

CABRI sector dialogue on value for money in agriculture spending

Nigeria case study

Alternative and innovative financing
in the agricultural sector: The Olam Nigeria Ltd
public-private partnership



*CABRI sector dialogue on value for money
in agriculture spending*

Nigeria case study

Alternative and innovative
financing in the
agricultural sector:
The Olam Nigeria Ltd
public-private partnership



Contents

List of tables	IV
Acronyms and abbreviations	V
Acknowledgements	VI
1. Introduction	1
2. Overview of Olam Nigeria Ltd	2
3. The rice value chain in Nigeria	3
4. The PPP model	4
5. Indicative results of the PPP	5
6. Group exercise	7
References	8

List of tables

Table 1	Partners in the PPP model
Table 2	Olam International financial statement

Acronyms and abbreviations

AfDB	African Development Bank
CABRI	Collaborative Africa Budget Reform Initiative
GDP	gross domestic product
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
UNDP	United Nations Development Programme
USD	United States dollar

Acknowledgements

This case study report was prepared for the CABRI Sector Dialogue on Planning, Budgeting and Innovative Financing for Agriculture. The CABRI Secretariat would like to thank Mr Godwin Isuekhebor who provided the inputs for the case study report.



1. Introduction

Nigeria has a population of about 170 million people, with vast arable lands, oil wealth, massive resources and opportunities. The country has maintained its impressive growth over the past decade with a record estimated 7.4 per cent growth of real gross domestic product (GDP) in 2013, up from 6.5 per cent in 2012. According to the African Economic Outlook report (AfDB, OECD & UNDP 2014), this growth rate is higher than the West African sub-regional level and far higher than the sub-Saharan African level. The performance of the economy is also attributed to improvements in the non-oil sector, with real GDP growth of 5.4 per cent, 8.3 per cent and 7.8 per cent in 2011, 2012 and 2013, respectively. Agriculture – particularly crop production – trade and services have been identified as the main drivers of non-oil sector growth.

At the same time, poverty and unemployment remain among Nigeria's foremost challenges. Despite the recorded improvements in the agricultural sector, 90 per cent of the rural population remain engaged in subsistence farming. Nigeria was once a net exporter of agricultural products; today it is a net importer of food, spending USD11 billion yearly on the importation of wheat, rice, sugar and fish alone. The

challenge in meeting its food security needs provides Nigeria with a strong rationale for innovative financing in the agricultural sector. Innovative financing recognises existing budgetary constraints in the public sector and allows for new partnerships between a wide range of stakeholders who can then leverage resources for development in a particular sector. This case study presents one example of a Nigerian public-private partnership (PPP), namely Olam Nigeria Limited, which has made significant efforts to transform the production of rice in Nigeria.

This case study was prepared for the Agricultural Sector Dialogue series of the Collaborative Africa Budget Reform Initiative (CABRI). The purpose of these dialogues is to create a platform for peer learning in agricultural budgeting and financing. Dialogue participants are expected to read this case study, which falls under the theme of 'alternative and innovative financing in agriculture', and carry out the group exercise presented at the end of the report. The group exercise allows for an analysis of the strengths and weaknesses of the PPP model and reflection on what needs to be done in members' own countries to encourage similar models.

2. Overview of Olam Nigeria Ltd

Olam Nigeria Ltd is a subsidiary of Olam International, headquartered in Singapore. It is an innovative private sector-driven model that has all the features and collaborative benefits of a PPP. The company started in 1989 in Nigeria as an agricultural trading company. Today it has grown into a global supply-chain manager, integrating agricultural production, processing, financing and commodity trading platforms. It has grown from one product in one country to 16 product platforms across 65 countries on different continents. It is a major player in many stock exchanges, commodity stock exchanges and diverse agricultural value chains. In Nigeria, it is involved in rice, cocoa, cashew and sesame value chains, among others. It is active in many other countries of Africa such as Tanzania, Mozambique, Ghana, Cameroon and South Africa. It is a multinational company diversified in its geography and product ranges, which helps it to mitigate a number of risks.

With the active encouragement of the national government, several state governments in Nigeria have lately entered into large-scale PPPs with different private sector organisations. Olam Nigeria Ltd has rice value chains in four states – Benue, Kwara, Niger and Nassarawa. In addition to the PPP with Olam Nigeria Ltd, the Kwara state government has been a very active participant in PPP arrangements, forming PPPs with other private sector companies. In the early 2000s, the Kwara state government took the proactive step of going to Zimbabwe to invite 13 Zimbabwean farmers, who were having land issues with the Zimbabwean government, to its state. The farmers and the Kwara state government have since formed the Shonga Holdings PPP, which has been very successful in the poultry, dairy and other value chains.

