

Aspire For Excellence Foundation

Investment opportunities in the Nigerian Agricultural value chain (Part 1)

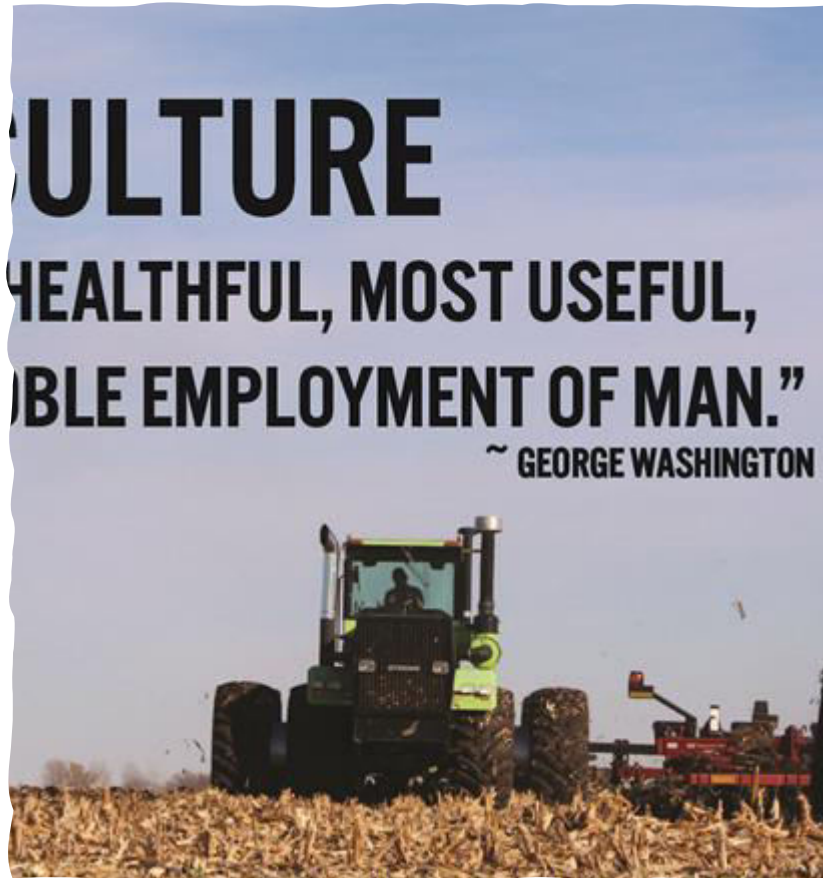
Dr Ikechukwu Kelikume

ikelikume@lbs.edu.ng +2348137978069

Agenda

- Introduction/Preamble
- Agriculture Vs Agribusiness
- Agribusiness Value Chain
- The Decision to Invest in the Agribusiness Value Chain
- States and Their Agricultural Potential
- Countries Competitiveness in Agricultural Sector
- Oil Palm and Rice Value Chain
- Concluding Remarks

Introduction/Preamble



- **What is Agriculture?**
- It is the science or practice of farming which includes cultivation of the soil for the growing of crops and rearing of animals to provide food and other essential needs of man.
- It is often used synonymously with farming.
- It is also the first-choice sector for over 90% of retired workers in Nigeria.
- However, entry into the sector without adequate preparation produces unpleasant results.

