Simplified **by Cowrywise**

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The Rise and Fall of **Agricultural Crowdfunding**

cowrywise

Agriculture needs patient capital, not short term funding with the promise of ridiculous returns

The Rise and Fall of Agricultural Crowdfunding

- Agricultural crowdfunding platforms were meant to improve farmers' access to finance. Not any more.
- Nigeria's agricultural sector needs a mixture of these three: Strong policies, patient capital and disruptive innovation.
- Our advice to potential investors when making investment decisions: Look left, look right and look left again.

> In Nigeria, a particular sector is known to have investment opportunities that promise returns above 30% to 50%. That sector is **Agriculture**.

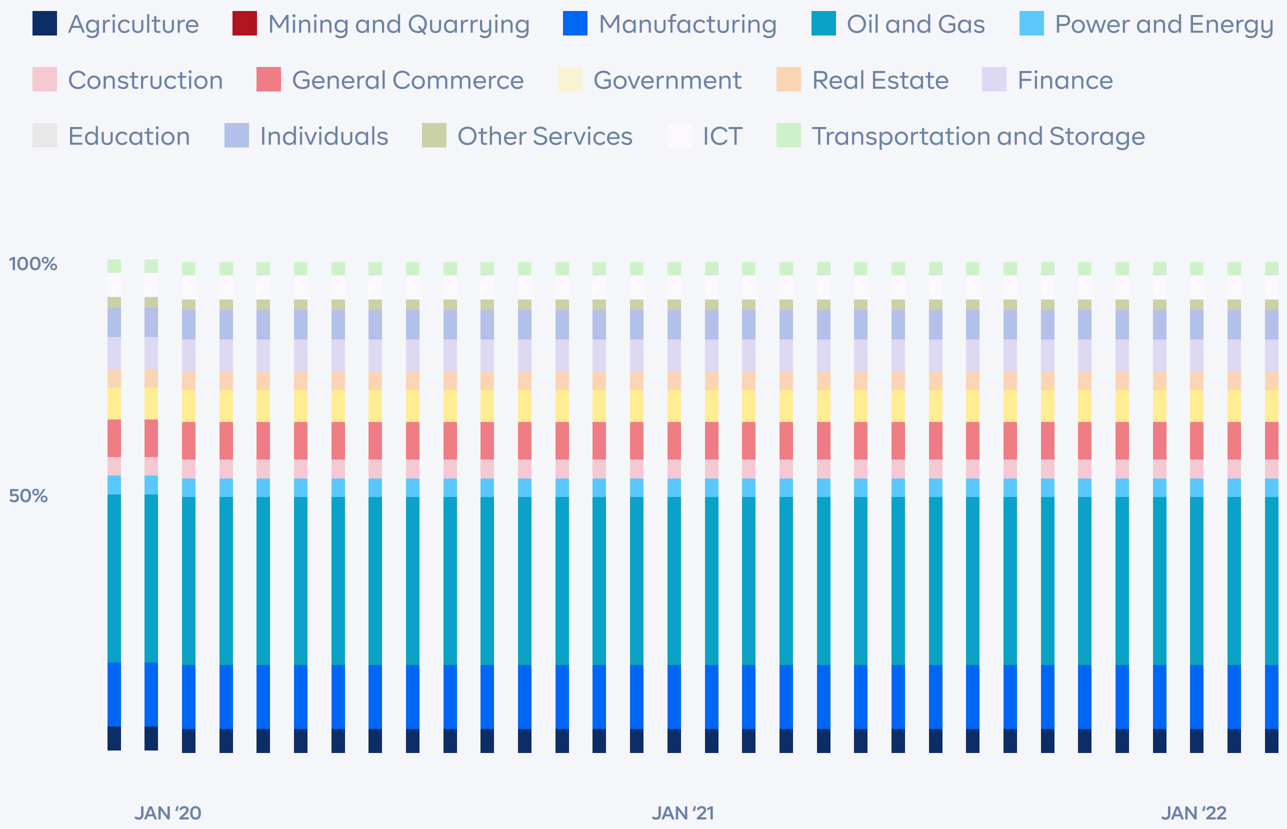
Over the last three years, agricultural crowdfunding platforms have gained popularity with the Nigerian investing public. A lot of these entities have sprung up, with most of their operating names combining "Agro", "Invest", "Farmer" and so on. These platforms claim to bridge the gap between investors looking for attractive returns and smallholder farmers looking for capital. Their solutions mostly involve providing farmers' access to working capital, enhancing farm productivity, and enabling a stronger route-to-market for produce.

