



POLICY WHITE PAPER ON

# IMPROVING ACCESS TO FINANCE FOR YOUTH ENTREPRENEURS WITHIN NIGERIA'S GINGER SECTOR

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## Background



Nigerian ginger is regarded as among the best in the world, with its aroma, pungency, high oil, value, and oleoresin content in high demand.<sup>i</sup> According to the Light-base Research on Youth Inclusion in Nigeria's Ginger Sector developed by the FATE Institute, Nigeria is considered the third largest exporter of Ginger after China and India, with a potential market value of \$70 million when all export markets are considered.<sup>ii</sup>

Nigerian ginger contributes 23% to the nation's GDP and has an estimated production volume of over 724,000 metric tonnes from Kaduna state alone. About 90% of the ginger produced in Nigeria is exported as dry splits and Nigeria accounts for 11.5% share contribution to global ginger production<sup>iii</sup>. It also accounts for about 4% of the export market share.<sup>iv</sup>

As impressive as the numbers are, the ginger sector is facing a number of issues including an aging population. With over 50% of ginger farmers aged between 43 and 62 and only about 15%

under the age of 30, driving youth inclusion in the sector should be priority. To drive youth inclusion within the sector, a crucial first step is understanding the challenges mitigating youth participation within the sector and designing strategies to address them.

The FATE Institute's light base research sheds light on a myriad of issues within the space such as lack of mechanized production and processing challenges, poor access to finance and funding opportunities, high cost of production, poor storage facilities, poor access to markets, loose regulatory framework, standardization issues, poor quality of seedlings, gaps around capacity building and technical expertise, insecurity challenges in ginger producing regions and a host of others.

This White Paper looks at one of the major challenges mitigating youth participation in the ginger sector – poor access to funding and funding opportunities.

## Poor Access to Finance and Funding Opportunities



The FATE Institute's light base research on Youth Inclusion in Nigeria's Ginger sector identified poor access to finance and funding opportunities as one of the constraints to youth participation in the ginger sector. This stance was further corroborated by 82% of 30 youth entrepreneurs currently operating within the ginger sector who were engaged during the course of putting together this white paper. They identified poor access to finance and funding opportunities as the most pressing issue.

Poor access to finance and funding opportunities such as equipment financing makes it difficult for many young entrepreneurs to afford:

- Machines and equipment to boost farm output and aid processing
- Land for farming purposes
- Infrastructural amenities such as storage and warehousing facilities
- Technical knowledge and expertise required
- Energy and water supply

Despite the introduction of various government interventions and private led funding programs to mitigate the access to funding issue for agric sector businesses, gaps still persist that prevent young entrepreneurs from accessing the funds needed to start, grow, and scale their businesses.

This policy white paper addresses some of the gaps around existing agribusiness funding interventions and provides recommendations on how to improve access to finance outcomes.



## Notable Funding Programs

The Nigerian Government and Private led organizations have in recent years designed and implemented various schemes and programs to bridge the access to finance gap within the Agri business sector to enable better impact. However, these interventions have various limitations and there is need to bridge the gaps identified so the sector can be more attractive for youths who are largely responsible for driving innovation and creating jobs within the eco system.

Some of these schemes include:

### **The Commercial Agriculture Credit Scheme (CACS)**

This scheme was established in 2009 by the Central Bank of Nigeria to provide funds to small and medium agricultural enterprises to enable them expand their asset base and thereby stimulating growth in production and output.

Prior to CACS, borrowers' risk was high whereas under CACS, risk-taking by commercial banks was moderated due to regulatory interventions by the CBN including intensive monitoring and enforcement of operational guidelines. As a result of this, there was recorded sales increase in crop production, livestock production and fish income between 2009 and 2016. While there were some positive outcomes, they were short term rather than a sustainable transformation with an efficient financial services sector adequately lending to micro, small and medium enterprises in the agribusiness sector.

Challenges associated with CACS include: late disbursement of funds, shortfall in planned budget, tedious bureaucracy and bottlenecks of participating banks, lack of awareness of the scheme, collateral requirement for loan collection, and a lack of access to the scheme due to delays.<sup>v</sup>

### **The Agricultural Credit Guarantee Scheme (ACGS)**

The Agricultural Credit Guarantee Scheme was established to provide guarantees on bank loans made to farmers in agricultural production and agro-allied processing. The fund's overarching goal is to encourage banks to lend to MSMEs in agricultural production and processing. The ACGS in itself is not a loan but a bailout fund for banks that have bad debt resulting from loans given to farmers. The loans given are guaranteed under the ACGS Fund.<sup>vi</sup>

Despite its efforts, a number of issues have been identified as impeding the fund's smooth operation. These include: slow disbursement of bailout funds to banks, increase in loan defaults, bank-related issues, and a lack of awareness about the scheme which has been largely prevented farmers from accessing this scheme.<sup>vii</sup>

### **The Bank of Agriculture (BOA)**

The Bank of Agriculture is a government-backed bank that provides loan facilities to farmers and other agro-allied businesses. The Bank of Agriculture has been commended for establishing various youth centered funds such as the – Youth Agricultural Revolution in Nigeria (YARN), The Grow and Earn More Initiative which were all implemented to support and finance both youth and women led businesses in agriculture as a means to foster inclusion in the sector.

