# Access to Start-up and Middle-level Equity Finance for Nigerian Agribusinesses

Postharvest Loss Alliance for Nutrition (PLAN)

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## Summary

Nigerian agribusinesses face a great challenge when it comes to accessing funding, whether they are in the start-up phase or trying to scale. If agribusinesses look beyond traditional bank and government finance sources, and take a few simple steps to increase their attractiveness, they may be able to access new sources of capital.

In this Learning Brief, the Postharvest Loss Alliance for Nutrition (PLAN) explores some of the equity funding options available to small- and medium-sized agribusinesses in Nigeria. This brief is meant to serve as a primer to help business owners gain a better understanding of how to make their business ideas more attractive to investors.



## Acknowledgements

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# Introduction

Nigeria is the largest economy in Africa, with a strong entrepreneurial spirit. An estimated 37 million micro, small, and medium-sized enterprises (MSMEs) operate in Nigeria. It's a wonder, though, that this dynamic growth is possible amidst the country's challenging business environment. The 2017 Ease of Doing Business report ranked Nigeria 169 out of 185 countries.[1] One the greatest contributors to this rating is difficulty accessing finance. Nigerian firms rank access to finance as the 2nd greatest constraint on their business, after access to electricity.

Businesses view accessing finance as a challenge because of the difficulty they face obtaining bank loans. The bank loan process is complicated--requiring what can seem like an excessive amount of documentation—and at the same time lacks transparency. Banks often ask for collateral, but even when a business can offer it (e.g., in the form of physical and personal assets), the bank may still reject the loan application. When collateral is accepted, it places a burden on young entrepreneurs who must undertake personal debt in service of their commercial enterprise. Overall, the International Finance Corporation (IFC) estimates that only about one-third of Nigerian MSMEs have successfully obtained a loan from a financial institution.[2]

If banks are not playing a strong role in financing business growth and development, then entrepreneurs are forced to search elsewhere for financing. Many turn to their friends and family at the start-up stage, but not everyone has this option and the financial burden becomes too large at later stages of growth. Other alternative funding sources include government grants and funding from development institutions like the World Bank or African Development Bank, but, while these options are generally less risky, their supply is often limited for MSMEs. Equity finance, or the sale of a portion of ownership, offers another avenue for businesses to pursue.

The difference between debt financing, which is provided through bank loans, and equity financing is the role of the financiers. In debt arrangements, a business must repay the loan on whatever terms are demanded, including interest rate and timeframe. While this may also be the case for equity financing, the key difference is that the equity financier *invests* in the business and buys a stake, or share, of it. This means that they're also invested in the best interest and success of the business. Not everyone believes that equity is an attractive option, but as Henrii Nwanguma of the Nigerian Cold-Chain Development Association (NCDA) states, "In Nigeria, ownership is important to us, and so equity may seem like giving up ownership. But what must be understood is that equity is a business partnership. To reduce one's concerns, partners must also support your business with managerial know-how, access to funds, and markets." Thus, equity financing typically comes with additional benefits for young business owners in need of support, advice, and connections, in addition to money.

Equity finance is not a new concept, but it is only recently becoming more accessible in the agribusiness sector in Nigeria. The Postharvest Loss Alliance for Nutrition (PLAN) is a network of Nigerian and global agribusinesses working together to build and strengthen their businesses with the goal of reducing postharvest food loss and getting more nutritious fresh fruits and vegetables to market. PLAN aims to support its members as they grow their businesses, which includes helping them find access to funding, including equity finance.

In this Learning Brief, we present an overview of equity financing sources available to Nigerian agribusiness MSMEs at the start-up and mid-level growth phase. We outline a variety of financing options and steps that agribusinesses can take to increase the likelihood of gaining access to equity funding for companies seeking to improve their operations and reduce postharvest loss. With this information, the hope is that PLAN members will feel empowered and capable of accessing new funding sources to improve their operations, grow their businesses, and, ultimately, reduce postharvest loss.

While this brief focuses primarily on equity financing, PLAN is engaged with financial partners in Nigeria who focus on debt financing. We provide information about these partners and the financial services they offer to PLAN members on Page 8.