Introduction/Preamble

- **Session Objectives;**

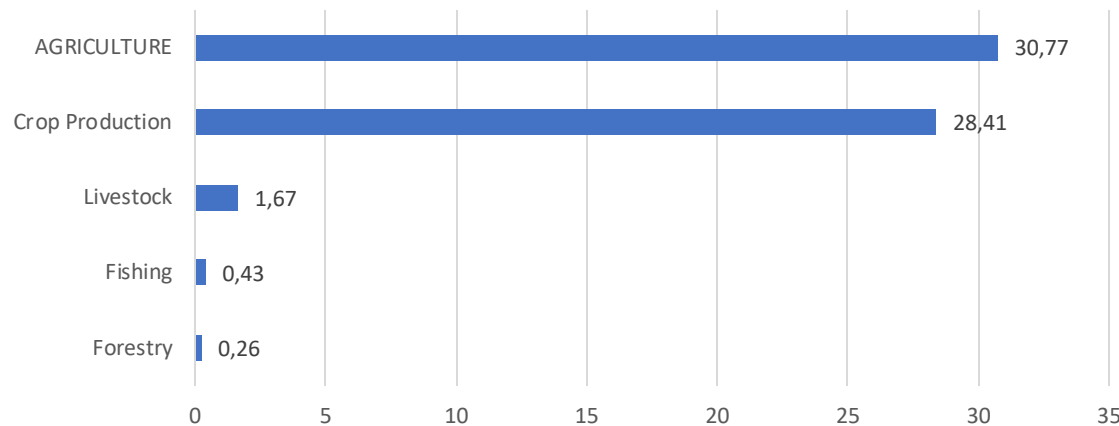
- *Explore opportunities in the agribusiness value chain in Nigeria.*
- *Explore the different agricultural/agribusiness sector and exposing the best place to invest.*
- *Open the eyes of participants to the profitability and challenges of investing in the sector.*

Agriculture Vs Agribusiness

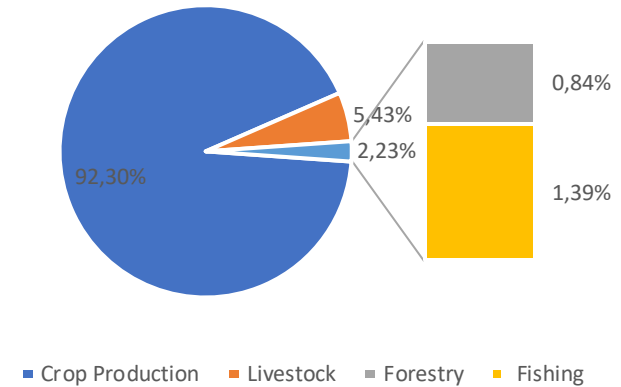
- Agriculture is often used synonymously to mean the same this with agribusiness but both terms means different things.
- Agricultural sector is made up of four subsectors - Crop production; livestock, forestry and fishing
- In Q3:2020 the sector composition shows crop production took up 88% of agricultural sector share in GDP while livestock, fishing and forestry takes up 8%, 3% and 1% respectively in Q1:2019.
- The challenge however, with this structure is that over 50% of the proceed from crop production is lost annually to post-harvest losses.
- If we add the current farmers/herders' challenges across the country, more than 60% of the proceed from crop production is lost annually.

