Executive Summary

Addressing the $200 billion demand for finance for Agriculture and Agribusiness in Nigeria

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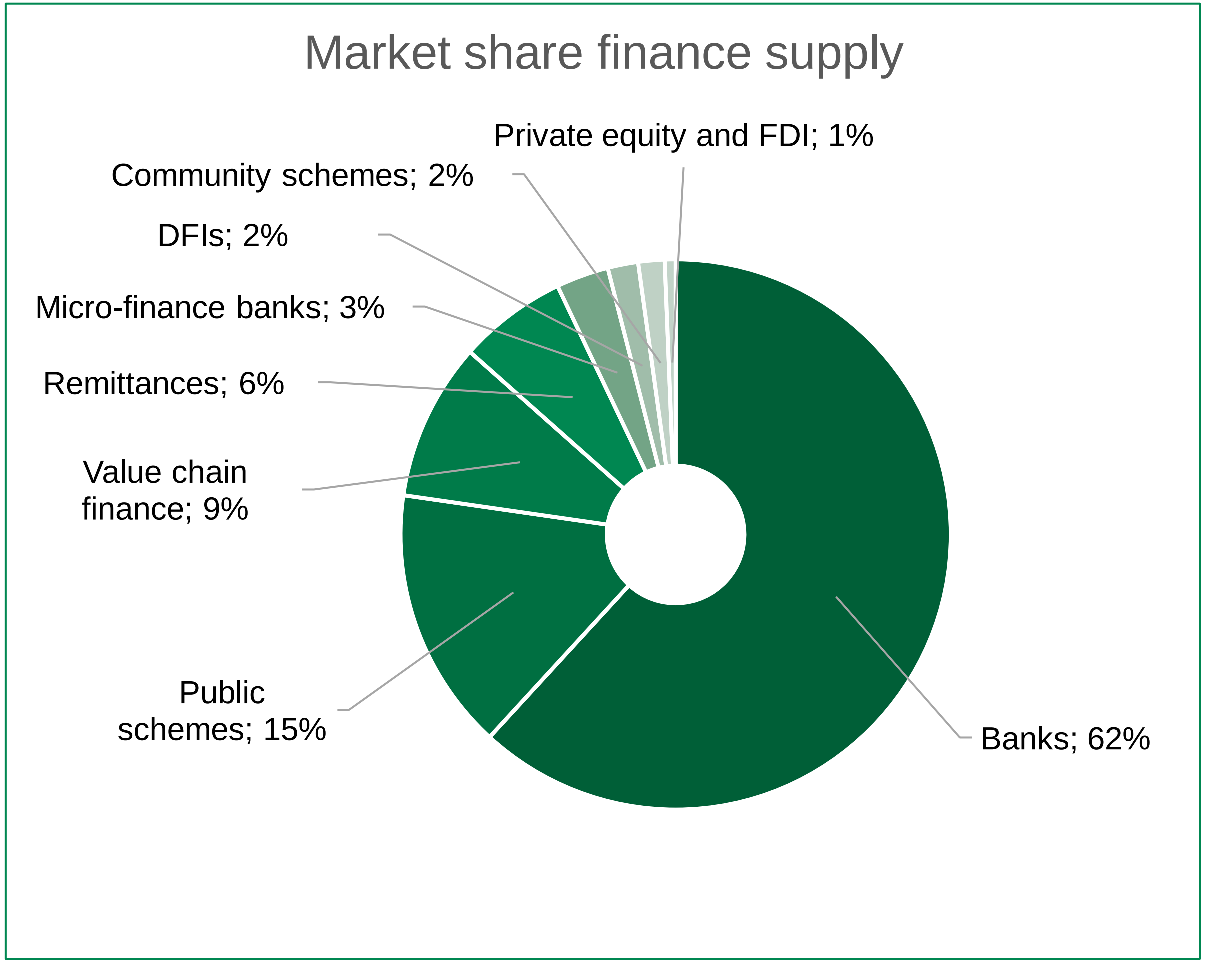
Sector characteristics | Nigeria

- Staples for domestic processing and consumption; and cash crops for export value.
- Smallholder farming with many subsistence farmers and often low productivity.
- A largely informal economy: SMEs are significantly contributing to GDP, yet often not registered.
- Policy and legislation often by trade regulation for import or limiting access to foreign currency.
- With population growth, infrastructure challenges and trade barriers, food self-sufficiency is not in sight.

Sources: Agri-Logic, CGAP, FAO, SMEDAN, World Bank

Supply of financing | total

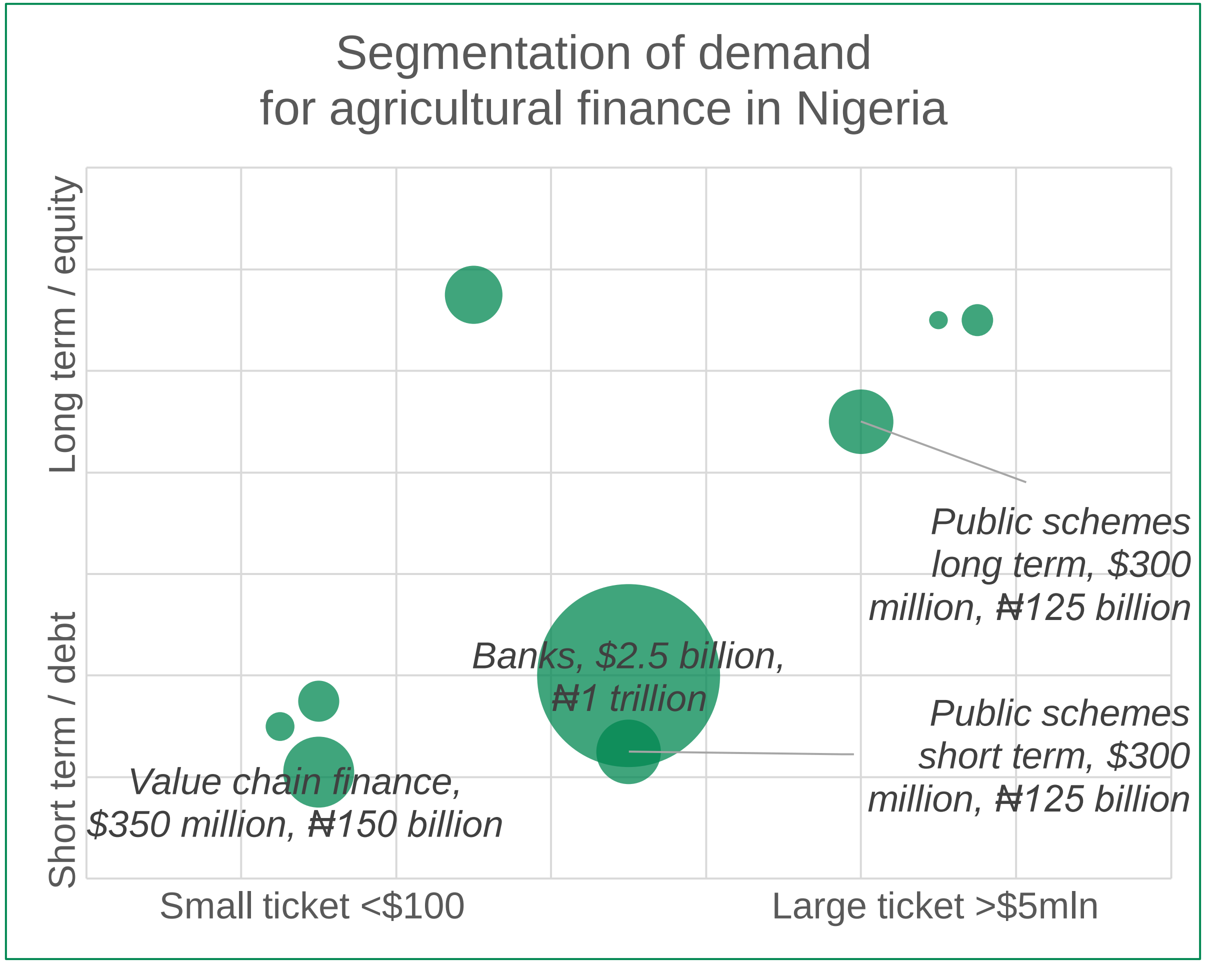
- Deposit money banks are the largest financier in agribusiness.
- Followed by public financing schemes from CBN and others, and value chain finance through traders and processors.



