scheme was introduced by the CBN in collaboration with the Federal Ministry of Agriculture and Water Resources in 2009 with its objective to provide finance for the country's agricultural value-chain including production, processing, storage and marketing. Its core objective included among others; to fast-track development of the Agricultural sector by providing credit facilities to large scale commercial farmers at a single-digit interest rate, enhance national food security by the increase of food supply and effective lower agricultural produce and products, thereby promoting lower food inflation.

Unfortunately too, this scheme could not solve the farmers' challenges hence the government opted to redesign it to serve the core purpose of its original intendments.

2.4. Sources of Funding Available to Farmers and Agro-Producers in the Country

There are many sources of funding available to farmers and Agro-allied producers in Nigeria. These include:

- Farmers Household Savings:- This is the remnant of the income of a farmer that is not used for consumption expenditure. This amount constitutes their savings. Farm household means one or more persons sharing a single residence on a farm where the primary occupation of the household is the operation of the farm premises.
- Capital Market:- Farmers can also procure funds through the Capital Market, maybe through sale of share/stocks or bond placement.
- Equity:- The farmer may raise capital by selling parts of his investment to other investors in order to raise capital to fund the business, or its expansion.
- Banks:- This may include borrowing from commercial banks at prevailing interest rates, as well as Development Banks including the BOI and Bank of Agriculture
- Federal Government Budget allocations for Agriculture and Agro production.
- CBN Refinance facilities including the CBN Anchor Borrowers Scheme and the ACGSF earlier explained.
- International borrowing like through the World Bank and ADB.
- Farm Credit System (FCS):- This is a Nationwide system of financial institutions that provide to farmers and agriculture concerns. It could be by Farm Equipment loan, crop production loan, input production loan, livestock production loan, etc.
- Money Lenders:- This source is through offer of small personal loan at high interest rate by individuals and or groups. The associated risks are higher than banks and institutions.
- Donor Agencies/Grants:- This could be in form of NGOs, foreign organizations and Governments that provide financial or equipment support to the farmers in order to assist them develop their business.

- Angel Investors:- This source provides initial seed capital for start-up farms or businesses, usually in exchange for ownership equity in the organization. They are in the category of wealthy private investors, focused on financing small business ventures in exchange for equity. The amount Angel Investors always assume in the business is between 10% and 25%, though may grow up to 40% or even more depending on the agreement.
- Cooperative Societies where members benefit from contributions via loans, etc.

2.5. Current Funding Drives of the Government Sustaining Farming and Agro-Producers in Nigeria.

The Nigerian Government, through its various Agencies, has at one time in the very recent past, introduced myriad of promotional funding programs aimed towards the sustenance of farming and Agro producing businesses in Nigeria. Some of these programs are current, while some are futuristic and they include:

(I) FGN Interest-Free Loan to Farmers across the federation, through the Central Bank of Nigeria. This is with a view to making agriculture, the new oil by the year, 2025. This, according to the government sources, is to boost agricultural sector and ensure adequate supply of food. This loan is processed through the Bank of Industry (BOI).

(II) CBN Agricultural Loan at low rate of interest to the farmers and agro producers.

(III) MICRO SME Development Fund also meant to expand farming business in Nigeria.

(IV) Real Sector Support Facility – (RSSF) - This is aimed to be for agriculture venture businesses with repayment up to 15 years.

(V) Bank of Agriculture (BOA) loan in Micro-credit loans consisting of;

(a) Grow and Gain More (GGM) and

(b) Individual SME Loans

VI. Agricultural Cooperative Societies loan by banks. The Cooperative bodies in the likes of FADAMA, Youth Empowerment in the Agric Program (YEAP), All Farmers Association of Nigeria (AFAN).

VII. Loans from Commercial banks, provided the farmer maintains account with the bank and met the terms and conditions, key of which is collateral.