[1] World Bank Group, Doing Business, 2017, http://www.doingbusiness.org/data/exploreeconomies/nigeria
[2] IFC/CBN, The Credit Crunch, 2017, https://openknowledge.worldbank.org/handle/10986/26275

# Overview

When seeking equity financing, MSMEs may target three different funding levels: (1) start-up capital, (2) middle-level capital, and (3) expansion capital. The maturity of a business usually indicates which level of funds it will require, while the amount and source of finance determines the process a business will complete to access the funds. Below, we explain the distinction between start-up and middle-level capital, which are likely most relevant for PLAN members. Please note that we do not focus on expansion capital in an amount greater than USD $500k (₦150m), but some of the middle-level sources listed may be appropriate for expansion capital. If you're interested in learning more about expansion capital, we recommend speaking to a legal or financial advisor.

## Start-up Capital

Start-up capital is generally funding under USD $100k (₦30m). When starting a new business, entrepreneurs may seek start-up capital if they face gaps in financing that need to be filled to establish the business. This is especially true prior to turning a profit, but also when small businesses look for small levels of finance that will help them improve their operations and generate a profit.

Agribusinesses often use start-up capital to lease or purchase industrial space or land, cover legal and regulatory fees, procure equipment and inputs, and hire staff. Farmers use start-up capital for inputs like seeds and fertilizers or to purchase new equipment. Warehousers and distributors may use start-up capital to purchase or lease facilities and vehicles, or use it to fund operating expenses. Processors may use the capital to purchase packaging equipment and help cover construction costs and overhead.

### Common Sources:

- Crowdfunding and Kickstarters
- Incubators
- Angel Investors and Investor Networks
- Social Impact Investors

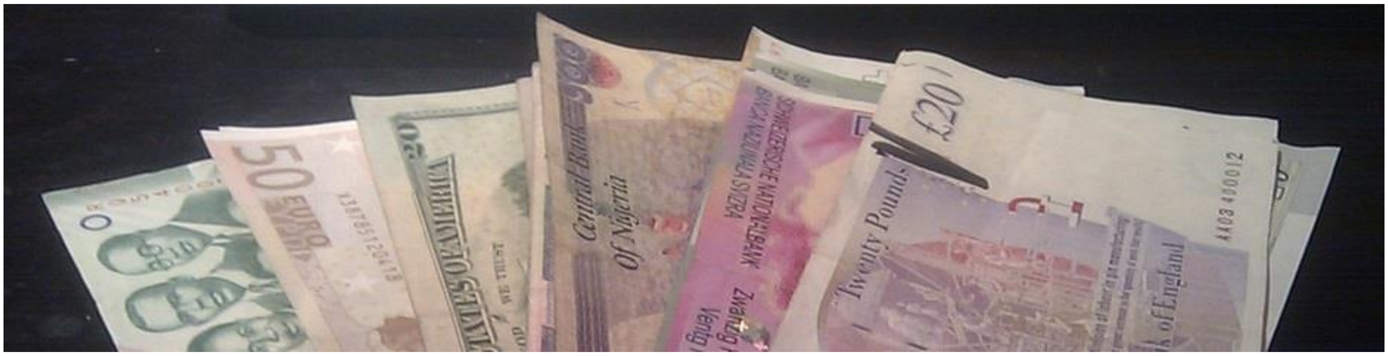
## Middle-level Capital

Middle-level capital is the key to unlocking the long-term growth of a business, as it supports the transition from a small- to medium-size enterprise. It is typically in the amount of USD $100k – 500k (about ₦30m – ₦150m). Middle-level capital is needed for already established businesses to increase their profit margins and market penetration.

General uses for middle-level capital include purchasing new land, facilities, and equipment, and hiring new staff. For farmers, the capital could be used to buy new land and equipment needed to grow, harvest, and store new or additional crops. Warehousers may use middle-level capital to upgrade their storage facilities, while distributors may use the capital to conduct vehicle repairs or purchase new vehicles for an expanded route. Processors may need middle-level capital to expand into new markets and improve their marketing strategies.