Sources: Agri-Logic

Supply of financing | total

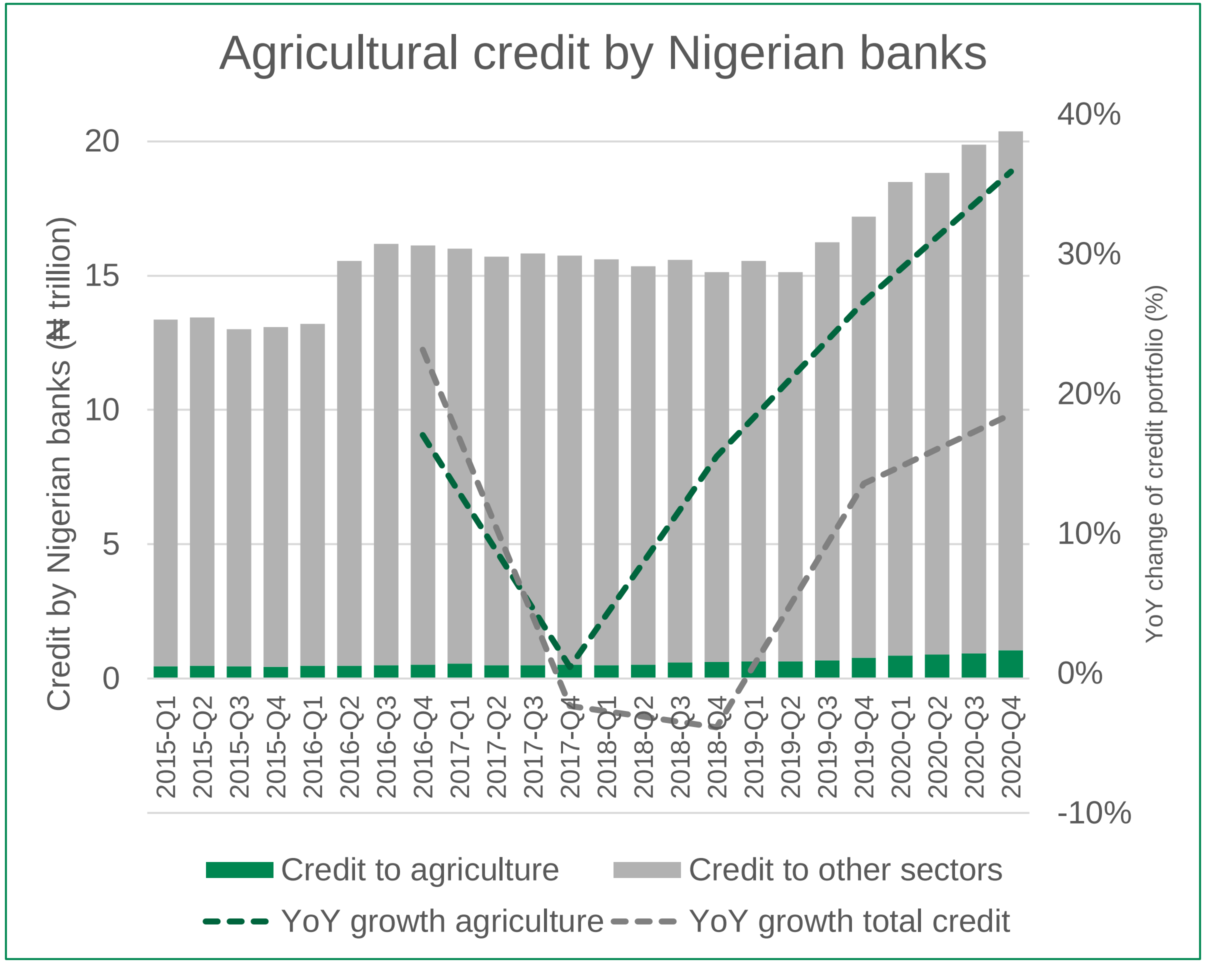
- The total supply of agricultural finance is estimated ₦1.6 trillion ($4 billion), with an additional ₦6 trillion ($15 billion) self-financed by entrepreneurs or their shareholders.
- Supply of financing roughly falls into 4 categories:
  - Commercial banks and micro-finance banks
  - Public finance schemes (short/long term)
  - Value chain finance through aggregators
  - Informal investment schemes and remittances



Sources: Agri-Logic

Supply of financing | banks

- Banks are the largest provider of agricultural finance in Nigeria, with a combined loan portfolio of ₦1 trillion ($2.5 billion).
- Agriculture only represents ~5% of banks' total loan portfolio. Bank funds for agriculture grow ~35% annually, faster than credit to other sectors.
- Nigerian banks generally have liquidity, and CBN incentivizes private sector lending.
- Bank credit is mainly available to medium to large processors and traders with an office in major cities and with personal assets as a collateral.
- Banks and other stakeholders report lack of sector knowledge as a barrier to portfolio growth.