VIII. Federal Ministry of Agriculture and Rural Development Empowerment Loan Program for 2023/24 which come in the following facilities;

a) ***The Life Program (Livelihood Improvement Family Enterprises)*** which is aimed at improving the livelihood and standard of living of youths and women in rural and sub-urban communities. It ensures the promotion of community-based on-farm and off-farm business activities along with key agricultural value chain as means of job and wealth creations among citizens of these communities.

b) ***YEAP Empowerment Program*** which aims to provide as many jobs as possible for youths in the Agriculture and agro-based businesses.

c) ***AGSMEIS – Empowerment loan*** meant for agribusiness/small scale and medium enterprises investment scheme. This is to in the long run boost the economy of the country. Money borrowed shall be repaid and is meant for agriculture and allied processing sector. This is processed vide the NIRSAL Loan Scheme.

d) ***NALDA Empowerment Scheme (National Agricultural Land Development Authority).*** This empowers the agricultural industry leading to opportunities for people in the agricultural business. It serves to fully deploy the potentials that amazing vast lands have into agricultural activities. It empowers small holders and large scale farmers and mechanized farmers. This is to improve the cost of living of lives of youth and women in Nigeria to alleviate poverty and food processes.

e) ***Power Agro:*** This is part of N-Power scheme but caters to the agricultural aspect of the country. It is targeted at education.

f) ***ACSS – (Agricultural Credit Support Scheme):*** This is an old scheme introduced long ago by the government but now repackaged to suit the present trend of funding farmers to enable them explore all the possibilities and potentials that agriculture industry could attain. This is to eliminate inflation, reduce agric cost of production, create more than enough for exports and increase earnings and value for foreign exchange market.

g) ***Commercial Agric Credit Scheme (CACS)*** which is targeted at funding agriculture activities like production, processing, storage, and marketing.

h) ***ANCHOR BORROWERS' PROGRAM.*** This program is a brain-child of the CBN meant to provide loan (cash and kind) to small holder farmers to boost agric production, create jobs, reduce food import, etc. The participants include DMBs, DFIs, None Interest Banks, and MFBs.

3.0. WAY FORWARD FOR SUSTAINABLE FINANCIAL SOLUTION TO FARMERS AND AGRO PRODUCERS

In discussing the way forward for sustainable financial solutions to the farmers and agro producers, we must not fail to appreciate the fact that the various funding sources including those that the Government has very recently put in place, have actually not yielded the desired results. This, no doubt is attributable to seemingly poor implementation strategies put in place by the government on one hand and the various intervention agencies on the other.

In most cases, the fund did not get to the targeted audience hence failing to achieve the purpose for which they were established. Consequently, the desire to identify and secure a more rewarding pragmatic and long-standing financial solution for these farmers and agro producers has been pertinently inevitable.

This is with a view to supporting the transition for the usual traditional mode of financing projects of this nature, to a more climate resilient, lower carbon and sustainable, socially inclusive economy.

Some of these sustainable financial solutions may be in the form of Green and social bonds and loans, sustainability linked finance, sustainable supply chain finance and impact investing solutions, Green Bank, etc.

3.1. Green and Social Bond

It goes beyond doubt, that a move towards a more globally sustainable economy is only possible with increased capital infusion into farming projects that are environmentally friendly. Thus, a green bond is a financial instrument which proceeds are utilized for projects that are environmentally friendly. Such can be water and energy efficient, renewable low-carbon transport and bioenergy. It can also be seen to be in the form of fixed income bearing security used for raising capital which proceeds are used in the financing of Green projects like farming and agro-allied production.

Similarly, Social Bond is a debt instrument used to finance or refinance social projects for the purpose of addressing a common problem in order to help those most vulnerable. Social Bond needs to have a set and measureable purpose in order to be well structured and maintain results

.Examples of project categories that qualify for social bonds include: food security and sustainable food systems like farming and agro producers, socio economic advancements, and other affordable basic infrastructure.

In summary, Social Bonds are use of proceeds' bonds that raise funds for new and existing projects with positive social outcomes. The principle seeks to support issues in financing socially-sound and sustainable projects that achieve greater social benefits.

The Farmers and Agro producers can secure this finance model by processing the purchase through the normal bond brokers similar to the way ordinary shares are bought via a stockbroker. One significant benefit of this sustainable funding solution is that it is tax exempt from Government and provides regular streams of income, although not exempt from the usual risks.