Farmers' perspective: Easier Funding

Indeed, the agricultural crowdfunding model sounded like a good deal. Farmers got relatively easier funding compared to the hurdles of securing a bank loan. Banks have allocated just 6% of their loans to Agriculture, and a bulk of that funding is to MSMEs and large corporates, who are involved mostly in the processing and exporting segment of the value chain. The CBN has a lot of agricultural intervention schemes, but the size of the sector is much larger than the total funds disbursed. There are also concerns about low repayment rates, and that has affected the scalability of intervention funds.

Sector analysis of Nigerian banks' credit portfolios (%)

Credit to agriculture remains a small share of Nigerian banks' total loan, at 6% allocation.



** Chart: Busola Jeje, CFA. Source: CBN, NBS, Cowrywise Research*

Snapshot of CBN's Agriculture Intervention Schemes

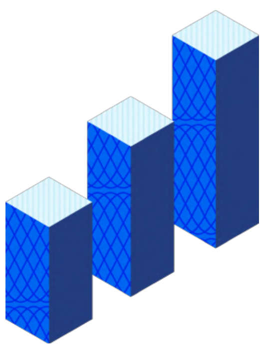
Growth Scenarios	Cummulative disbursements as at May 2022 (NGNmn)
Anchor Borrower's Programme	1,010,000
Accelerated Agriculture Development Scheme	21,230
Commercial Agriculture Credit Scheme	741,050
Paddy Aggregation Scheme	106,390
Agri-business Small and Medium Enterprises Investment Scheme	136,130
Total	**2,014,800**
Agriculture's Real GDP (FY 21)	18,738,414
Intervention funds as % of GDP	**11%**

** Table: Busola Jeje, CFA. Source: CBN, NBS, Cowrywise Research*

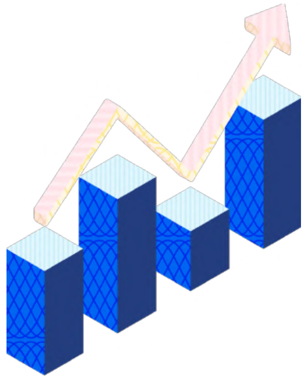
Investors' perspective: Attractive returns

For Nigerians, the crowdfunding craze flourished for these reasons:

1. **High Returns:** Nigerians live in a country with 19.64% inflation, a depreciating naira, severe FX shortage, persistent structural and infrastructural challenges, and insecurity issues. Hence, the need for high returns that can improve or preserve their standard of living.



2 **Traditional investments are not as attractive:** Fixed income yields are much lower than pre-2019, no thanks to the CBN's unorthodox monetary policies and its backdoor financing of the FGN's budget deficit. The returns in the equity market are currently high, but subject to volatility. Crowdfunding platforms were offering fixed sizable returns.



3 **Greed:** The "get rich quick" syndrome is still highly prevalent in Nigeria, and it is a big reason why people invest in assets and schemes, without fully understanding the risk/return tradeoff.

Current reality: A lot of money has been lost

Unfortunately, what looked like a lucrative deal for both retail investors and farmers, has now turned into a sad story. Multiple agricultural crowdfunding platforms have defaulted and some are still owing people billions of naira. Only few have successfully repaid their debts, and exited the crowdfunding model.

As a company, we have been asked several times why we did not invest in agriculture, or why we did not offer agricultural products on our platform. We finally share our reasons and thoughts below, and hope investors can learn from it:

Lesson 1: *The need to fully understand the sector you are investing in*

The agricultural sector in Sub-Saharan Africa remains relatively underdeveloped. According to Agri-Logic, agricultural mechanization in the continent is much lower than the rest of the world, with 70% of our arable land being cultivated by people. For Nigeria, there is also a severe productivity challenge. Our cereal yields and level of fertilizer consumption are much lower than the global average; agriculture produce makes up an ignorable percentage of our exports; and we are far from achieving domestic food sufficiency.

If we further add the issues of insecurity, bad road networks, inadequate power supply, farmers' inadequate education, and severe climate conditions - it is clear that agriculture, particularly the early stage of the value chain, is a risky sector. Having this understanding, we know it is illogical to offer high fixed guaranteed returns on farming projects that can easily fail if farmers have no offtakers, or no access to storage facilities, or suffer from an outbreak of pests.

