



Sahel Capital (Mauritius) Limited

Sahel Capital Partners & Advisory Limited

Creating Value, Building Businesses, Transforming Communities...



Financing the Agricultural Sector

Agriculture is the largest sector in the Nigerian economy, accounting for 22% of Gross Domestic Product (GDP) and roughly 70% of employment. Additionally, a large share of Nigeria's food supply is produced by small and medium-scale enterprises (SMEs). One of the biggest constraints that these SMEs face is their limited access to finance. Indeed farmers and agribusinesses require financing for start up, expansion and working capital. There is a huge gap between the supply and demand of agricultural finance in Nigeria, estimated at a minimum of USD \$4billion per annum. For many SMEs, they are either too large to receive financing from microfinance institutions or unable to meet the stringent terms of

commercial banks. Arguably, the key to unlocking Nigeria's true potential for agricultural production and food security is through increased tailored financing for the sector. Several incentives have been created by the Central Bank of Nigeria (CBN) and the Federal Ministry of Agriculture and Rural Development (FMARD) to fill the gaps in finance. These include the Commercial Agricultural Credit Scheme (CACs), the Nigeria Incentive-based Risk Sharing Agricultural Lending (NIRSAL), the Micro, Small and Medium Enterprises fund (MSME) and the Fund for Agricultural Finance in Nigeria (FAFIN).

Initiatives for Funding Agriculture

There are a range of incentives created to support small-scale farmers and agribusinesses in Nigeria. These incentives are briefly highlighted below:

CACS

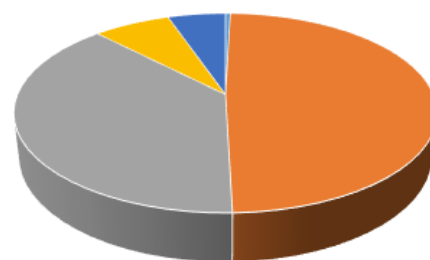
In 2009, CBN in collaboration with FMARD established CACS to enhance the development of the agricultural sector by providing credit facilities at a single digit interest rate to farmers. Under CACS, ₦200 billion was earmarked for lending at 9% to the following agricultural value chains: production, processing, storage and inputs. CACS was originally intended to end in 2015; However, it was recently extended by 10 years to September 2025. The table on the right shows the disbursement of credit under CACS. As at February 2014, the total amount disbursed by CBN under CACS to participating banks was ₦228.2 billion for 307 projects.

Source: CBN Economic Report, February 2014.

Table 1: Cumulative Disbursement of Credit under CACS as of February 2014

S/N	Participating Banks	Amount Disbursed (₦ bn)	No of Projects
1	UBA Plc	41.80	35
2	Zenith Bank	34.00	23
3	First Bank of Nigeria Plc	26.10	64
4	Unity Bank Plc	22.30	25
5	Union Bank Nigeria Plc	18.20	21
6	Sterling Bank	13.30	22
7	Stanbic IBTC Plc	13.50	29
8	Access Bank Plc	11.10	13
9	Fidelity Bank Plc	10.90	10
10	Other Banks	37.00	65

Analysis of CACS financed projects by value chain (2012)



■ Input Supplies ■ Production ■ Processing ■ Marketing ■ Storage

Initiatives for Funding Agriculture

NIRSAL

NIRSAL is an agribusiness initiative of the CBN, FMARD and the Bankers Committee (BC) established in 2011. NIRSAL's main aim is to encourage the growth of credit in the agricultural sector by fostering bank lending through increased incentives and technical assistance. CBN in partnership with the Alliance for a Green Revolution in Africa (AGRA) committed ₦75 billion (\$500 million) to stimulate lending by banks. The \$500 million is divided up into five pillars: Risk Sharing Facility (\$300m), Insurance Facility (\$30m), Technical Assistance Facility (\$60m), Holistic Bank Rating Mechanism (\$10m) and Bank Incentives Mechanism (\$100m). One of the major deterrents to bank lending has been high perceived risk, and NIRSAL has reduced this through its risk sharing vehicle. NIRSAL guarantees up to 75 percent of agriculture bank loans. It pays about 50 percent of losses incurred to large farmers and roughly 75 percent to small and medium scale farmers. NIRSAL focuses on the following value chains: tomato, cassava, cotton, maize, soy bean and rice. It also focuses on the regions with the highest production of these values chains namely the North-west, North-central and South-east.

MSME Fund

The ₦220 billion MSME fund was launched in 2013 by CBN to provide capital to entrepreneurs in various sectors of the economy. Specific to agriculture, the fund aims to address post-harvest losses among small-scale farmers. ₦132 billion (60%) of the fund has been assigned specifically for women entrepreneurs. As at May 2014, the MSME funds were yet to be disbursed to their target group as a result of the CBN's plan to establish a Special Purpose Vehicle to manage it.