### Common Sources:

- Venture Capital
- Private Equity



# Best Practices

Whether you need start-up or middle-level capital, please find below a few tips for making your business more attractive to equity investors and, thereby, increase your odds of receiving the capital you need to build or expand your business.

- **Create a Business Plan.** A business plan is a necessary component for accessing any start-up capital. A good business plan includes, but is not limited to, a vision for the company and the service or product it will provide; the organization/management structure; and projections for profits and growth. When starting your business it may help to use a tool like the Lean Startup Canvas to make sure you're approaching your business plan from the right perspective. Once your business is up and running, you will want to update your business plan as you learn more about your business, its operations, and the market. This will help you access additional start-up funds needed to stabilize your business.
- **Refine your pitch.** At some point it, you must move from planning to execution. When seeking finance, be sure to work on refining your pitch (for help with your pitch check out this 10 slide model for inspiration). You'll also want to conduct market research and network to engage lots of investors and increase your odds of securing financing.
- **Set goals**. Clearly define the goals for your business. What is it you want your business to accomplish in the next 5 years? If an investor asks, you should have an answer. Be sure that your goals are ambitious but realistic; have a practical action plan for accomplishing your goals.
- **Define your financing needs.** Clearly articulate and prioritize your business' financing needs. An investor will want to know exactly how you plan to use their investment. Be ready with knowledge of the products, price, and projected return on investment and business growth that an investor's capital would help generate.
- **Maintain transparency**. Be open about what is expected from the investor. Lending, particularly for equity finance, is a relationship, not a gift. If someone is investing in your business, they will also want to be invested in the success of your business. Be clear about what support is desired and needed beyond finance, such as mentorship, management advice, shared workspace, or network connections.
- **Build a strong team.** Investors need to trust that their investees are reslient, creative, and will persevere through the challenging start-up phase. Not everyone on your team needs to be an expert on every aspect of your business, but your team should have complementary skillsets. This will help you to tell a better story to investors and help them see your full potential.
- **De-risk your business.** There are many ways to do this, but de-risking your business is about limiting the potential for losses. One way of doing so is to diversify your interests, or to put it another way: don't put all your eggs (or tomatoes) in one basket.
- **Practice good management.** The necessity of proper accounting and record keeping practices cannot be over-emphasized. In Nigeria in particular, complete records are highly correlated with a business's ability to access finance. How else will an investor assess the business's growth and profit potential?
- **Establish external partnerships.** Demonstrating the existence of strong external partnerships can also help de-risk your business in the eyes of investors. One way to document these partnerships is to keep records of your interactions, such as purchase orders or receipts. Demonstrate that you communicate regularly, deliver on your promises, and provide goods, services, and payments on time.
- **Be realistic.** Everybody wants financing. Being realistic about what you need and what you can accomplish will help you align your interests with those of a potential investor.
- **Conduct due-diligence.** There may come a time when it's wiser for you to turn down a funding opportunity. Conduct proper due-diligence on a potential investor to ensure that they are the right partner for you. If possible, look into past investments and reach out to other businesses to hear their evaluation of the investor.
- **Research non-conventional funding sources.** While we've tried to be as comprehensive as possible, the sources shown in this document are not the only ones available. Sources like online kickstarter and crowdfunding campaigns can also provide the capital you need.

# Ask an Expert

We spoke with Nigerian finance expert Chioma Nwagboso of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to get her advice to PLAN members on how to make agribusinesses attractive to investors. From her perspective, there are nine salient points that any Nigerian business should be mindful of when seeking funding.

1. Don't underestimate the power of your network. Nigeria, like most other places, thrives on relationships; someone introducing you to another person who might have an improved insight. Take advantage of such relationships, seek and create new linkages – your network is truly your net worth.

2. Finance is very expensive especially in Nigeria so make sure you only ask for what your business needs and will be able to pay back.

3. Do not overburden yourself by borrowing money from several sources.

4. As far as possible, start early to develop a relationship with your financial institution. Build a credit history by taking small loans and have a good track record of paying back on time. This way they are more likely to grant you a bigger request when the time comes.

