

PROPOSED BAY' AL-SALAM WITH TAKAFUL AND  
VALUE CHAIN MODEL FOR FINANCING  
AGRICULTURE IN KANO STATE, NIGERIA

BY

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## ABSTRACT

The growth and development of agricultural sector of Nigeria is seriously undermined due to pathetic challenges that debilitate the sector. The most acute challenge that bedeviled the sector is the financing challenge, which becomes detrimental to the farmers, society and economy in general. This situation is confirmed by the recent recession the country has fallen into, which exacerbate poverty, unemployment, starvation and food insecurity. Consequently, it is imperative to carry out a practical empirical research to find out the major problems thereby coming up with a viable model that will serve as a solution to improve the agricultural growth and development of Nigeria. This study aims to investigate the major challenges facing the agricultural sector, examines the dimension of financing challenges facing farmers, propose a viable model of financing farmers through seeking the stakeholder's perception with regard to acceptability of the proposed model. To explore rich data for accurate analysis, the study used pragmatic as a world view and adopts exploratory sequential mixed method, where both the qualitative and quantitative method were utilized. This covers semi-structured interview with 7 experts by using purposive sampling and thematic analysis and distribution of 300 questionnaires to grass root farmers using multistage cluster sampling and analysis through descriptive statistics and factor analysis. The study findings revealed that the major challenges facing agricultural sector includes inadequate financing, risk issues, poor logistics, ineffective government policies and programmes, inadequate technical know-how, inadequate infrastructural facilities, inadequate modern input facilities, lack of incorporating value chain and lastly corruption. The study findings also revealed the most disturbing financing challenges from the qualitative phase to include inadequate financing, religiosity, higher charges and collateral issue. The quantitative findings support the qualitative one as inadequate financing has the highest eigenvalue of 7.655, with the religiosity issue following with eigenvalue of 2.058. The third is credit eligibility with eigenvalue of 1.604, while the fourth factor is Government policies and programmes with eigenvalue 1.485. The study also found that all the agricultural stakeholders are willing to accept the proposed model because of the anticipated prospects such as economic benefit which includes increasing access to finance, employment creation, poverty reduction, improved food production, other sources of profit to financial institutions, enhancing Islamic values, facilitating the use of other Islamic banking product and lastly risk minimization. However, poor awareness, non-expert involvement, wrong selection of farmers, untimely disbursement of financing, poor monitoring and evaluation and not taken expert advice into practice are envisaged challenges that could hinder its successful implementation. Hence, it is suggested by the respondents that expert involvement, giving financing to actual farmers, timely disbursement of financing, proper monitoring and evaluation, strict adherence to expert advice, awareness campaign and educational programmes are the key to the successful implementation of the model.