3. The rice value chain in Nigeria

Rice is a staple food in Nigeria, as it is in many other African countries. Nigeria spends USD4 billion yearly on the importation of rice. Globally, Nigeria is the second largest importer of rice and, in Africa, the largest net importer, accounting for 25 per cent of the continent's imports. Local production is low, with the farming of a low yielding variety on smallholders' small pieces of land. There are few rice mills/processing facilities, with some of them run down and others tiny and substandard. The methods

used in processing, bagging and distributing the local rice to the final consumers leaves it with some chaff and other extraneous materials. The local rice is, thus, of low yield and quality. The local rice value chain has low value addition and output, yet rice has become a valuable and strategic crop and food for Nigeria. Several large-scale PPPs, with various private sector companies, are involved in rice value chains in different parts of Nigeria today.

4. The PPP model

The business or revenue model of the rice PPP is premised on a domestic demand-driven agricultural value and supply chain model, supplying quality rice that can compete with imported rice, generating high volume sales and profits for the stakeholders.

The physical and structural model is the vehicle for the revenue model. This is essentially a nucleus estate initiative model, meaning that at the nucleus there is a large-scale commercial rice farm, a large-scale rice processing facility and an agricultural marketing, organisational savvy private sector company. In the circles or clusters surrounding the nucleus, there are thousands of smallholder rice farms.

The nucleus private sector company, in addition to planting its own high quality rice seeds, distributes the same to the smallholder farmers to plant. It institutes measures to ensure good yields and quality control in the whole value chain, both in the nucleus and in the outlying spheres. Inputs by the nucleus to the farmers are loans in kind to be repaid. The farmers sell their outputs to the commercial farm/processing facility. Their loans are deducted and payments are made promptly to them.

As shown in Table 1, the PPP model involves several partners, many of whom are well known as major global players in the agricultural finance and production sector.

Table 1: Partners in the PPP model

Partner type	Partner name	Roles and responsibilities
International partners	USAID	Provide support (for example, technical assistance, training, and extension services)
	Bill & Melinda Gates Foundation	
	International Finance Corporation (IFC)	
Regional partners	Africa Enterprise Challenge Fund (AECF)	Provide grants
	West Africa Rice Development Agency (WARDA)	Provide quality rice seeds; work with Olam to conduct field tests and trials with a view to producing even higher yielding seeds for the partnership
Public partners	The Nigerian national government	Provide policy initiatives
	Benué, Kwara, Niger and Nassarawa state governments and their relevant agencies such as their ministries of agriculture and their agricultural extension organisations.	Facilitate enabling environment, partnership management and implementation; availability of agricultural inputs
	Commodity Development Centre	Provide much needed infrastructure and other necessary support
Private partners	Olam Nigeria Ltd	Establish the commercial rice farm and rice processing factories at the nucleus, provide inputs and buy the farmers' products
	Smallholder farmers	Establish small-scale rice farms in their thousands in clusters around the nucleus
	First Bank of Nigeria	Provides loans

5. Indicative results of the PPP

Olam Nigeria Ltd has established a number of rice processing facilities in the different states. The Benué state project, established in 2005, was the first. The Kwara state project was established in 2007, and the Nassarawa state project was established in 2011. Each succeeding PPP was on a larger scale than the previous one, with Olam Nigeria Ltd applying lessons learnt and fine-tuning its strategy each time. The Nassarawa integrated rice production and processing facility is said to be the largest such project in Africa, in terms of both production and processing capacity. Its integrated rice milling facility, with a capacity of 85 000 metric tons (MT) of milled rice per annum, was commissioned in July 2014 by the president of Nigeria.

More than 10 000 smallholder farmers are involved in the Benué and Kwara state projects. In the Nassarawa project, 3 000 farmers are already engaged in the out-grower scheme, with a target of 16 000 farmers by 2018. Ultimately, 20 000 smallholder farms would supply 30 – 40 per cent of the mill's capacity. The other 60 – 70 per cent would come from Olam Nigeria Ltd's nucleus 10 000 hectare Greenfield irrigated and mechanised paddy rice

farm. The farm is expected to harvest two crops per annum, with four varieties of high-yield rice developed in partnership with the West African Rice Development Association.

Olam Nigeria Ltd's total investment in the Nassarawa rice farm and milling facility is valued at USD 111 million. In the Nassarawa project alone: a wet season crop of 1 000 hectares was harvested in March 2013, and 3 000 hectares were harvested in November/December 2013; a dry season crop of 4000 hectares, planted in November/December, was to be harvested in March/April 2014, and the planting of a wet season crop of 6 000 hectares commenced in July/August 2014. The rice seeds in the Nassarawa project are expected to produce a much higher yield per hectare than before.

