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# EVALUATING THE PROSPECTS OF THE ANCHOR BORROWERS' PROGRAMME FOR SMALL SCALE FARMERS IN NIGERIA

Sub-theme: Financing the Farm Business (contract farming)

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## Abstract:

*The quest to tackle the problems bedevilling the agricultural sector and help Nigeria get out of the current recession occasioned by over dependence on oil revenue, necessitated the launch of the Anchor Borrowers' Programme (ABP) in 2015. It involves the provision of farm inputs in kind and cash (for farm labour) to smallholder farmers (SHF) to boost production of the targeted commodities. At harvest, the SHF supply his/her produce to the Agro-processor (referred to as the Anchor) who pays the cash equivalent to the farmer's account. The ABP concept is like the contract farmer concept which has been found to be effective in other countries like India. The success of the pilot project which was carried out in Kebbi State for rice has been very remarkable. About 78,000 rural farmers in Kebbi State benefitted from the programme, which used integrated rice millers as buyers to ensure that there was a ready market for the produce. Yields as high as 7.5 to 8.0 tonnes per hectare were obtained by farmers compared with less than 2.0 tonnes per hectare previously obtained and smallholder farmers were made Naira millionaires in Kebbi State in 2016.*

**Keywords:** Anchor, Borrower, Small Scale Farmer.

## 1. INTRODUCTION

Nigeria is a very large country, spanning an area of 910.8 thousand square kilometres out of which 77.7 per cent is cultivable (World Bank, 2016). The topography can support various crops and livestock possibilities. It has the largest population in Sub-Saharan Africa estimated at 180.7 million in 2014 (Central Bank of Nigeria (CBN), 2014), and it is one of the ten most populated country in the world. Thus, the country is rich in both human and natural resources. Available statistics indicated that crude oil exports fetched Nigeria only N8.8 million at independence in 1960 and this constituted just 2.7 per cent of total export earnings, while non-oil exports amounted to N321.2 million, constituting 97.3 percent of total exports in the same period. But by 1976, the table turned and the value of oil exports increased astronomically to N6,321.6 million, constituting 93.6 per cent of total exports, while the proportion of non-oil exports in Nigeria's foreign earnings had declined substantially to 6.4 per cent at N429.5 million (Evbuomwan, 1996), and this trend has remained over the years.

Despite the fact that oil exports constitute a substantial proportion of Nigeria's export

earnings, its importance in the GDP is lower than that of the non-oil sector, and particularly worrisome is the fact that its fortunes have been on the downward trend in recent years with dire consequences for the Nigerian economy. For instance, the contribution of crude petroleum and natural gas to the nation's GDP declined from 14.95 per cent in 2011 to 9.61 per cent in 2015, whereas, the agricultural sector contributed 23.35 and 23.11 per cent to the nation's GDP in these respective periods (CBN, 2015). In addition, oil refining has been contributing less than 0.5 per cent to the nation's GDP as Nigeria merely exports crude oil, whose price is determined exogenously. Unfortunately, crude oil price has been on the decline in the last four years. From an average of US\$ 113.5 in 2012, a barrel of crude oil sold for less than US\$50.00 in 2015 and most of 2016 (CBN, 2014 and 2016). It is against this backdrop that there has been call from every quarter for diversification of the Nigerian economy from oil to other sectors. In view of the abundant agricultural resources available in the country, it is obvious that this sector would deliver the quick win in the quest to diversify the Nigerian economy.

It is also pertinent to note that, the bulk of the Nigerian population earn their living from the non-oil sector with the agricultural sector alone providing employment for over 70.0 per cent of the populace. Thus, the agricultural sector is the largest employer of labour and a key contributor to wealth creation and poverty alleviation, as a large percentage of the population derive their income from agriculture and related activities.

However, over the years, the rate of development of the agricultural sector has failed to keep pace with the needs of a rapidly growing population, resulting in a progressive rise in import bills for food and industrial raw materials. For instance, import of food and live animals grew from N1.8 billion constituting 14.1 per cent of total imports in 1981, to N2,885.4 in 2011, and its proportion of total imports also increased to 20.2 per cent (CBN, 2015). Similarly, import of animal and vegetable oil and fat, a major raw material in the food industry, grew from N0.1 billion in 1981 to N144.7 billion in 2015, constituting 0.8 and 1.3 per cent of total imports in the respective periods.

