BEYOND THE FINDINGS:
Rethinking Agricultural Financing Through an Islamic Finance Lens

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Following the publication of my research paper, "Agricultural Finance and the Growth of the Agricultural Sector in Nigeria," a new wave of inquiries and critical engagement has emerged from across the spheres of finance, development, and public policy. While the study confirmed what many in the development community have long suspected that agricultural financing positively influences sectoral output in Nigeria it also exposed a deeper and more persistent challenge: that the structure of available capital continues to marginalise agriculture, particularly at the grassroots level.

In theory, increased capital flows into agriculture should translate directly into higher productivity and broader economic inclusion. Indeed, the findings in the study show that a one percent increase in agricultural finance results in a 0.272% rise in output. Though seemingly modest, the compounding impact on livelihoods, food systems, and rural employment is significant. Yet, the agricultural sector continues to receive less than five percent of formal credit from commercial banks. The reasons are familiar: the sector is perceived as high-risk, cash flows are seasonal, and many actors remain outside the formal financial system. But at the heart of the issue is something more structural—a mismatch between the nature of agricultural work and the conventional finance mechanisms designed to support it.

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The answer, I believe, lies in a more profound rethinking of the frameworks through which capital is deployed. This rethinking must account for ethics, inclusivity, and sustainability. It must also consider the socio-cultural dynamics of regions such as Northern Nigeria, where financial inclusion has remained elusive despite successive policy interventions. In this context, Islamic finance presents a compelling alternative. Unlike conventional finance, Islamic finance is rooted in principles of shared risk, ethical investment, and the prohibition of interest-based transactions. These features make it particularly suitable for agriculture, a sector where risk is unavoidable and returns are often uncertain. Instruments such as forward contracts like Salam or Istisna provide pre-financing solutions that can be tied to future output or project completion without the burden of compounding interest, thus addressing the crucial problem of working capital and delayed revenue. without the burden of compounding interest. In regions where farmers are wary of debt and skeptical of formal institutions, this model aligns better with their lived realities.

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More sophisticated instruments such as Mudarabah and Musharakah allow financiers and farmers to enter into profit-and-loss sharing partnerships. These arrangements not only spread risk more equitably but also foster a sense of ownership and collaboration. For input-heavy or infrastructure-driven aspects of agriculture, Murabaha, where a financier purchases goods and sells them to client at a fixed profit margin, offers predictable payment structures. To be clear, Islamic finance is not a panacea. It faces its own institutional and regulatory hurdles, not to mention a general lack of awareness among both farmers and financial practitioners. However, when embedded within blended finance models that include donor guarantees or development finance institution backing, Islamic finance instruments can be de-risked sufficiently to attract private capital. The addition of Takaful, a form of cooperative insurance compliant with Shariah law, provides a safety net against the increasingly frequent climate and market shocks that smallholder farmers face.

There is also growing interest in reviving traditional Islamic philanthropic tools such as Waqf to finance agricultural infrastructure and value-chain development. These charitable endowments, if modernised and properly managed, could be directed toward long-term investments in irrigation, storage, and rural connectivity, areas often ignored by short-term commercial lending.

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In many ways, agriculture in Nigeria and similar economies sits at the crossroads of necessity and neglect. It is essential for food security and employment, yet chronically underfinanced. My original research asked what impact agricultural finance has on output. But the real question, as this follow-up exploration suggests, is what type of finance can catalyse sustainable and inclusive agricultural growth.
The answer, increasingly, points towards ethical, asset-based, and participatory financing mechanisms—features embedded in the DNA of Islamic finance. As Nigeria and other nations search for solutions to rural poverty, food insecurity, and climate adaptation, it is time to reconsider the financial structures at the heart of our agricultural systems.

The full study, "Agricultural Finance and the Growth of the Agricultural Sector in Nigeria," is published in the International Journal of Innovative Finance and Economics Research (Vol. 12, No. 1, March 2024). It is available at: Agriculture remains the backbone of many economies, yet access to financing continues to be a major hurdle for farmers and agribusinesses. Can commercial banks be the game-changer?

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