Agricultural Sector Reforms

The Problem

Agriculture is an important sector of the economy through its employment, food security, foreign exchange earning/saving and poverty reduction potentials. The need for transformation in the agricultural sector is clear as Nigeria is importing huge quantities of wheat, rice, sugar, and fish every year and these imports are growing at an unsustainable rate of 11% per annum. As at 2010, Nigeria was ranked as one of the highest food importing countries in the world. Estimates indicated that Nigeria spent about ₦1.3 trillion annually on these commodities. This reliance on importation of expensive foods in the global market is fuelling domestic inflation and therefore putting high pressure on the Naira. Nigeria has been importing what it can produce in abundance and this can hurt local farmers and displace local production. In addition, there was widespread and deep-seated corruption in the government's administration of fertilisers and inputs distribution for small- and medium-scale farmers. Under this system where government bought and distributed fertilisers, only 11% of farmers got the government distributed fertilisers. Moreover, agriculture was mainly subsistence and treated by international donors as a development project. The Jonathan administration believed that this situation was unsustainable and cannot guarantee food security, let alone support the industrialisation process for the country through agro-based and value addition activities. Consequently, these were the reasons why the Jonathan administration introduced reforms in the sector called the Agricultural Transformation Agenda (ATA).

Reform Actions

The various components of the Agricultural Transformation Agenda that were introduced are as follow:

Growth Enhancement Support Scheme (GES)

This scheme ended government's participation in the direct procurement and distribution of seeds and fertilisers. Instead, the scheme recognised private sector dealers sell directly to farmers at subsidised rates. The scheme commenced on 9 May 2012. GES was hinged on the use of technology to enhance effective distribution of various farm inputs, especially fertilisers to farmers. With GES, the government withdrew from direct fertiliser purchase and distribution and introduced an alternative system built on the use of vouchers. Registered farmers receive e-wallet vouchers with which they can redeem fertilisers and seeds from agro-dealers. A cell-phone based system that sends subsidies via electronic vouchers directly to registered farmers (e-wallet) was introduced. The scheme has been designed to encourage a private sector-led market development process, ultimately geared towards improving Nigeria's competitiveness and food security. Through this scheme, the government will subsidise the cost of seeds and fertiliser for farmers by 50 %, while providing soft loans to the seed and fertiliser companies and agro-dealers to sell their inputs directly to farmers and build their supply chains to get to rural areas.

Through GES, the government targets 5 million farmers in each year for four years, and in four years, 20 million farmers will receive GES in their mobile phone. It is targeting farmers whose farm output is less than 1-3mt/ha on incremental basis and seeks to increase their farm output to 3- 9mt/ha per annum.

Commodity Value Chains

Government developed value chains approach – from farm to fork, for the development of priority crops across the six geopolitical zones of the country, as well as on a national scale. The key areas of intervention in the value chain are the provision of adequate and good quality inputs (such as seeds, fertilisers, seed stocks, and agro-chemicals), mechanization of staple-crop production, emphasis on value addition, the development of staple crop processing zones, and development of marketing corporations, and improved access by farmers to adequate credit. All investments are designed to be carried out with a special focus on the development of youths and women within agriculture. On a national scale, special value chains were developed for twenty five Commodity Value Chain Crops (Rice, Cassava, Maize, Cotton, Oil Palm, Cocoa, Sorghum, Horticulture, Wheat, Groundnut, Sweet Potato, Soya bean, Ginger Sugarcane, Cashew and Sesmae), Livestock (Beef, Poultry, Dairy, Sheep and Goat, Leather and Hide, Pork and Animal Health, Fisheries, Extension, Research and Development, Investment and Agribusiness, Infrastructure/SCPZ and Women in Agriculture.

Private Sector Participation

The government has also focused on changing the propensity of government crowding out the private sector in agriculture. To this end, the government is modernising agriculture, raising agricultural productivity, improving marketing systems, improving the policy environment and incentives, and stimulating greater private sector investments to unlock growth in the sector. FMARD has also facilitated the establishment of the Nigerian Agribusiness Group (NAGB), a private sector industry body established to drive agribusiness developments and lead public-private policy dialogue.