The potentials of the agri-business sector as a major employer of the growing labour force and earner of foreign exchange have also been undermined. As a result, a large majority of the population, many of whom live in the rural areas remain poor; while Nigeria is far from being food secure. This state of affairs in the Nigerian agricultural sector has been traced to a number of constraints militating against the effective performance of the sector. Prominent among them are: small size of farms, low level of mechanization and input use, poor infrastructure, high level of post-harvest losses due to pests and diseases, and poor transport, processing and storage facilities (Ojo and Evbuomwan, 1997; Evbuomwan, 2016). Consequently, Nigeria has remained a net importer of agricultural products over the years. These include; wheat, milled rice, raw cane sugar, whole milk powder as well as fish and fish products, most of which can be produced in the country. Food and Agricultural Organization of the United Nations (FAO) estimated Nigeria's cereal import (mostly rice and wheat) for 2015 at over 7.5 million tonnes and, Nigeria is said to be the largest rice importer in Africa.

Various financing policy initiatives have been instituted to improve the performance of small scale farmers in Nigeria and transform the agricultural sector (Evbuomwan, 2004). However,

the desired goals have not been achieved because of some of the peculiarities of the smallholder farmers. Prominent among these are their poor access to finance and lucrative markets to dispose of their produce, which have left them in a vicious cycle of poverty (Evbuomwan, 2016). In order to address these twin problems of the smallholder farmer in Nigeria, the Central Bank of Nigeria and the Federal Government launched the Anchor Borrowers Programme (ABP) in 2015. The ABP concept is like the contract farmer concept which has been found to be effective in other developing countries like India (Bommanahalli and Rangappa, 2016).

The objective of this paper is to evaluate the prospects of the Anchor Borrowers Programme for smallholder farmers in Nigeria. This will be done by reviewing the guidelines of the ABP and the achievements so far. The implementation challenges and measures that can be taken to overcome them will also be highlighted.

The rest of the paper is therefore divided into four parts as follows: Section two will summarise the ABP guidelines and the implementation procedures. Section three will present the results so far, while section four will be devoted to the discussion of the results, the challenges as well as their resolution options for the sustainability of the ABP. The last section will conclude the paper.

## **2. MATERIAL STUDIED/METHODS**

In order to boost agricultural production and non-oil exports in the face of unpredictable crude oil prices and its resultant effect on the revenue profile of Nigeria, the Central Bank of Nigeria (CBN) in line with its developmental function, established the “Anchor Borrowers’ Programme” (ABP), which was launched by President Muhammadu Buhari in November, 2015.

### **Objectives**

The broad objective of the ABP is to create economic linkage between the small holder farmers and reputable large scale processors with a view to increasing agricultural output and significantly improving capacity utilization of processors. Other objectives of the programme include: increased bank’s financing to the agricultural sector; reduction in agricultural commodity importation in order to conserve external reserves; increase capacity utilization of agricultural firms; creation of new generation of farmers/entrepreneurs and employment; deepen the cashless policy and financial inclusion; reduction in the level of poverty among smallholder farmers (SHFs) and; to assist rural smallholder farmers to grow from subsistence to commercial production levels.

### **Targeted Beneficiaries**

The loan is targeted at smallholder farmers engaged in the production of identified commodities across the country. The farmers are required to be in groups/cooperative(s) of between 5 and 20 for ease of administration.

## **Identified Agricultural Commodities**

The targeted commodities of comparative advantage to the State shall include but not limited to: cereals (rice, maize, wheat, etc.); cotton; roots and tubers (cassava, potatoes, yam, ginger, etc.); sugarcane; tree crops (oil palm, cocoa, rubber, etc.); legumes (soybean, sesame seed, cowpea, etc.); tomato; livestock (poultry, ruminants, etc.); fish; and any other commodity that will be introduced by the CBN from time to time.