FAFIN

FAFIN has a target fund size of US\$100 million and was launched in January 2014 with a First Close of US\$34 million from three fund sponsors: FMARD, the German government via KfW Development Bank, and the Nigeria Sovereign Investment Authority (NSIA). FAFIN is the only Nigerian private equity fund focused exclusively on agriculture. The Fund's vision is to catalyse agriculture-led inclusive economic growth in Nigeria by increasing the amount of private capital available for agriculture. FAFIN is focused on providing long-term, tailored finance and associated technical assistance to high-growth agricultural SMEs, and has a preference for investment opportunities that enable import substitution, increase food security, or bridge gaps and fix inefficiencies along supply chains. FAFIN has an associated US\$2 million Technical Assistance Facility that supports the success and sustainability of the Fund by providing technical services to investees in order to promote their growth and development. Sahel Capital is the fund manager for FAFIN.

Bank Lending to the Agricultural Sector

Commercial Banks & Microfinance Institutions (MFIs)

Many commercial banks have increased their lending base to the agricultural sector due to increased incentives from the CBN and FMARD, but lending is mostly done to large and more established agribusinesses. According to the Central Bank of Nigeria (CBN), credit to the agricultural sector has increased from 1.6% in 2009 to 3.7% in 2013. MFIs provide credit to smallholder farmers by operating through a forced savings system which reduces the farmers risk of defaulting on loans. MFIs provide a strong platform to improve financing for small holder farmers. Source: Central Bank of Nigeria, May 2014

Table 2: Average Agriculture Lending Rate as at May 2014

S/N	Bank	Lending Rate (%)	
		Prime	Max
1	Stanbic IBTC Bank	6	28
2	Fidelity Bank	6	26
3	Sterling Bank	7	26
4	Guaranty Trust Bank	7	25
5	United Bank for Africa	7	24
6	First Bank of Nigeria	9	24
7	Standard Chartered	13	16
8	Skye Bank	14	14
9	Diamond Bank	14	22
10	Citi Bank	16	21

Industry Highlights & Sahel News

Poultry Summit, 2014

Sahel Capital participated in the Poultry Summit on May 14 at the LCCI Conference and Exhibition Center, Ikeja, Lagos. The theme of the summit was “Consolidating the Growth Plan for the Poultry Industry:2013-2023.” Over 200 poultry farmers and animal feed companies from across Nigeria were represented at the Summit which explored growth and development plans for the sector by targeting challenges faced with production, marketing, policy making and implementation of poultry farming.

Ogun State Investors Forum, 2014

The second edition of the Ogun State Investors Forum held between 21-22 May in Abeokuta, Ogun State. The theme of the forum was ‘Agriculture & Urban Development.’ Sahel Capital facilitated a panel titled “Agribusiness and the Agro-Allied Industry: Improving Yields and Creating Value Chains for Smallholder Farmers.” Over 1,000 delegates from various industries in Nigeria and around the world were present at the Forum.

Bill & Melinda Gates Foundation National Grantee Convening, 2014

Sahel Capital participated in the Bill & Melinda Gates Foundation national and regional grantee meeting on Agricultural Development which held from May 28-30, 2014 in Seattle. It presented the findings from the Yam Improvement for Processing study in Nigeria and Ghana, and made a case for the use of local contractors, using Sahel’s experiences as a point of reference.

Upcoming Events

Cassava: Adding Value for Africa (C:AVA)

As a part of our engagement with the Global Alliance for Improved Nutrition (GAIN), Sahel Capital will be participating in the National Stakeholders Forum on Cassava Bread in Nigeria on June 11, 2014 at Protea Hotel, Isaac John, Ikeja, Lagos.

Women of West Africa (WOWe) Entrepreneurship Conference

Sahel Capital will participate in a panel discussion titled, ‘Leadership: Driving Change and Leading into the Future.’ The conference will hold from June 26-27 at the Oriental Hotel, Victoria Island, Lagos.

Bayelsa State Investment and Economic Forum

Sahel Capital will be speaking at the 1st Bayelsa Investment and Economic Forum scheduled to hold from July 16-18. The forum will explore the opportunities and challenges faced in unlocking the untapped potential of agriculture in Bayelsa State.

Center for Strategic and International Studies & the Rockefeller Foundation Task Force

Sahel Capital will participate in a high-level task force focused on ‘Achieving Agriculture Supply Chain Efficiency in Africa: Engaging Smallholder Farmers and Reducing Post-Harvest Loss.’ The task force is scheduled to hold from July 22-24 in Italy.

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