Sources: Agri-Logic, Agrilinks, CBN, NBS

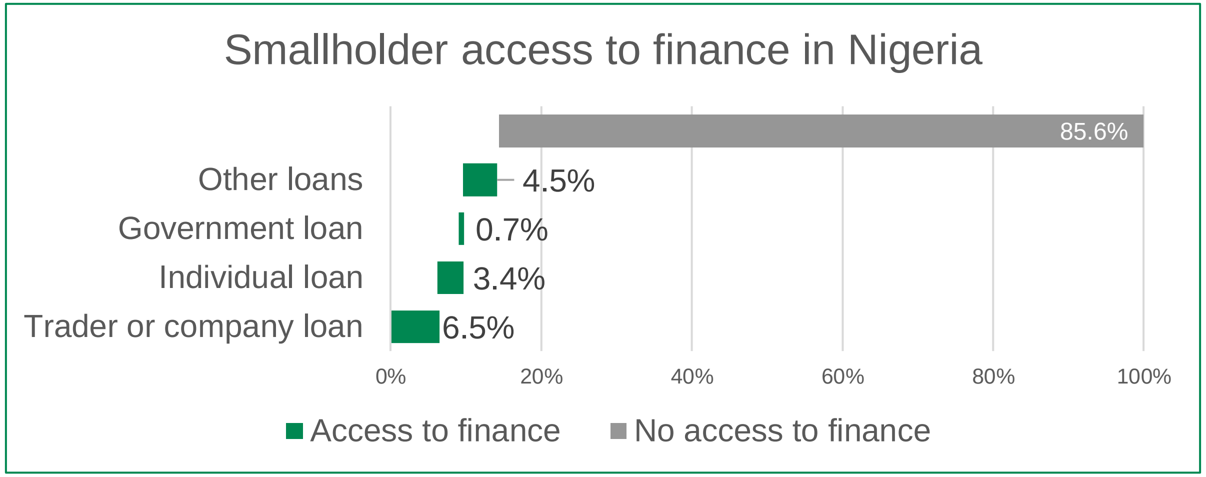
Supply of financing | public finance schemes

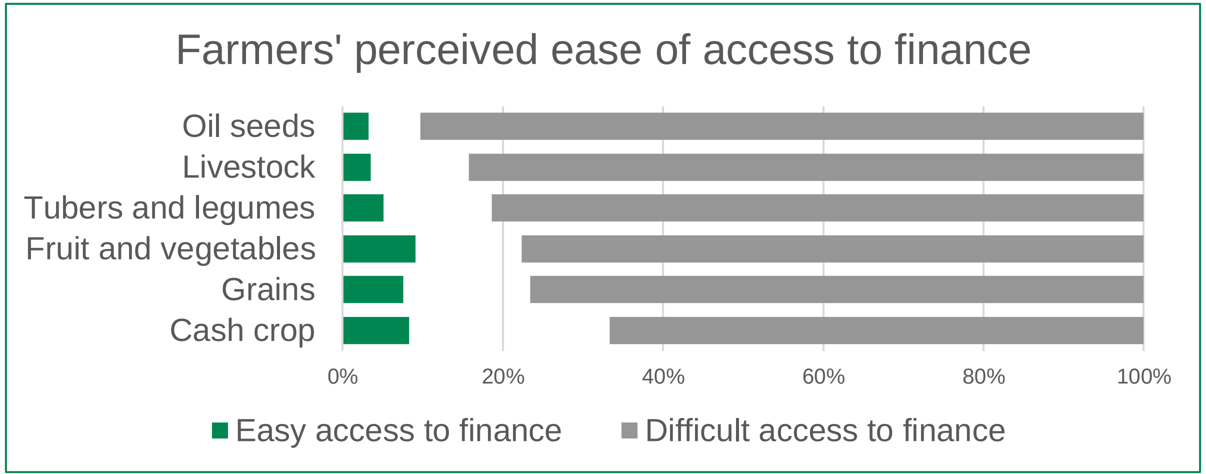
- Public schemes by CBN and others are a significant source of funds for agriculture and agribusiness, and are the largest actor that is facilitating inputs credit to farmers and providing medium term finance to SMEs.
- Key schemes include:
  - CBN's Anchor Borrowers Programme disburses to aggregators who in turn provide prefinance to farmers.
  - The Commercial Agricultural Credit Scheme releases funds for large scale projects.
  - Other public schemes including Bank of Industry, Bank of Agriculture and NIRSAL Micro Finance Bank.
  - CBN recently announced RT200FX, targeted at increasing non-oil exports.
- These public funds however struggle with low repayment rates and as such have limited scalability.

Sources: Agri-Logic, CBN

Supply of financing | value chain finance

- Value chain finance works through aggregators, typically exporters or traders, and some fertilizer manufacturers, cooperatives and processors.
- Value chain finance in Nigeria ranges between $50 and $250 per farmer, often provided in kind and through a network of traders and agents.
- Value chain finance is the most common source of financing for SMEs, after personal and informal funding.
- Value chain finance represents the largest source of finance to smallholder farmers, however currently <10% of farmers has access to this form of credit.
- Cash crops, grains and vegetables are tighter value chains that more regularly use value chain finance structures, and have a higher perceived ease of access to finance by farmers.