Financing Agriculture

The government has introduced new financing arrangements for agricultural inputs, which use commercial bank funds instead of government funds. Instead of the usual government approach of the government paying for seeds and fertilisers directly to the companies, there has been a move to a system where the government only provides risk-sharing facilities with banks. Together with the Central Bank of Nigeria, the government developed the Nigeria Incentive-Based Risk Sharing for Agricultural Lending (NIRSAL), which will leverage ₦450 billion in new lending from banks' own balance sheets into agricultural value chains.

This reform responds to the need to integrate agricultural value chains with agricultural lending and de-risk lending in the agricultural sector. NIRSAL is an approach that tackles both the agricultural value chains and the agricultural financing value chain. These two chains are interdependent. In moving agricultural financing forward in Nigeria, fixing the financing value chain without addressing the agricultural value chains would be futile. NIRSAL does two things at once:

1. Fixes agricultural value chains, so that banks can lend with confidence into cohesive and complete value chains
2. Encourages banks to lend into agricultural value chains by offering them incentives and technical assistance

Whereas previous schemes have encouraged banks to lend but not had structures in place to make the lending effective, this scheme has a clear strategy to fix the agricultural value chains, which is expected to make lending effective. Previous schemes have focused on just one size of producer and/or one segment of the value chain. This scheme focuses on multiple segments and banks are able to reach small-scale farmers individually through pooling investments. To be effective, NIRSAL will be managed and implemented by a non-banking financial institution and not the CBN. Against this backdrop, Mr President approval was received by the CBN for NIRSAL to be an autonomous institution.

NIRSAL is based on five pillars that aim to 'de-risk' agricultural lending and lower the cost of lending for banks. A total of US$500 million is divided among five pillars:

1. *Risk-sharing Facility (US$300 million)*

   This is to break down banks' perception that agriculture is a high-risk sector. In this risk sharing facility, NIRSAL will share their losses on agricultural loans.

2. *Insurance Facility (US$30 million)*

   The primary goal is to expand insurance products for agricultural lending from the current coverage to help reduce credit risks and increase lending across the entire value chain.

3. *Technical Assistance Facility (US$60 million)*

   NIRSAL will equip banks to lend sustainably to agriculture. At the same time it will equip producers to borrow and use loans more effectively, and produce more and better quality goods for the market.

4. *Holistic Bank Rating Mechanism (US$10 million)*

   This rates banks on their effectiveness in agricultural lending and its social impact.

5. *Bank Incentives Mechanism (US$100 million)*

   This is designed to complement NIRSAL's first three pillars. It offers banks additional incentives to build their long-term capabilities to lend to agriculture.

In addition, FMARD has partnered with the Sovereign Wealth Fund, KFW, the German development bank, to establish a Fund for Agricultural Financing in Nigeria (FAFIN), targeted at small and medium sized businesses (SMEs). The fund is capitalized initially with $33 million but has been scaled up to $100 million by private sector investment. Investment sizes are $500,000 - $5 million. Management of the funds is under Sahel Capital, an independent, private-sector fund manager.

Marketing Corporations

These entities would help organise and coordinate the agricultural value chains for commodities, stabilise prices, and improve efficiencies in the marketing system. These will be privately run, and not government run. In line with this, Technoserve Incorporated was engaged to assist in designing, developing and establishing the Marketing Corporations for Cassava, Cocoa, Cotton and Grains, as at date the four (4) Corporations have been incorporated with the Corporate Affair Commission (CAC).

Agricultural Insurance

The government initiated deregulation of the agricultural insurance market, which used to be a monopoly of government National Agricultural Insurance Company (NAIC). This monopoly was removed to allow private insurance companies to participate and ensure that better and more relevant products (e.g., weather indexed crop insurance) are developed. This eventual competition is expected to drive down premium costs for farmers. NAIC is also being strengthened through the appointment of a highly qualified Insurance Executive as the Managing Director and the introduction of the mandatory insurance cover (Grow with Peace) using the GES arrangement for the small scale farmers.

