

Coronation Economic Note

06 May '22

More traction needed in agriculture

The latest national accounts released by the National Bureau of Statistics (NBS) show that the agriculture sector grew by 2.1% y/y in FY '21, compared with 2.2% in 2020. Crop production accounted for 90% of agriculture GDP, and expanded by 2.3% y/y. We also note that the forestry, livestock and fishing segments grew by 1.4% y/y, 0.6% and 1.2% y/y respectively. Agriculture accounts for c.26% of Nigeria's total GDP and employs two-thirds of the labour force. Over the past eight quarters, the sector has grown by 2.1% y/y on average.

The agricultural sector has been a beneficiary of substantial credit interventions by the CBN and state-owned development banks. At its last MPC meeting, the CBN disclosed that as at end-February '22, total disbursements under the Anchor Borrowers' Programme (ABP) amounted to N975.6bn to a total of c.4.5 million smallholder farmers across the country. The total disbursements under the Commercial Agriculture Credit Scheme (CACS) amounted to N735.2bn for 671 projects in agro-production and agro-processing.

The issue of a large informal economy is one reason for the misalignment between the growth figures recorded in this sector and intervention efforts. While agriculture has benefited from both policy continuity and several FGN/CBN credit interventions, its pace of growth has been slow as lack of access to finance also continues to pose as a challenge for the sector.

Based on data from the CBN, credit to the agricultural sector was 6.0% of total credit to the private sector in 2021, compared with sectors such as oil and gas (23.3%), manufacturing (16.8%), finance, insurance and capital market (7.0%) and trade/general commerce (7.0%). There is a need for financial institutions to diversify products and services for active players across the agricultural value chain. This should boost returns and profitability of agricultural activities.

The unresolved insecurity challenges still undercut the FGN's return on investments in the sector. Disruptions in agricultural supply chains are occasioned by bandits and herdsmen in food-producing areas of the country. Other structural challenges include output losses due to poor storage and logistics. To reduce post-harvest losses, the FGN could assist with linking smallholder farmers to markets, provide training on postharvest management and the use of technology, as well as promote innovative mechanisms to facilitate alternative ways of transporting agricultural output.

As for supply chain linkages within the sector, Nigeria focuses heavily on agricultural output, neglecting the processing and manufacturing segment of the value chain. We note that shortages of resources, lack of financing and inefficient transport systems disrupt the development of food production along the value and supply chain.

Turning to the fertilizer space, in March '22, the Dangote fertiliser plant located in Lagos was launched. The 3MT fertiliser plant, occupies 500 hectares of land and is regarded as Africa's largest granulated fertiliser complex. According to the World Bank, Nigeria has the lowest fertiliser applications in Africa at 20 kilogrammes per hectare, lagging behind Egypt and South Africa. Nigeria's fertiliser demand is expected to range between 5 -7 million metric tonnes in the coming years. The newly launched Dangote fertiliser plant could potentially reduce the supply gap, which is currently covered by importation.

Indicators	NG
Inflation rate (March '22, %)	15.92
GDP (Q4 '21, %)	3.40
Gross Official Reserves (04 April '22, USD bn)	39.4
UK Brent (05 May '22, USD)	110.9

Source: Bloomberg, CBN, NBS, Coronation MB Research

FGN bond yields (05 May '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
7.80	11.37	12.27	12.52

T-bill yields (05 May '22, %)			
14-	13-Oct	09-	30-
Jul-22	-22	Mar-23	Mar-23
3.25	3.62	4.66	4.47

Source: FMDQ, Coronation MB Research

Chinwe Egwim
 Chief Economist
 E-mail: CEgwim@Coronationmb.com

Team
 E-mail: economicresearch@coronationmb.com
 Tel: +234 (0) 1-2797640-43

More traction needed in agriculture

It is worth highlighting that the current Russia-Ukraine crisis has disrupted shipping costs which has inevitably increased the prices of fertiliser as well as prices of agro-related products such as animal feed, wheat, maize, among others. This has contributed to upticks in the food inflation rate and imported food prices. In addition, rising fuel prices contribute to higher cost of production and by extension, an increase in food inflation.