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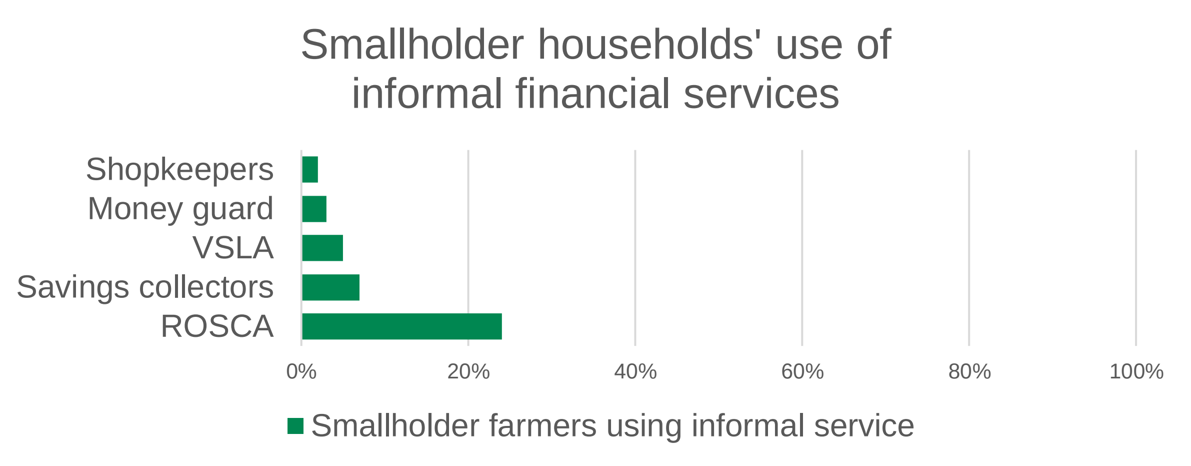
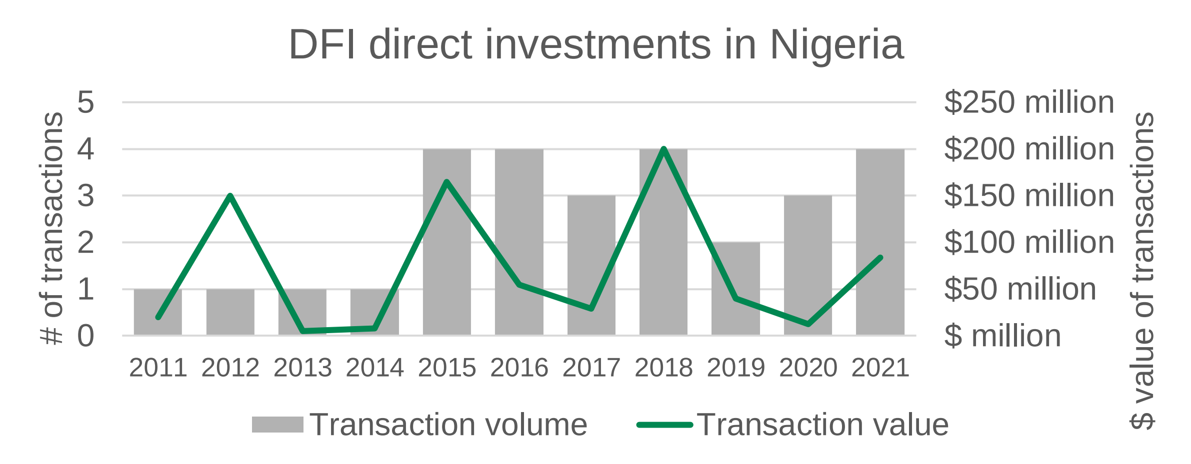
Sources: Agri-Logic, AFEX

Supply of financing | other

- Informal schemes rely on trust and social control to ensure appropriate financial management, and target the least bankable communities. Schemes are self-funded and promote savings behavior.
- These informal schemes represent a much smaller amount of agricultural financing, but can reach a much larger number of farmers and micro enterprises.
- Investment in agribusiness by DFIs, private investors and diaspora is limited, with potential for growth. DFIs currently focus on sovereign investments and/or non-agribusiness sectors.

