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BUSINESS PLAN FOR AN AGRICULTURAL ENTERPRICE

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 **GLOSSARY OF TERM**

**TERM MEANING**

 AFDB- African Development Bank

CAC - Corporate Affairs Commission

CADP- Commercial Agriculture Development Project (World Bank)

CAGR- Compound Annual Growth Rate

CBN- Central Bank of Nigeria

CPFA- Closed Pension Fund Administrator

 CIT- Company Income Tax

 EFCC- Economic & Financial Crimes Commission

FATF- Financial Action Task Force

FCT- Federal Capital Territory, Abuja

FDI- Foreign Direct Investment

FIRS- Federal Inland Revenue Service

FMF- Federal Ministry of Finance

GCC- Gulf Cooperation Council

GDP- Gross Domestic Product

GSM- Global System of Mobile Telecommunications

HNWI- High Net worth Individuals

IAS- International Accounting Standards

ICD- Islamic Corporation for the Development of the Private Sector

ICO- International Cocoa Organization

IDB- Islamic Development Bank

IFC- International Finance Corporation

IFEM- Inter- Bank Foreign Exchange Market

IICRCA- International Islamic Centre for Reconciliation & Commercial Arbitration

ILO- International Labor Organization

IMFM- International Monetary Financial Market

IITFC- International Islamic Trade Finance Corporation

LBA- Local Buying Agent

MOU- Memorandum of Understanding

NAICOM- National Insurance Commission

NDLEA- Nigerian Drug Law Enforcement Agency

NIPC- Nigerian Investment Promotion Council

EAE LTD- Enenche’s Agro-World Enterprise Limited

NSE- Nigerian Stock Exchange

NYSC- National Youth Service Corps OPS Organized Private Sector

PENCOM- National Pension Commission

PFA- Pension Fund Administrator

PHCN- Power Holding Company of Nigeria Plc

SAP- Structural Adjustment Programme

SAS- Statement of Accounting Standards

SEC- Securities and Exchange Commission

UNCTAD- United Nations Conference on Trade & Development

VSAT- Very Small Aperture Terminal WEF World Economic Forum

**Executive Summary**

 The amalgamation of Northern and Southern Protectorates in 1914 saw the creation of what is today called Nigeria. Located on the West African sub region , Nigeria is blessed with rich arable land, human and natural resources, and other endowments. With a population of over one hundred and seventy million, Nigeria is undoubtedly the most populous country on the African continent.

Crude oil accounts for over 90% of Nigeria’s foreign exchange earnings, 35% of GDP, 75% of government revenue and has become the wheel around which everything revolves. At the discovery of crude, agriculture was neglected, with the country depending on imports for food. The country depends on crude oil for foreign earning. The recent downturn in the international oil market has exposed the vulnerability of the Nigeria economy. The Foreign reserve of the country has dropped from $60 billion to $26 billion as at May 2016. The country depended entirely on oil and failed to diversify its economy

Agriculture in Nigeria is a branch of the economy in Nigeria, providing employment for about 30percent of the population as of 2010. The sector is beimg transformed by commercialization at the small, medium and large-scale enterprise levels.

Agriculture is the respite of the economy. Prior to the discovery, exploration and production of crude oil in Nigeria, the country was one of the promising producers of agricultural products in the world. The country was famous for the export of groundnut and palm kernel, well ahead of Malaysia and Indonesia.

 From the 1970s onwards, Nigeria's status as an agricultural powerhouse steeply declined. While the country in the 1960s produced 18% of global cocoa output, the second highest position in the world, it now produces only 8% of the global output. Similarly the country which was producing about 65% of West Africa's tomato output in the 60s and early 70s, is now the largest importer of tomato paste in the region.

 Today, Nigeria has transited from being a self-sufficient country in food production to being a net importer. The country spent over =N=1 trillion to import foodstuffs in 2015, with over $11bn spent on the importation of rice, fish and sugar alone. Agriculture contribution to the GDP has also shrunk from 40% just a few years ago to 24.18% as at 2015. .

 The major challenges of agricultural production in Nigeria are; **Marketing** (market access & pricing) and **Storage of farm produce**. Majority of Nigerian farmers are small holders. They produce 90% of Nigeria's agricultural output and sell it off at a give-away price depending on how desperate for cash they may be at the time. Moreover, farmers are powerless in determining the prices of their products even when such products command a premium in the international markets. They remain at the mercy of merchants at the nearest and only market they know. Another constraint of farmers is storage. The absence of standardized product grades, proof of ownership for commodities, and access to finance poses serious limitations to the development of Nigeria's agricultural potentials. One of the best ways of overcoming these challenges is through the establishment of Commodity Marketing Companies and Commodity Exchanges. Commodity Marketing Companies and Exchanges are highly efficient platforms for buyers and sellers to meet; primarily to manage their price risks better and also to improve the marketing of their products. They have significant, well documented development benefits, making economies more inclusive, boosting the links between agriculture and finance, and making the commodity sector more efficient and competitive.

This is where the Enenche’s Agro-world Enterprise LTD comes to play; involving itself with the agricultural sector of the Nigerian economy. Posing as a commodity marketing enterprise, it seeks to serve as a bridge between the producers and consumers of agricultural commodities. The establishment of this commodity marketing enterprise will assist the already existing commodity marketing companies in the country to make the achievement of means and objectives more efficient and less complex, thereby improving the agricultural sector.

1.0 ***INTRODUCTION***

In many countries, and virtually every less developed country (LDC), agriculture is the biggest single industry. Agriculture typically employs over fifty percent of the labour force in LDCs with industry and commerce dependent upon it as a source of raw materials and as a market for manufactured goods. Hence many argue that the development of agriculture and the marketing systems which impinge upon it are at the heart of the economic growth process in LDCs. Moreover as Kriesberg1 points out; in LDCs the consumer frequently spends in excess of fifty percent of the household's income on basic foodstuffs - much of which is inadequate both in quality and nutritional content. By contrast Americans spend approximately twelve percent of their total disposable income on food. In Western Europe the figure ranges from about sixteen to nineteen percent of disposable income. Furthermore, whereas in developed countries the poor are relatively few in number, and therefore it is economically possible to establish special food distribution programmes to meet their needs, the scale of poverty in most LDCs is such that the commercial marketing system must be relied upon to perform the task of food distribution to poor and not-so-poor alike. This being so, it is imperative that the marketing system performs efficiently.

Economic development itself provides the impulse towards more sophisticated and more efficient marketing systems. Thorough analysis,proves that as countries experience economic growth, their rate of urbanisation tends to increase substantially. Whereas the rate of population growth, in developing countries, averages around three percent per annum, their cities and towns are increasing their populations at about four percent per annum. In essence, this means that the number of people, in urban areas, needing to be fed by rural people, will double within sixteen years. This has clear implications for agricultural production and the **marketing systems** that direct that production and distribute the output to the points of its consumption. Subsistence farming is likely to diminish in importance as farmers respond to the increased opportunities that development and urbanisation create; farms are likely to decrease in number whilst increasing in size; and agriculture will probably become less labour intensive and more capital intensive. Also in depth analysis has shown that, the potential contribution of agricultural and food marketing, towards attempts to improve rural incomes in developing countries. The inequality of incomes between the rural and urban areas draws people away from agricultural production and places great stress upon the infrastructure and social services of a country's towns and cities. Nowhere was this more dramatically demonstrated than in Nigeria when petroleum oil was discovered and then exploited in the 1970s. A large number of jobs were created in the urban areas and people abandoned agricultural production in large numbers. Nigeria became a net importer of many agricultural products of which it had formerly been a net exporter. For as long as the world price for petroleum remained high the economy thrived and could well afford the food import bill. However, as soon as the world price for oil fell, the food import bill became a serious burden. Nigeria would only have avoided this scenario if it had been able to motivate people to continue in agriculture and this would only have been possible if the disparity between urban and rural incomes had been reduced. Rurally based enterprises, including small-holdings, can greatly improve their earning potential by adopting a market orientation. They can be encouraged to add value to commodities by adding to their utility. Value added products normally carry a higher margin than raw commodities.

Another development which has in recent times increased interest in marketing practises is the trend, in many developing countries, towards market liberalisation as part of economic structural adjustment programmes **(ESAPs**). The view that direct and indirect government participation in production and distribution had brought about structural distortions in economies has become widely accepted. Measures intended to correct these distortions include a return to market prices for all products and resources, the encouragement of a competitive private sector and the commercialisation, and sometimes privatisation, of all or some of the functions of marketing parastatal. All of this requires a better understanding of marketing practices and processes within the country implementing ESAPs, in general, and within the agricultural marketing parastatal affected, in particular.

So far this discussion has been set in the context of commercial marketing but social marketing should also be acknowledged. Social marketing identifies human needs in non-competitive economies and/or sectors of society and defines the means of delivering products and services to meet these needs. The marketing mix of social marketing strategies is evaluated using quite different criteria from those employed in assessing purely commercial marketing strategies. Criteria such as the percentage of the target population reached with the technology, products, processes or services, quantities produced and distributed and uptake of the product, service or technology are more often employed. Benefits are measured in terms of development goals, such as improved nutritional status or increased rural incomes. The use of economic criteria is usually limited to the latter and to selecting the least-cost strategy to achieve a quantitative goal. However, the criteria used to evaluate commercial marketing strategies should not automatically be eliminated, because these improve the efficiency of some aspects of social marketing strategy without preventing the attainment of social objectives.

**2.0 NIGERIA: MACRO-ECONOMIC OVERVIEW**

**2.1 INTRODUCTION**

 Nigeria is a coastal West African state on the shores of the Gulf of Guinea, nestled between the tropics of Cancer and Capricorn. It lies between Longitude 30 and 140 East and between Latitude 40 and 140 North. Nigeria is bordered to the south by the Atlantic Ocean, and with the neighbouring countries of Republic of Benin to the West, Republic of Niger to the North, Chad Republic to the North East and the Republic of Cameroon to the East. Fig 2.1 below indicates the location of Nigeria in relation to its neighbouring countries.