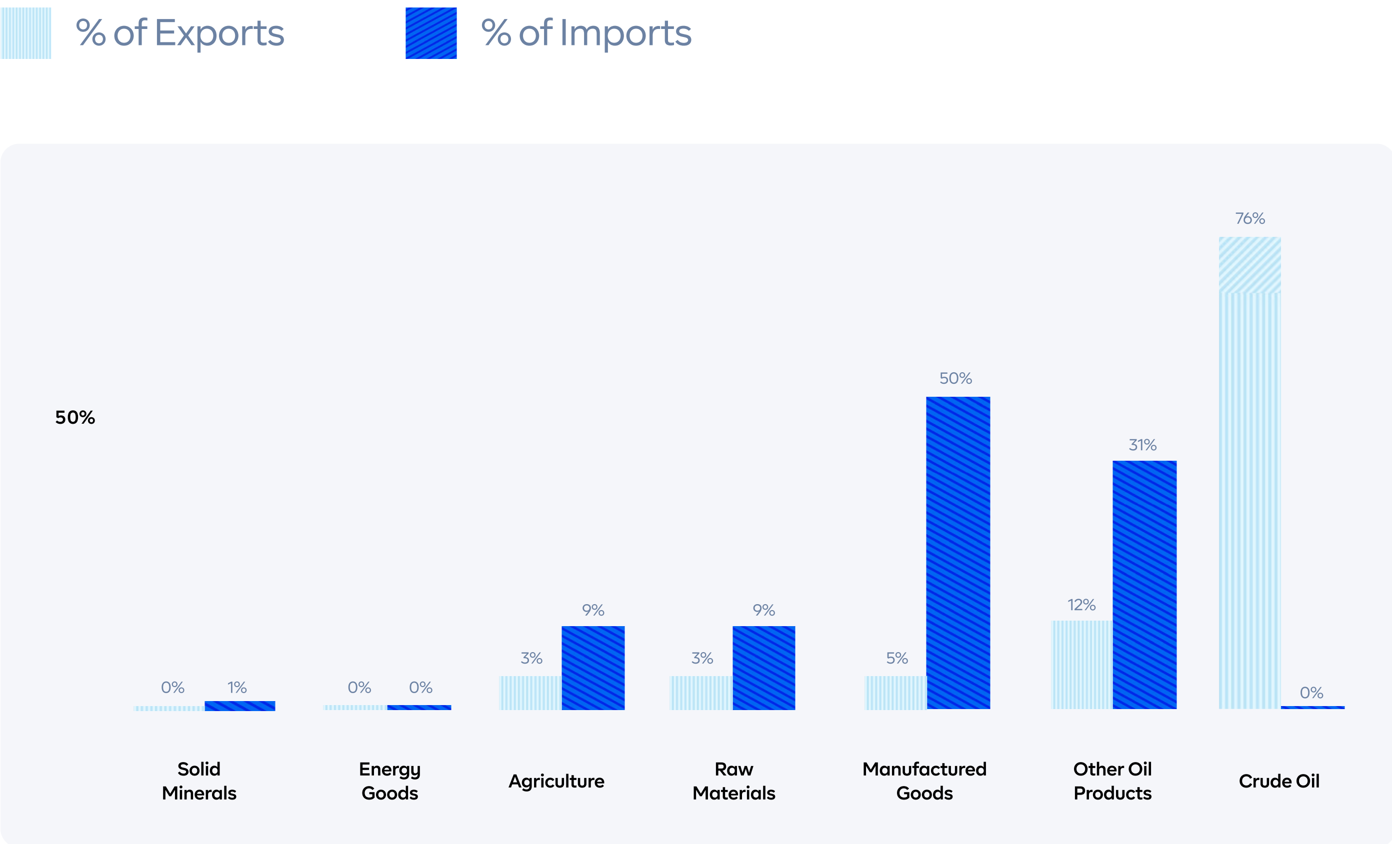
Nigeria's agriculture sector compared to select peers

	NIGERIA	SOUTH AFRICA	INDIA	INDONESIA	GHANA	CÔTE D'IVOIRE	KENYA
Agriculture Overview							
Agricultural land of total land are (%)	76%	79%	60%	33%	65%	67%	49%
Employment in Agriculture (%)	35%	5%	43%	29%	30%	40%	54%
GDP agriculture, forestry, fishing (%)	24%	3%	18%	14%	19%	21%	23%
Agricultural Efficiency							
Cereal yield (kg/ha)	1,509	4,934	3,248	5,227	1,864	2,278	1,810
Agricultural value per worker (US$)	1,444	2,667	821	1,723	1,362	881	535
Arable land (ha/person)	0.17	0.21	0.12	0.10	0.16	0.14	0.11
Fertilizer consumption (kg/ha)	20	73	175	236	29	31	16
Logistics performance index (max = 5)	2.53	3.38	3.18	3.15	2.57	3.08	2.81
Livestock production index	103.4	98.8	118.7	168.1	114.5	104.5	109.7
Crop production index	106.9	104.7	112.7	102.5	118.6	116.1	112.3
Food production index	106.6	101.7	114.7	112.6	118.3	113.5	111.8