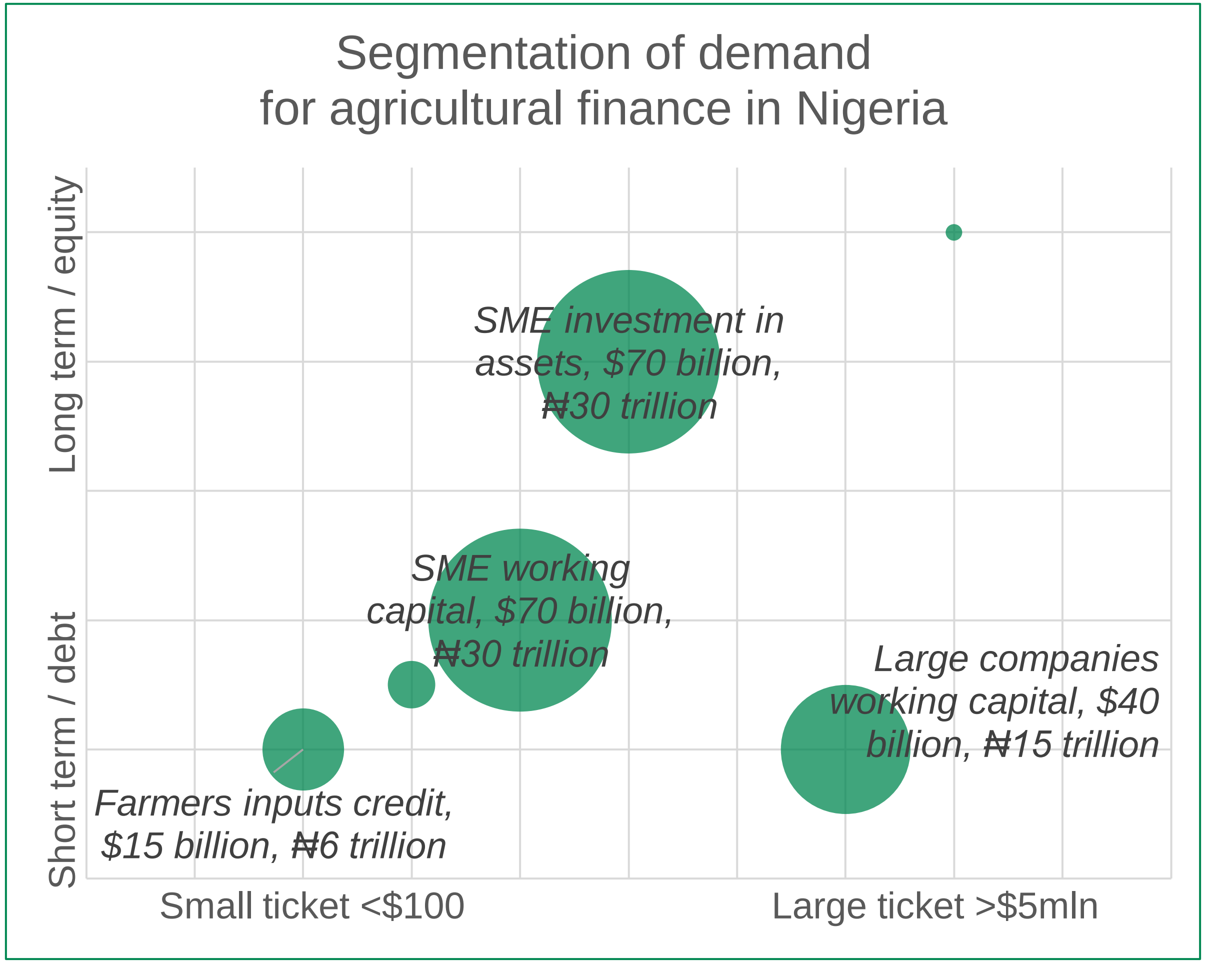




Sources: Agri-Logic, CGAP, IFC, CDC, FMO, DCF, Proparco

Demand for financing | total

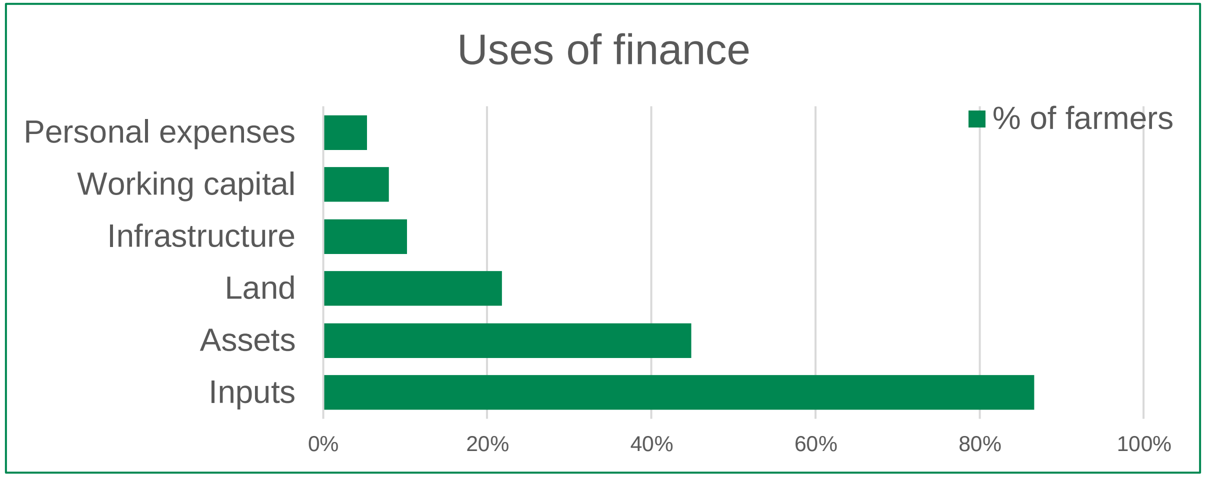
- The total demand for agricultural finance is estimated at ₦83 trillion ($200 billion).
- Only part of this is currently addressable.
- Demand for financing roughly falls into 3 categories:
  - Farmers short term finance for clearing, planting, labour cost, assets and tools.
  - MSMEs medium to long term finance for assets and overheads.
  - Large companies’ short term working capital and long term investment in productive assets.
- While this figure is very large, it is in line with estimates from others, and it is a small % of agricultural GDP compared to developed economies.

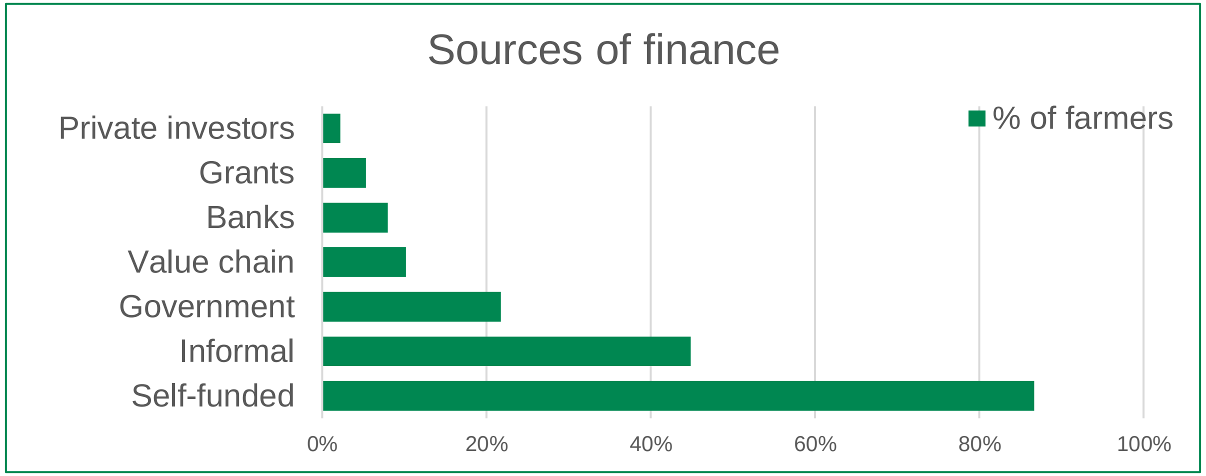


Sources: Agri-Logic, Dalberg, FI-Compass

Demand for financing | farmers

- Almost 80% of farmers perceives access to finance as difficult or very difficult.
- Farmers are currently largely self-funded (87%), complemented with informal funding (45%) from friends and family or community schemes.
- A business case for inputs finance exists for farmers, with yield increase in the same crop cycle providing short term return on investment.
- Inputs finance should be accompanied by technical assistance to ensure impact on productivity and profitability.
- Lack of profitability is a major challenge for farmers and MSMEs. Debt especially at high interest rates may make their livelihoods worse instead of better.