With a landmass of about 923,773 square kilometers (357,000 square miles), Nigeria is the 12th largest country in Africa. However, Nigeria is by far the most populous African country with an estimated 196 million people as at 2015.

**2.2 POLITICAL ENVIRONMENT**

 Nigeria gained independence from the United Kingdom in 1960 and became a republic in 1963. The political climate was unstable between 1960 and 1999. Seven military governments have assumed power at various times, and about half of the country’s 56 years of independence have been spent under military rule. The country also experienced a civil war from 1967 to 1970. In May 1999, a democratically elected government assumed power after general elections were held in February 1999 and since then; the country has remained under democratic rule.

 Nigeria operates a federal system of government. The federal government comprises the executive, a bicameral legislature and the judiciary. The seat of the federal government is located in the Federal Capital Territory, Abuja and there are 36 states, each possessing their own executive, legislative and judicial arms of government.

The Executive arm of government is led by an elected President and Commander-in-Chief of the Armed Forces, who may hold office for a maximum period of two terms of four years each. At the state level, elected Governors steer the affairs of government, supported by the State Houses of Assembly in the respective states.

The National Assembly is elected by universal suffrage and comprises a 109 seat Senate and a 360-seat House of Representatives. General elections are held every four years and the most recent elections were held in 2015. The next elections are scheduled for 2019.

The Judiciary is headed by the Chief Justice of the Federation, with the Supreme Court being the apex court in the land.

2.3 SOCIO-CULTURAL ENVIRONMENT

Population

With an estimated population of 186 million in 2016 (2006 census projected), Nigeria is the largest and most populous country in Africa and the seventh largest in the world. Like most developing countries Nigeria has a large young and educated population with more than sixty percent below 24 years old and a growing middle-class. In view of its huge reserves of human capital and natural resources, Nigeria is poised to achieve economic prosperity.

***Ethnicity***

Nigeria has an ethnically diverse population, comprising over 250 ethnic groups. The official language is English, which is widely spoken. Major local languages are Hausa (20.9%), spoken predominantly in the North; Yoruba (20.3%), used predominantly in the West; and Igbo (16.6%) spoken predominantly in the East.

 ***Religion***

 Fifty percent of Nigeria’s population are Muslims and forty per cent are Christians, while the remaining 10% practice traditional and other religions, or atheism.

***Income Distribution***

Social Class Estimated Average Income per Annum(excluding fringe benefits such as accommodation, cars, etc)

Percentage of Total Population

Upper Class N10,000,000 (about $50,000) 1% Lower Upper Class N5,000,000 (about $25,000) 4% Upper Middle Class N2,000,000 (about $10,000) 10% Lower Middle Class N1,000,000 (about $5,000) 60% Lower Class Less than N600,000 25% Source: Research Marketing Services

 ***Per Capita Income***

Nigeria remains an important market for many multinationals because of the sheer size of its population. The country accounts for 20% of the total population of Sub-Saharan Africa and is the largest economy in sub-Saharan Africa, with GDP estimated at nearly US$568 billion in 2014. In terms of consumption, per capita personal disposable income was an estimated US$304 in 2005. With a population of about 177 million, and urbanization of 46.2% there is a significant potential for growth in consumption.

2.4 TECHNOLOGICAL ENVIRONMENT

 Despite the formulation of a National Information Technology Policy (NITP) by the government in early 2001, e-business is yet to achieve widespread adoption in Nigeria. However, the pace of technology has increased in the last few years with internet users growing from 32,000 in 2000 to 57.7 million in 2014. The use of personal computers has also increased with the average number of computers per 1,000 persons growing from 81 in 2001 to 450 in 2013. A few sectors, including banking, medical, oil and gas, have been in the forefront of adopting technology to extract efficiencies from their operations. Real-time operations have become the norm in some of these sectors. Also, most oil and gas operators have created virtual private networks to link their operations in various cities across the country.

The use of Automated Teller Machines (ATMs) has gained prominence in the last few years. There are currently about 700 ATMs in Nigeria. The use of the card payment system is fast gaining acceptance in Nigeria with the recognition of debit and credit cards as means of payment. Despite the recent progress, the use of electronic payment mechanisms is yet to reach an advanced stage. As a result, significant amounts of transactions are still being consummated via cash.

2.5 ECONOMIC ENVIRONMENT

With a GDP of US$ 568 billion (2014) and a GDP per capita of US$ 3,203, Nigeria’s economy is the largest and most vibrant in Africa accounting for twenty-one percent (21%) of the total GDP of the African continent as a whole. Nigeria operates a dual economy - a modern sector heavily dependent on oil earnings overlaying a traditional agricultural and trading economy. According to official government estimates, the oil sector accounted for 76% of government revenue, 90% of export earnings as well as 14.4% of Gross Domestic Product (GDP) at current basic prices in 2015.

 Nigeria is the 11th largest Oil Producer in the world and the 8th largest Oil Exporter. It also has the 9th largest Gas Reserve in the world. Oil Reserves are 37.2 billion bbl (2012); while Gas Reserves are 187 TCM (2012); Coal Reserves are 639 million tons. Agriculture (including livestock, forestry and fishing) is the main activity of the majority of Nigerians, constituting about 24.18% of GDP as at 2015, larger than manufacturing and oil sectors combined. In addition, the sector employs about 70% of the population and over 70% of informal sector jobs created in 2015 were related to rural agriculture.

 Nigeria is one of the fastest growing economies in the world according to the World Bank report of 2012. Growth rate averaged 7% since 2007, and remained unaffected by the global financial crises until 2014 when the price of crude oil started crashing.

2.6 **Recent Trends in Nigeria's Key Economic Indices**

The Nigerian economy has experienced series of severe upsets since mid-2014 when the price of crude oil started tumbling from USD128/bbl in Jan. 2011 to USD49/bbl in Nov. 2016.This problem of falling Oil Price was further compounded by fall in Oil Production due increasing militant activities in the Niger Delta region culminating in loss of production from 2.2m bbl to 1.3m bbl per day for the most part of 2015 and 2016.

 These severe upsets have dragged Nigeria into Recession. A Recession is 2 consecutive quarters of Negative Growth; plus a contraction in Output, Investment& Rising Unemployment. By all definitions Nigeria is in a Recession as depicted by the table below.

Foreign Direct Investment: Successive Nigerian governments have recognized FDI as one of the pillars for the growth of the economy. Several measures have been implemented to create an environment that promotes FDI inflow. For example, the Nigerian Investment Promotion Commission (NIPC) Act was promulgated in 1995 to eliminate most of the legal disincentives to foreign investment in Nigeria through various means, the most important of which was the abrogation of laws restricting the level of foreign ownership in a local business entity. Under the NIPC Act, foreign individuals and entities are allowed to own up to 100% of the shares of a Nigerian company. In addition, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act of 1995 permits unhindered repatriation of foreign currency. Other key incentives instituted towards making Nigeria an attractive FDI destination are as follows: The NIPC and Foreign Exchange (Monitoring and Miscellaneous Provisions) Acts which allow foreign investors unrestricted transferability of dividends or profits (net of tax) attributable to foreign investment in Nigeria. The Acts also guarantees capital repatriation in the event of liquidation or other divestment. Under Nigerian law, dividends can only be declared out of profits or in the absence of profit in any year, out of retained earnings (if any). Dividends are regarded as ‘franked income’ and not subject to further tax after the WHT at 10% (or 7.5% if the shareholder is resident in a treaty country, such as the United Kingdom); Repatriation of interest income earned on foreign loans is an eligible transaction for foreign exchange, provided that the foreign loan was imported through a Nigerian Bank and is evidenced by a Certificate of Loan Capital Importation (COCI); Tax relief on Interest Income - Interest accruing from loans granted by Banks in aid of export activities shall enjoy favorable tax treatment; Export Processing Zone Scheme, established in 1991, allows interested persons to set up industries and businesses within demarcated export processing zones (EPZs) principally with the objective of exporting the goods and services produced within the zones. Some of the incentives of this scheme include among others, unrestricted remittance of profits and dividends earned by foreign investors in Export processing Zones (EPZs), tax holiday and rent-free land during construction of factory premises.

According to the World Investment Report from the UN Conference on Trade and Development (UNCTAD), Nigeria is the third preferred investment destination in Africa. Nigeria was displaced to the third position in terms of Foreign Direct Inflows (FDI) with about $5.609 billion, by South Africa and Mozambique with $8.118billion and $5.935billion respectively. Nigeria's FDI declined from USD8.1 billion in 2011 to USD1.6 billion in 2015.

Nigeria’s low level of FDI was largely attributed to the retreat of foreign transnational corporations (TNCs) from the oil industry due to uncertainties over the passage of the Petroleum Industry Bill (PIB) and security concerns. However, the country’s multinational task force set up in conjunction with Cameroon, Chad and Niger, against Boko Haram insurgence has massively deflated the insurgence. In addition, the resolve of the administration of President Muhammadu Buhari to tackle corruption headlong especially in the petroleum sector provides the premise for quick reconsideration of Petroleum Industry Bill.

***Foreign Exchange Flows***: The combination of falling oil prices, declining oil production and declining foreign direct investment has led to Weak Foreign Exchange Flows culminating in an overall Negative Net Forex Inflow from +USD11.53b in 2012 to -USD5.1b in 2015

***Exchange Rate:*** Weak Foreign Exchange Flows is causing currency misalignment between the Naira and other Foreign currencies leading to massive Naira Depreciation (from =N=198 to USD1 at 1st May 2016 to =N=298 to USD1 at 1st Sept. 2016).