In the Benue and Kwara projects, the average yield was 3.25 tons per hectare, compared to the national average yield of 1.25 tons per hectare. This increased farm earnings from USD235 to USD1 000 per hectare for the benefitting farmers. Table 2 presents the financial outputs from two fiscal years, showing sustained sales volume and revenue gains.

Table 2: Olam International financial statement

	Q1 FY2014	Q1 FY2013
Sales volume ('000 MT)	3 668.7	3 680.6
Sales revenue (USD million)	4 321.0	4 689.1
EBITDA (USD million)	248.9	222.7
PAT (USD million)	43.2	41.8

Note: EBITDA = earnings before interest, taxes, depreciation and amortisation; PAT = profit after tax

Additional positive outcomes are illustrated in Box 1.

Box 1: Interviews with some PPP stakeholders

Mr Mallam Joshua Zambari, rice farmer, Makurdi, Benué State:

Olam pays higher prices than the local small scale traders who compete with them in this area. In addition, they pay promptly. You do not have to wait for long before you get your money. In addition, there are other benefits we do not get elsewhere such as the training, loan and seedlings. This is why we stick with Olam. Olam does not force the relationship, rather, it cultivates it.
Oluwasola (2010)

Regi George, Olam's farm manager:

It's close to 1.5 million metric tons of rice that is being brought into the country. In five years' time, if this project is replicated in 10 locations with a similar kind of operation, that would be able to really achieve self-sufficiency for rice in Nigeria.
Rockefeller Foundation (2014)

Mr Adesina, Nigerian Minister for Agriculture:

We have been able to attract over \$1 billion private sector investments into commercial rice farming and processing. I thought that was great enough, until one of our investors expanded their investment in commercial rice farms and milling from \$300 million to \$1 billion - and that is just one investor. Over three million Nigerian farmers use improved seedlings, following the introduction of new rice varieties of Faro 42 and Faro 52. The government is rapidly expanding Nigeria's integrated rice mill as small rice mills are expanding rapidly, with an average growth rate of 25 to 40 per cent, saying government has been closing Nigeria's rice quality gap.
Natsa (2014)

There are, however, challenges with regard to the PPP model. These include inadequate electricity and road infrastructure, insecurity in the northern part of the country (where some of these projects are), government bureaucracy and politics, and sourcing of machinery spares. Also, continued development of very high-yielding rice seeds is still a work in progress.

A key conclusion that can be drawn from the case study is that PPP synergies provide farmers with access to financing, improved seeds, training, inputs and ready market access in private sector-driven added value chains, and provide holistic solutions to farmers and the African agriculture sector confronted by challenges.

6. Group exercise

Part 1

Participants break up and form groups, in which they outline the Strengths, Weaknesses, Opportunities and Threats (SWOT) of PPPs; after this, each group will share its views in a 5 minutes presentation to all of the participants.

Part 2

In country groups, or in groups that represent no more than three neighbouring countries, do the following:

- a. List the policy reforms and initiatives that you would need to undertake in your country/group of countries to make PPPs work effectively. Each group must prepare a 5 minute presentation, which will be open to questions and comments from other participants.
- b. Within the group, discuss PPPs in agriculture that are currently ongoing in your countries. Each country should share in dollar terms the total estimated finance the selected PPP will bring into investments in agriculture in the country. Give a breakdown of the actual or desired contribution from each partner, the roles of the partners, linkages, how the frameworks and structures function, and what each partner ideally should bring to the partnership, and the benefits they should derive therefrom.

References

- AfDB, OECD & UNDP (2014) *African economic outlook 2014: Global value chains and Africa's industrialisation*. Available at: http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E-Book_African_Economic_Outlook_2014.pdf [accessed 4 November 2014].
- Natsa RT (2014) Rice importation, hunger: Is FG winning the war? *Leadership*, 18 July 2014.
- Oluwasola O (2010) *Olam Nigeria Limited: Insight into innovative business for profit maximization, employment generation and development of the farm sector*. New York: United Nations Development Programme.
- Rockefeller Foundation (2014) *Rice nucleus, Olam Nigeria*. Catalytic Innovations in African Agriculture Centennial Series. Available at: <http://49tmko49h46b4e0czy3rlqayelb.wpengine.netdna-cdn.com/wp-content/uploads/2014/02/Rockefeller-Foundation-Nigerian-Rice-Farm-Case-Study.pdf> [accessed 4 November 2014].