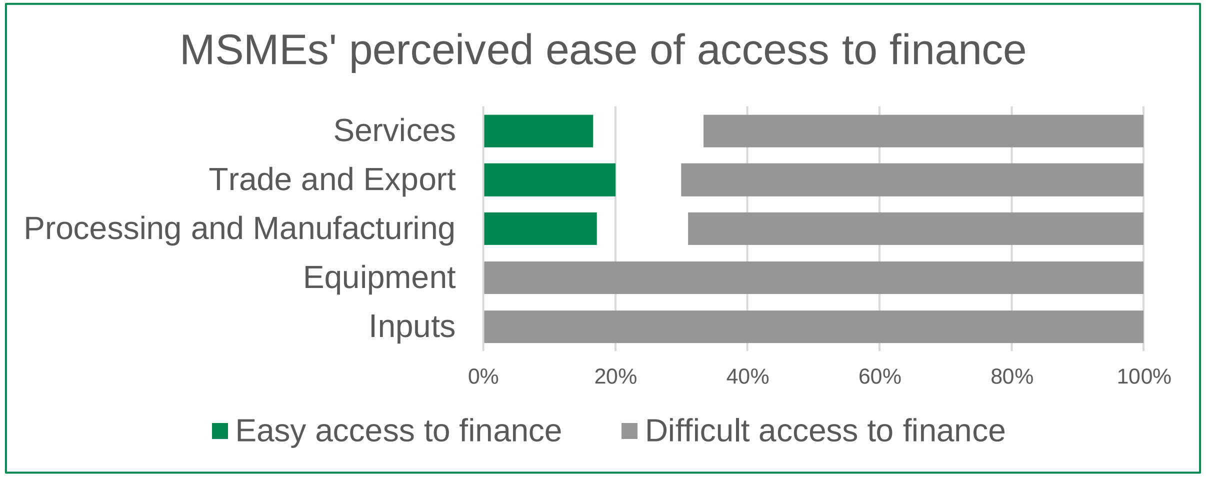


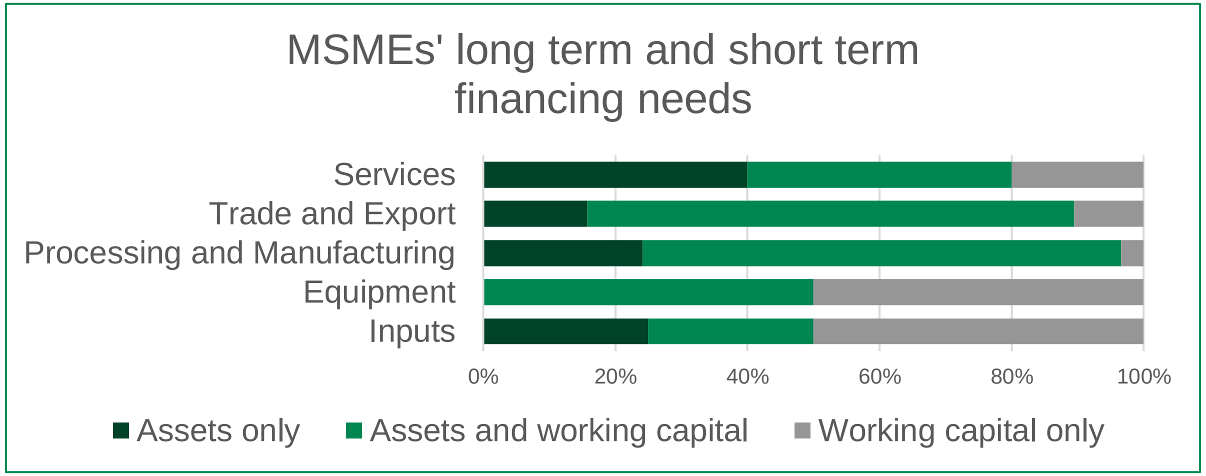


Sources: Agri-Logic, CGAP, World Bank

Demand for financing | MSMEs

- Roughly 70% of MSMEs perceives access to finance as difficult or very difficult.
- There are differences in access to finances and financing needs between different types of SMEs. Companies in trade and processing have better access to finance, possibly due to their value chain linkages.
- MSMEs are largely self-funded, and struggle with their medium to long term needs that do not match available funding in the market.
- Access to finance is the greatest operational challenge but not a predictor of business success.





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Sources: Agri-Logic, AgraMondis

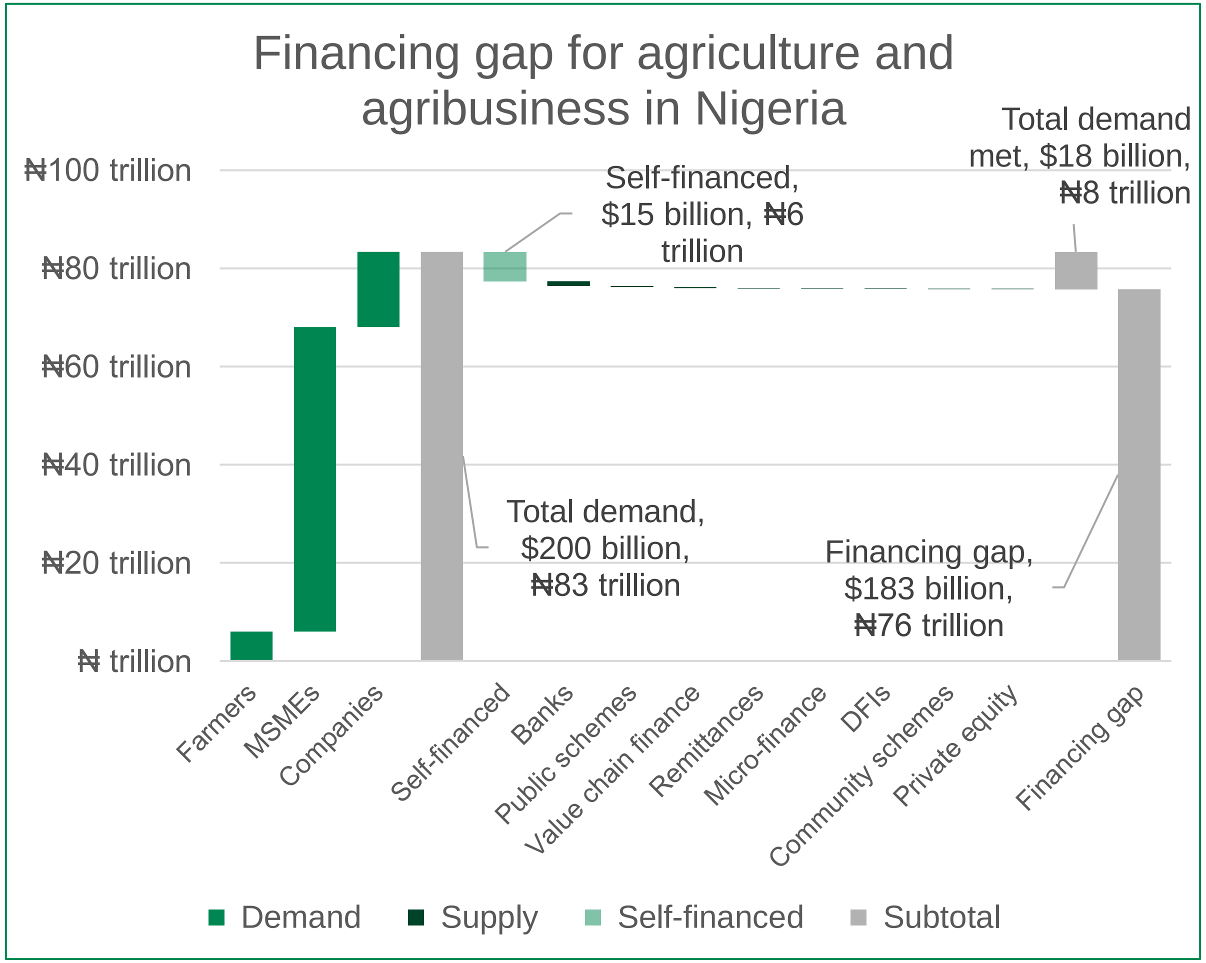
Demand for financing | other

- Large and multinational companies are very diverse in activity and size.
    - This segment includes a number of plantations, large scale processors, inputs manufacturers, as well as traders and exporters, with revenues ranging from ₦1 billion ($2 million) to ₦500 billion ($1 billion).
    - Many of these companies are self-financed by their owners, either individuals or holding companies. They are also able to access finance in the commercial banking sector for working capital.
    - Some are able to invest in assets, although the volatile foreign exchange rate poses a risk for long term investments in assets that have to be purchased in foreign currency.