***External Reserves***: Following the negative foreign currency inflow, Nigeria's external reserves have declined from USD28.16b in Jan. 2016 to USD24.6b in Sept. 2016 as depicted in the graph below.

***Government Revenue***: All tiers of governments in the country have suffered significant deprivations arising from reduced allocations from the Federation Account as a result of Declining Government Revenue. (From N2,613b in Q.2 of 2014 to N 1,159b in Q.2 of 2016).

***Budget Deficits***: With dwindling Government Revenue, Budget Deficits have widened across all the three tiers of Government. For example as at end of second quarter of 2016, the Federal Government Budget Deficit was =N=1.01

***Public Debt***: The fall in Government Revenue has equally led to Growing Debt Stock both Domestic and Foreign AND at both Federal and State levels. For Example, External & Domestic Debts for the Federal Government & the State Governments was =N=16.2trillion as at 30th June 2016. The DMO reports that the Debt Profile of Nigeria as at 30th June, 2016 was as follows:

***Inflation***: The Country’s inflation rate rose to 8.5% in April, 2015 as against 8.0% in January, 2014. This increase was as a result of the 10% rise in food prices recorded in 2014 caused by the insurgencies in the North Eastern part of the country as well as by the irregularity in climatic conditions. Meanwhile, Consumer prices in Nigeria rose by 17.6 percent year-on-year in August of 2016. It was the highest figure since October 2005 as cost of housing and utilities, food and transport rose at a faster pace. The rate has continued to rise reaching all time figure of 18.3% by October 2016.

***Unemployment***: In spite of the various reforms on Job creation initiatives introduced by the Jonathan Administration government, such as the Youth Enterprise with Innovation in Nigeria (YOUWIN) and the Graduate internship Scheme funded by the Subsidy Reinvestment Programme (SURE-P), Nigeria unemployment rate was recorded at 13.3 percent in second quarter of 2016, up from 12.1 percent in the three months to March, reaching the highest since 2009. The number of unemployed persons rose by 12.2 percent to 10.644 million. Meanwhile, youth unemployment increased to 24 percent from 21.5 percent.

***Infrastructure***: Another challenge for the economy and one of the key constraints facing business operations in Nigeria is the weak state of infrastructure. In 2012, the World Economic Forum (WEF) surveyed the overall quality of infrastructure in 142 countries, and placed Nigeria 125th position in its final ranking. The findings of the WEF which reflect the concerns of the Nigerian private sector include unreliable electricity supply, poor road and transportation infrastructure, low telecommunications coverage, limited water infrastructure and slow operations at ports and harbors.

Key strategies being pursued by government to reduce the infrastructural bottleneck include sector-specific reforms, public-private partnerships, intergovernmental partnerships as well as collaboration with donors and multilateral institutions. To facilitate Public Private Partnership in Infrastructure development, a commission known as the Infrastructure Concession and Regulatory Commission (ICRC). Corruption: The government has made concerted efforts to fight corruption, especially through the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices and Other Related Offences Commission (ICPC), but incidences of sacred cows and the politicking around the leadership of these commissions have raised doubt on their efficiencies.

The recent on-going investigation of the alleged missing funds in the Nigerian National Petroleum Corporation (NNPC) and non-remittance of crude sale proceeds to the Federation Account presents a fair foundation to test the "incorruptible" perception of the in-coming Administration to build on and address the issue of corruption nationwide.

 However, the new administration led by President Muhammadu Buhari is determined to sanitise the system from any form of corruption. All the above is a summary of the current economic situation of Nigeria as at the time of writing this Business Plan / Feasibility Report.

***2.6 Future economic outlook***

Real GDP growth was estimated at 2.3% in 2019, marginally higher than 1.9% in 2018. Growth was mainly in transport, an improved oil sector, and information and communications technology. Agriculture was hurt by sporadic flooding and by conflicts between herdsmen and local farmers. Manufacturing continues to suffer from a lack of financing. Final household consumption was the key driver of growth in 2019, reinforcing its 1.1% contribution to real GDP growth in 2018.

The effort to lower inflation to the 6%–9% range faced structural and macroeconomic constraints, including rising food prices and arrears payments, resulting in a rate estimated at 11.3% for 2019. With fiscal revenues below 7% of GDP, increased public spending widened the deficit, financed mainly by borrowing. At the end of June 2019, total public debt was $83.9 billion—14.6% higher than the year before. That debt represented 20.1% of GDP, up from 17.5% in 2018. Domestic public debt amounted to $56.7 billion, and external public debt $27.2 billion. The share of bilateral debt in total debt was estimated at 12.1%, and that of eurobonds at 40.8%. High debt service payments, estimated at more than half of federally collected revenues, created fiscal risks.The current account surplus sharply declined due to increased imports, lower oil revenues, and a smaller than expected improvement in capital flows.

Poverty remains widespread. The poverty rate in over half Nigeria’s 36 states is above the national average of 69%. High poverty reflects rising unemployment, estimated at 23.1% in 2018, up from 14.2% in 2016. Low skills limit opportunities for employment in the formal economy. Government social programs—N Power and other youth empowerment schemes—are meant to address unemployment.

***Tailwinds and headwind***s

Real GDP growth is projected to rise to 2.9% in 2020 and 3.3% in 2021. It depends on implementing the Economic Recovery and Growth Plan (2017–20), which emphasizes economic diversification. The central bank of Nigeria’s recent decree that banks hold loan–deposit ratios of 60% bodes well for increasing lending to the real sector. Simultaneously, the retrenchment of government borrowing and easing of the risks of lending to small business could lower interest rates and unlock bank lending to the private sector. An increase in the value-added tax from 5% to 7.5% to shore up domestic nonoil revenues is welcome, though organized labour and businesses have raised concerns of a potential rise in costs. The government also plans to revisit investment tax breaks.

Oil exports have improved, driving up foreign exchange reserves and creating an impetus for the central bank to intervene in the foreign exchange market. The current account is projected to remain in surplus in 2020, benefiting from improved oil revenues.Nigeria has many opportunities to transform its economy, particularly in agro processing. Special agro processing zones could promote agro industrial development and employment.

But insecurity could deter foreign investors, shrivel the domestic economy, and ultimately dampen prospects for economic growth. High unemployment could create social tensions. Rising public debt and associated funding costs could pose fiscal risks if proposed adjustments are not implemented.

Nigeria’s oil exports could be affected by developments in the Middle East. Trade tensions between the United States and China could weaken global growth and lower demand for Nigeria’s products, including oil. Protracted delays in concluding the Brexit deal could accentuate investors’ aversion to emerging markets, including Nigeria, reversing the current upward trend in foreign portfolio flows. Prolonged closure of borders by Nigeria to curb smuggling may affect trade with other countries in West Africa and raise the prices of imported products, especially rice. These risks underscore the need to accelerate structural reforms to promote economic diversification and industrialization to minimize vulnerability to external shocks.

***3.0 Conclusion***

In conclusion, the future of the Nigerian economic outlook looked bright and salvageable. Despite the numerous challenges, but due to the world economic pandemic in this current time, this forecast has become more strenuous to achieve.

**3.0 The Agricultural Sector in Nigeria**

**3.1 Introduction**

Although it depends heavily on the oil industry for its budgetary revenues, Nigeria is predominantly still an agricultural society. Approximately 70 percent of the population engages in agricultural production at a subsistence level. Agricultural holdings are generally small and scattered. Agriculture provided 41 percent of Nigeria's total gross domestic product (GDP) in 1999. This percentage represented a normal decrease of 24.7 percent from its contribution of 65.7 percent to the GDP in 1957. The decrease will continue because, as economic development occurs, the relative size of the agricultural sector usually decreases. Nigeria's wide range of climate variations allows it to produce a variety of food and cash crops. The staple food crops include cassava, yams, corn, coco-yams, cow-peas, beans, sweet potatoes, millet, plantains, bananas, rice, sorghum, and a variety of fruits and vegetables. The leading cash crops are cocoa, citrus, cotton, groundnuts (peanuts), palm oil, palm kernel, benniseed, and rubber. They were also Nigeria's major exports in the 1960s and early 1970s until petroleum surpassed them in the 1970s. Chief among the export destinations for Nigerian agricultural exports are Britain, the United States, Canada, France, and Germany. A significant portion of the agricultural sector in Nigeria involves cattle herding, fishing, poultry, and lumbering, which contributed more than 2 percent to the GDP in the 1980s.

**3.2 Land, Labour and Water Resources**

Nigeria's agriculture is based on its varied geography. It is composed of savannahs, coastal wetlands, and tropical forests. The central part of the country contains plateaus and hills, while the southern part is composed of lowlands. On the other hand, the northern area is drier than the central and southern areas, because it is nearer to the equator. Nigeria has very good agricultural land that allows for a diverse crop and livestock production. The dry, northern savannah is suitable for growing sorghum, millet, maize, groundnuts and cotton, and is also the principal livestock-raising area. In addition to that, Nigeria's multiple vegetation zones, plentiful rain, surface water, underground water resources, and moderate climatic extremes allow for production of diverse food and cash crops. The main cash crops are cocoa, cotton, groundnuts, oil palm, and rubber. Rice is grown in the low-lying and seasonally flooded areas as well.

Population density, in Nigeria varies due to a diverse geography. Nigeria's geography can range from swamps to savannas. Despite this it is one of the most dense population wise, states, in Africa. It is least populated in the northwest and west-central regions and more populated out in the south and north-western regions. The more populated areas lay on the coast and the less populated lay near the border shared with Benin.

Bordered by the countries of Benin, Niger, Chad and Cameroon. Nigeria has an abundance of geographical features. The country has marshes, savannahs, plateaus, and forests.