5. Never use borrowed or investor money to fund an expensive, upgraded lifestyle (cars, clothes, accessories).

6. Don't fear equity as an alternative source of financing. Equity offers more than money as you will also be able to pick the brains of the person or persons who will join your company's board.

7. The importance of keeping solid financial records cannot be understated. If possible, a check from an external auditor will give more credibility to the business.

8. Explore financing sources (mostly equity) from international investors interested in your business. Impact investments are usually good ones to look into.

9. The Central Bank, Bank of Industry, and the newly created Development Bank of Nigeria usually have different schemes and financing targeted to MSMEs, so be sure to keep your ears to the ground.

**Chioma Nwagboso**
*Private Sector Development Advisor*
*Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)*

Chioma Nwagboso is a Private Sector Development Advisor at GIZ. She leads a public private partnership program called Cooperation with the Private Sector where she works closely with the European private sector operating in Nigeria to unlock opportunities within their business processes so people from low income communities can participate in market activities as consumers, producers and suppliers and in the process, spur inclusive economic growth, create new job opportunities, increase income levels and reduce poverty.

Prior to this, she spent six years working within the World Bank Group (World Bank and IFC) providing private sector solutions to agribusiness, inequality, youth development, job creation, industry clusters and access to financial services. This role has seen her canvass Nigeria, South Africa, South Sudan, Ghana and Kenya utilizing her entrepreneurial spirit to curb development challenges where its most needed. She is a Chartered Accountant (ACCA), holds a MBA in International Business from European Business School London and a Bachelor's Degree in Accounting from Hofstra University in New York.

# Funding Sources

In recent years, equity financing sources have increased in Nigeria, resulting in increased opportunities for MSMEs to find the capital they need to grow. Below are organizations that provide equity financing to agribusinesses in Nigeria. While this isn't an exclusive list, we hope it is a helpful starting point for PLAN Alliance members. We also provide a list of PLAN financial partners who focus on debt financing on Page 8. We encourage you to reach out to these organizations to learn more.

## Equity Financing

### FarmCrowdy

Description: Named "Agro-Innovator of year 2016/2017" by the Nigerian Agriculture Awards, FarmCrowdy is Nigeria's first crowdfunding website dedicated to investing in smallholder farmers. It is available for farmers who need investment to improve tomato, maize, cassava, rice, or poultry farms. The investment fund, paid at the beginning of the farming cycle, includes agricultural insurance and can be used for land lease costs, production inputs, labor, maintenance, and postharvest logistics. At harvest, profits from sales are split between the farmer (40%), investor or "farm sponsor" (40%), and FarmCrowdy (20%).
Funding Level: USD $300 – 650 (₦80k – 200k) per farm unit. Farm unit varies depending on crop.
How to Approach: To enquire, call (+234) 0907 579 1999 or visit their website. Prior to calling, ask yourself the number of farming cycles you need funding for, how often, and your projected profit level.
https://www.farmcrowdy.com/

### Wennovation Hub

Description: Wennovation Hub is an incubator for young entrepreneurs (ages 16-30) and tech-enabled start-ups in social impact sectors, including agriculture. It provides services to support market entry, including management training, workspace, and business support. In its flagship 3-month Accelerator program, which is based on the Village Capital model, a cohort of start-ups receive incubation services and a direct investment in exchange for 10% equity. The next cohort in 2017 will focus on Agriculture. They also run business plan competitions, hackathons (such as the AgriHack for agricultural entrepreneurship in West Africa), and help start-ups connect with additional seed funding and investments.
Funding Level: Initial funding is about USD $10k in-kind donation (₦3 million), and in the form of incubator services.
How to Approach: To enquire, call their Ibadan office at (+234) 0909-000-2648 or their Lagos office at (+234) 0909-000-2647, or visit their website.
http://wennovationhub.org/

