FINANCING AND RISK SHARING

A PRESENTATION OF NIRSAL Plc. AT THE ENABLE YOUTH PROGRAM DESIGN WORKSHOP, ABUJA, NIGERIA

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BY

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ABOUT NIRSAL

NIRSAL Plc, The Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL) was incorporated in 2013 as a $0.5Bn ($500Million) public-private initiative (wholly owned By the Central Bank of Nigeria) designed to appropriately Define, Measure, Price and share agribusiness related credit risk.

- Applies Funds along its 5 pillars of: Risk Sharing ($300Mill), TA ($60Mill), Innovative Insurance Products Dev. ($30Mill), Bank Rating ($15Mill), Bank Incentive ($100Mill)

- Mobilizes financing for Nigerian agribusiness by using credit guarantees to address the risk of default

- Nirsal provides a flexible financing tool designed to change the behavior of financial institutions.
RATIONALE FOR ESTABLISHING NIRSAL

• To fix agricultural value chains in order to provide platform in de-risking agricultural lending.

• To mobilize financing for Nigerian agribusiness by using credit guarantees to address the risk of default.

• To Provide technical assistance through capacity building across the value chains.

• To reduce the cost of borrowing

• To Provide technical advice to agribusinesses.
MODE OF OPERATION:
NIRSAL creates access to finance by integrating end-to-end agriculture value chains with financing value chains...
STATE OF NIGERIA’S AGRICULTURAL FINANCE BEFORE NIRSAL

By 2015 Nigeria’s formal financial system is lending 4.7% of all formal credit to the agricultural sector which represents progress as against 4 years ago when only about 1.4% of all credit went to agriculture; note that since 1980s, levels of lending have remained low despite a series of Central Bank of Nigeria’s interventions e.g.

- Agricultural Credit Guarantee Scheme Fund (ACGSF): ₦52 billion guaranteed
- Agricultural Credit Support Scheme (ACSS): ₦50 Billion pool
- Commercial Agriculture Credit Scheme (CACS): ₦200 Billion in on-lending
As a result of the lessons learned from running such financing schemes, CBN decided to change how it supports the financing of agriculture, the changes included but were not limited to:

- Focus more on guarantees rather than placing credit/funds directly with banks
- Use mix of incentives and penalties to shape financial system behavior
- Address challenges in the value chain by providing extensive technical support etc
NIRSAL SCORECARD

Even as a Project Implementation office under incubation within the Development Finance Department of the CBN, between 2013 to 2015, and with a staff strength of only 12, NIRSAL was able to achieve the following performance metrics:

- ₦61.160 billion were guaranteed. Similarly, the sum of ₦753.36 million was paid out as interest rebate to borrowers who were in good standing to encourage good repayment thereby minimizing default.

- NIRSAL has guaranteed up to 40% (207) of the Federal Ministry of Agriculture’s Growth Enhancement Scheme (GES) projects Valued at ₦39.49 Billion and Paid Interest Draw Back to GES beneficiaries on 91 Projects valued at ₦439.09.82 Million

- Trained 112,000 farmers/primary producers in 4 value chains: Rice, Cocoa, Cotton and Tomato
OPPORTUNITIES

- Nigeria Food Import substitution market of N2.2 trn by 2014
- Domestic Market of 180 Mill People
- Hundreds of Billions of Naira worth of Agro-Industrial Markets

CHALLENGES TO AGRICULTURAL LENDING

- Many banks do not understand Agri-lending well and therefore perceive it as high risk.
- Credit assessment processes are poor and transaction cost are high because innovative Origination & Distribution channels are not often used.

HOW NIRSAL ADDRESSES THESE CHALLENGES

- Nirsal Credit Risk Guaranty (CRG)
- Interest Draw Back (IDB)
- Capacity Building for Banks and MFIs
<table>
<thead>
<tr>
<th>S/N</th>
<th>AGRIC. VALUE CHAIN YOUTH ENTERPRISES</th>
<th>GUARANTEE LEVEL (LEVERAGING FUND)</th>
<th>Interest Drawback (Spend) By AfDB/FMARD</th>
<th>Equity Funds (Disbursable) By AfDB/FMARD</th>
<th>Loans (Disbursable) By Commercial Banks</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Research and Application of Science, Technology &amp; Innovation by Youth Private extension Services</td>
<td>Suitable for Development Financing</td>
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<tr>
<td>2</td>
<td>1&lt;sup&gt;o&lt;/sup&gt; Production</td>
<td>50% 50% 50% 30% 100%</td>
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<td>3</td>
<td>1&lt;sup&gt;o&lt;/sup&gt; Processing / Aggregation</td>
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<td>4</td>
<td>2&lt;sup&gt;o&lt;/sup&gt; Processing /SME Processing</td>
<td>50% 50% 50% 30% 100%</td>
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<td>5</td>
<td>Mechanization</td>
<td>50% 50% 50% 30% 100%</td>
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<td>6</td>
<td>Logistics (Transportation &amp; Ware Housing)</td>
<td>30% 70% 50% 30% 100%</td>
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<td>7</td>
<td>Marketing (branding, Advert and Distribution)</td>
<td>30% 70% 50% 30% 100%</td>
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<td>8</td>
<td>Wholesale and Retail</td>
<td>30% 70% 50% 30% 100%</td>
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<td>9</td>
<td>VC Service Provider (Admin, Legal, IT etc.)</td>
<td>30% 70% 50% 30% 100%</td>
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RATIONALE FOR NIRSAL-ENABLE YOUTHS FINANCING MODEL

- Achieve a leverage of 1:4 i.e $150 of AfDB Fund for $600 of Commercial Bank Finance
- Model is Sustainable (Imposes Discipline of Commercial Finance ab-initio), Revolving and Scalable to new sets of youth periodically
- Model can achieve very low single digit interest rates (6%)
- Allows Youths to borrow/utilize funds responsibly and Creates exit strategy for Government as youths are gradually mainstreamed into permanent commercial relationships with finance & Markets
NIRSAL OPERATIONAL ENGAGEMENT MODEL FOR THE ENABLE YOUTH PROGRAM

In addition to the deployment of its CRGs, TA, Pre-guarantee Project Risk Analysis, Nirsal can also provide the following:

- Support post disbursement project monitoring and reporting on a near real-time basis.
- Deploy applied GAP training and precision agriculture in all its projects for optimization of outcomes.
- Originate bankable (risk-controlled) projects through its business development services for banks to action.
- Create efficient market access models for value chain outputs.
THANK YOU