Processing Zones

The government has developed 'Staple Crop Processing Zones' (SCPZ) to promote domestic food manufacturing industry. These zones are areas of high food production where the government hopes to attract the private sector to establish food-manufacturing plants. The government has provided fiscal, investment and infrastructure incentives (power, road and water) to these areas in order to encourage new investors, create jobs, and revitalise rural economies. A total of eighteen (18) Model SCPZs have been designated across Nigeria by the FMARD for the processing of **Rice, Sorghum and other Grains, Cassava, Fisheries, Horticulture** and **Livestock**.

The additional fiscal incentives that will be required for the establishment of SCPZs across Nigeria will include:

i) an Exemption on Tax on Profits for 5 years and then at a reduced rate of 20% for another 5 years

ii) an extension of the List of agricultural equipment allowable for 0% duty to include agro-processing equipment

iii) allowing the operation of an SCPZ Port to facilitate the importation of machinery into SCPZs and assure access to import tariff exemptions on relevant machinery allowing subsidies on Training costs and on Job creation. A typical SCPZ is expected to have a dedicated anchor investor.

Main Achievements

The e-wallet system reached 6 million genuine farmers with subsidised farm inputs within two years, and improved the food security of 30 million persons in rural farm households. The e-wallet system – the first of its kind in Africa – is expected to reach 10 million farmers in 2014 and improve the food security of 50 million persons in rural farm households.

The number of private sector seed companies increased from 11 to 77 within two years, while over US$5 billion in new investments came in for the manufacturing of fertilisers to support the rapid growth in the agricultural sector.

The result of these combined efforts is that Nigeria will meet its food production targets. In the two years of the Agricultural Transformation Agenda, farmers produced an additional 15 million metric tonnes of food – more than half of the 2015 production target. And with over 2 million new seasonal farm and non-farm jobs, the government is on its way to meeting its job creation target. Nigeria's total food and animal import bill declined by ₦906 billion from ₦2.38 trillion in 2011 to ₦1.5 trillion by 2012. This is expected to reduce further after the compilation for 2013 was completed.

For the first time, Nigeria is on track to becoming self-sufficient in rice production. The dry season rice production policy, launched in 2012 in 10 northern states of the country (Kebbi, Zamfara, Sokoto, Kastina, Kano, Jigawa, Gombe, Niger, Kogi and Bauchi) resulted in production of 1.1 million metric tonnes of rice paddy by 268,000 farmers. The combined rice paddy production from wet and dry season was 1.76 million metric tonnes as of June 2013. Since 2012, rice paddy production has increased by 7.1 million MT creating a cash inflow of over US$3 billion, net value, to Nigerian rice farmers.

The integrated rice milling capacity in the country expanded by 300% as private sector investors moved significantly into commercial rice milling and rice production. About 13 new rice mills with a total capacity of 240,000 metric tonnes have been set up by the private sector.

Lending to agriculture in Nigeria has risen over the past two years. Total bank lending rose from close to 0% of all banks' lending in 2011 to about 5% by 2013. Bank lending to seed companies and small farm input retailers rose from ₦ 3.5 billion in 2012 to ₦ 25 billion in 2013. This helped to ensure that farm inputs were delivered by the private sector to millions of smallholder farmers across the country. The Fund for Agricultural Finance in Nigeria (FAFIN) is a private equity fund of US$33 million and targeted to grow to US$100 million was jointly launched by the Ministry of Agriculture and Rural Development and the

German Development Bank (KFW). The FAFIN will make affordable finance available for agricultural businesses.

In support of the Agricultural Transformation Agenda, development finance institutions (World Bank, African Development Bank, International Fund for Agricultural Development, Department of International Development of the UK government, United States Agency for International Development, Bill and Melinda Gates Foundation, and others) committed US$2 billion to support the bold reforms in the agricultural sector.

An additional 21 million metric tonnes of food was added to the domestic food supply within two years. This is over 70% of the targeted 25 million metric tonnes for 2015. The increased food production has contributed significantly to reducing inflation to its lowest level since 2008. Nigeria met its Millennium Development Goal on hunger and received an award from the Food and Agriculture Organisation of the United Nations for halving the number of hungry people.

