Nexus Between Agriculture and Capital Market: Talking Points

November 2019
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Overview

Value in the Mire

Three-pronged Approach

Bridging the Gap

Product Study: Food Security Fund
Africa’s Largest Economy

Country Overview

- With an estimated population of 200 million, GDP of US $376.284bn, making it the largest economy in Africa.
- Nigeria’s population of ~200mn inhabitants is the largest in Africa by a distance, with 78% of the population under 35 years and growing rapidly.
- The country has significant natural resource wealth, ranking in the top 10 globally for proven reserves of arable land, oil and gas.
- However, since the 2000s, non-oil sectors have taken over as the key drivers of the economy, resulting in higher and less volatile growth.
- Government revenue and foreign exchange earnings have remained strongly correlated with oil prices, leaving the country exposed to oil price induced shocks.
- Aside from crude oil, the country’s other main exports are cocoa and rubber.

The country is poised for superior economic growth:

- Diversification of GDP towards sectors driven by the emerging middle class (e.g. telecoms, financial services, manufacturing).
- Forecasted to attract an increasing amount of FDI given attractive macro indicators and supportive demographics.
- Further potential for growth improvement driven by ongoing reforms across various sectors (e.g. agriculture, energy, power, infrastructure).

Summary of Key Macroeconomic Indices

<table>
<thead>
<tr>
<th>Index</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>-1.58</td>
<td>0.82</td>
<td>0.82</td>
<td>1.94</td>
</tr>
<tr>
<td>Private consumption (NGN’tillion)</td>
<td>81.5</td>
<td>79.9</td>
<td>60.1</td>
<td></td>
</tr>
<tr>
<td>Monetary policy rate (%)</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>13.5</td>
</tr>
<tr>
<td>Exports of goods &amp; serv (NGN’tillion)</td>
<td>8.84</td>
<td>13.99</td>
<td>19.28</td>
<td>9.13</td>
</tr>
<tr>
<td>Imports of goods &amp; serv (NGN’tillion)</td>
<td>9.48</td>
<td>10.80</td>
<td>13.44</td>
<td>7.71</td>
</tr>
<tr>
<td>Agriculture (%)</td>
<td>26.00</td>
<td>26.18</td>
<td>26.15</td>
<td>22.82</td>
</tr>
<tr>
<td>Industry (%)</td>
<td>20.00</td>
<td>20.38</td>
<td>20.24</td>
<td>23.21</td>
</tr>
<tr>
<td>Services (%)</td>
<td>54.00</td>
<td>53.45</td>
<td>53.62</td>
<td>53.96</td>
</tr>
</tbody>
</table>

Source: CBN Statistical Bulletin, NBS, Economic Intelligence Unit (EIU)
Despite a growing agricultural sector and increasing value of agricultural exports, contribution to foreign exchange earnings remain extremely small.

Source: CBN Statistical Bulletin, FAOSTAT, NBS
Maize prices adjusted for exchange rate differentials correlate with international prices. Strong correlation between local commodity prices (NGN/MT) and USD (BDC)

Maize prices (NGN/MT) and Exchange Rates USD to NGN (BDC)

Maize - NGN
USD - BDC

Soybeans prices (NGN/MT) and Exchange Rates USD to NGN (BDC)

SBS - NGN
USD - BDC

Price Trend
The agriculture sector is rife with opportunities untapped and the African food market poised to reach $1 trillion in 2030.

The Chicken industry is estimated to be N142 billion with annual growth of 10% since 2013.

Cocoa export market as at 2018 was worth N115bn and is the 3rd largest in the world.

Nigeria is the Second largest Sesame export market in the world.
Collaterization: Efficient conversion of physical assets into acceptable financial instruments via warehouse receipt systems.

Securitization: Due to the obscurity surrounding agricultural assets, aggregating them into tradable instruments via warehouse receipts has proven to be a viable means of expanding capital market participation in agriculture.

Exchange Trades: The exchange system will provide an efficient avenue transparent pricing mechanism, trading and transfer of ownership of various agricultural assets.
Bridging the Gap

Platform
- ComX
- Edex

Capital Market
- Spot Contracts
- Input notes
- ABCP

Platform
- Work Bench

Farmers
- Input financing
- Storage
- eWR

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## Fund Structure – Source of Funds

<table>
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<tr>
<th>Source of Funds</th>
<th>Description</th>
<th>Incremental Fund Size &amp; Source of Funds</th>
<th>Impact Assessment</th>
</tr>
</thead>
</table>
| **Exchange Traded Funds (ETFs)**<br>Retail Investors | Retail Investors looking for an instrument for diversification, with yields above (risk adjusted) government issued debt notes, and care about food security and poverty eradication                                                                                                           | ~20% Annual, Renewable                | • $105m over 5 years  
• $1.2b rural economy  
• 3m MT of Food  
• 400k Farmers  
• 1m people  
• SDGs 1, 2, 3, 5, 8 & 9 |
| **Junior Debt**<br>Impact Investors & Donors | Investors focused on deploying capital to business models that provide solution to Africa’s development challenges – SDGs 1, 2, 3, 5, 8 & 9                                                                                                                                          | 7.5% + 5% 2/3 Years                   | US$ 30 Million                                                                                     |
| **Senior Debt**<br>Institutional Investors | Investors looking for an instrument yielding above (risk adjusted) Government issued debt notes, but also care about developmental impact of their investments                                                                                                                                                               | 15% 2/3 Years                          | US$ 30 Million                                                                                     |
| **Technical Assistance (T.A.) Fund**<br>Donors & Foundations | Donors, Foundations and Family offices focused on market based interventions addressing food security and economic development – SDGs 1, 2, 3, 5, 8 & 9                                                                                                                                 | 5 Years                                | US$ 5 Million                                                                                      |

### Incremental Fund Size & Source of Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>ETFs</th>
<th>Junior Debt</th>
<th>Senior Debt</th>
<th>T. A. Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$10m</td>
<td>$10m</td>
<td>$10m</td>
<td>$2m</td>
<td>$32m</td>
</tr>
<tr>
<td>2020</td>
<td>$20m</td>
<td>$20m</td>
<td>$20m</td>
<td>$3m</td>
<td>$63m</td>
</tr>
<tr>
<td>2021</td>
<td>$40m</td>
<td>$30m</td>
<td>$30m</td>
<td>$4m</td>
<td>$104m</td>
</tr>
<tr>
<td>2022</td>
<td>$40m</td>
<td>$30m</td>
<td>$30m</td>
<td>$5m</td>
<td>$105m</td>
</tr>
</tbody>
</table>

**2023 Payout**

*for illustrative purposes only, actual structure may vary
The timelines have been developed to capture the peculiarities of the agricultural system prevalent in Nigeria and also ensure adequate returns for the funds.

*for illustrative purposes only, actual structure may vary
Thank You