Due to the ranges of geographical features, the country is able to grow a wide variety of crops to feed their local populations.

The climate change in Nigeria affects the agriculture because there are a lot of crops and fertilization. A certain climate can either kill or over flow them. There has to be a specific climate rate in the area to keep crops and such alive. Agriculture is important in Nigeria because 80 percent of food grown is the total food there. Nigeria has been slow on growing such crops due to the weather being tropical and over flowing the crops. There are about 76 acres or 33 percent of Nigeria's land area. Nigeria is mostly a crop growing country in Africa. Climate changes the way the crops grow and how long they grow out to be able to have provision for the country. Due to the climate change, it's harder to have fresh crops by a certain date; the pricing rate goes up on fresh crops.

3.**3 Agricultural products and Production**

Agriculture is the mainstay of Nigeria's economy accounting for more than 45% of the gross domestic product (GDP) and employing more than half of the workforce. The country has an agricultural land area of about 84 million hectares, of which 33 million hectares is currently under cultivation. About 3 million hectares of the agricultural land is irrigable but only about 220,000 hectares is actually irrigated. The major staple crops in Nigeria are cassava, yam, maize, sorghum, rice and millet. These crops together cover 65% of the total cultivated area. Cassava, yam, cocoyam and maize are the major staple crops in the humid parts of the country, whereas maize, sorghum, millet, cowpea and groundnut are the major staple crops in the sub-humid and semi-arid parts. The major cash crops include cocoa, oil palm, cotton, groundnuts, ginger and sesame.

**3.4 structure and challenges of Agriculture in Nigeria**

Structure of Agriculture in Nigeria is made up of four sub-activities: Crop Production, Livestock, Forestry and Fishing. While the Nigerian economy is heavily dependent on oil, agriculture still contributes a significant amount to Nigeria’s economy. The National Bureau of Statistics estimates that 25% of the GDP of the Nigerian economy is composed of the agriculture sector (a total value of N4.575 trillion) and 70% of Nigeria’s labour force is employed in the agricultural sector. Nigeria’s economic growth over the last five years has been driven by growth in agriculture, telecommunications, and services.

The agriculture industry in Nigeria is mainly occupied by the production and processing of the following produce: cocoa, peanuts, cotton, palm oil, corn, rice, sorghum, millet, cassava (manioc, tapioca), yams, rubber, cattle, sheep, goats, pigs, timber and fish. Most of these produce are consumed in Nigeria while some of them are exported. Agriculture in Nigeria contributes 5% of the economic goods exported out of Nigeria, while the other 95% of exports is made up of petroleum and petroleum products.

In Nigeria, the government institution responsible for Agriculture in Nigeria, its development and transformation is the Federal Ministry of Agriculture and Rural Development (FMARD). This ministry is primarily funded by the Federal Government of Nigeria and it currently superintends almost fifty parastatal operating as either key departments or agencies across the country. The Ministry has 2 major departments namely Technical and Service Departments:

• Technical Departments: Agriculture (Trees and Crops), Fisheries, Livestock, Land Resources, Fertilizer, Food Reserve & Storage and Rural Development.

• Service Departments: Finance, Human Resources, Procurement, PPAS (Plan, Policy, Analysis & Statistics) and Co-operatives.

The FMARD is headed by Audu Ogbeh who was appointed by Nigeria’s President, Muhammad Buhari, on 12 November 2015 succeeding Akinwumi Adesina who was elected to head Africa Development Bank. President Buhari also appointed Heineken Lokpobiri as the new Minister of State for Agriculture, and Shehu Ahmad as the Permanent Secretary under a newly created Ministry of Agriculture And Rural Development.

Challenges:

* Lack of Development: Lack of development in general is a problem when it comes to Agriculture in Nigeria. The lack of development include: social development (development relating her people and the country), economic development (development relating finance and wealth of the country), and environmental development (development relating to quality of the air, water, soil etc), and political development (development relating to political system). Identifying and tackling development constraints in the Nigeria agricultural system will help create a climate to improve performance, and will help promote and accelerate the growth.
* Marketing problem: Marketing involves the conveying of agricultural product from farmers to consumers. Some of the problems of marketing affecting the Nigeria agricultural system include poor transportation means, poor packaging and poor quality. If you have poor packaging system (making product look good and attractive to customers) and your competitor have a better packaging system than you, then customers are more likely to buy from your competitor even if the qualities are the same. Good road are needed in order to effectively transport good from one place to another. Unfortunately, the overall marketing system of the country is primitive. Departments that have been assign to build road and railways for transportation takes many years and sometimes up to a decade to get a network constructed because of corruption. Even the little road and rail constructed normally crumbles due to poor maintenance.
* Storage and processing: The lack of storage and processing facilities affect both national food security and household food security. Even when there is a lot of harvest and the production of farm product seem enough, because of lack of good storage it will still lead to food scarcity as the food will not be available or be in a good condition when it’s time for consumption. Good storage and processing are required to ensure that food is available in good condition whenever it’s required. Simple and effective method for storing perishable food like tubers, fruits and vegetables are not really developed and well known in Nigeria when compare to that of grains. Storage is a problem for Nigeria as a large number of food produce perishes, because of the lack storage and processing facilities. The traditional methods of storage used contain flaws, like having low base, which therefore becomes easily accessible to rodent and having wooden floor which is an easy target for termite and also some of the storage are non-moisture proof surface which could get damage by water. Due to the inadequate storage and processing system, farmers loss heavily and especially when it’s time for profuse harvesting. Safe places to store product from farms are not efficient and are inadequate. Improved storage system and technique have been developed by experts from different institute but these systems have not been adopted and sometimes not even known to farmers.
* Lack of good Infrastructure: In this case infrastructure will include physical structure, such as health and educational facilities, social services (stable electricity and safe water) and effective communication system. Agriculture in Nigeria suffers greatly because of the lack of developed infrastructure. For example in the rural area where most of the farmers operate without good infrastructure in place, is a major problem, as it affect investment, trade, and agricultural production. This problem is mostly caused by the government, as the government favours urban development over rural development by a great margin. The lack of infrastructure continues because of bad political leadership, poor governance, government neglect, poor maintenance culture and poor funding. Electricity, safe water and health facilities is often not enough for those living in the rural area, as the urban area is favoured more by the government. For example people living in the rural area can be without electricity for up to a week on a regular bases and even the urban area does not have stable electricity. Some places in the villages have one tap for water which does not always work because of lack of electricity, so water used in the farm and houses are gotten from the rivers, and this could take hours to fetch as the river could be far from the houses and the farms.
* Unstable prices: One of the problems affecting external and internal investment in Nigeria is the escalating cost of important farm tools and machines. The average cost of tools and machine such as cutlass, hoe, tractors and combine harvester have been increasing for many years. These unstable prices are caused by the unstable macroeconomic policy which then lead to inflationary pressures and high interest rate and then lead to a volatile exchange rate (Oni, 2013). All these have the tendency to cause rising prices in fuel, transportation, farm inputs and therefore increase cost of production.
* Agricultural labour: The traditional system used in Nigeria affects the use of farmland because of the availability of labour. In Nigeria the agriculture system is mainly done without machines and thus human labour becomes important in the production system, accounting for about 90% of the farm operations. While under a semi-mechanized system human labour is still up to 70% of the farm operations. So labour could be and is affected by the continuous migration of able bodied young men to the urban area which in turn causes labour shortages and in time when labour is required for land preparation and harvesting. The main cause of this migration is the perception by young men that farm labour cannot support them and their families.
* Population: The Nigeria Population in 2011 was about 162 million, at present about 190 million and it is estimated to be about 230 and 430 million people in 2050, and as of 2015 52.2% of the population lived in the rural area while 47.8% lived in the urban area (Fao.org, 2015). Nigeria is seeing a growing population and could be the third largest most populated country in some years while more than half of the population earn less than US$ 2 per day. As Nigeria population increases, so does the food security challenges, and this will grow with its population. At the current rate in which Nigeria population grows, Nigeria remains unable to feed its population. Due to over population, the traditional method if fallowing is shorten and there is not enough time for the soil to regenerate is properties, putting pressure on the land. There is increase in demand of livestock which also leads to overgrazing. As stated earlier Nigeria’s urban population is more than its rural population, and it’s estimated that the urban population will continue to grow more and more as there is mass migration from the rural area. The urban population is relies on market food supplies and are not into food production. Nigeria population are mainly youths, and they are mostly moving to the urban area. This is making it hard to employ and educate the next generation farmers. Due to the problems mention above, lack of farmers, growing population, low income and people not being interested in food production or being a farmer anymore, is making the unsustainable farmers get away with their practices.
* Economy: When it comes to agricultural economy, it can be said that Nigeria has transited from era of sustainable farming to an era of unsustainable farming. After the united nation declared the 1960s as the first development decade for developing countries, many developing countries were able to achieve an impressive growth rate of an average of 6-8% per year. Better still these impressive growth rate was achieved mostly through the agricultural sector, and was consider as being sustainable. About a decade in the 1970s things began to take a U-turn. The role of agriculture in the Nigeria economy began to falter and the agricultural system began sliding into the other way which proved to be bad for the environment, the ecosystem and also unsustainable. Instead of treating or replacing infected trees or plants, farmers most time use new farmland for farming. By intense farming, soil nutrient are being wear out and lack of knowledge of the use of pesticide leads to unhealthy use of pesticides and other farm chemicals. These practices are bad for the quality of the local water and for the soil, and are unsustainable. As the agricultural value began to down slide in Nigeria in the in the 70s, area and land that were devoted for agriculture were increasing. For example, the percentage of agricultural land use in some area increased from 77% in 1969 to 81% in 2005 and arable land use increase from 30% to 35% in the same time period. Notice from Table 1 that the GDP per capital in 1960s is very different from that in the 2000s; this is because in the 1960s agriculture was equitable and farmers were able to produce decent income levels. This phenomenon shows an ugly truth, the beginning of a new era “decline of productivity in the agriculture sector” in Nigeria. The new system of agriculture adapted by Nigeria from 1970s till date has been unsustainable for a number of reasons. Despite the increased use of agricultural and arable land, the agricultural values added to the country’s GDP dropped and continues to down slide. Also despite the increased use of Arable land, arable land per person in Nigeria dropped from one person per hectare to at present approximately 0.188, which is almost zero and still remain at approximately zero, meaning that there is lack of land for agricultural products from the economy point of view.
* Environment The most common forms of agricultural environmental degradation in Nigeria are soil erosion and deforestation. Soil erosion is caused by a poor farming system, which includes improper road constructions and poor and unsustainable maintenance system. In many places deforestation has been used as the solution for lack of land for farming, a means of getting materials for building, collecting of timber and non-timber product, all of which is sometime done in an unsustainable manner. Some of the impact of environmental degradation includes loss of flora and fauna, food security, and the decline of underground and surface water. As we all know land is very important when it comes to agricultural production. No significant agricultural activities can really be done if a land’s resource productivity is low. The same things applies to livestock and crop production, for a livestock and crop production to be successful element such as water, sunshine, soil nutrient and adequate plant nutrient are present in the fertilizer been used in the right quality and quantity. Plants use the process of photosynthesis in making their own food and for this process to take place, sunlight and water is needed. When plants do not have or are stave enough sunlight and water they do not come out looking good and healthy as those which do. If a soil or a farmland lacks nutrients, then crop production will be low and enough and quality food e.g. grain will not be available to feed the livestock. The absence of good and adequate policy has an undesirable effect on the environment and therefore the quality of the agricultural and rural sector. As stated earlier, one area where the environment is suffering is the shorten fallowing period which leads to over grazing, erosion due to over cropping, and as a result environmental degradation and quality reduction. The Sahara desert for over five decades has invaded one million square kilometre of land and is rolling southward toward Nigeria at a rate of six kilometres per year.
* Climate change: Our planet’s climate is changing, and so is Nigeria climate and this change is affecting the country’s agriculture sector. The Nigerian meteorological agency has recorded a remarkable change in the country’s weather pattern from 1941 to 2000. Most part of the country especially the northern part have received shorter rainfall recently when compared to previous years, While the southern part experiences increase in rainfall. Records show that the decline in rainfall in the northern part has worsened from the 1970s up till date, while temperature has increase all over from an average of 1.4-1.9 degree Celsius and scientist have warn that it could further increase from 2 to 5 degree Celsius before the century ends if no drastic action is taken. Nigeria farmers are also contributors to global warming mostly through deforestation. Some believe bush burning is an easier and cheaper way to stop the infestation of weed. Climate change is affecting the Nigeria agriculture especially in the northwest, northeast, and southwest of the country where they have extreme weather conditions. The consequences of higher temperature are decrease in agricultural production and productivity and a high evaporation rate will result in the reduction of soil moisture, thereby lowering the surface water and also the reduction of ground water. The higher temperature also lower the human labour use in the farm, and since most work is done by human effort in Nigeria agriculture, productivity will be reduce which will lead to reduction and waste of farm products. Labourers get tired quicker and are less productive when the temperature is high than when compare to a mild temperature.