Agriculture Vs Agribusiness

Agricultural Sector Share in GDP Q3 2020

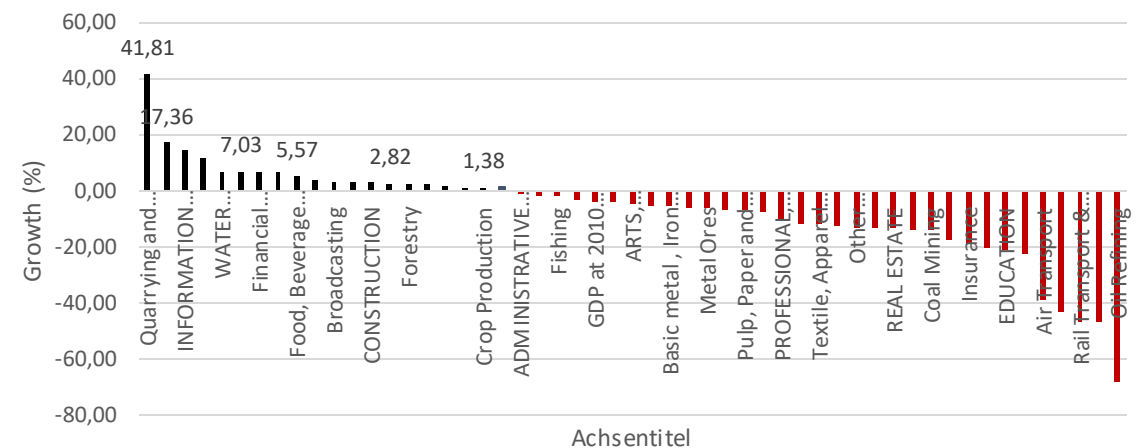


Agricultural Sector GDP Q3 2020



- Agricultural sector contribution to GDP as at Q3:2020 is 31%.
- Sector remains the most dominant sector in the Nigerian economy.
- The sector, however, is underperforming in terms of growth, growing at approximately 1.38 in Q3:2020.
- Fastest growing sector in Q3:2020 is Quarrying and Mining sector.
- Although agricultural sector is not experiencing negative growth, it is one of the least growing sectors in Nigeria

Sector Growth Q3:2020



Agriculture Vs Agribusiness

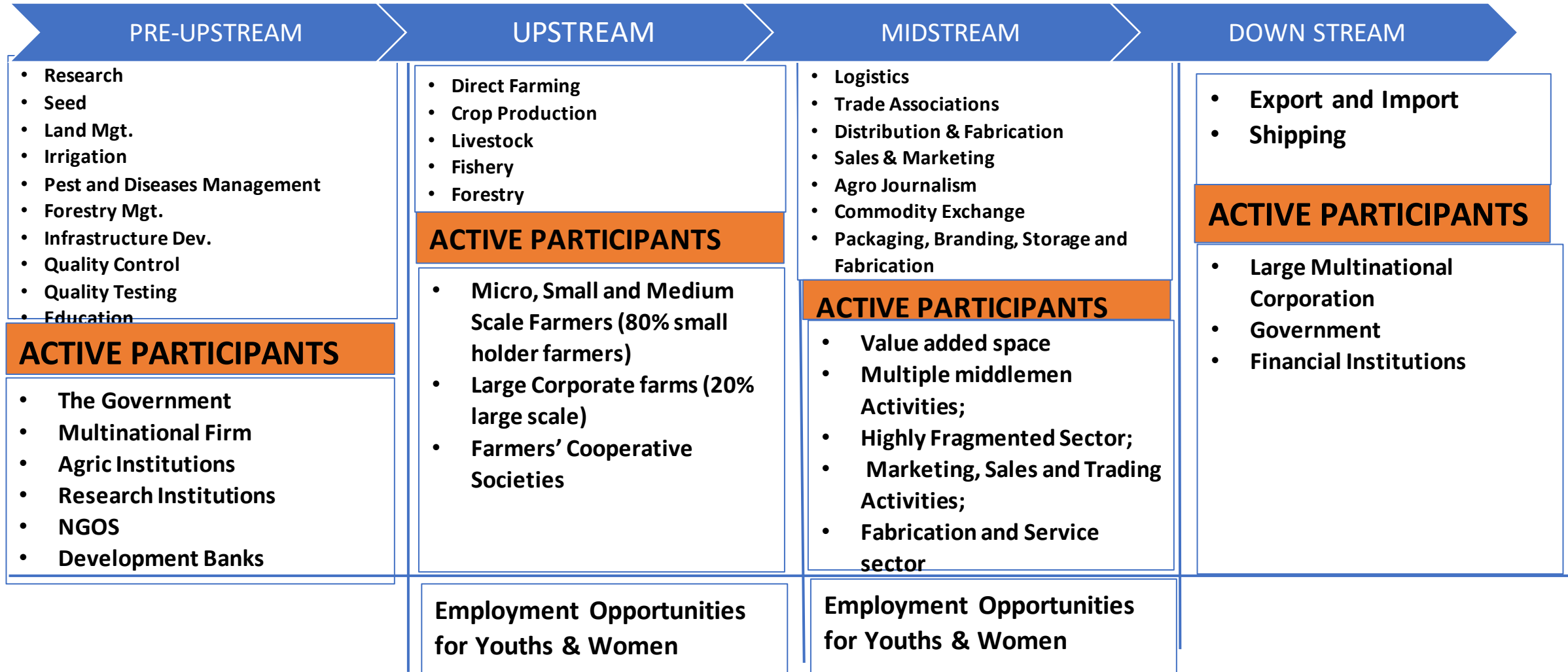
- This situation creates a significant GAP that can be explored by would be entrants into the agricultural/agribusiness sector.
- The prevalence of this GAP explains why the focus is shifting from agriculture (direct farming) to agribusiness value chain (value added approach).
- Agriculture which literarily means faming or engaging in the upstream sector of the agribusiness value chain is not the same as the agribusiness.
- Agribusiness is a construct that encompasses all the value chains in the agricultural sector.
- It includes productive activities around agrichemicals, animal breeding, fishery, crop production (farming), distribution, farm machinery, processing, farm logistics, seed production and supply, marketing, retail sales, hospitality, Agri-Journalism and farm tourism.