### Business Innovation Growth Platform

Description: The Business Innovation Growth (BIG) Platform is a component of the World Bank Growth and Employment (GEM) project. The project aims to increase the growth of SMEs in a variety of Nigerian business sectors, including agri-business and processing. Performance grants are available to existing SMEs operating in Nigeria and can be used for technical assistance, equipment, and goods. The investment must be tied to a business plan detailing how the firm intends to use GEM funds.
Funding Level: Firms can apply for private sector performance grants in the amount of USD $10k – 35k (₦3 million – 11million).
How to Approach: To apply, firms must register their business on the BIG portal (follow the link below) and submit an application, which requires information on the company and the specific investment that they desire funding for.
https://bigportal.org.ng/

### Lagos Angel Network
Description: Lagos Angel Network (LAN) is a non-profit organization that helps connect start-up entrepreneurs with "business angels" who provide funding and mentorship to early-stage Lagos-based businesses. As of early 2017, LAN had raised over ₦100m (USD 300k) to invest throughout the year during quarterly "DealDays," an event in which startups pitch to receive LAN funds. Participation is restricted to ventures that have been in business for 2-5 years, are incorporated with the Corporate Affairs Commission in Nigeria, have a full time management team, and have a proven track record of financial performance.
Funding Level: USD 80k – 300k (₦25 million – 100 million)
http://www.lagosangelnetwork.net/

### Doreo Partners
Description: Doreo Partners is an impact investment firm with a proven track record of exclusively investing in profitable, high growth, early stage businesses that improve the livelihoods of Nigerian smallholder farmers. Doreo's investment strategy is driven by the team's passion to provide a private sector-driven solution to Nigeria's leading social challenge: spiraling youth unemployment. They collaborate with small businesses throughout the agriculture value chain, including those that work with rural farmers, to improve productivity and increase revenues. Their financial services include loans, lease products, and insurance products.
Funding Level: Information on the average funding level is currently unavailable.
How to Approach: General enquiries can be directed toward info-lagos@doreopartners.com
http://www.doreopartners.com/

### GroFin Fund
Description: GroFin Fund is a firm that invests in small and growing businesses in a variety of sectors, including agri-processing. They offer medium-term financing packages (3 – 8 years) and business support services, which include training, industry-specific expertise, analyzing financial reports, reducing risk, improving accounting systems, and providing recommendations for marketing and operational improvements. The profile of businesses GroFin invests in include early stage businesses (1 -3 years), early maturity (3 -6 years), and mature (6+ years). Other investment criteria can be found here: http://www.grofin.com/onlineapplication, along with a pre-assessment questionnaire.
Funding Level: USD $100k – 1.5 million (₦30 million – 500 million)
How to Approach: General enquiries can be made to their Nigeria Office at lagos@grofin.com or by calling +234 705 696 6666. The financing application can be found on their website.
http://www.grofin.com/

### Sahel Capital
Description: Sahel Capital is the private equity fund manager for the Fund for Agricultural Finance in Nigeria (FAFIN), which closed its debut round of funding in June 2017. They successfully raised USD $65.9 million (₦21 billion), with an additional USD $31 million (₦10 billion) jointly committed by the African Development Bank, CDC Group, and the Dutch Good Growth Fund. Sahel Capital intends to invest these funds in 9-10 companies over the next two years, with the goal of supporting sustainable businesses that "seek to revolutionize the Nigerian agribusiness landscape while creating jobs, improving productivity, and strengthening priority value chains." In addition to capital, Sahel provides operational experience, financial expertise, and access to global partnerships. They can also support businesses by providing research on markets and strategy.
Funding Level: USD $500k + (₦160 million) for companies with revenues between ₦500 million and ₦4 billion.
How to Approach: To enquire, contact Ms. Doubra Eghaghe of Sahel Capital Agribusiness Managers at doubra@sahelcp.com or visit their website.
http://sahelcp.com

