



Evaluating Agriculture Finance in Nigeria:

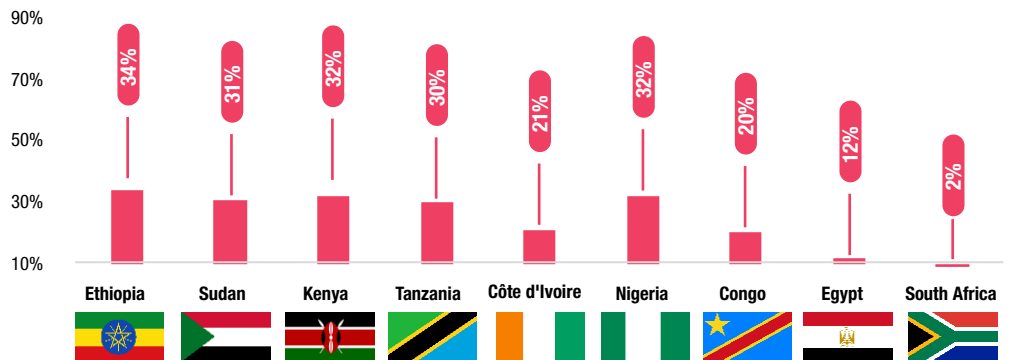
Towards the US\$1 trillion African food market by 2030

Africa's food market to grow to US\$1 trillion by 2030

To maintain its share of the continent's agriculture GDP by 2030, Nigeria will need to grow its agriculture sector revenues by a compounded annual growth rate (CAGR) of 4.7% annually. To ensure this is achieved, agriculture budget to GDP will have to be sustained by at least 7% annually. It is estimated that agriculture is Africa's largest economic sector, representing 15% of the continent's total GDP. Nigeria contributes 14% of Africa's agriculture GDP. The World Bank forecasts that by 2030, the food market in Africa will grow to be a US\$1 trillion industry. Nigeria will need to intensify its investments in improving agriculture yield and integrating the value-chain over the next decade to effectively capture a significant share of the US\$1 trillion market.

According to the Alliance for a Green Revolution in Africa (AGRA), Africa continent would require over US\$300 billion of public and private investments across the agriculture value-chain over the next decade.

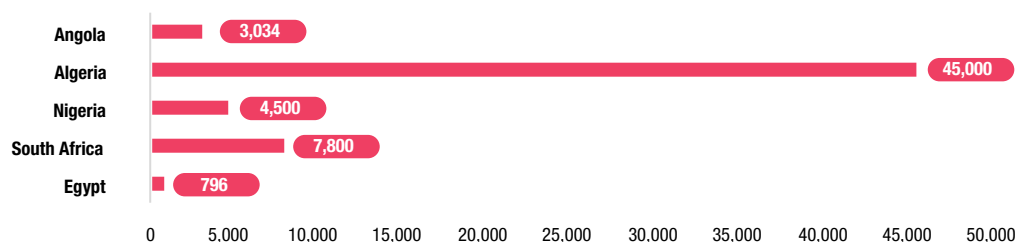
Agriculture contribution to GDP of some African countries (2017)



Source: IMF, World Bank, PwC analysis

The top 10 African countries (including Nigeria) produce 75% of Africa's farm produce. In addition, Ethiopia, Kenya and Nigeria are the top three Africa countries with the highest GDP contribution from Agriculture in 2017. Despite this, statistics from the World Bank indicates that average agriculture contribution to GDP declined from 20% in 2009 to 16% in 2017 in sub-Saharan Africa. According to African Development Bank (AfDB), the continent's 2017 food import bill of US\$35 billion is estimated to rise to US\$110 billion by 2025. Overall, the continent accounts for 60% of the world's global uncultivated arable land estimated at 600 million hectares.

Food import bill (US\$ Millions) 2017 estimates





Overview of Nigeria's Agribusiness

Nigeria's agriculture contribution to GDP makes it the largest sector in the country. Crop production accounts for a huge chunk of activities in the sector representing 88% of total industry size with livestock, forestry and fishing accounting for the balance of 12%. The sector achieved GDP of US\$113.64 billion in 2014, the highest in the last five years (2013 – 2017). Since then, the sector's contribution has been declining due to low agriculture yields, conflicts such as terrorism and the herdsmen crisis, as well as the impact of climate change. Agriculture contribution to Nigeria's GDP dropped by 31% from US\$113.64 billion in 2013 to US\$78.45 billion in 2017.