The Agribusiness Value Chain

- The agribusiness value chain can be separated into four broad sectors; pre-upstream, upstream, mid-stream and the downstream sector
- Pre-upstream...deals basically with research institution, seed and management of pest and diseases.
- Upstream.....Beginning of the value chain (Direct farming and cultivation across the crops, livestock, forestry and fishery sector).
- Mid-stream ... Manufacturing/processing/packaging/Tool Fabrication & Design..etc
- Downstream...Distribution/Logistics/Export of value-added products/Import of tools, equipment, preservatives, chemicals & fertilizers.
- Two sectors stands out in the decision to invest in the sector-the upstream and the mid-stream sector of the agribusiness value chain.

Agribusiness Value Chain

AGRIBUSINESS VALUE CHAIN



The Decision to Invest in the Agribusiness Value Chain

- A difficult question to answer is what sector of the agribusiness value chain should an investor channel his/her investment?
- Of the four sectors of the agribusiness value chain, the most difficult and complex sector is the upstream value chain.
- This sector deals with direct farming activities in crop production, livestock, fishery and forestry.
- The complexities of this sector exposes an investor to shocks and failure in the sector.
- These challenges in the upstream value chain ranges from climate change, variability in weather conditions, soil salinity (soil PH level or acidity), seed quality, irrigation problem, innovation and technology adoption, human factor (farm hands), theft, community issues, absence of basic infrastructure and no good road from farm to market.

The Decision to Invest in the Agribusiness Value Chain

- *Other notable problems associated with direct farming includes;*
- *Exposure to diseases and pest*
- *Poor mechanization*
- *Increasing role of middle-men and trade associations in distorting prices*
- *Poor storage facilities*
- Agricultural produce are highly perishable. An investors thinking of mass-producing Yam or maize must first think of the marketability of the annual produce.
- A lot of farmers end up wasting over 50% of their actual produce.
- It is important to know that the closer one is to the upstream value chain **without adequate planning and preparation** the likelihood that the investment will fail.
- However, without significant investment in the **Upstream Value Chain**, there will be no **Mid-stream** and **Downstream sector**.
- Despite the notable challenges everyone including the government is turning to the agricultural sector as the next best alternative for the country.