Over US$4 billion in private sector Letters of Intent were received from domestic and multinational agribusinesses, including Syngenta (the world's number one seed company), Cargill (the world's number one food company), Flour Mills of Nigeria, Dangote Group, Indorama, Bellstar Capital, and AGCO among several others.

Mr President launched the 40% high quality cassava flour (HQCF) bread on 30 November 2011. Within three months, cassava bread with 20% high quality cassava flour and 80% wheat flour became commercially available. In addition, the government secured orders for Nigerian cassava chips from China to the tune of 3.2 million metric tonnes. Based on these orders, Nigeria expects to earn more than US$802 million over the medium term.

In the last two to three years, the sector has attracted about US$4billion investment across the agricultural value chains and institutionalised policies to support the Agriculture Transformation Agenda beyond 2015.

Key Challenges

Despite the enumerated achievements, critics have called on the federal government to revisit the handset method of sharing fertilisers to accommodate the challenges posed by loss of handsets and inaccessibility to GSM service that has been confronting farmers where it has been tried. Many rural farmers do not have handsets.

It has been suggested that returning to the old method of sharing through the area councils, which is in turn then distributed through ward councils, could be beneficial as communities would be called and could sit down and share the fertiliser amongst themselves. However, this was where problems initially lay with a non-transparent system and the diverting of fertilisers by politicians to non-farmers who then sold them at high, and often unobtainable, prices.

Another issue arising is the time of distribution of the fertilisers with many not being distributed before the farming season. They need to be distributed between April and May, but this has not yet been the case and in some communities.

It is also important to note that there is still a low adoption of fertiliser usage and improved seeds in Nigeria, the low trust levels of Nigerians in the government that the GES programme is trying to fix and effectiveness of the communication programme to farmers about the programme.

Assessment of Reform Initiative

Judged against the 10 criteria for assessing the reforms, the agricultural reforms have been largely successful although improvements are still needed.

S/No.	Assessment Criteria	Result of Assessment
1.	Has the agricultural sector reforms improved the quality and quantity of public services?	The reforms in agricultural sector have improved issues of fertiliser distribution particularly removing mark up by middlemen and made fertiliser available to more farmers.
2.	Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities?	Yes. Evidence suggests that it has reached over a million poor farmers across 97% of the country.
3.	Have the agricultural sector reforms reduced the cost of governance?	Yes, it has reduced corruption by removing middlemen. This means that prices are no longer set extortionately high. Food processing and manufacturing from local staple crops are increasing incomes.
4.	Have the agricultural sector reforms made the service more affordable for citizens?	Yes. More people can now buy agricultural inputs at the official price.
5.	Have the agricultural sector reforms reduced corruption?	The reforms have reduced corruption. There are still more to be done to totally eliminate corruption.
6.	Have the agricultural sector reforms reduced unnecessary bureaucracy and red tape?	The reforms have reduced unnecessary bureaucracy and red tape, particularly in access to fertiliser and access of funds to farmers.
7.	Are the agriculture reforms likely to lead to improved development outcomes?	The result of the reforms is that Nigeria will meet its food production targets, reduce its total food and animal import bill, reduce household poverty, and generally improve the standard of living, particularly in rural areas.
8.	Are things improving, staying the same, or getting worse?	Yes. 94% of the fertilisers now reach the farmers compared to 11% during government distribution, suggesting the move to private sector distribution is

S/No.	Assessment Criteria	Result of Assessment
		improving the quality of service. Food production quality is increasing as evidenced by the new high-yielding cocoa and the fruit juice quality.
9.	Where things are improving, will those improvements endure?	GES was developed based on the success of a voucher scheme under the fertiliser policy. It is a new initiative but appears sustainable to date. National Assembly Committee on Agriculture has recommended institutionalising the GES that will ensure sustainability. The agricultural value chain is expected to lead to increased production and improved food security on an ongoing basis and this has encouraged more local investment that should lead to sustainability.
10.	Where things are not improving, what should be done?	Not Applicable