## **Eligible Participating Institutions (PFIs)**

The loan shall be disbursed through the Deposit Money Banks (DMBs); Development Finance Institutions (DFIs); and Microfinance Banks (MFBs).

## **The Anchor**

This shall be private large-scale integrated processors who have entered into an agreement with SHFs to buy the harvested produce at the agreed prices or as may be reviewed by the Project Management Team (PMT). State Governments may act as Anchor upon meeting prescribed conditions.

## **Input Suppliers**

The input suppliers are required to submit Expression of Interest Letter to the office of the PMT for consideration and issuance of Local Purchase Orders.

## **The Fund**

The CBN states that the fund would be provided from the N220 billion Micro, Small and Medium Enterprises Development Fund (MSMEDF). The loan amount for each SHF shall be arrived upon from the economics of production agreed with stakeholders.

## **Interest Rate**

Interest rate under the ABP shall be guided by the rate on the N220 billion MSMEDF, which is currently at 9 per cent per annum (all inclusive, pre and post disbursement). The PFIs shall access at 2 per cent from the CBN and lend at a maximum of 9 per cent per annum.

## **Tenor (Loan Term)**

The loan term under the ABP shall be the *gestation period* (i.e. the time it takes for a crop or animal to mature and be ready for market) of the identified commodities.

## **Repayment**

Loans granted to the SHFs shall be repaid with the harvested produce that shall be mandatorily delivered to the Anchor at designated collection centre in line with the provisions of the agreement signed. The produce to be delivered must cover the loan principal and interest.

## **Management and Administration of the ABP**

There are two models of administration of ABP based on the anchor arrangement namely: Private Sector-led and State windows. Under each model, a PMT shall be established to coordinate the implementation of the programme.

### **Private Sector-led Window**

The PMT under the private sector-led window shall be made up of the Head Development Finance Office of the Central Bank of Nigeria as the Chairman; Representatives of Anchor Firms as Co-Chairman; Programme Manager of the State Agricultural Development Programme (ADP); Representatives of participating banks; Representatives of farmers associations and the Nigerian Agricultural Insurance Corporation (NAIC).

### **State Window**

The PMT under the State Window shall be constituted with representatives of stakeholders as follows: Head Development Finance Office of the Central Bank of Nigeria as the Chairman; to be co-chaired by the person appointed by the State Government; a representative of the State Ministry of Agriculture and Rural Development/ADP; participating banks; anchor firms; NAIC and representatives of farmers associations.

## **Process Flow of the Anchor Borrowers' Programme**

The activities include:

Expression of Interest Letter to the CBN by the Anchor/State Government indicating the targeted agricultural commodities, proposed number of farmers, the hectares to be covered and the PFI(s) etc.

Formation of the PMT

Verification of the farmers and farm sizes by the PMT

Confirmation of participation by the Head Offices of the PFI(s)

Identification of reputable agricultural inputs suppliers by the PMT

Organization of Town Hall Meeting to agree on the economics of production per hectare, selling price, signing of Agreement, and any other relevant issues. The meeting shall have in attendance all the stakeholders including the inputs suppliers.

Signing of tripartite Agreement by the PFI, Anchor and the farmers.

Submission of loan applications from Head Offices of PFIs with the list of farmers in the prescribed format with account numbers, gender, farm size, Bank Verification Number (BVN), telephone numbers, cooperative name and Local Government Area (LGA).

Registration of farmers on the National Collateral Registry (NCR).

## **Capacity Building of the Farmers**

A mandatory training programme shall apply for farmers that will participate under the ABP covering: farming as a business; improved agricultural practices and; group management dynamics.

The cost of such training shall be borne by the participating anchor. However, partnership with Development Partners are encouraged on the training of the farmers. Certificates issued at the end of the training shall constitute a requirement for farmers to access credit facility in kind and cash under the programme.

## **Provision of Extension Services**

The Anchor/State Governments shall be required to provide extension services to complement the training, ensure adherence to good agricultural practices and mitigate side selling.