The Decision to Invest in the Agribusiness Value Chain

- Interestingly, over 90% of would-be entrants focus their investment in the upstream sector (direct farming).
- Entry into the sector is also done late at the point of retirement when the farmer is advanced in age.
- The interesting feature of the agricultural sector is that;
 - a) Its is 70% science, 20% experiential learning and 10% art (passion)*
 - b) It is also a business that draws on youthful bust of energy (entering direct farming at the age of 60 can be very costly)*
 - c) It requires patient capital (for most long gestation cycle crop investors can wait for between 25 and 50 years to receive full compensation).*



The Decision to Invest in the Agribusiness Value Chain

- In 2020, pig farmers in Oke Aro in Lagos was hit by the African swine fever.
- Between 300,000 to 400,000 pigs was affected in the cooperative farm settlement
- How can this kind of exposure be managed and mitigated.
- How can farmers minimize loses in a sector that is prone to all kinds of shock?

The Decision to Invest in the Agribusiness Value Chain

- Last year most farmers that planted early in the southern and western part of the country suffered great loss.
- Most of the farms depend on rain fed-irrigation.
- The rains did not come until the month of September.
- This year we are experiencing the harmattan haze in the month of February.
- Climate change is fueling food crisis.
- The situation call for a change in the mode of investment in the agricultural sector.



QUESTION???

- **Question!**
- How can these challenges be addressed?
- What is the best part of the value chain that investors can channel their funds to?
- What should an investor do before he/she ventures into any of the value chain?
- Are there variations in crop types and competitiveness in terms of states and geographical location in Nigeria?
- Are some states better off in the cultivation of certain crops?
- What are the dominant agricultural export crops for Nigeria?

States and Agricultural Potentials in Nigeria

- Individual investors, states and federal government thinking of exploring investment options in the agricultural/agribusiness sector must first address the following questions.
- What are the crops with high yield in the state?
- What is the current global competitive of the crop under consideration?
- What are the current export potentials of crops in terms of yield per hectare compare to other countries?
- We will examine one or two crops to see how Nigeria as a country has fared since 1960s (the Oil Palm and the Rice Value Chain).
- But before examining the palm value chain let us see the potentials of states in Nigeria in the agricultural sector.