**4.0 The Agricultural Commodity Marketing:**

**4.1 introduction**

The activity of agricultural marketing involves moving of Agricultural products from the farm to consumers. It has numerous intertwined connections from planning, growing and sales. Today, marketing has remained a dynamic business with numerous challenges which include competition and other market demands. The central point in agricultural commodity marketing however that is the endeavour must provide the farmer, the transporter, trader, processor etc with profit.

In most developed countries agricultural marketing support to farmers has remained the catalyst of the growth of the agricultural sector.

**4.2 THE GLOBAL COMMODITY MARKETING INDUSTRY**

The United States is leading example of agricultural commodity marketing. The agricultural marketing service of the US department of agriculture has programs for cotton, diary, fruits, vegetables, livestock, poultry and tobacco. The programme involves testing, standardization, grading, market information and research. In the United Kingdom, the history of commodity marketing precedes the Second World War. The UK has a number of marketing boards specifically tied to specific products e.g. Milk Marketing Board, Egg Marketing Board etc. As a colonial power, Britain established the Marketing Boards in many African Countries including Nigeria.

In most developing countries government sponsored marketing or agric business units were established to handle commodity marketing. South Africa started with the Natural Agricultural Marketing Council as a response to the deregulation of the Agricultural industry. In Nigeria we had Commodity Marketing Boards for Groundnut, Cocoa, Cotton and Palm Oil. Several other organizations provide support services to develop the agricultural marketing system.

4.3 **COMMODITY EXCHANGES** Commodity exchanges are highly efficient platforms for buyers and sellers to meet; primarily to manage their price risks better, but also to improve the marketing of their physical products. The exchanges offer access to organized commodity trading, financing opportunities, and hedging opportunities which allows for price discovery, mitigation of risk, and trade efficiencies.

Commodity exchanges provide three basic functions: price transparency (everyone has access to a neutral reference price); price discovery (demand and supply developments are readily reflected in price levels); and reduced transaction costs (it’s easier to find buyers or supply through a centralized market place).

An exchange also provides security on the quality and the quantity of the commodity traded. It will normally set grades and standards and license those who are permitted to issue grading certificates. It also normally helps define better quality standards by creating incentives for market participants to produce commodities that meet exchange specifications. For example, when South Africa Futures Exchange (SAFEX) introduced premiums that rewarded the delivery of higher quality grain, farmers reacted by applying extra fertilizers in order to improve the quality of their production. By defining quality standards, they speed up the process of product standardization. They also improve the discipline in the market place, by incentivizing market participants to behave according to exchange rules. Exchanges are dynamic tools to remedy the weaknesses of the market place, - UNCTAD, 2009.

Exchange brings further benefits. It may use warehouse receipts, which guarantee the physical presence of the goods. It may have a mechanism to settle quality disputes. A fully-developed exchange guarantees the delivery; if there is a problem, it will either procure goods on the market for delivery to the buyer, or compensate him financially Organized commodities exchanges have a long history. Grain traders in Japan began experimenting with the idea in 1730, while the Chicago Board of Trade (“CBOT”) and the London Metal Exchange (“LME”) successfully launched their operations in 1864 and 1877, respectively. Hundreds of exchanges were created in the next few decades, in countries ranging from Argentina to China, Egypt to Russia, Hungary to Turkey, and India to the USA. However, most exchanges outside of Europe and the USA fell prey to political upheavals, and at the start of the post-World War II period, most of the remaining exchanges were in the developed world. Their role and influence grew, but until the late 1980s, they remained largely confined to industrialized nations.

Africa was home to one of the world’s first commodity exchanges: Egypt’s cotton exchange, established in 1861 (over 150 years ago) in Alexandria. It did not just play a national role but was also of large importance for global trade, attracting users from the rest of Africa and from the USA to India. However, as a result of the steady encroachment of the State in cotton trading, the exchange was closed in the year it celebrated its 100th anniversary.

 The importance of bringing commodity exchanges to the Africa continent was recognized by policy makers in the Abuja Treaty of 1991. Further endorsements came in resolutions adopted by African Ministers and Heads of State. These resolutions were clear in their intent: governments should, in partnership with the African business sector, develop and support commodity exchange initiatives; identify and remove barriers to the establishment and operations of commodity exchanges; and procure government requirements across the trading floors. At the time of the Abuja Treaty of 1991, there was no commodity exchange in Africa at that time – the last one in Alexandria, Egypt had gone out of business in the 1960s.

 Nevertheless, until the mid-1990s, only in the Southern Africa region of the continent did these resolutions of African leaders lead to the creation of new exchanges, first when the then-vibrant farming sector set up the Zimbabwe.

Agricultural Exchange (ZIMACE) in 1994; later in the same year in Zambia, when grain traders and brokers came together to create an exchange; and a year later in South Africa when the successful financial derivatives exchange added a commodity department. Thus, the first “modern” commodity exchanges created in the continent were in Zimbabwe and Zambia in 1994 and in South Africa in 1995. While South Africa’s exchange flourished, the exchanges in Zambia and Zimbabwe rapidly went the way of the Alexandria Cotton Exchange, for similar reasons – the private sector’s role in agriculture was steadily eroded.

 The second wave of Exchange creation in Africa started in Ethiopia in 2008. The Ethiopian Commodity Exchange (ECX) which was mainly driven by government and donor support is one of the two successful Exchanges in Africa, after that of South Africa. To date, ECX has built a reasonable volume, and has shown that a commodity exchange can be successful in spite of infrastructure and commodity sector development challenges. While Africa was late in entering the modern commodity exchange space (1994), after a gap of several decades, there is now no longer any lack of exchange initiatives. A count of African exchange initiatives shows that there are, or have been, exchange initiatives of some sort in 28 African countries (see table 3). In two of these countries, this goes little further than a website, of which the government may not even be aware. In a quarter of the cases, the concept was discussed and studied by private sector groups or commodity exchanges, but it did not move beyond this into the planning stage. In three of the countries, the exchange is only a physical market place where buyers and sellers are brought together by an NGO in an effort to catalyse new flows of trade. However, in about quarter of the countries, there is either already an active exchange, or the path towards an exchange has moved into the planning and development stage, often supported at the highest level of government.

Two exchanges have reached reasonable volumes, in futures trade (SAFEX in South Africa,) or spot trade (Ethiopia) – trading respectively over 210 million tons (mostly grains) and almost 600 thousand tons (mostly coffee) in 2012. GBOT in Mauritius is trying to become an offshore destination for global exchange trade. ACE in Malawi is developing from a small volume of trade to a more ambitious reach, trying to build a regional market on the back of warehouse receipts.