** Table: Busola Jeje, CFA. Source: World Bank, FAO, Agric Logic Cowrywise Research*

Nigeria's exports and imports by sector (%)

In 2021, Nigeria imported ₦2 trillion worth of agricultural produce, four times what was exported within the same year.



** Chart: Busola Jeje, CFA. Source: NBS, Cowrywise Research*

Lesson 2: *Understand the investment model and strategy being employed*

A beautiful thing about public financial markets is that there is disclosure. Companies listed on the stock market publish their financials, companies raising debt funding provide several reports, and mutual funds disclose periodically what assets they invested in as well as their investment performance. However, private markets and the alternative investments space have a lower level of disclosure. That is why those markets are dominated by institutional investors, who have more knowledge and information.

What are we trying to say? The level of disclosure provided by agricultural crowdfunding platforms was not enough to aid peoples' investment decision making. The business models were opaque, as well as their risk management plans.

Most platforms commonly said: "Insured by XYZ Insurance". What exactly is being insured? From our findings, the insurance coverage is taken out on the farms and not investors' funds. Furthermore, coverage is on specific events. If insurance covers a pest outbreak, but a flooding destroys crops - no insurance claim can be made, and investors indirectly lose their funds.

Another word of advice to retail investors: An entity continuously refinancing or rolling over its debt, is a red flag. Most of these crowdfunding platforms financed upcoming maturities with new funds. Follow our chain of thought: (1) Platform A collects N500mn for Potato cultivation for 9 months. (2) The money is due to be repaid in Dec 2022 (3) By Nov 2022, they open up another funding round tagged "Potato 2.0" and receive new funds (4) Use the new funds to pay the maturing debt in Dec 2022. This is a tactic popularly known as Agri-ponzi. While that is not entirely bad, there is a huge possibility that the potato project generated no cash flows, but investors are unaware because new money has been used to pay off existing debts.

Lesson 3: *The higher the return, the higher the risk*

There is no such thing as free money, and nothing is guaranteed. Investors need to know that if an asset is promising exorbitant returns, it carries high risk and there is a chance of loss. An investment offering above average returns and positive real returns (higher than inflation) in the current economic climate, requires a lot of scrutiny. As a person looking to build wealth in a safe and sustainable way, there is a need to be curious and vigilant. Avoid jumping on an opportunity, because this was written on a poster on a BRT bus -

> **"get 60% on agriculture and real estate in 6 months!"**
>
> *If it's too good to be true, it is!*

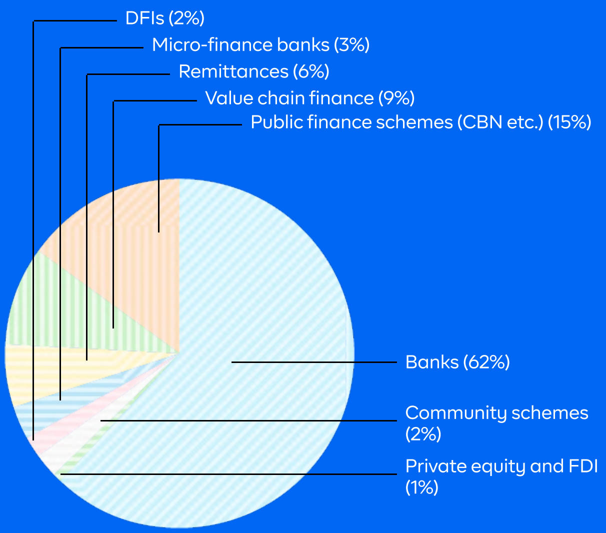
The agriculture sector itself is in need of a major workup

Asides from giving our thoughts to investors, we highlight what can be done to improve agriculture, and the agric-financing model:

1

Strong Policies: Agriculture's success depends mostly on fiscal policies that affect our core infrastructure. Nigeria needs better road networks, adequate power supply, more functioning ports and more processing and storage facilities. Targeted policies will go a long way in smoothening our transition from a subsistence to commercial agricultural-driven economy. With infrastructure in place, the effects of the CBN's intervention loans to farmers will be more evident. Protectionist Policies such as restricting imports (the infamous border closures) and limiting access to foreign currency for food will only further push Nigerians down the poverty road.