However, for more than a decade, the Bank of Agriculture, which was once the most effective banks for financing agricultural production and value chain activities has been plagued with long- standing issues.

These include government bureaucracy, political interference, frequent change of chief executive officers, the absence of a governing board, non-appointment of executive directors and bad loans. These have contributed to the bank's inefficiency<sup>xi</sup>, despite a recapitalization structure that was considered in 2017.

**Bank of Industry (BOI)** The Bank of Industry is a government led institution that provides financial assistance for the establishment of small, medium and large projects and supports the expansion, diversification, modernization and rehabilitation of existing enterprises. BOI provides both financial (loans) and non-financial (business advisory, mentoring, capacity building etc) services to enterprises in Nigeria. BOI is known for its youth-centered programs supporting youth entrepreneurs across sectors in Nigeria such as the Youth Entrepreneurship Support (YES) program and the Graduate Entrepreneurship Fund. It is also known for providing equipment financing which is a major challenge for many youth entrepreneurs. With its competitive interest rates, relatively long tenure and moratorium amongst other support incentives, BOI is an example of a functioning access to finance model that should be scaled across Nigeria to enable more youth entrepreneurs gain access to its services. However, the unstructured nature of many youth businesses and lack of standardization may prevent such businesses from accessing these initiatives.

**Lagos State Employment Trust Fund (LSETF)**

The Lagos State Employment Trust Fund (LSETF) is a state led initiative that fosters entrepreneurship by improving access to finance and markets, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. Established in 2016 to tackle unemployment and promote entrepreneurship in Lagos State, LSETF has since

2016 worked to empower its residents with job and wealth creation opportunities. The Trust Fund has various loan options designed to support micro, small and medium enterprises across sectors including women and youth-led businesses.

**Nigerian Export-Import Bank (NEXIM)** The Nigerian Export-Import Bank (NEXIM) was established by Act 38 of 1991 as an Export Credit Agency (ECA) and is the statutory agency in Nigeria majorly responsible for Export financing.

The Bank has a share capital of N50,000,000,000 (Fifty Billion Naira) held equally by the Federal Ministry of Finance Incorporated and the Central Bank of Nigeria. The Bank presently provides short and medium-term loans guarantees for loans granted by Nigerian Banks to exporters as well as credit insurance against political and commercial risks if overseas customers fail to pay.

NEXIM, like the BOI and LSETF, has made significant contributions to the development of MSME's through the provision of The Small and Medium Enterprise Export Facility (SMEEF), which was designed to stimulate and increase deliberate funding to Small and Medium Enterprises (SMEs) in order to broaden Nigeria's export basket and facilitate industrialization for value added exports.

With that as its primary goal, the facility also assists Small and Medium Enterprises (SMEs), Clusters, and Associations in stocking seasonal commodities such as Cocoa, Beans, Cashew nuts, Sesame seeds, Ginger, Hibiscus flower and so on for year round export trade and improved profit margins, as well as the upscale and expand export operational capacities and upgrade production systems, as well as attract new investments and encourage re-investments in value-added non-oil exports.

The Small and Medium Enterprise Export Facility (SMEEF) allows for maximum moratorium of two (2) years on Principal repayment and provides a maximum all-in interest rate of 9% per annum inclusive of all charges.

Given that the NEXIM bank is one of the few banks that takes this strategy, it is critical that the framework of SMEEF be emulated across comparable institutions in order to further foster youth inclusion within the ginger space.

### **Nigerian Export Promotion Council (NEPC)**

The NEPC was established by the Federal Government of Nigeria for the promotion, development, and diversification of exports. While NEPC is not a funding institution, it has some funding programs and incentives that MSMSEs can benefit from such as the Export Development Fund for newly registered exporters (youth inclusive) and the Export Expansion grant which is a post shipment incentive.

The Council also has various capacity program initiatives that youths in the ginger sector can maximize such as the Zero to export capacity program, Export clinic etc.

**Commercial Banks** While the government has been the largest funding provider for businesses in the agricultural sector, commercial banks have served as the conduit for the disbursement of a number of government initiatives. A major challenge with regards to disbursing government funds has been the cost of financing the loans which many commercial banks struggle with and are often reluctant to disburse. Youth entrepreneurs also encounter challenges accessing MSME-related funding programs designed by commercial banks for a number of reasons including lack of awareness on the funding program, poor financial records, collateral challenges, high interest rates, tedious and complicated application processes etc.



## Recommendations

To address the access to funding gap and drive youth inclusion within the ginger sector, government and other entrepreneurship ecosystem players across private development sectors could implement the following recommendations.