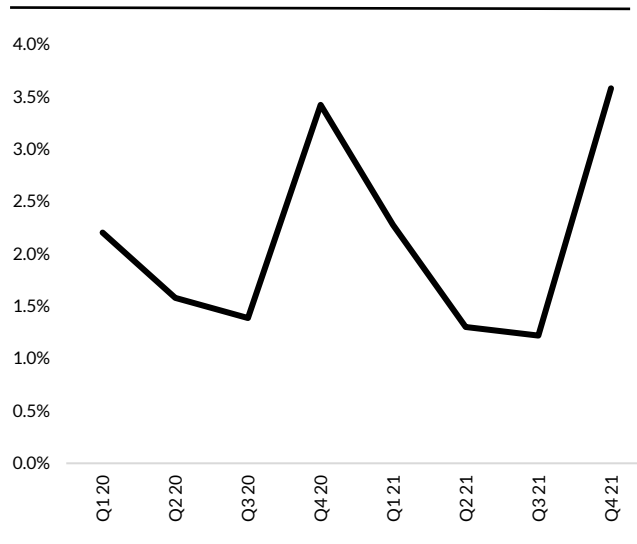
Increasing domestic production could ease the fx import bill and create an opportunity to boost fx revenue via exports on the back of the current price hike in fertilisers and other specific agricultural products globally.

Therefore, there is need for the FGN to take urgent steps towards improving agricultural production in Nigeria and removing constraints on the supply of agricultural products to the market.

Overall, agriculture remains the favoured route to economic diversification. The agriculture value chain is broad and provides an opportunity for job creation and entrepreneurship. The expected increase in agricultural exports on the back of increased productivity due to domestic production of fertiliser should encourage increased investments into the sector.

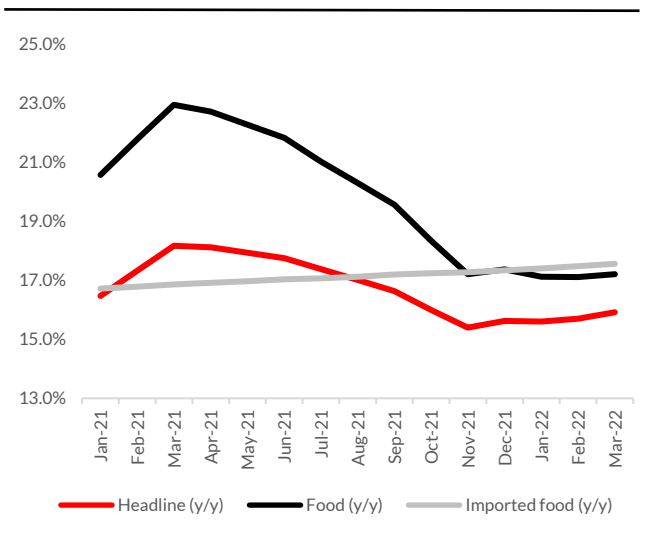
There is also a need for sustainable public-private partnerships that can potentially transform the agriculture sector to ensure that it realises its potential as an economic backbone.

Agricultural GDP growth (% chg; y/y)



Sources: National Bureau of Statistics, Coronation Merchant Bank Research

Headline, Food & Imported food inflation y/y (%)



Sources: National Bureau of Statistics, Coronation Merchant Bank Research

DISCLOSURES & DISCLAIMERS

- This report has been prepared by the Research Department of Coronation Merchant Bank using sources believed to be reliable, trustworthy and factually accurate, however the Research Department has not independently verified these sources of information and Coronation Merchant Bank does not vouchsafe the accuracy of these. No guarantee is given as to the independence of the sources themselves. Readers intending to act upon the contents of this report are advised to make their own enquiries.
- The analyst(s) and/or Chief Economist has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.
- This report is intended as background information for clients of Coronation Merchant Bank, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.
- Neither Coronation Merchant Bank, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Merchant Bank, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Merchant Bank, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.
- This report is intended for the clients of Coronation Merchant Bank, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Merchant Bank, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Merchant Bank, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Merchant Bank, or one of its subsidiaries or affiliates, and to return or delete the report.
- This report is intended for corporate and institutional clients of Coronation Merchant Bank, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.
- This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.
- Coronation Research is a department within Coronation Merchant Bank which supplies research services to Coronation Merchant Bank, and is ring-fenced with regard to the activities of Coronation Merchant Bank. The Chief Economist, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Merchant Bank.
- Coronation Merchant Bank and its subsidiaries and affiliates are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria and by other relevant regulatory authorities in their respective fields of business.
- Your attention is brought to the fact that the analyst(s), and/or Chief Economist, mentioned at the beginning of this report is (are) employed by Coronation Merchant Bank in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK') as these laws may affect the production, publication and distribution of this report.
- Where this report is distributed to clients and potential clients of Coronation Merchant Bank, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), this report is either: a) distributed by virtue of a contract between Coronation Merchant Bank, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.
- The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Chief Economist whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Chief Economist mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

- The compensation of the analyst(s), and/or Chief Economist, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.
- This report is produced by the Research Department of Coronation Merchant Bank and may be used, after its publication, by other departments of Coronation Merchant Bank for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Merchant Bank that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Merchant Bank that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Merchant Bank, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.
- By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Merchant Bank.

© Coronation Merchant Bank 2022. PO Box 74853,
Victoria Island Lagos, Nigeria.