- Access to inputs, mechanization, logistics and processing offer growth opportunities for SMEs and large companies. While active demand in this segment is currently low and therefore unquantified, there is a potentially large investment opportunity if viable business models can be developed.

Financing gap | total

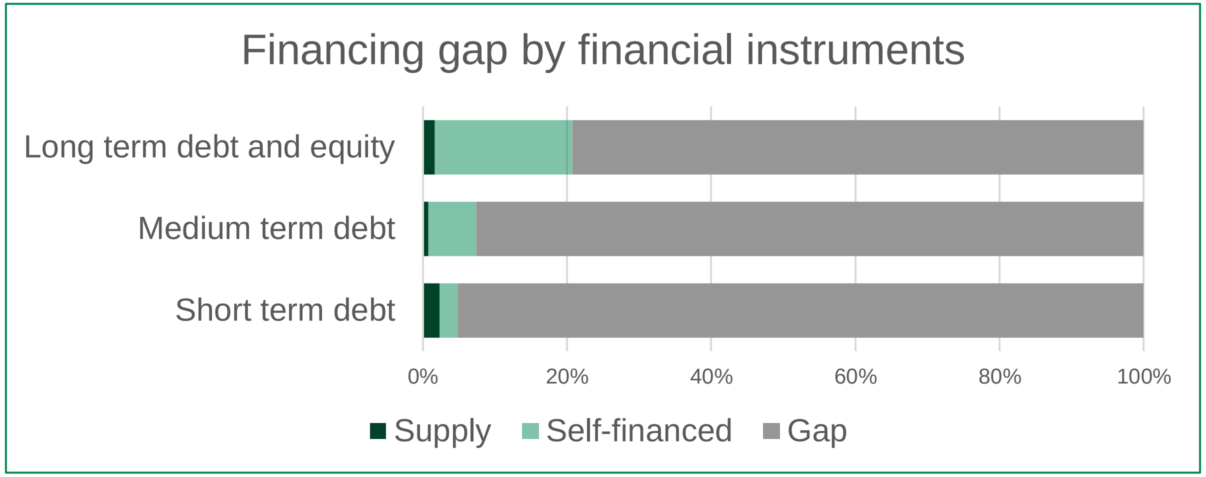
- Based on a bottom-up estimation of demand and supply, the financing gap for agricultural finance in Nigeria is ₦76 trillion ($183 billion), roughly 90% of total demand for agricultural finance.
- While supply of agricultural finance grows with an average 29% annually, this is insufficient to catch up with the growth in demand, and the finance gap could have doubled by 2027.

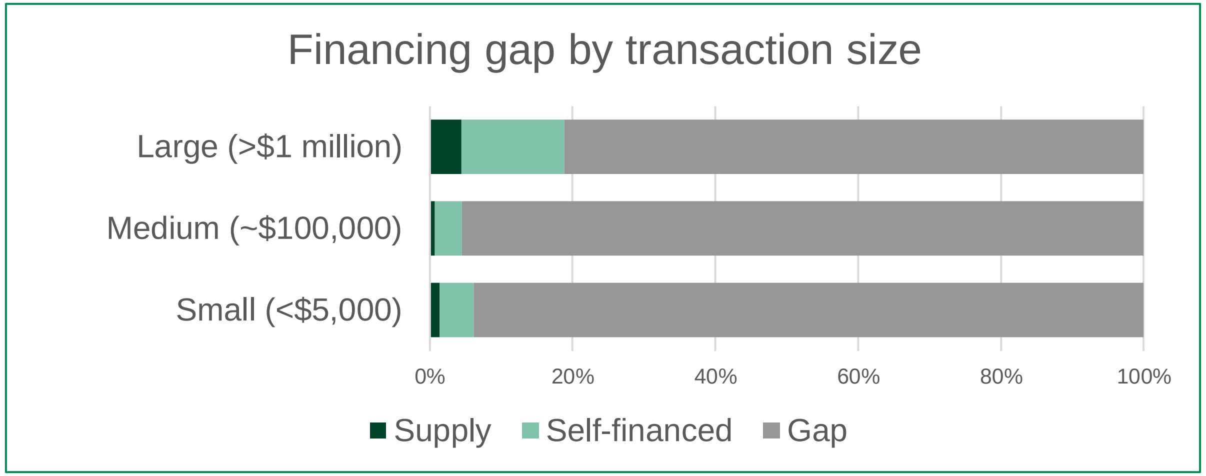


Sources: Agri-Logic, FI-Compass

Financing gap | missing middle and missing more

- SME lending is often called the missing middle. The missing middle is considered something specific to developing economies.
- In Nigeria, the financing gap is indeed largest for medium term and medium sized debt, revealing a missing middle.
- However, considering the very large finance gap for all financial instruments and transaction sizes, it should not be the only focus.





Sources: Agri-Logic, USAID

Recommendations | scalable solutions

Informal Community Schemes

Solution for non-commercial smallholder farmers and MSMEs.

Scaled through public and private extension services.

Value Chain Finance

Builds on existing commercial structures to reach commercially viable smallholder farmers.

Needs alternative collateral solutions, de-risking, and data to become scalable.

Banks

Banks have liquidity, interest and incentive to invest in agribusiness.

Knowledge and tools for agribusiness and SME investing can support growth.