Proposed Next Steps

1. The Nigerian agricultural sector has improved in recent years. But this improvement needs to be sustained to achieve the development targets set for the sector. The growth patterns must be pro-poor, gender sensitive, and environmentally friendly. To achieve these goals, the Nigerian government must double its efforts in reducing policy instability and inconsistency, and ensuring that policy formulation processes benefit from evidence and consultation with stakeholders. The GES bill, that makes it a law for Government to support the distribution of subsidized inputs to farmers, has been prepared for submission to the National Assembly. Rice and cassava policies that create incentives for the private sector to invest in local rice and cassava production and processing have been developed to sustain the progress being made.
2. Overvalued exchange rates, high inflation, and high interest rates will hurt the agricultural sector and the poor. The government also needs to allocate more financial resources to support the agricultural sector. Increasing the current spending share on agriculture is a must for the country to achieve the first Millennium Development Goal of halving the poverty and hunger rates by 2015. This spending must be prioritised and focused on public goods that have greatest impact on poverty reduction.
3. The agricultural sector also needs to diversify its activities to high value production. Policies and strategies which have been developed to improve farmers' access to technologies, credit, markets, and information and to encourage private sector investment in processing and marketing businesses must be widely implemented and supported. Improved governance, equitable, and well-functioning markets, supplies of essential inputs such as seeds and fertiliser, access to sustainable technologies, and absence of conflict are likely to make Nigerian agriculture flourish. Agricultural policies

and strategies in Nigeria must be carefully designed to prevent overlapping organisational roles and responsibilities.

4. Current momentum needs to be maintained to ensure that the promise of investment is realised and more national and international investors are attracted to the agricultural sector in Nigeria. The country must ensure policies developed to encourage investment are adhered to countrywide and that this investment is directed into priority value chains. Through the ATA, effort should be focused on moving Nigeria from being a country that produces raw materials for Europe to one that processes all its produce. This has been demonstrated by the fruits to juice processing which has attracted investment and created high quality fruit juice concentrates.

5. A focus needs to be given to the e-wallet fertiliser distribution method to ensure that inaccessibility to GSM or no access to a handset would not limit farmers' access to fertilisers. Currently if the alert comes in and is missed by a farmer, or the farmer has misplaced his or her phone, the farmer may not get any fertiliser for the whole year so these challenges need to be addressed to ensure a good quality service and wide access to the farming populations. The National Agricultural Payment Initiative (NAPI) currently being planned for implementation should be pursued, as this will address other challenges associated with the e-wallet system. Also the GES-TAP, a near-field technology, designed to resolve the bottle necks encountered with the current E-wallet platform should be scaled up. The GES-TAP technology was successfully piloted in Sokoto and FCT in the 2014 wet season.

6. To ensure a successful agricultural sector, there is also the need to foster agric-business to increase production for the growing urban population at the same time as offering continued support to smallholders with the aim of alleviating poverty. To do this, a comprehensive mapping of agricultural potentials is needed. Policies also need to be designed to reduce the environmental footprint by encouraging waste conversion, using energy-efficient means of production and employing renewable energy. A push to achieve a reduction in non-biodegradable waster and storage materials is also recommended. The recently developed National Agriculture Resilience Framework (NARF) needs to be implemented without delay in order to afford the country to mitigate effects of climate change on the sector.

7. Nigeria also needs a programme devoted to a new generation of farmers that trains young, educated people interested in agricultural entrepreneurship and provides financial and technological support. They should be enabled to use improved technologies and modern management approaches that help ensure farm profitability and sustainable resource use.

8. The ongoing effort at restructuring the Agriculture Research Council of Nigeria (ARCN) must be sustained to ensure that the research outcome is not only demand driven but also meet the need to the market and other stakeholders.

9. The proposed legislation of the Growth Enhancement Schemes (GES), High Quality Cassava Flour (HQCF) and Staple Crops Processing Zone (SCPZ) should also be pursued with vigour as a way of institutionalising and sustaining the current progress made under the Agricultural Transformation Agenda (ATA).