Market share of agric-finance supply in Nigeria



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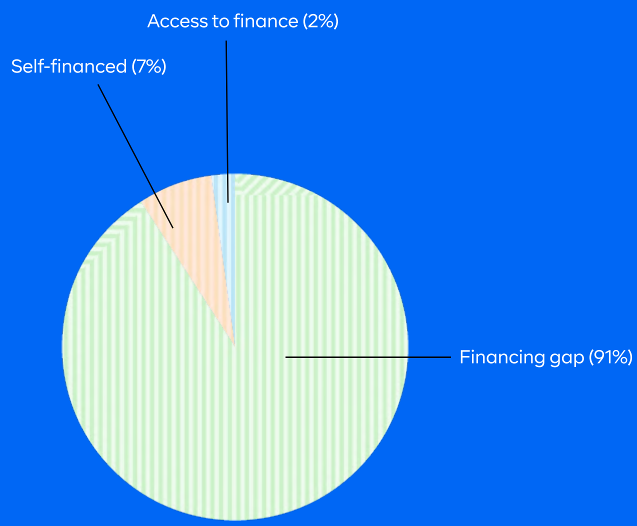
Access to finance gap in Nigeria



** Chart: Busola Jeje, CFA. Source: Agric-Logic, Cowrywise Research*

2

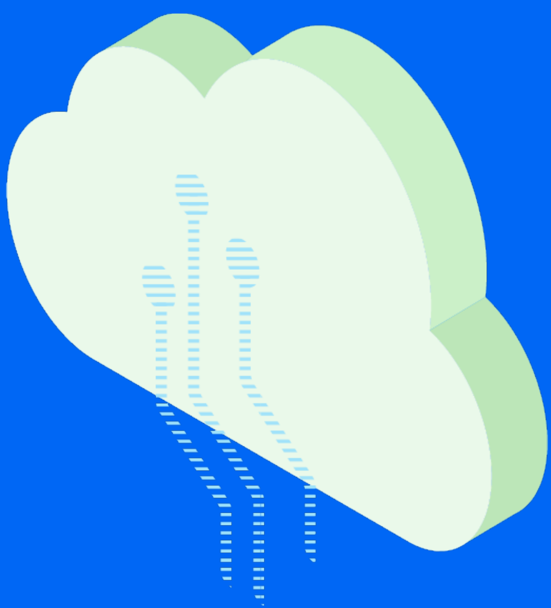
Value Chain Financing: Perhaps the best way to unlock capital is to encourage more value-chain financing - where agricultural offtakers and processors directly finance the smallholder farmers that provide them with inputs. They can operate an aggregator or a co-operative structure, where they pool their farmers together, and pass on funding secured from a financial institution. FrieslandCampina WAMCO, the makers of Peak and Three Crowns, has a network of over 1,000 local dairy farmers under its Dairy Development Programme. These entities also have the ability to collect data on farmers' profitability, bankability, repayment and utilization of funds, and can share with financial institutions.

3

Disruptive Innovation and tech-enabled solutions: Agritech should focus on solving the issues within the value chain and providing tech enabled solutions to farmers, rather than financing a broken system.

A number of these entities exist. Hello Tractor connects tractor owners and farmers through farm equipment sharing applications, and enables the financing of tractor purchases. Vendease has a platform where restaurants and other food businesses can buy supplies directly from manufacturers and farms. ThriveAgric, having exited the crowdfunding model, is improving access to finance for farmers and collecting data-driven insights, which will be helpful to potential financiers.

The most disruptive banking solutions for smallholder farmers are USSD and agency banking. MTN and Airtel recently launched their payments business, and this can improve the financial inclusion for smallholder farmers, make disbursements and collections easier.



Our final words to Investors: Look left, look right, and look left again. It is imperative that investors perform due diligence and research before investing.

When all is said and done, investors have to hold these values close to their chest:

1. Put money in investments you understand, and be fully aware of the risk and return tradeoffs.
2. Be curious and ask questions. It is your money so you have the right to ask questions.
3. Go for investments and entities that are regulated. The Securities and Exchange Commission (SEC) is there to protect investors interests. There are crowdfunding rules that guide the engagement of investors and these platforms, but a number of them ignored the rules or went underground.
4. Determine your risk appetite. If you are a moderate to conservative investor, do not put a significant part of your life savings in risky ventures.