## **Collateral under the ABP**

The collateral to be pledged by SHFs under the programme shall include: cross and several guarantees by farmers in cooperatives/groups; tripartite agreement signed by the parties; cross and several guarantees by farmers to be registered on the NCR and; equity contribution by the farmers (minimum of 5 per cent).

Participating farmers are required to deposit the minimum equity requirement in their accounts with the PFI before loan disbursement as no input would be distributed to any farmer that has not provided the equity contribution.

## **Determination of Planting Season**

The planting season to be adopted shall be advised by the Ministry of Agriculture/State Agricultural Development Programme from the state planting calendars (in view of the fact that the country is large and the climate is diverse, hence different states have different crop planting dates).

## **Side Selling**

Side selling by the farmers is prohibited and it shall attract applicable sanctions as stated in the ABP Guidelines. This include: blacklisting of the SHF on any intervention by the CBN; prosecution of the SHF and; payment of the loan by the guarantors and cooperatives.

Sanctions have also been stipulated in the ABP Guidelines for infractions by other stakeholders like: PFIs for diversion of funds; Anchor for failure to collect certified quality output from farmers; and PMTs for insider related contracts and inflation of contract figures among others.

## Risk Sharing

In order to engender participation of PFIs in the programme, the CBN shall absorb 50 per cent of the amount in default after satisfactory evidence that every means of loan recovery has been exhausted by the PFI. The PFI shall bear the credit risk of the balance (Development Finance Department, Central Bank of Nigeria, 2016).

## 3. RESULTS

Available information from the Central Bank of Nigeria (CBN, 2016) indicate that under the ABP the Government of Nigeria has spent N23billion so far in promoting local production of rice, soya bean, sugar and other important agricultural produce.

The pilot project was launched by the Federal Government of Nigeria in November, 2015 in Kebbi State to link smallholder farmers to the integrated rice scheme and to boost local production of rice. It has been acclaimed to have been very successful. About 78,000 rural farmers in Kebbi State benefitted from the programme, which used integrated rice millers as buyers to ensure that there was a ready market for the produce. Yields as high as 7.5 to 8.0 tonnes per hectare were obtained by farmers compared with less than 2.0 tonnes per hectare previously obtained (Table 1) and smallholder farmers were made Naira millionaires in Kebbi State in 2016 (see the video on CBN website [www.cbn.gov.ng](http://www.cbn.gov.ng)).

**Table 1: Cereal Yield per Hectare in Selected Countries (kg/ha)**

	<b>1961</b>	<b>2014</b>
<b>World</b>	1,422	3,907
<b>Nigeria</b>	743	1,592
<b>USA</b>	2,522	7,638
<b>UK</b>	3,177	7,697
<b>China</b>	1,193	5,886
<b>South Africa</b>	1,097	4,894
<b>Ghana</b>	816	1,703

**Source: World Development Indicators, 2016**

In view of the success achieved in Kebbi state in 2016 by the first quarter of 2017 the ABP had been extended to rice and wheat farmers in 14 out of the 36 States in Nigeria, namely; Kebbi, Sokoto, Niger, Kaduna, Katsina, Jigawa, Kano, Zamfara, Adamawa, Plateau, Lagos, Ogun, Cross River and Ebonyi, to advance the status of smallholder farmers and transform them to commercial or large growers in Nigeria. At least one million metric tonnes of rice is expected to be produced in each State annually and over 2 million jobs is expected to be created by rice farming alone.

The ABP has helped increase the popularity of locally grown rice and it is becoming more favoured in many homes because of its higher nutritional value compared with the imported rice. The success of the ABP for rice was apparent when the Lagos State Government partnering with the Kebbi State Government packaged the brand name Lake rice and sold it



at N12,000 per 50 Kilogram bag in December 2016 during the end of year festivities as against the N20,000 per 50 Kilogram bag at which the imported rice was selling then. The success of the ABP for rice production prompted the CBN to expand the coverage to include other crops and livestock listed earlier in section two.