 4.3 **The Fallacy that Commodity Exchange is best for Africa**. All said as above, one is tempted to ask these pertinent questions: Is Commodity Exchange the preferred route for Africa? Is Africa in general and Nigeria in particular, ripe for Commodity Exchanges? Why has progress been so slow in developing commodity exchanges in Africa? Why has there been so many failed attempts in establishing exchanges in Africa, such as the failed Abuja Securities & Commodity Exchange? Is it because physical infrastructure – roads, ports, warehouses – is still poor? Is it because there are so many trade barriers?

The exchange approach faces a lot of criticism. Certain critics of Africa’s commodity exchange projects allege that they are a waste of money because the basic infrastructure for commodity trade is so poor that most people will not be able to use the exchange. One analysis of exchange projects in Kenya, Malawi, Uganda and Zambia finds that these were “ill-conceived and/or premature. It is the reason why none of the exchanges have lived up to the expectations made for them. They have not improved the marketing system for the vast majority of actors in the industry. At the same time, they have reinforced the position of the most powerful actors in the industry and introduced a ‘closed shop’ of membership to large volume trade in agricultural commodities.

Although these programs were introduced only a comparatively short time ago, it is clear that they are all going in the wrong direction to ever meet their theoretical objectives.” Another analyst had this conclusion: “I can’t help but think that this is an idea that donors and investors are buying into, but without having done research on the need for an exchange within every given community."

Careful analysis shows that even the much taunted Ethiopian Exchange’s success story may have been more tempered than its advocates suggest. With coffee prices rising, the absolute value that Ethiopian farmers are paid for their produce increased 79 percent to 115 cents/pound between 2007 and 2012. However, data from the International Coffee Organization contest claims that farmers are receiving a higher proportion of the final price of their commodity in the market. In fact, farmers took home 51.6 percent of the export price of their product for the year ended September 2012, down from 57.1 percent in the year ended September 2007, before the exchange was established, the numbers reveal.

Critics further argue that markets in Ethiopia are still heavily disjointed, and that smallholder farmers cannot access the exchange. The Exchange model also prevents traceability and is a poor market for highly differentiated products like coffee, which risk being standardized, they say.

In any case, many are of the belief that Ethiopia’s unique political and economic conditions, under which the state-run exchange is mandated - meaning that exporters can only procure products through the bourse, is unlikely to be repeated in many African free markets, such as Nigeria. “Ethiopia is unique in that it has a very centralized view of the way things are run, and when you have those forces in your favor then the speed at which the exchange develops is a lot higher. When you don’t have that centralized control there will have to be something else that drives its success”.

Some countries have compelling alternatives in place to Commodity Exchanges. Ghana’s Cocoa Board already provides price transparency and guarantees to farmers, and has succeeded in cutting middlemen out of the value chain. In Tanzania and Kenya, traders claim that coffee auctions allow for greater differentiation and traceability than through Exchanges. This perhaps explain why, while there are less than half a dozen functional Commodity Exchanges in Africa, there are still at least twenty five functional Commodity Marketing Boards/ Companies spread across the continent. COMMODITY TRADING IN NIGERIA

**4.5 Commodity Marketing Boards in Nigeria**

**HISTORICAL ANTECEDENTS**

Marketing boards in West Africa originated from the war time 'West Africa Produce Control Boards', established in 1942. The Produce Control Boards were succeeded by 4 commodity marketing boards in Nigeria (for Cocoa, Palm Produce, Groundnuts and Cotton), 2 in Ghana, 1 in Sierra Leone, and 1 in Gambia. In 1954, the Nigeria Commodity Marketing Boards - were reconstituted as the MarketingBoards for the Regions and on States creation in 1967 metamorphosed into Regional States marketing boards such as the Northern States Marketing Boards (NSMB).

In 1977, the Federal Military Government of Nigeria forcefully took over the assets of NSMB by virtue of Decree No. 29 of 1977 and Commodity Marketing Boards were established in the same year as replacements for the NSMB under the Ministry of Agriculture and Cooperatives to take care of specific crops such as cocoa, rubber, roots and tubers, etc. There were six Commodity Boards, namely; Nigerian Cocoa Board, Nigerian Groundnut Board, Nigerian Cotton Board, Nigerian Palm Produce Board, Nigerian Rubber Board, and Nigerian Grains Board. Their headquarters were located in Ibadan, Kano, Funtua, Calabar, Benin, and Minna respectively. These Boards interfaced with farmers and brought stability in their operations and also served as interventionist agencies ensuring that their produce were bought from them. At the outset, the Marketing Boards were established primarily for marketing exportable agricultural commodities produced in Nigeria on behalf of the producers arranging overseas trading partners to buy the produce and ensuring that they are produced to the highest quality and specification of the buyers.

This role, though greatly mutilated by government in search of other interests, was expanded in the 1970s to take care of non-export agricultural commodities. Extension workers were also used and young men and women given elementary training in the application of pesticides and fertilizer to both cash and arable crops. They were later deployed in the various farm settlements where they assisted rural farmers who largely toiled for subsistence. Despite these positive development stories of the commodity marketing boards, they were abolished in 1986 under Nigeria's IMF induced Structural Adjustment Programme (SAP) leading to the deregulation and privatization of the commodities market.

The functions of the marketing boards have since then been performed by private individuals and corporate bodies, and the price of the commodities has been left to the interaction of the forces of demand and supply with farmers at the mercy of middlemen.

**4.6 Physical Commodity Markets in Nigeria**

Following the abolishment of state-controlled agricultural marketing boards in 1986 by the Federal Government of Nigeria, domestic trade in agricultural products was taken over by a myriad of small operators operating in a rudimentary fashion across many small markets across the country in both urban and rural areas. The rural markets are however the most dominant.

There are six categories of participants in these physical markets, namely: i) The farmers (producers) who grow the food grains; ii) Those who buy food grain from farmers but sell to traders (assemblers of collectors); iii) Those who buy from farmers and sell to traders (wholesalers); iv) Those who buy from traders but sell to consumers (retailers); v) Those who buy from farmers and traders but sell off to traders and consumers when prices have appreciated (speculators); and vi) The agro-allied processors of food grains into finished products. The most dominant participants in the markets are the wholesalers and retailers. The smallest category is the assembler/collector. The wholesalers normally control over 50 percent of total quantity traded per week by either buying from the farmers, or selling to retailers, speculators and consumers at both the rural and urban markets.

Across the commodity markets in Nigeria, merchants employ the services of commission agents who are paid sales commissions for their services. The agents acted on behalf of the grain merchants in arriving at sales price with the buyer. They also serve as market scouts to the merchants as they help provide them with market information, temporary storage services and, arrange transport for transferring the grains. Farmers commence the sale of their farm produce immediately after the harvest season in October in order to generate revenue to take care of some home needs during the end of year festivities, pay school fees for their children, get their children married-off etc. Another compelling reason pushing farmers to sell their produce shortly after harvest is the paucity of available storage facilities and the attendant fear of losses. Under these circumstances, farmers generally have weak bargaining power. Over 50 percent of commodity sales by farmers take place during this immediate post-harvest period.

Nigeria's agricultural commodity markets are generally characterized by high transaction costs involving: market fees, sales commission to agents, produce inspection charges etc. Trade is done on the basis of visual inspection because there was no assurance of product quality or quantity, this further driving-up market costs, leading to high consumer prices. The markets are also cash bashed. Transactions are consummated and paid for in cash immediately. In most of these markets therefore, millions of Naira exchange hands on their market days.

4.7 **Commodity Exchange in Nigeria**: **The Abuja Securities and Commodity Exchange**

In 1986, the Federal Government of Nigeria decided to abolish all Commodity Marketing Boards under an IMF induced Structural Adjustment Program. This led to disarray in the physical market. To overcome these problems, an interministerial committee was set up in 1989 to look into the possibilities for creating a futures exchange for agricultural commodities. While there was no follow-up from the government, one response was a private sector-led initiative: the First African Commodities Exchange, (FACOMEX).

 FACOMEX was set up by a number of large banks together with chambers of commerce and farmers’ associations. When it was incorporated in 1992, there was no law permitting the operation of a commodity exchange. FACOMEX worked with the Ministry of Commerce to develop such a law, and a draft law was approved by the government in 1995/96. Finally in 1999, a new Investments and Securities Act was passed by the Government, which mandated the Securities Exchange Commission to register and regulate futures, options, derivatives and commodity exchanges. But when FACOMEX applied for a license with the Commission in that same year, it was refused recognition for not meeting the required capital standards.

So, only when the Abuja Securities Exchange (ASE) was converted into the Abuja Securities & Commodity Exchange (ASCE) in August 2001 did Nigeria get its own commodity exchange. ASCE was originally incorporated as a Stock Exchange in June 1998, with the Central Bank of Nigeria as main shareholder (with a 60% equity share) and four state-owned insurance companies and banks each holding 10%. Its entry into commodity trade was somewhat coincidental. ASCE had been created to provide a trans- parent, efficient electronic platform for the country’s stock market trade, as an alternative to the rather non-transparent stock market in Lagos. It started this trade in May 2001. But with a change of government in 2003, this need was no longer felt by the country’s political leadership. Thus it was decided that the Abuja Securities Exchange should over- night, as from 8 August 2001 on, be the Abuja Securities & Commodity Exchange, trading only commodities. Meanwhile, the Abuja Securities Exchange had invested considerable sums in the development of a stock market. Among other things, it had bought the software of the National Stock Exchange of India, and had trained all its staff in stock exchange trading. Furthermore, there was no legal system in Nigeria for a commodity exchange to operate. ASCE staff felt that such a legal system was necessary, and that the new law should force government companies as well as commodity exporters to trade through the exchange. Thus, the conditions for turning the exchange into a commodity exchange were not favorable. Over the many years, no serious progress was made in this direction. ASCE gradually depleted its reserves, and in the face of the unwillingness of its corporate shareholders to continue funding it, fell into bankruptcy. The Corporate’s 40% of equity were taken over by the Ministry of Finance. ASCE continued operating as a company under administration, its shares offered for sale by the Bureau of Public Enterprises (which is responsible for the privatization of government-owned companies). Efforts to revive the exchange by the Securities and Exchange Commission (the regulator) and the Ministry of Commerce (within whose ambit the exchange falls) remained a mirage.