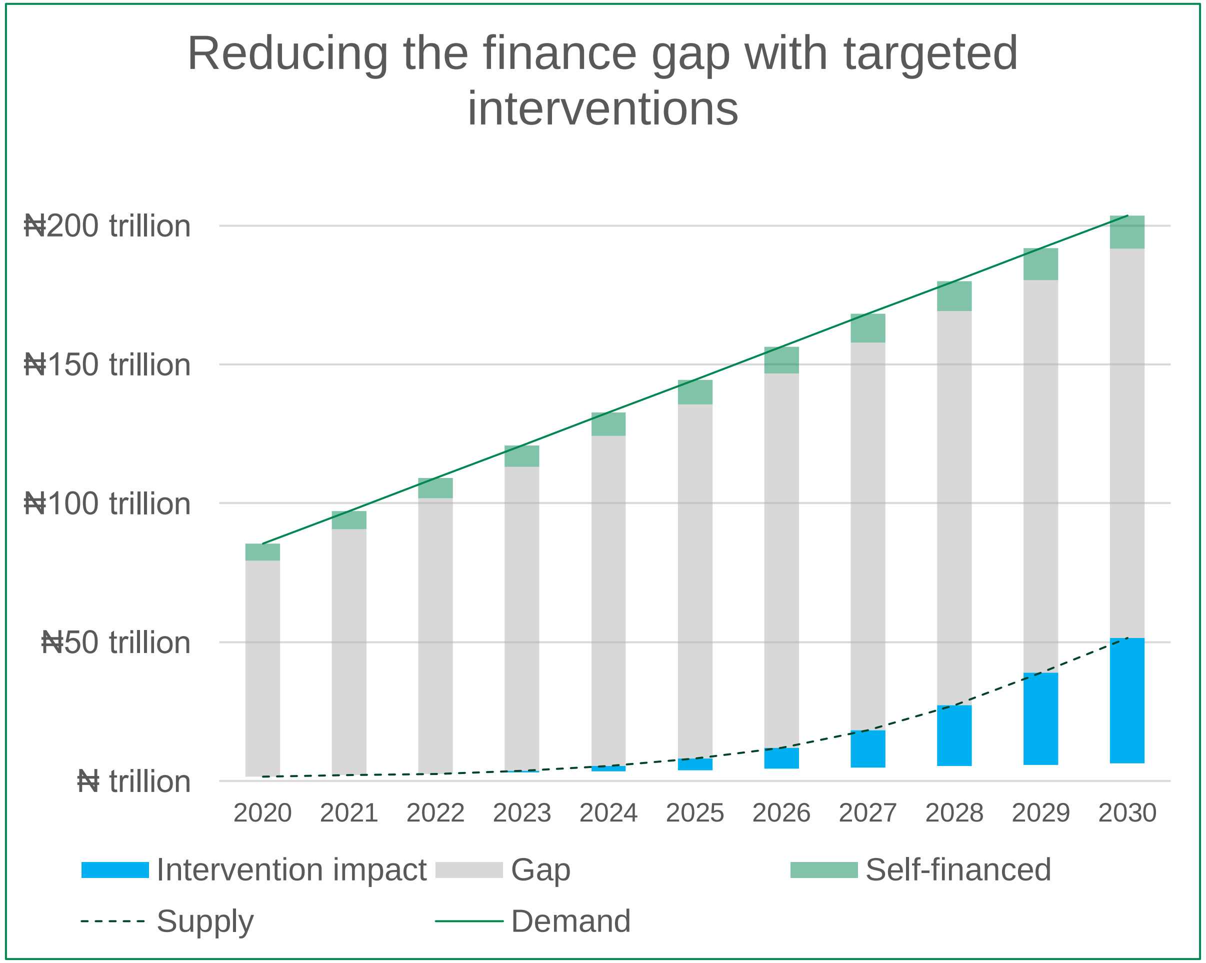
Funds or aggregators as indirect investment.

Fintech and Agritech

Can reduce risks and transaction cost through data and targeted solutions.

Opportunity to tap into sources of funding not currently accessible for agribusiness: asset managers, pension funds, investment clubs and diaspora.

Recommendations | impact



- These combined interventions can generate an additional supply of finance of ₦30 trillion ($73 billion) by 2030.
- This can improve livelihoods for 50 million people, enable production of an additional 125 million MT of food, and contribute ₦35 trillion to GDP.
- Banks and fintech have the potential to contribute the largest supply of financing to the sector, whereas informal schemes and value chain finance can have the largest impact on livelihoods and food security.

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Recommendations | best practices

For entrepreneurs

- Value chain approach
- Risk mitigation through knowledge, safety net, diversification and partnerships
- Organic self-financed growth
- Do not overlook public institutions

For investors

- Value chain approach
- Risk mitigation through knowledge, safety net, diversification and partnerships
- Leveraging and pooling investments
- Data and technology
- De-risking and blended finance

For public sector and civil society

- Value chain approach
- Informal and community-based schemes
- De-risking and blended finance
- Proof of concept for innovative business model

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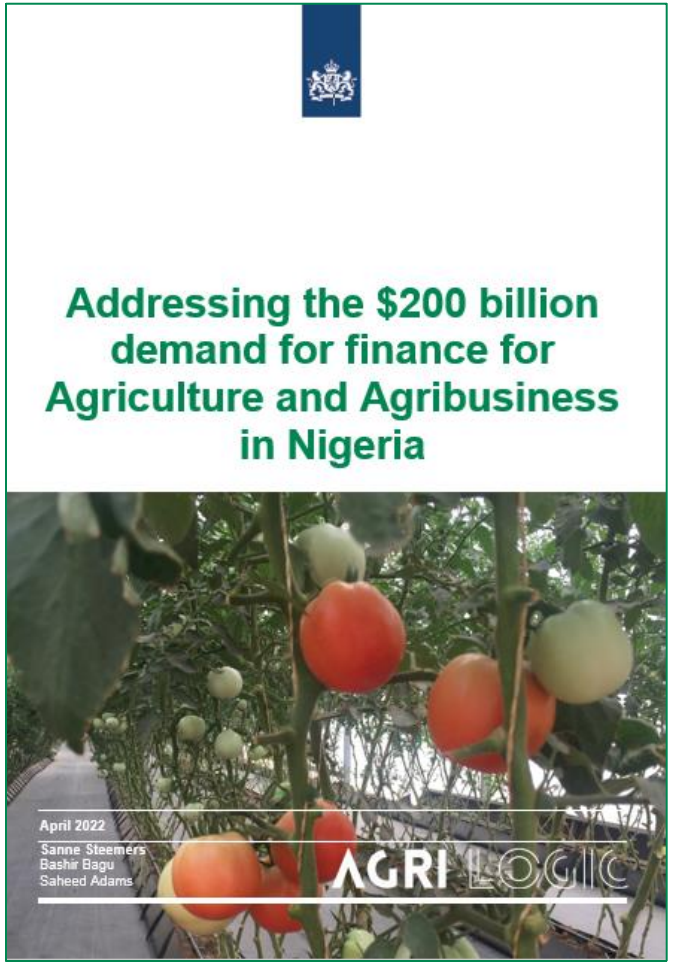
Full publication



- This executive summary aims to provide the key insights and highlights. Refer to the full report for further details, including characteristics of demand and supply, risk mitigation, best practices and impact potential.
- The research was commissioned by the Embassy of the Netherlands to Nigeria and conducted by Agri-Logic. The recommendations in this report are made by the author, and do not necessarily reflect the opinion of the Embassy of the Netherlands.

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