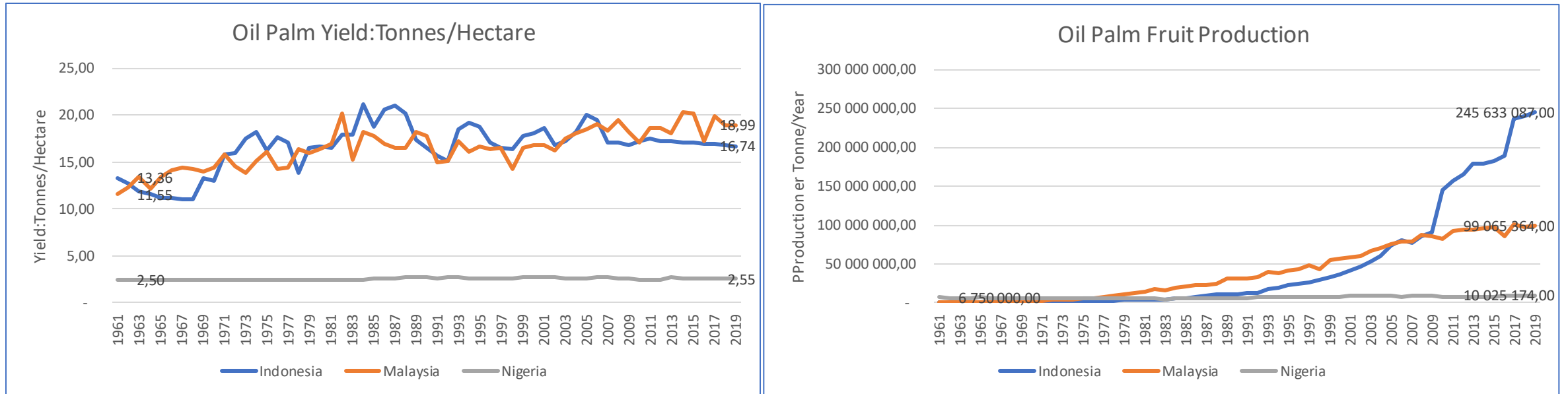
States and Their Agricultural Potential

GEOPOLITICAL ZONES	STATES	STRENGTH & AGRIC POTENTIAL	CURRENT EXPORT POTENTIALS
NORTH WEST	JIGAWA	CASSAVA; COWPEA; COTTON; DAIRY PRODUCTS; ECONOMIC TREES-DATE PALM & OTHER TREE CROPS; GROUNDNUT; GALIC; GINGER; HABISCUS; HIDES & SKIN; MAIZE; MILLET; ONION; PEPPER; RICE; SESAME; SOYABENS SORGHUM; SUGAR CANE; TOMATOES; VEGETABLES.	SESAME: SPICES & PROCESSED FOODS
	<u>KEBBI</u>		
	<u>KADUNA</u>		
	KANO		
	KATSINA		
	SOKOTO		
ZAMFARA			
NORTH EAST	ADAMAWA	CASSAVA; COWPEA; COTTON; DAIRY PRODUCTS ECONOMIC TREES-DATE PALM & OTHER TREE CROPS; GUM ARABIC; GROUNDNUT; GALIC; GINGER; HABISCUS; HIDES & SKIN; MAIZE; MILLET; ONION; PEPPER; RICE; SESAME; SOYABENS SORGHUM; SUGAR CANE; TOMATOES; VEGETABLES; YAM	SESAME: SPICES & PROCESSED FOODS
	BAUCHI		
	BORNO		
	GOMBE		
	TARABA		
	YOBE		
NORTH CENTRAL	BENUE	CASSAVA; CASHEW; COWPEA; COTTON; DAIRY PRODUCTS ECONOMIC TREES-DATE PALM & OTHER TREE CROPS; GUM ARABIC; GROUNDNUT; GALIC; GINGER; HABISCUS; HIDES & SKIN; MAIZE; MILLET; ONION; PEPPER; RICE; SESAME; SOYABENS SORGHUM; SUGAR CANE; TOMATOES; VEGETABLES; YAM	SESAME; CASHEW; SPICES & PROCESSED FOODS
	FCT ABUJA		
	KOGI		
	KWARA		
	NASSARAWA		
	NIGER		
PLATEAU			

States and Their Agricultural Potential

GEOPOLITICAL ZONES	STATES	STRENGTH & AGRIC POTENTIAL	CURRENT EXPORT POTENTIALS
SOUTH-SOUTH	AKWA IBOM	CASSAVA; COCONUT PALM; COWPEA; ECONOMIC TREES-TIMBER; MAHOGANY; RUBBER; OIL PALM; RICE;PLANTAIN; VEGETABLES; YAM;FISHRY; LIVESTOCK	CASSAVA; INDUSTRIAL STARCH; ETHERNOL; FOOD PROCESSING; STORAGE & WAHRHOUSING;
	BAYELSA		
	CROSS RIVER		
	DELTA		
	EDO		
	RIVERS		
SOUTH EAST	ADIA	CASSAVA; COCONUT PALM; ECONOMIC TREES-FRUIT TREES; RUBBER; CASHEW; OIL PALM; PLANTAIN; RICE; VEGETABLES; YAM;FISHRY; LIVESTOCK	CASSAVA; INDUSTRIAL STARCH; ETHERNOL; FOOD PROCESSING;
	ANAMBARA		
	EBONYI		
	ENUGU		
	IMO		
SOUTH WEST	EKITI	CASSAVA; COCONUT PALM; ECONOMIC TREES-FRUIT TREES; RUBBER; CASHEW; OIL PALM; PLANTAIN; RICE; VEGETABLES; YAM;FISHRY; LIVESTOCK; COWPEA; HIDES &SKIN; COTTON	CASHEW; SPICES & PROCESSED FOODS; WAREHOUSING
	OGUN		
	ONDO		
	OYO		
	LAGOS		