In 2006, ASCE made intensive effort to get commodity trading on its feet. It set up a broad range of institutional supports for efficient exchange trading. The elements of this new infrastructure were as follows:

 a) Trading platform:

In July 2006, ASCE started with a floor-based trading system, which was later replaced by an electronic trading system that offered two rather basic trading functions. - Remote negotiation: A member of the exchange sends a message to ASCE (by phone, email or fax), requesting it to find a buyer or a seller for certain commodities. The caller specifies price, volume, quality, packaging and delivery location. Remote negation was for spot contracts, i.e., delivery within 11 working days. This facility was expected to be useful for the spot trading in a number of agricultural commodities (maize, soybeans, sorghum, sesame seeds, millet and cowpea) as well as solid mineral products (in which no trade has taken place so far). - Auctions: This was meant for participants that wish to procure large quantities of commodities, or for governments wishing to mop up excess commodities after a bumper harvest. Industrial processors (beer brewers, oilseeds pressers etc.) were attracted as buyers on the exchange, and their bid volume was considerable. In 2007, for example, one buyer placed an order for half a million tons of cassava chips, but no offers were received.

Several efforts were made to increase trading volumes, including a move of the spot trading floor to the Northern city of Kano (site of the largest grain market in West Africa), the introduction of new commodities (e.g., cotton) and the addition of an electronic trading platform (permitting trade through the Internet), but volumes remained low. Almost three thousand tons of agricultural commodities were traded during the first 1½ years (this represented about 0.25% of the volume the exchange needed to break even), but after that trade dwindled away – no trade was recorded in 2008

b) Warehousing system: Physical delivery on ASCE is through approved warehouses, rather than directly between buyer and seller. ASCE has accredited a number of warehouses, based on criteria such as their minimum storage capacity, the presence of a weighbridge and grading equipment, insurance cover for the warehouse and its content, experienced staff, and a US$ 1 million or higher capital of the warehouse operator. Sellers had to deposit their commodities at the warehouses, where quality and quantity were verified. The use of delivery warehouses was not as straightforward as hoped. One problem was that due to the country’s weakly developed legal/ regulatory system for warehouses and warehouse receipts, insurance companies were discouraged from insuring public warehouses. Furthermore, lack of clarity about the legal rights of holders of warehouse receipts discouraged banks from financing against inventories. Regulatory oversight of the warehouses was weak. The consequence of these issues was that there was no incentive for owners of stocks to deposit them in exchange warehouses, except when they had already agreed on a specific transaction with a buyer.

c) Quality Assurance System: ASCE defined quality standards for cocoa, coffee, cotton seed, groundnuts, maize, sesame seed, and sorghum and soya beans. To compensate for the absence of widely-accepted commodity standards in the country, ASCE set up a system with double quality checks. In the first instance, approved assayers were to certify the quality of goods deposited at approved warehouses (farmers groups that tried to do so complain that often, the assayers did not show up). Then, samples of the commodity and the quality certificate were delivered to ASCE brokers, who present the certificates and samples to the assaying officer of the exchange for a second assessment of the quality prior to trading (ASCE has its own assaying laboratory). All these raise trading costs significantly.

d) Clearing and settlement system: ASCE members have to maintain clearing accounts with the exchange’s clearing banks. They also need to contribute to the guarantee fund. Both buying and selling brokers pay a margin of 5 per cent of the value of the commodities they offer to buy or sell to the exchange, to guarantee contract performance. If a deal is struck, delivery has to be completed within 10-20 days.

e) Arbitration system: All transactions executed through the exchange are subject to its by-laws and regulations. All disputes from such transactions are compulsorily referred to a panel of arbitrators – members cannot take disputes to a court. Such arbitration procedures are covered by Nigeria’s Arbitration and Conciliation Act, and decisions of the arbitrator are enforceable in the courts of Nigeria.

f) Commodity price information system: ASCE has agents in 80 market centers throughout Nigeria who collect price information in these centers. This information is disseminated by ASCE in different ways. While expensive, such a price information system is critical for the growth of an exchange in its initial stages.

 To make its market more attractive to non-commodity-sector participants (i.e., investors), ASCE has worked since 2009 on improving the legal and regulatory conditions for warehouse receipt trading. It commissioned the drafting of a bill on Warehouse Receipt Financing and Processing, which was presented to the Government in December 2010, and as of date is yet to be enacted into law. In 2011, Nigeria’s government adopted a new Agricultural Transformation Agenda, in which the potential role of ASCE was recognized. Among other things, the government decided to test procuring grain for its strategic reserves through ASCE. To meet this demand, ASCE created a “policy auction” platform, which handles government and development partner agency procurements for the purpose of strategic food reserve and emergency management. In October 2012, a road map was presented to revitalize ASCE, which will be renamed the “Nigeria Commodity Exchange”. According to proposals submitted to the government in February 2013, ASCE would start with the establishment of an electronic warehouse receipt system, with 18 delivery centres. Exchange trading as well would be electronic, with the exchange planning to set up 6 remote access sites. Some 16 commodities have been selected for trading, which are additions to the commodities already traded earlier, gum Arabica and cassava; but only 6 commodities would be offered during the first six months.

The revitalization project of the exchange is to be funded by the government, and is supervised by a working group which brings together several Ministers, the Governor of the Central Bank, and the Directors-General of the Securities and Exchange Commission and the Bureau of Public Enterprises. The government was to work on supporting legislation, for the establishment of the exchange itself, for warehouse receipt financing and for a self- regulatory organization of brokers; and the rules of the Securities Exchange Commission are to be changed to make it the commodities market regulator. But the private sector is to be brought into the project, ultimately taking on a majority stake in the exchange. To date, no action has been taken to actualize these recommendations and the ASCE has remained comatose.

Why Abuja Commodity Exchange Failed a) Wrong Business Model: ASCE was started as a government parastatal, with the government through the Central Bank holding 60% equity. This was perceived by many as a wrong business model destined to fail right from the onset. Many did not see the rationale for the abolishment of the old Commodity Marketing Boards only for them to be replaced by yet another semi-government entity. b) Lack of appropriate legal & regulatory environment: To date, no legal backing has been given to the operations of the exchange such as a law supporting the warehouse receipt system. c) Limited capacity to enforce contracts: In the high-risk trading environment in Nigeria, market participants had invested in long-term relationships as a way to manage market risk. The exchange had to be able to offer at least the same perceived level of risk mitigation. This would have required it to screen market participants and keep out risky trading partners; and to enforce in an effective way the contracts that companies entered into on the exchange. It was unable to do either of the two. d) It provided insufficient incentives to develop competitive brokerage services: The exchange was unable to recruit participants outside of the traditional grain trading community. All of the brokers on the exchange were also traders in the physical commodity, leading to a potential conflict of interest and discouraging new market entrants. The visibly low volumes on the exchange discouraged third parties (e.g., banks, securities brokers) to invest in developing commodity brokerage services. e) The costs of operating on the exchange exceed the benefits for many potential participants: An exchange is largely at fixed costs, with participants making small returns on each transaction. As ASCE markets were thinly traded, costs exceeded returns; and because ASCE had to recoup at least part of its costs, membership fees and trading fees had to be kept high in relation to the actual business that members and users could do on the exchange.

f) The exchange was perceived as a vehicle for manipulating markets, rather than as a forum to achieve price discovery: Trade on the exchange was very low, and dominated by a handful of market participants. Others feared the potential for collusion between these participants, and thus remained on the sideline. g) Wrong Technology Platform: Volatility of prices has remained a critical factor in managing commodity exchanges. Organizations have therefore seen the need to invest in modern technology to address this very important factor as a means to managing commodity price risk. Unfortunately, the ASCE did not make appreciable investment in the right technology thereby exposing investors to higher risks. h) Weak Physical & Communication Infrastructure: Commodity exchange is an integrated system of decentralized trading, warehousing, quality certification of commodity, clearing, settlement, delivery and market information. If enables agro-commodity merchants, exporters and industrial end users to have reduced transaction costs in terms of logistics and aggregation of commodities. Communication is therefore critical to the success of commodity exchange. The ASCE had a weak physical and communication infrastructure which exposes investors to higher risks. Moreover, the existence and activities of the ASEC were not publicized. Farmers and the general public were not aware of the existence of the exchange. Information and communication through the mass media is necessary for sensitization, creating awareness and public enlightenment. The ASCE did very little to publicize the activity of the exchange. i) Low level of literacy of small holder farmers: Majority of Nigerian Farmers merely engage in subsistence farming to provide food for their family with very left for the market. These farmers have little knowledge of operational methods of improved agriculture system and marketing. Ignorance and illiteracy among farmers constitute serious setbacks for the success of an agricultural commodity exchange. It will require time, expertise, money and other resources to make our farmers appreciate the desirability of a commodity exchange.

**4.7 KEY SUCCESS FACTORS FOR A COMMODITY MARKETING SYSTEM**

There are a number of issues that need to be taken into account in order to have a successful Commodity Marketing Company and/or Exchange: Is the market ready for it, from the farming as well as buying perspective? Is the government supportive enough to provide an environment that allows the entity to function efficiently? Can the message get across to people in rural areas? Are the banks, the government, private sector, producers, traders, processors on board? Is legislation consistent with agricultural policy, financial policy, trade policy?