The Soya bean project was also carried out in Kebbi State. It is a partnership between the Kebbi State Government and International Capital Market Group (ICMG) in Lagos. The agreement is for ICMG to provide 12kg of improved seedlings and two bags of fertilizer to small farmers and 50kg of seedlings and 10 bags of fertilizer to large farmers. The 5,000 farmers working on the project were also given N170,000 per hectare to take care of running cost. At the end of the planting season, each hectare is estimated to produce 25 bags and out of that, four bags will be collected as repayment for seedlings.

A full implementation of the ABP is expected to create boom in the Nigerian agricultural sector the same way it has impacted rice farming in the country. The livestock, fish and other crops sectors will all be positively impacted to the advantage of all stakeholders and the nation at large. The farmers will become prosperous, the processors will be assured of raw materials supply and expand capacity utilization, post-harvest losses will become a thing of the past, the banks will get their money back, employment will be created, food imports will be reversed and Nigeria will instead become a major food exporter and thus, diversify export base and earn more foreign exchange.

However, some implementation challenges have been observed. These include:

- i. Poor/dearth of extension agents
- ii. Side selling by farmers
- iii. Failed inputs/seeds

These challenges are being addressed by the relevant agencies/stakeholders; Ministry of Agriculture, Project Management Team, Anchors, Farmers Groups, etc.

#### **4. DISCUSSION**

As indicated by Kanayo and Shenggen, 2016; support to smallholders such as is currently being done under the ABP can contribute to achieving many of the Sustainable Development Goals (SDGs). For instance, the increased productivity and higher agricultural growth engendered by the ABP model will help achieve the SDG goal of eradicating poverty. Similarly, the consequent increased availability, affordability, acceptability, and quality of nutritious foods, will improve food security and nutrition, thus, achieving the SDG goal of Zero Hunger.

Agribusiness has been and will continue to be the centre of growth in Nigeria like all other African countries. This recent initiative (ABP) which seeks to provide the smallholder farmers who are the largest segment in the sector with improved seeds, best practices in farm management and linking them to buyers and processors will certainly accelerate agricultural productivity, create wealth and reduce poverty and unemployment, and these would all

translate into economic growth and development in Nigeria in the nearest future if sustained by all the stakeholders.

However, a sustained implementation of the ABP is based on the full commitment of all the stakeholders. This initiative will need to be supported by increased investment on agricultural research and development and continuous training of the smallholder farmers by government and development partners so as to continue to evolve improved agricultural practices and assure increased profit which will thus make agriculture an attractive sector. Increasing productivity through improved research and development and better extension services are crucial to improving productivity in the agricultural sector in the long-run.

## 5. CONCLUSION

As stated by Akinwumi Adesina (2016), President of the African Development Bank and former Nigerian Minister of Agriculture, “African smallholders are the private sector – the largest segment on the continent. By seeing agriculture as business, smallholders as customers and entrepreneurs, and companies as organizations that want smallholders as customers and suppliers, policymakers and investors can leverage the continent’s existing assets to catalyse economic transformation rather than trying to create it from whole cloth”.

Now more than ever before, more attention need to be given to processing of raw agricultural produce in Nigeria and Africa generally, rather than exporting unprocessed agricultural commodities. Over 80 per cent of value in the global food industry is in value-added components such as sorting, cleaning and packaging fruits and vegetables. The various forms of value-addition provide opportunities for the private sector to expand their commercial activities and access higher-value markets, either for domestic consumers or exports. Not only do they provide employment at all levels, but they have proven time and time again to drastically change the economic landscape of countries.

As indicated by Mohammed Dewji (2017), President and CEO of Tanzania based MeTL Group, “with its growing population and increasing skilled labour force, Africa is ideally placed to benefit from processing value-addition across the agro-processing sub-sector”.

The Nigerian Government need to develop agro-allied industrial zones and staple food processing zones in rural areas. These zones should be supported with consolidated infrastructure, including roads, water, electricity, to drive down the cost of doing business for private food and agribusiness firms. Such zones would create markets for farmers, boosting economic opportunities in rural areas, stimulating jobs and attracting higher domestic and foreign investments into rural areas. In this light, the ABP is a right step in the right direction.

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