Social loan, on a similar note is a loan issued or obtained to fund projects including farming and agro-allied producers that further a social cause. This type of loan can help finance an environmental or social-welfare project among others. It could be obtained at banks and non-banking financial institutions as well as Fintech lenders.

3.2. Sustainability-Linked Finance

This is designed to incentivise the borrower's achievements on environmental, social, or governance targets through pricing incentives. Although, it is nascent in an emerging market like Nigeria.

Sustainability linked finance provide funds for corporate level work (instead of project level) with interest rates that are linked to the borrower's ability to her defined performance targets. This type of sustainability linked finance can be also in the form of Green & Social bonds, (as we discussed above), sustainability linked loans, and Microfinance-capital access for the unbanked.

3.3. Sustainable Supply-Chain Finance

This solution allows end users to strengthen their supply base and offers financial incentives in order for their supplies to become more sustainable. The supply chain program provides benefits that are two-fold: improve the financial efficiency of a supply chain by reducing the working capital for both buyers and suppliers and to enable the user to proactively manage the sustainability levels of their suppliers by driving environmental and or social improvements in existing or financial benefits. Similarly, the customers/buyers of farm products shall benefit from an improved sustainability rating too.

3.4. Impact Investing

This is the practice of seeking investments that specifically optimize a goal other than profits. This includes investment in clean energy, education, or microfinance. This can also be said to be "funds allocated to business – like farming, driving environmental or social change thereby creating impact" and intention to generate positive, measurable, social, and environmental impact alongside a financial return.

3.5. Green Bank/ing:

Green Bank is a financial institution typically public or quasi-public, or non-profit financial entity that uses innovative financing techniques and market development tools in partnership with the private sector to accelerate the deployment of clean energy technologies thus leveraging public and private capital to pursue goals for clean energy projects that reduce emissions. This is based on three Pillars including Managing Environmental Risks in Lending; Green Business facilitation and own impact reduction. This can also be referred to as Sustainable or ethical banking or, environmentally-friendly banking.

4.0. RECOMMENDATIONS

(1) Institutionalizing Green Financing products by adopting as follows: (a) Project Committee collaborating with the Government to make needful changes to the regulatory framework to fast-track the seemless admissibility of the green funding practice; (b) Encouraging various sectors to participate in this financing principle; (c) Boosting investment in clean and green technologies; (d) Encouraging private and public partnerships towards green projects;

(2) Develop collaboration between the Project Team on DIFISOL/EU and the Federal Government to establish an exclusive SPECIAL FUND for farmers;

(3) Farmers should form Cooperative Societies to enable them pool their resources together to acquire inputs and equipment including Micro credits via Micro Institutions.

(4) Farmers and agro producers should be encouraged by Government to engage in partnership with private sector with structures that support small and large scale farmers working towards green projects..

(5) Favourable Agricultural Policies by the government in the form of extended loan repayment and interest waivers could be another area to assist farmers and agro producers.

(6)Finally, Farmers and agro producers should take advantage of the novel idea of Green finance that would see them adopt en during funding model separate from the traditional and bureaucratic funding systems. Finance/ICT to collaborate on this novel plan.

5.0. CONCLUSION

This paper has identified numerous bottlenecks militating against finance to the farmers and agro producers in Nigeria. Some of those bottlenecks range from Policy inconsistency and summersaults by the Government, absence of commodity markets and pricing institutions, lack of effective and adequate storage, inadequate insurance coverage and more importantly, corruption in the system.

In bids to reduce these bottlenecks, the Government has put myriads of measures in place thus with the belief that with those measures ranging from the intervention funds and policies, farmers and agro producers would exercise some relief.

Nevertheless, there is the strong conviction that once farmers and agro producers embrace the modern funding trends like the Green finance products which would have positive impacts on Environmental, Social and Governance infrastructure, the challenges being faced by those farmers and allied producers, shall be abated thus sustainable financial solution would be attained, albeit, in the long run.

Thank you for listening