## خلاصة البحث

النمو والتطور للقطاع الزراعي في نيجيريا مهمش بشكل خطير نتيجة التحديات الحاطة التي أدت إلى ضعف هذا القطاع. والتحدي الأكثر حدة الذي أفسد هذا القطاع هو تحدي التمويل، الذي أصبح مضر للمزارعين والمجتمع والاقتصاد بشكل عام. وهذا الوضع يؤكد ما حدث من ركود في الآونة الأخيرة الذي سقطت فيه البلاد، مما أدى إلى تفاقم الأضرار والفقر والبطالة والجوع وانعدام الأمن الغذائي. وبالتالي، لا بد من إجراء بحث عملي تجريبي لمعرفة ما هي المشاكل الرئيسية وبالتالي الخروج بنموذج واقعي والذي سيكون بمثابة حل لتحسين النمو الزراعي والتنمية في نيجيريا. تهدف هذه الدراسة إلى فحص التحديات الرئيسية التي تواجه القطاع الزراعي، ودراسة أبعاد تحديات التمويل التي تواجه المزارعين، واقتراح نموذج عملي لتمويل المزارعين من خلال البحث عن تصور صاحب المصلحة فيما يتعلق بقبول النموذج المقترح. لاستكشاف بيانات غنية لإعطاء دقة للتحليل، الدراسة استخدمت الواقعية كنظرة علمية وتبنت طريقة الفحص الاستكشافي المختلط المتسلسل، بحيث تم استخدام كلا من الطريقتين النوعية والكمية. وقد غطت هذه الدراسة مقابلات شبه مباشرة مع 7 خبراء باستخدام العينات المهادفة والتحليل الموضوعي وتوزيع 300 استبيان على المزارعين على مستوى القاعدة الشعبية باستخدام عينة عنقودية متعددة المراحل وتحليلها من خلال الإحصاءات الوصفية وتحليل العوامل. كشفت نتائج الدراسة أن التحديات الرئيسية التي تواجه القطاع الزراعي تشمل عدم كفاية التمويل، وقضايا المخاطر، وسوء الخدمات اللوجستية، والسياسات والبرامج الحكومية غير الفعالة، وعدم كفاية الدراية التقنية، وعدم كفاية مرافق البنية التحتية، وعدم كفاية مرافق المدخلات الحديثة، والافتقار إلى سلسلة القيمة والفساد. وفي النهاية اظهرت نتائج الدراسة أيضاً أن أكثر التحديات المالية من حيث الجودة هي التمويل غير الكافي إثارة للقلق من المرحلة النوعية لتشمل التمويل غير الكافي، والتدين، وارتفاع الرسوم والاختلاسات الجانبية. فأما النتائج الكمية في تدعم النتائج النوعية المذكورة سلفاً، حيث أن التمويل غير الكافي يحتوي على أعلى قيمة بـ 7.655 ، مع متابعة قضية التدين مع القيمة الذاتية 2.058. والثالث هو أهلية الائتمان مع القيمة الذاتية 1.604 ، بينما العامل الرابع هو السياسات والبرامج الحكومية ذات القيمة 1.485. ووجدت الدراسة أيضاً أن جميع أصحاب المصلحة الزراعيين على استعداد لقبول النموذج المقترح بسبب الآفاق المتوقعة مثل المنفعة الاقتصادية التي تشمل زيادة فرص الحصول على التمويل، وخلق فرص العمل، والحد من الفقر، وتحسين إنتاج الأغذية، ومصادر الربح الأخرى للمؤسسات المالية، تعزيز القيم الإسلامية، لتسهيل استخدام المنتجات المصرفية الإسلامية الأخرى وأخيراً تقليل المخاطر. ومع ذلك، فإن ضعف الوعي، ومشاركة غير الخبراء، والاختيار الخاطيء للمزارعين، وصرف التمويل في الوقت المناسب، وضعف الرصد والتقييم وعدم أخذ مشورة الخبراء في الممارسات العملية، كلها تحديات متوقعة يمكن أن تعيق تنفيذه بنجاح. وبالتالي، يقترح المستجوبين من ضرورة إشراك الخبراء، وإعطاء التمويل للمزارعين الحقيقيين، وصرف التمويل في الوقت المناسب، والرصد والتقييم المناسبين، والالتزام الصارم بمشورة الخبراء، وحملات التوعية والبرامج التعليمية هي مفتاح التنفيذ الناجح للنموذج.

## **APPROVAL PAGE**

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## DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*To my Father Alhaji Ibrahim Atah, and my Mother Hajiya Rakiya Sani Maianini  
for their sound moral, financial and spiritual support.*

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## LIST OF ABBREVIATIONS

AFAN	All farmers' association of Nigeria
ACGSF	Agricultural credit guarantee scheme fund
APHLIS	The African Postharvest Losses Information System
ATA	Agricultural transformation agenda
AVC	Agricultural value chain
CACS	Commercial agricultural credit schemes
CSAF	Council for small holder agricultural finance
CBN	Central bank of Nigeria
FAO	Food and agriculture organization
ICT	Information and communication technology
ISF	Initiative for small holder farmers
KNARDA	Kano state agricultural and rural development authority
MFI	Microfinance institutions
MSMES	Micro-small and medium sized-enterprises
NAN	News agency Nigeria
NACB	Nigerian agricultural and cooperative bank
NGOS	Non-governmental organization
NIRSAL	Nigerian incentive- based risk sharing system for agriculture
USAID	United State agency for international development
VCF	Value chain financing

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

The importance of agriculture to the development of any economy; be it developed, developing or underdeveloped can never be overemphasized. Agriculture is considered as the main stay and back bone of the economy of many countries in the world (Agwu, 2017; Ihegboro, 2014). It serves as the major contributor to food security, employment opportunities, foreign exchange earnings, supply of raw materials to industries, country's GDP and enhances domestic saving and purchasing power of rural people (Ako, 2017; Inusa, Daniel, Dayagal & Chiya, 2018). Thus, it prospers the overall economic growth and development of many countries around the globe (Bradshaw & Stenning, 2016; Obaidallah, 2015).