Food import bill in 2017 was US\$4.5 billion representing a 12.2% increase from the 2016 bill of US\$4.01 billion. However, Q2 2018 bill of US\$0.97 billion shows a decline of 31% over Q1 2018 import bill of US\$1.4 billion. Though Q2 2018 bill

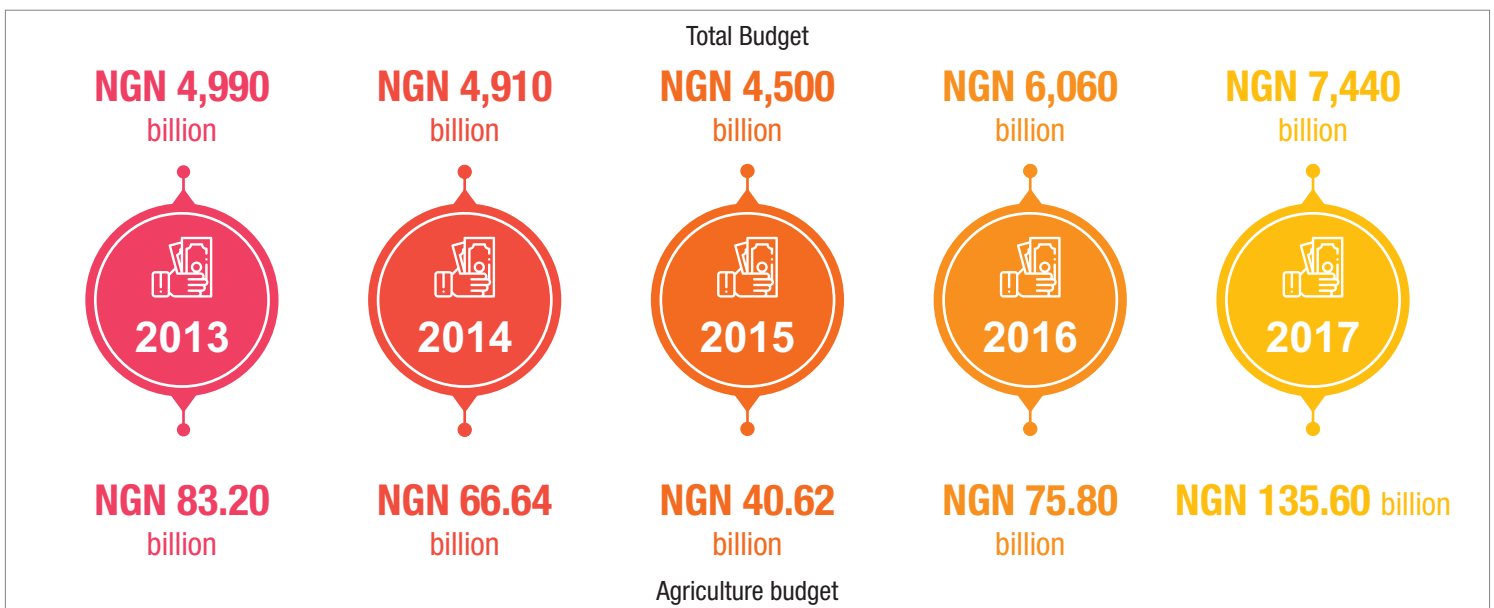
of US\$0.97 billion reflected a decline of 31% over Q1 2018 bill of US\$1.4 billion, when compared to Q2 2017 of US\$0.48 billion, it was a significant increase of 102%.

Nigeria is the largest rice producing country in West Africa. In addition, the country grows about 50% of grain crops produced in West Africa. Nigeria is the 3rd largest millet producing country in the world after India and China. Also, the country is the world largest producer of cassava and yam; the 2nd world largest producer of sweet potatoes and the 4th world largest producer of groundnut and cocoa. Nigeria has over 84 million hectares of arable land, of which only about 40% is cultivated; 230 billion cubic metres of water; abundant and reliable rainfall in over two-thirds of its territory, and some of the richest natural resources for agricultural production in the world.

Annual Agriculture budget falls short of the Maputo agreement

The ratio of Nigeria's budget for agriculture to annual budget falls short of the prescribed standard set by the Maputo Declaration on Agriculture and Food Security ("The declaration"). Through the declaration, the African Union (AU) agreed to allocate at least 10% of its member countries annual national budget to agriculture.