## Debt Financing

### Heritage Bank

Description: Heritage Bank is a private lender in Nigeria known for its support of the agricultural sector. Its engagement in the Oyo State Agricultural Initiative (OYSAI), Anchor Borrowers Programme in Kaduna and Zamfara States, and the Youth Innovative Entrepreneurship Development Programme (YIEDP) demonstrate Heritage Bank's support for Nigeria's agricultural growth. Heritage Bank partnered with PLAN in May 2017 to provide training to members on how to develop a bankable business plan and how to market it to banks. PLAN will host another business planning training with Heritage Bank in the coming months. Heritage Bank also offers financial management services, such as help with book-keeping, audits, and business development.
Funding Level: NIRSAL provides small business loans to MSMEs in an amount less than ₦20 million.
How to Approach: General enquiries can be made to their Lagos Office at info@hbng.com or by calling 0700-HERITAGE. More information on their small business loans can be found on their website.
http://www.hbng.com/sme-loans/

### NIRSAL (The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending)

Description: NIRSAL is a joint initiative of the Central Bank of Nigeria (CBN), the Bankers Committee (BC), and the Federal Ministry of Agriculture & Rural Development (FMARD), launched in 2011 to de-risk lending to the agricultural sector. NIRSAL has a USD $300 million Risk-Sharing Facility that it uses to encourage banks to lend to actors in the agricultural value chain. Banks benefit directly from NIRSAL's Credit Risk Guarantee, which covers 30-75% of the loan, depending on the value chain; farmers benefit directly through a 40% interest cost rebate if their loan remains in good standing within a 90 day period. Between 2012 and 2015, NIRSAL provided Credit Risk Guarantees for over 450 agricultural products; paid out over ₦750 million as interest rebates to borrowers who paid back their loans on time; and trained over 100,000 farmers on best practices farming techniques and business management. In 2017, NIRSAL plans to facilitate about ₦60 billion in new commercial bank loans.
How to Approach: NIRSAL has expressed willingness to engage with PLAN members. In general, NIRSAL encourages banks to lend to "pooled" smallholder farmers through MFIs and cooperatives. They also identified six pilot value chains as high-potential for loans: tomatoes, cotton, maize, soya beans, rice, and cassava. Cooperatives and other agribusinesses working in these crops can apply for a NIRSAL Credit Risk Guarantee through the agriculture desk of their private bank or through the NIRSAL offices located in Abuja or Lagos.
https://www.nirsal.com/

# Conclusion

There is a clear gap in the ability of Nigerian firms—and especially agribusinesses—to access funding, particularly from banks. This gap equates to lost opportunities for Nigerian businesses, and the economy as a whole. As Chioma Nwagboso of GIZ states, "when SMEs are unable to obtain longer term financing to expand their business, this restricts their ability to plan over the long term. What usually happens is that they get short term loans to finance longer term projects and soon find themselves in a desperate cycle spending more time trying to service the loan rather than expending the energy in growing their business. Thus, they are unable to create sustainable jobs. This is why many SMEs in Nigeria remain stuck in the micro- and small-sized stage."

For the agribusiness sector, lack of long-term financing results in a loss in production for farmers who cannot access the resources needed to plant and harvest new land; a loss in value-added services from processors and packagers who cannot expand their operations; and a loss in efficiency from distributors and logistics operators who cannot make the investments needed to better store and transport goods. The overall result is higher levels of postharvest loss occurring throughout the supply chain and lower levels of nutritious foods making it to consumers. Thus, Nigerian agribusinesses have an urgent need to identify new sources of finance beyond traditional bank lending.

Despite the challenges many Nigerian businesses face in accessing finance, the opportunities and sources of finance are on the rise with the growing number of non-bank lenders. Accessing these sources requires knowing where to look, what to look for, and how to position your business to make it most attractive to potential financial partners. While this Learning Brief is intended to provide guidance on this subject, businesses should always be on the look for the additional information. For more information on how to access specific sources of finance, please use the appropriate contacts listed above.

For questions about the PLAN Network in Nigeria, please contact Roberta Lauretti-Bernhard at rlbernhard@gainhealth.org or Dr. Augustine Okoruwa at aokoruwa@gainhealth.org

To continue the conversation, or to ask the PLAN Network for further advice on accessing finance, join the PLAN Facebook Group—the dedicated forum for PLAN members to discuss topics relevant to reducing postharvest loss in their operations.