Country's Competitiveness in Oil Palm



Data Source: <http://www.fao.org/faostat>

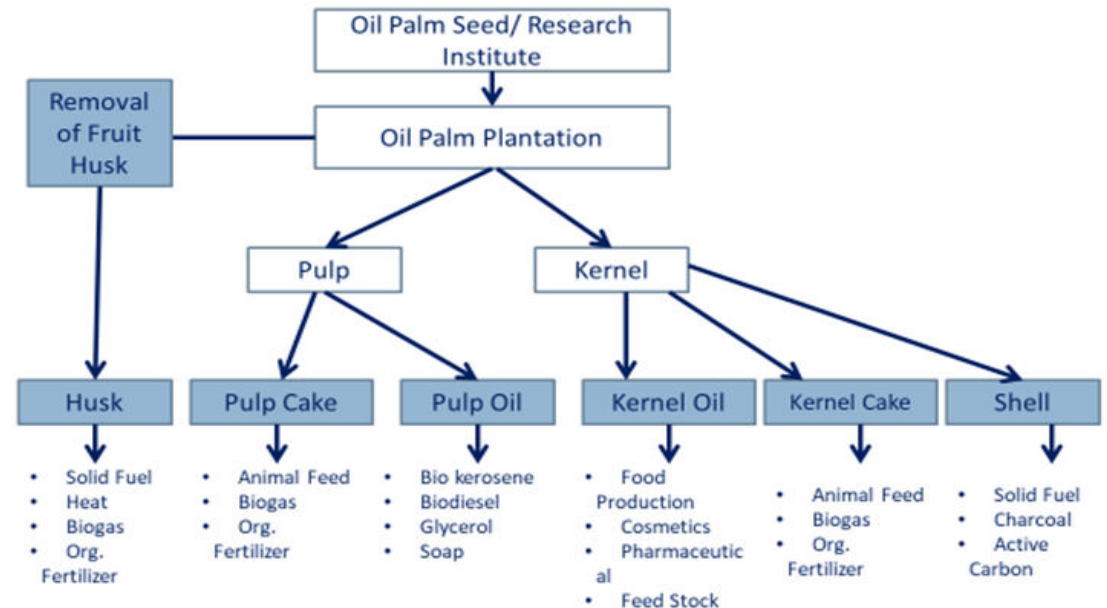
- Nigeria's yield per hectare in 1961 was 2.5
- Average yield 1961-2018=2.58 tons/hectare
- Nigeria's yield in 2019 remains low at 2.55 T/H
- Nigeria's production in 1961 =6.75 MMT
- Nigeria's production in 2019 = 10 MMT
- Indonesia's yield per hectare in 1961 was 13.36 T/H
- Indonesia's production in 1961 was 935,000 MT

- Indonesia's yield per hectare in 2019 was 16.74 T/H
- Indonesia's Production in 2019 was 245.6 MMT
- Malaysia's yield per hectare in 1961 was 11.55 T/H
- Malaysia's yield per hectare in 2019 was 18.99 T/H
- Malaysia's production in 2019 was 99.1 MMT
- Why are so many entering the palm value chain without looking at the numbers?
- What happened to Nigeria?

