Agriculture Value Chain Financing in Nigeria, a Commercial Bank Perspective
Establishing an African Agriculture Risk Sharing Mechanism

Presented by
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The Nigerian Economy
  Key statistics
  Agricultural in Nigeria

Funding Agriculture
  Challenges
  Initiatives
  Success Stories

Key Learnings
1. THE NIGERIAN ECONOMY
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1.1 KEY STATISTICS

- GDP: $521.8 Billion
- GDP growth rate: 2.79% (2015)/ -0.36% (Q1 2016)
- Population: 179 Million (2016) / Growth rate: 2.8%
- Land mass: 923.8km²
- Crude Oil Production: Between 1.506 - 1.800 BBL/D in 2016
- Total Imports: N6.68 trillion (2015) / N1.45 trillion (Q1 2016)
- Total Exports: N9.73 trillion (2015) / N1.27 trillion (Q1 2016)
- % of Crude Sale to export: 80%

“1:43 persons in the world is resident in Nigeria”

“Political instability in the North and Delta areas”

“Recent currency devaluation c. N284 / 1$”
1.2 AGRICULTURE IN NIGERIA

1.2.1 KEY STATISTICS

- % of GDP: 22% (formally 40% before rebasing of GDP)
- Employment: 70% of employed labour force
- Arable Land: 301Km2
- Cultivated: 33.02%
- Import size; 17% of imports (Food and Drinks)

“Predominantly an Agricultural society, although holdings are small, scattered and subsistent”

“Wide range of climate variations allows the production of diverse crops”

“Mechanization is low and use of fertilizer is just gaining currency”

“A significant portion of the agricultural sector involves cattle herding, fishing, poultry and lumbering”
1.2.4 Agriculture: In the 60’s

**BETWEEN 1960 – 1965:**

- Regionally focused policies based on the economic principle of commodity comparative advantage
- Nigeria was agriculturally self-sufficient and food secure
- Largest producer of groundnut
- Largest producer of palm oil
- Significant producer of cotton and cocoa
- Main source of employment – 70% of labor force
- 62.2% of foreign exchange
- 66.4% of GDP

“Remembering the great groundnut pyramids and endless rolling palm plantations”
1.2.5 Current Challenges

- FINANCING CONSTRAINTS
  - Land Tenure System
  - Mechanization
  - Storage & Processing facilities
  - Access to technical & Agricultural Education
  - Marketing Risks
  - Basic Infrastructure
  - Poor Extension Activities
1.2.6 Policy Thrust

• Agriculture must cease from being treated as development program; Agriculture must be treated as business” - Buhari

• “Our goal will be to pursue government supported private sector agriculture value chain to make agriculture more productive, efficient, competitive” - Buhari

• “To provide enough food for domestic supply and create jobs through agriculture value chain” - Buhari

• “We must in a few years time, at most, be able to feed ourselves…” - Buhari
2. FUNDING AGRICULTURE
2.1 Challenges

- Low Lending
- Limited bank capability
- Low financial literacy
- Low levels of loan distribution
- Dearth of Risk mitigation products

“Only 1.4% of banks lending portfolio was made to the Agriculture Sector”

“Only 21% of population is banked”

“Insufficient infrastructure linking banks to agriculture zones”
2.2 Institutionalized Agricultural Finance in Nigeria

2.2.1 Growth Enhancement Support Scheme (GESS)
Commenced in May 2012 to improve productivity by subsidizing, to farmers directly, farm inputs (fertilizer, improved seeds and farm inputs). Provides up to 50% subsidy on farm inputs by various tiers of government.

Comments:
• Moves risk of financing from the high risk area to moderate risk and more organized supply agents
• Moderates financing cost through interest drawback, although payments were often delayed
• Largely ensured that subsidy reached the desired targets and eliminated waste
• No risk sharing component
2.2 Institutionalized Agricultural Finance in Nigeria

2.2.2 Commercial Agriculture Credit Scheme (CACS)

Commenced in 2007 To fast track development of the agriculture sector by providing credit facilities at single digit rates and to provide liquidity to commercial banks to lend to the Agriculture sector.