### **Scale the impact of successful funding models**

Funding organizations that have successfully designed and implemented a funding model that works for young entrepreneurs bearing in mind the peculiar constraints youth entrepreneurs face, should be supported to scale the impact of their work. Strategies such as the BOI approach to funding youth entrepreneurs using NYSC certificates as collateral for equipment financing could be replicated across public, private and development sectors. Also, the LSETF model which has yielded positive results in Lagos state could also be replicated and/or adapted by other state governments in Nigeria.

### **Review and/or redesign current funding interventions for stronger impact**

Government funding initiatives such as the CACS, AGCS and the Bank of Agriculture funding programs are laudable government interventions that could be reviewed and/or redesigned with challenges addressed for stronger impact within the agricultural sector including the ginger space. For example, funding initiatives designed on a government bailout strategy will only be effective if the government disburses funds promptly. This will not only motivate participating banks and farmers in the schemes but will also attract other stakeholders who may have been skeptical about participating.

### **Design and Implement Ginger Funding Program**

With ginger exports accounting for 23% of Nigeria's GDP and a potential export market value of about \$70 million despite the current challenges within the space, the case for supporting youth

Businesses within the ginger sector is strong. Designing and implementing a funding program that provides needed long-term finance to and drive transformation within the ginger sector will not only directly impact Nigeria's exports and GDP, but will contribute to economic growth and drive youth inclusion within the space

**Simplify Loan Processes** Major challenges often encountered by youth entrepreneurs when accessing loans include complicated application processes, high interest with short moratorium periods and collateral issues. Simplifying loan processes can contribute to bridging the access to finance gap for youth entrepreneurs within the ginger sector starting with a simple and efficient application system. Also, designing and implementing loan programs with single digit interest rates and fair moratorium periods such as the BOI, LSETF, NIRSAL Microfinance, AGSMEIS loans etc will go a long way to support youth entrepreneurs. Enforcing the implementation of the Removeable Collateral Registry initiative will also help to address collateral issues for youth entrepreneurs.

### **Use of Informal and other alternative funding Systems**

To address the issue of access to finance within this sector, it is imperative that informal funding structures and instruments are also explored. Examples of these systems are co-operatives, cluster financing, patient capital and the strategies around equity funding. Leveraging such opportunities would result to reduced cost of transactions (as Interest rates charged on informal financial instruments are relatively lower than rates of formal financial instruments), immediate accessibility, character-based loan acceptance and sequential access to facilities.

The informal financial sector is noted to provide savings or credit facilities and, in some cases, commodity exchange for small farmers in rural areas, and for lower income households and small-scale enterprises in urban areas. The simple and straightforward handling of loan requests allows for their rapid acceptance and payout with minimal delay in disbursement. Rejection within these structures is uncommon; nonetheless, the level of risk is reflected in the interest rate charged. Due to the fact that they emanate from local environment, informal groups are aware of the problems that members may be confronted with, and thus may deal with repayment difficulties pragmatically. In this system, debt rescheduling is possible which can potentially benefit and go a long way for youths.

**Increase awareness of available funding opportunities**

A major challenge with many of the funding opportunities and programs shared above is the lack of awareness. A strategic communication approach should be adopted by both government and ecosystem players across private and development sectors to ensure that funding programs targeted at youth entrepreneurs are publicized using offline and online channels typically associated with young people.

**Bridge the Financial Literacy and Investor Readiness gap through Business Support**

Quite a number of government and private sector led funding initiatives have a business training component as part of efforts to bridge the financial

literacy and investor readiness gap among youth entrepreneurs. While this is strongly encouraged, the government and ecosystem players could also leverage technology to provide on-demand business support which is critical as knowledge gained from training programs could easily be forgotten. Business support and advisory however would enable youth entrepreneurs effectively work on putting together their financial records encouraged, the government and ecosystem players could also leverage technology to provide on-demand business support which is critical as knowledge gained from training programs could easily be forgotten. Business support and advisory however would enable youth entrepreneurs effectively work on putting together their financial records.

**Make the sector attractive to investors by addressing structural and infrastructural issues**

With the ginger sector experiencing a myriad of issues around insecurity, transportation and distribution challenges, poor quality of seedlings and farming techniques, shortage of extension workers, poor storage facilities, loose regulatory framework, standardization issues, poor access to markets, lack of technical expertise etc., the ginger sector is currently unattractive to investors. Addressing these structural and infrastructural issues by the Government will not only boost output, but it will also attract investors into the space.

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## About The FATE Institute

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The FATE Institute is the research, policy and advocacy arm of FATE Foundation which leads innovative thinking and creates platforms to enable idea exchange and problem-solving strategies to foster sustainable entrepreneurship in Nigeria.

Since inception in 2015, the FATE Institute has published 12 thought leadership reports on Nigeria's Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs; held a yearly Policy Dialogue on Entrepreneurship; and in 2021 launched a quarterly Policy Workshop series. The Institute also recently developed the Enterprise Data Map platform to track data and insights within the ecosystem.

The FATE Institute is a member of the Global Entrepreneurship Research Network (GERN), Aspen Network of Development Entrepreneurs (ANDE) West Africa and also the Facilitator of the Nigerian Economic Summit Group (NESG) MSME Community of Practice.



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