Previous studies have shown the relevance of agriculture in increasing employment and GDP of different countries around the globe. For example, Bradshaw & Stenning (2016) opined that agriculture is the major contributor to the GDP of European countries such as Albania (51%), Moldova (28%), Kyrgystan (39%), Georgia 32%, Uzbekistan (35%) and Turkmonistan (27%) respectively. In the same vein, World Bank (2017) and World Bank (2018) highlighted the contribution of agriculture to GDP and employment opportunities of the countries such as United Kingdom GDP (1 %) and employed (1%), U.S.A GDP (1%) and employed (2%), Russia GDP (4%) and employment (7%), and France GDP (2%) as well as employment (3%).

In the Asian countries, Saiti, Afghan & Noordin, (2018) and Obaidallah (2015) stressed the important contribution of agriculture towards the economic development of Asian countries. This reality is shown by World Bank (2017) and World Bank (2018)

report in which the respective contribution of the sector to Asian countries was revealed to be Malaysia GDP (9%) and employed (11%), Pakistan GDP is (23%) and workforce (42%), Indonesia GDP (13%) and employed (31%), China GDP is (8%) and employed (18%) of the total population.

In the African country's studies of Akin, (2017) Mohammed, (2016) and Jacobs (2016) emphasized the gigantic contribution of agriculture to the development of these countries. For example, it is evident by the world Bank report (2017) and World Bank (2018) that it contributed to the GDP and employment opportunities of countries such as Nigeria (21%) and (37%), Uganda (25%) and (69%), Ghana (17%) and (41%), Senegal (15%) and (53%) and lastly Mali is (38%) and (58%) respectively.

### **1.1.1 Agriculture in Nigeria**

Similar to many countries around the world, the major economic activity of Nigeria is agriculture which also remains the major source of employment (Olotu, Salami & Akeremale,2015). In the early 1950-1960 agriculture provided employment to over seventy percent (70%) of the total Nigerian population, 95 percent of the needed food for the people and seventy percent of foreign exchange earnings (Olukunle, 2013; Inusa *et al.*,2018). Agricultural commodities designated for export such as cotton, rubber, groundnut, coffee, palm oil and palm kernel played a significant role in developing the economy by providing the much-needed foreign exchange (Sunusi, 2010). Nigeria led in many aspects of production and exportation of agricultural products in the world. Palm oil, cotton, palm kernel herds and skin are but few amongst the agricultural products Nigeria was known as the second largest in the world (Anyanwu, 2014).

The contribution of agriculture in the Nigerian economy can never be over emphasized. Historically, in early 1950s and 60s the agricultural products accounted for

70% of Nigeria’s non-oil export trade and hence, dominated the sector. During 1960/61, the contribution of agriculture to GDP was (64.4 %) and (64.1%) respectively. This high GDP contribution was achieved despite the fact that the Nigerian peasant farmers relied on nomadic farming tools and local farming method. Then, the government was able to execute investment in capital development project through earnings from agricultural product’s export (Anthony, 2010; Olekunle, 2013; Sunusi, 2011).

The Nigerian economy experienced a dramatic change in the 1970s with the discovery of petroleum in commercial quantity (Ross, 2003). The Nigerian government neglected the agricultural sector to the extent that 85 percent of the government revenue is derived solely from oil. Instead of using oil revenue to support agriculture base to diversify the economy the agricultural sector has been neglected. The country’s economy, therefore, was turned into mono cultural and consequently, the contribution of agriculture to the GDP gradually declined to the extent that in 1985 the contribution to GDP was 19 percent (Izuchukwu, Huang, Shehu, & Olufemi, 2012; Manyong, 2007; Olotu *et al.*, 2015). The trends of agricultural sector contribution to the GDP and its declined are depicted in figure 1.1 below.