Budgetary allocation for agriculture of N0.20 trillion accounts for 2.2% of the proposed 2018 budget of N9.12 trillion. In 2017, agriculture budget of N0.10 trillion represented 1.3% of total budget of N7.44 trillion





Government funding

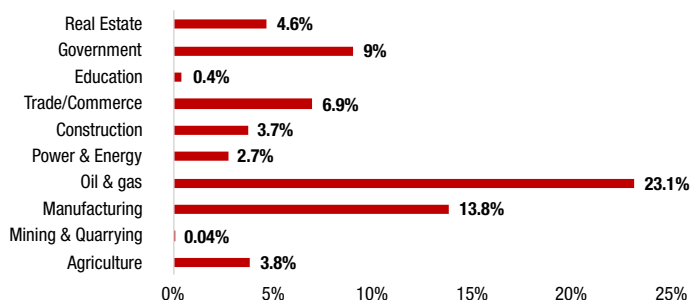
Federal Government of Nigeria (FGN) financing and risk management strategies to support development of agricultural sector include the Anchor Borrowers' Programme, Commercial Agriculture Credit Scheme (CACs), and the establishment of The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL). Several state governments have also deployed funding strategies to unlock growth in the agricultural products of their comparative advantage. All the aforementioned initiatives are designed to deepen the credit market for agribusiness.

For instance, about 74% of the N200 billion special credit intervention fund was disbursed to 191 businesses between 2009 and 2016 based on report on CACS of the Central Bank of Nigeria. 45% of the beneficiaries are involved in crop production, 23% in livestock production and 15% in agric processing. The leading states in terms of the location of beneficiaries are Oyo, Kano, Kaduna, Lagos, Edo and Kwara states.

Financial institutions

According to the National Bureau of Statistics, credit to agricultural sector was 3.26% and 3.36% of total credit to the private sector in 2016 and 2017 respectively. When compared to banking sector credit to other industries, agricultural sector received the lowest credit allocation from banks despite the sector's more contribution to GDP than other industries. The activities of NIRSAL in de-risking the sector will go a long way in unlocking financial credit for agriculture value-chain in the short to long-run.

Banking sector credit to private sector (Q3 2018)



Development partners funding

Development partners have supported growth in the agricultural sector over the decades. They have channeled funding towards capacity development, policy development & implementation, improved farming methods and best practices, as well as enhanced yields and output, among others. Notable among the development partners are the African Development Bank (AfDB), the Alliance for a Green Revolution in Africa (AGRA), the Food and Agriculture Organisation (FAO) and the Bill & Melinda Gates Foundation. Foreign government funding have also emerged in the last decade mainly through the United States Agency for International Development (USAID), the Netherlands Embassy, the Department for International Development (DFID).



Private investors

According to National Bureau of Statistics, Agricultural sector received 1.6% or US\$195.7 million of the total capital inflows into the country in 2017. This represents a significant increase over the 2016 amount of US\$22.47. Despite this, the sector lags behind the share of other industries such as Servicing - 13.75%, Production - 12.16%, Telecoms - 4.96%, Oil & gas - 3.57% and Financing - 2.76%. Major investors in Nigeria's domestic agricultural landscape include Olam, Presco Plc, Okomu Oil Palm Company Plc, Nestle Nigeria Plc, Flour Mills of Nigeria Plc, Nigerian Breweries Plc, PZ Wilmar Ltd etc.

Financing Agriculture: beyond the traditional models



Crowdfunding

Crowdfunding market is in its infancy in Nigeria but it has huge potentials. Start-ups like Farmcrowdy and Thrive Agric are empowering the middle-class to invest in farming via technology-enabled platforms. This social class investors are able to fund farming from as low as \$200 to \$750 for a harvest cycle of between three and six months (depending on the nature of agricultural product). The reward for the investors is share of profit in the form of guaranteed return on investment.

Technology-enabled commodity exchange

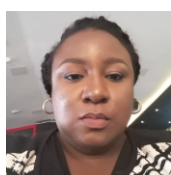
Technology-enabled commodity exchange is aimed at providing solutions to farmers' challenges in aggregation, storage, financial inclusion as well as providing a ready market for both farmers and buyers to participate.

This is a novel idea in the country and if well harnessed, it will bring about tremendous revolution in Agribusiness value chain particularly at the post harvesting stage. Leading this movement are Binkabi and AFEX Commodities Exchange Limited

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