Country's Competitiveness in Oil Palm

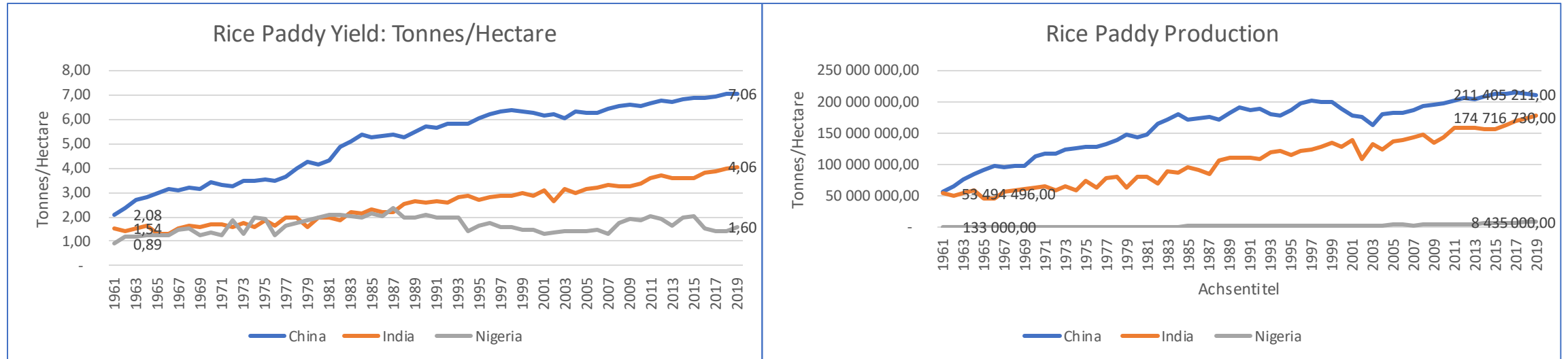
- Indonesia and Malaysia are the world's largest producers of oil palm
- Both countries take up about 90% of world oil palm output.
- Nigeria is not competitive to play in this sector at the global space
- Nigeria can, however, produce for the home consumption and for local industrial input.
- This is however, conditioned on how well government provides a cover for SMEs and private firms in the sector.
- No matter the funding given to this sector, the investment will fail if our borders are open and porous to finished products from Malaysia and Indonesia.

Palm Kernel Value Chain



- This explains why Nigeria imported oil palm product in 2019.
- Simply put it pays to import oil palm related product than to produce so long as the borders are open to imports.

Country's Competitiveness in Rice



- Nigeria has 84 million hectares of arable land of which only 40% is under cultivation.
- Rice production in the country take up only about 10% of current area under cultivation.
- Current yield per hectare remains low at 1.64 T/H

- This compares poorly with 4.1 T/H and 7.06 T/H for India and China respectively in 2019 (FAOstat. 2019).
- What is the implication of this data for states like Kebbi investing massively in the rice value chain?
- What is the implication of this data for those venturing into the rice value chain in Nigeria?

Country's Competitiveness in Rice

- Farmers yields are generally low vis a vis their potential due to inadequate use of fertilizers, improved seeds and mechanization.
- A potential to increase yield and production can be achieved through increased mechanization and best farming practice.
- For states like Kebbi that have invested massively in the rice value chain government must ensure that “dumping” is prevented.
- Nigeria's current annual Rice paddy production is 8.4 MMT
- This compare poorly with rice paddy production capacities of China and India.
- China current production capacity is of 211.5 MMT while that of India is 174.7MMT.
- This explains why smuggling of rice into the country is a lucrative business.
- Nigeria simply put is not competitive in the production of rice.

Concluding Remarks

- In this session we have examined investment opportunities in the agricultural sector/agribusiness value chain
- Clear distinction was made between the agricultural sector and agribusiness value chain
- Two sectors stand out in the investment decision in the agricultural sector – the upstream and themed-stream value chain
- The upstream value chain is, however, very complex and prone to challenges beyond the control of the investors.
- The decision to invest in the sector must be based on proper knowledge of the sector.
- The sector is 70% science, 20% experiential learning and 10% art (passion).

Concluding Remarks

- Age also plays a key role in venturing into the sector
- It is very difficult to play in the upstream value chain (direct farming) at retirement (between the ages of 55 and 60 years).
- The sector requires youthful agility and rigorous mental work.
- In part two of we will examine in detail different sectors that the country has strength in terms of global competitiveness
- We will also explore Nigeria's export strength in the agriculture/agribusiness value chain.

- Thank you, any Question,?