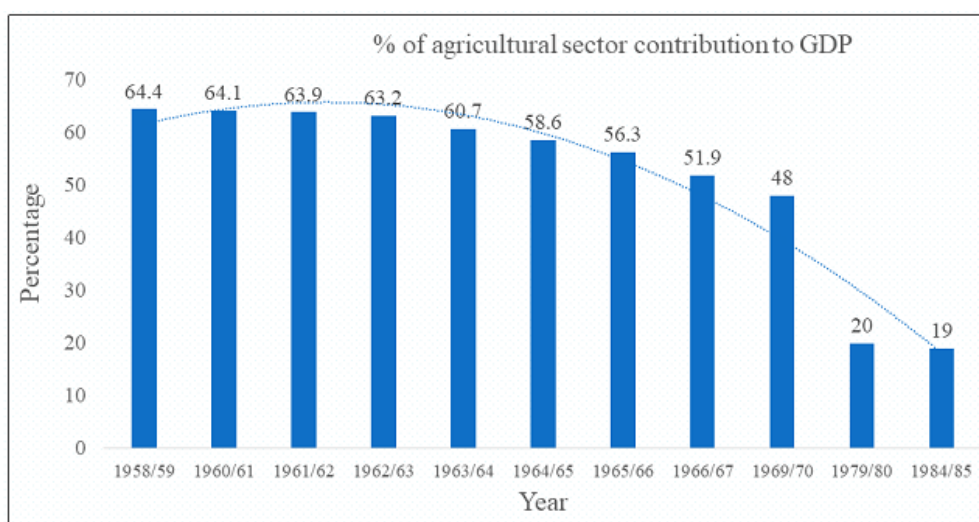


Figure 1.1 Agricultural Contribution to GDP in Nigeria

Figure 1.1 indicate the tremendous contribution of the agricultural sector to GDP during 1958/59 and 1960/61 as 64.4 and 64.1 %. The sector continued to be the major contributor to GDP until 1966/67 when the growth of the sector steadily declined to 51.9%. The sector contribution declined drastically in 1969/70 to 48%, in 1980 to 20% and 19% in 1984/85.

The excessive dependence on oil and poor diversification constitutes serious problem to the Nigerian economy. This is because the oil price is highly volatile. For example, Nigeria was affected by a decline of the global oil price which fell by 70% from 2014-2016 from \$111.26 per barrel in 2011 to \$40.68 in 2016 (Ikein, 2017). Moreover, the country's growth of the oil sector production was troubled by supply disturbance due to oil robbery, destruction of pipeline and insurgency in the oil producing sites (Ncube & Balma, 2017). Hence, the country cannot generate enough foreign exchange earnings because no appropriate emphasis is given to the other sectors to curtail the economy. As a result, the GDP growth of Nigeria contracted to -0.4 which led the country into recession by 2016 (National Bureau of Statistics, 2016).

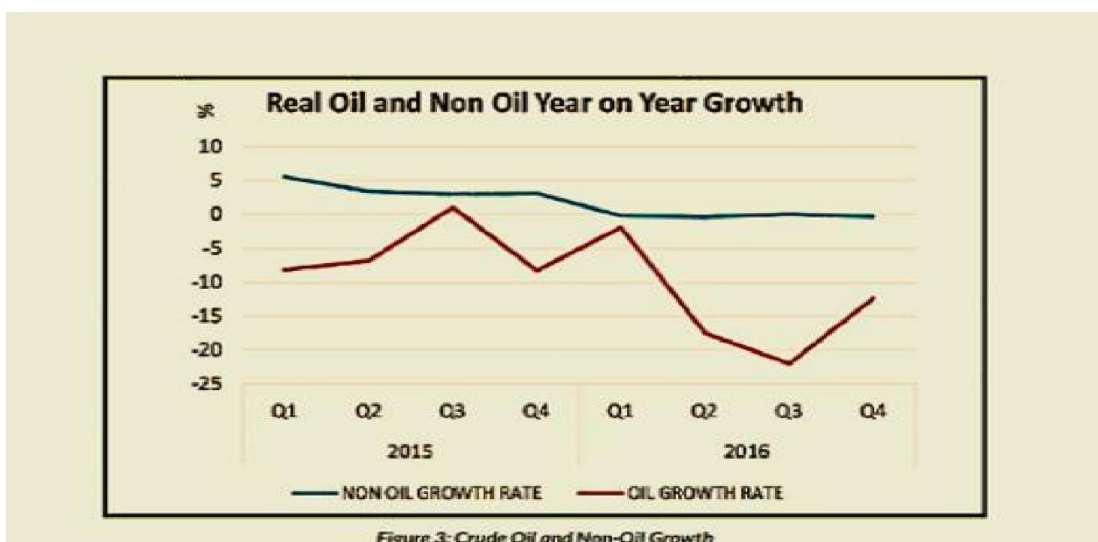


Figure 1.2 Real Oil and non-oil Year Grow  
Source: National Bureau of Statistics of Nigeria (2016)