Comments:
- Simple structure and allows provision of financing to a wide range of Agri-Business subsectors
- Provides liquidity at fixed single digit rates
- No risk sharing component
2.2 Institutionalized Agricultural Finance in Nigeria

2.2.3 Nigeria Incentive Based and risk Sharing System for Agric Lending (NIRSAL)

Commenced in 2012 as “one bullet solution” to de-risk and encourage commercial banks to adopt the value chain approach in lending to the agriculture sector.

Comments:

- Provides financing cost moderation (7.5% to 10.5%) using interest drawback
- Risk sharing ranging from 20 – 80%. Thus, the higher risk primary sectors and lower capacity farmers enjoy higher risk sharing
- Provision of mechanisms for technical support and education for all stakeholders as well as incentives for commercial banks
- Strengthens risk sharing by encouraging development of various insurance products
- Slow approval process and interest draw back repayment
- Loans approved under the scheme without consideration for value chain
- Does not provide liquidity for longer term financing
2.2 Institutionalized Agricultural Finance in Nigeria

2.2.4 Others

- Subsidy: Import duty and tax breaks/exceptions
- MSMEDF/RSSF: Provides liquidity and single digit lending to SME and Real Sector/manufacturing entities
- NAIC: Provide cover for Agribusiness specific insurance.
- Staple Crop processing zones: centers of excellence for food and cash crop
2.3 Success stories

“Africa is our home and for the past 153 years, we have been helping Africa drive her growth” – Standard Bank Group, SA

Total Agribusiness Loan portfolio is 11.5% of the Bank’s loan book vs Industry’s of 1.4%.
## 2.3 Success stories

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<thead>
<tr>
<th>Name of company</th>
<th>Address, Turn over &amp; Deal Size</th>
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</table>
| **A – Commodity trading & Farming** | Headquartered in Iganmu, Lagos State  
Turnover N176.5Bn  
Deal size N11.2Bn                                      |
| **B – Grain Farming & Processing** | Headquartered in Zaria; Kaduna State  
Turnover 1.0BN  
Deal size N550M                                      |
| **C – Flour Milling & Farming**   | Headquartered in Zaria Nigeria, also has an office in Lagos  
Turnover N332Bn  
Deal size N27.68Bn                                      |
| **D – Feed Manufacturing & Farming** | Headquartered in Lagos.  
Turnover N6Bn  
Deal size N2Bn                                      |
| **E – Feed manufacturing & Farming** | Headquartered in Jos  
Turnover N25Bn  
Deal size N3.Bn                                      |
| **F – Feed manufacturing and farming** | Headquartered in Sapele  
Turnover N1.5BN  
Deal size N400M                                      |
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| **G – Poultry & Feed milling**      | ■ Headquartered in Ibadan, Oyo State  
 ■ Turn over N2.2Bn  
 ■ Deal size N1.4Bn | **J - Agro-packaging manufacturers** | ■ Headquartered in Kan0.  
 ■ Turnover N6Bn  
 ■ Deal size N2Bn |
| **H – Tomato concentrate and packaging** | ■ Headquartered in Lagos  
 ■ Turnover 3.6BN  
 ■ Deal size N5Bn | **K- Poultry & feed milling** | ■ Headquartered in Kwara State  
 ■ Turnover N1.6BN  
 ■ Deal size N2.8BN |
| **I – Agro dealer and Processing** | ■ Headquartered in Lagos  
 ■ Turnover N6.5BN  
 ■ Deal size N2Bn | **L- Grain Farming** | ■ Headquartered in Umuahia, Abia State  
 ■ Turnover N2.8BN  
 ■ Deal size N518M |
3. KEY LEARNINGS
MOVING FORWARD

• Value chain financing depends on a range of supports and services - use a combination of them – Risk sharing/Liquidity/interest reduction/insurance/etc.

• Value chain finance can be ‘positive-sum’ with use of contractual agreements to bind & reinforce each element, reducing risk

• Financing efficiency and risk reduction can be achieved by financing through the strongest chain actor or actors

• The viability of value chain finance depends on knowledge, data availability and intelligence.
Thank You