Broadly, the following are key to success:

Consideration of enabling conditions: The failure of commodity bourses in Zambia and Uganda show how important it is to have the right infrastructure in place from the start. Zambia’s bourse halted trading in July 2011 and has postponed its reopening pending legislation to certify warehouses. An analyst aptly puts it thus: 'A lot of these new exchanges are being entered into prematurely for many of the wrong reasons. I can’t help but think that this is an idea that donors and investors are buying into, but without having done research on the need for an exchange within every given community."Adopting the Right Business Model: Critical to a successful Commodity Marketing entity is the choice of business model. Government dominated entities such as the Nigerian Commodity Boards and the Abuja Securities & Commodity Exchange have fallen by the wayside. One of very few exceptions is the Ethiopian Exchange. An active private sector involvement is required for a successful Commodity Marketing System. A Public Private Partnership model is the best recommendation. Obtaining Buy-in of key stakeholders (farmers, large traders/LBAs, Govt.): A second challenge is to obtain the support of key stakeholders especially the farmers and large traders. Smallholder farmers in Nigeria and Africa generally are not literate enough to understand complex systems such as the workings of a Commodity Exchange. Many farmers perceive an Exchange as a vehicle for manipulating markets, rather than as a forum to achieve price discovery. They would appreciate better the workings of a simpler system such as a Commodity Marketing Company/Board where prices are known in advance, and LBAs are just stone throws from them.

Large traders may not also uniformly welcome an organized marketing system such as Board/Company or an Exchange in an African country, such as Nigeria where poor market infrastructure discourages competition, while a lack of market transparency may enable them extract large margins from smallholder farmers.

Governments' support is needed in two areas: enactment and enforcement of enabling legislations and regulations, as well as patronage in procuring most government food program requirements from the commodity marketing entity. Procuring the right Technology: The third key success factor is getting the right technology at the right price. Considering the past two decades of exchange development in Africa, there is no clear trend when it comes to exchange technology. The early exchanges either used little technology (trade could be organized through a black- board), or depended on home-grown trading software. Putting in place the right/appropriate delivery mechanisms: It is generally difficult for African exchanges to find reliable delivery (storage, transportation & logistic) partners. Even if there are well-managed ware- houses in the country, they are usually grossly inadequate, sparsely distributed and they may well be used for proprietary trading and storage by their owners, who may not be keen to start offering a warehousing service to third parties. Depending on volumes, which are usually large for Commodity Marketing, the movement of these commodities into and out of storage for deliveries could be a logistics nightmare. It is therefore very important to source and secure appropriate number and type of storage facilities alongside reliable, efficient, third party storage operator. Adequate Budget/Funding: For any commodity marketing system to succeed, it must have the financial wherewithal that will in still confidence from the major stakeholders (farmers, LBAs). Farmers want to be paid immediately for whatever quantities of crops they deliver to LBAs; and LBAs also want to be paid immediately they deliver to designated warehouse and delivery centres. There is also huge financial requirement for set-up cost in terms of technology, storage infrastructure etc. Tiny budgets and small funding would never allow marketing entities meet their objectives.

**4.8 CONCLUSION** Agricultural commodity marketing support services has remained central to agricultural development. Well-functioning marketing systems necessitate a strong private sector backed up by appropriate policy and legislative frame work. It also requires government support and encouragement. Such support could come in terms of market infrastructure, research and agricultural extension services.

**5.0 ENENCHE’S AGRO-WORLD ENTERPRISE LIMITED**

**5.1 INTRODUCTION**

Enenche’s Agro-World Marketing Enterprise is proposed to be a limited liability company that will close the existing gap between farm products and markets. It is designed to promote market orientation and enhance farmers profit, generating wealth and accelerating production. The company is expected to facilitate external trade in the non-oil sector and help in the resuscitation of ailing local industries through the provision of needed raw materials. It is expected that within a very short time the impact of the company would be felt by the farmer, the consuming public and the nation’s economy.

BUSINESS CONCEPT Two major hindrances to agricultural production in developing countries such as Nigeria are: Marketing (market access & pricing) and Storage of farm produce. These two concerns were the driving force for the establishment of Commodity Marketing Boards and Companies the world over. Improving access to markets for agricultural producers is crucial for developing a country’s agricultural sector. Nigerian farmers in general, and Northern farmers in particular, lack encouragement by way of appropriate market pricing for their produce encompassing a reasonable return on their investment. Small-scale farmers, who produce 90% of Northern Nigeria's agricultural output, are at the mercy of merchants in the nearest and only market they know, unable to negotiate better prices. The EAE LTD is being promoted to ameliorate these problems (market access, pricing & storage) amongst many others, and to serve as a stabilization thrust of Nigeria’s farm policy and as a catalyst to stimulate the growth of the agricultural and industrial sectors.

 The primary functions of the Enenche Agro-World Limited are:

* Buying of selected crops including assembling of products from different sources/areas;
* Grading/standardization of agricultural products in a manner that will be meaningful to users;
* Storage/holding inventories of farm & food products;
* Price discovery reflecting current demand and supply influences;
* Risks bearing associated with physical and financial risks;
* Export Promotion of selected crops;
* Aiding Research and Development activities for augmentation of the selected crops production and improvement of their quality; Buyer-of-last-resort for maintaining food security reserves;
* Such other profitable activities as may be conceived from time to time by the company's shareholders, board and management. Other ancillary functions of the company would include:
* Farm Training Centers would be established across the States to train students in improved methods of planting, cultivation, manuring and spraying.
* The enterprise will promote the establishment of cooperative organizations amongst producers across the 19 Northern States.

**5.2 ORGANIZATIONAL MODEL**

In view of the challenges that was faced by the defunct Commodity Marketing Boards, a more effective Public-Private Partnership approach is needed to promote the emergence of viable commodity marketing entity. The proposed Enenche’s Agro-world Enterprise would not be a statutory board or a public corporation BUT modelled on a Public Private Partnership arrangement.

The private sector has significant expertise on issues of decisions on ownership pattern, financial arrangements, technology choice or selection of the crops to be traded. However, marketing activities would require appropriate government and development partner support. The public sector in this respect has the responsibility for providing the appropriate legal and regulatory frame works. While a strong hands-on government approach that marginalizes the private sector carries significant risk, there are however, good arguments for government involvement. The government should be a minority shareholder, should commit to using the marketing company for large scale commodity procurement, and has to make efforts to create a favourable policy, legal and regulatory regime.

The proposed Enenche’s enterprise would be a limited liability company registered with CAC with the State Governments and the New Nigeria Development Company holding 35% (thirty five percent) while private and institutional investors shall hold 65% (sixty percent) shares of the company.

**5.3 VISION, MISSION, VALUES AND OBJECTIVES**

The Vision of the company is to be the market leader in procurement of agric commodities at fair return prices to farmers, and efficient delivery of these commodities to markets at competitive prices.

The Mission of the company is to undertake strategic procurement of, and marketing of selected commodities in domestic and international markets, while ensuring fair trading practices and promoting a competitive and efficient market place to the benefits of producers, consumers and other stakeholders. The company will endeavor to make its customers satisfied while producing a rewarding career opportunities to its employees, and optimal competitive returns to its shareholders.

The Values of the company are:

 a) Independence and Objectivity: act independently and objectively to create trust in its products and services for individuals and businesses throughout the agricultural marketing system.

 b) Customer Service: provide prompt, accurate and technically competent services to customers

c) Accountability: accountable to customers, investors and stakeholders d) Honesty and Integrity: maintaining honesty and integrity in the procurement and delivery of products and services

e) Diversity: value and honor all aspects of economic diversity

The Strategic Goal of Enenche’s Enterprise is to transform and integrate the economy of Nigeria by coordinating the agricultural value chain and linking this sector to others such as transport and logistics, warehouse and delivery centers, manufacturing industries, banking and financial services etc, in a market information system that reaches the remotest rural areas.

The Strategic Objectives of the company are:

1. Assist in the diversification of the Nigeria economy by providing marketing and other developmental support to boost the agricultural sector through opening of new domestic markets and exports to generate government & foreign currency revenues.

2. Contribute to the national food security programme;

3. Help stabilize domestic market prices;

4. Facilitate growth in agricultural and industrial opportunities in the country leading to job and wealth creation;

5. Facilitate the resuscitation of domestic manufacturing industries through supply of needed raw materials;

6. Promote international and domestic commodity quality standards to facilitate farmers’ access to local, regional and international markets;

7. Provide favorable Return on Investment to its shareholders and other providers of capital;

**5.4 OWNERSHIP STRUCTURE**

The proposed company would be of limited liability registered with the CAC. The States and the New Nigeria Development Company would hold 35% of the equity capital of the company, while Private and Institutional Investors shall hold the balance 65%. The Company shall have an authorized and paid up ordinary share capital of Ten Billion Naira.

**5.5 FINANCIAL STRUCTURE**

 Equity:

 - Public Sector - 35% (NNDC & State Govts.) 3,500,000,000

 -Private Sector - 65% (Private & Institutional Investors) 6,500,000,000

 10,000,000,000

 Debt:

 - CBN Commercial Agricultural Credit Scheme (CACS) 2,000,000,000

 Take-off capital 12,000,000,000

Note:

* State Investment Companies are considered as part of the Public Sector and may partake in acquiring stake in the 35% Equity Holding of that sector.
* 35% of the 65% Equity Holding for the Private Sector would be sold by way of Private Placement to interested investors from the States on equal basis within a prescribed subscription window of 30 days.
* The balance 30% of the 65% Equity Holding for the Private Sector would be sold by way of Private Placement to interested institutional investors.

**5.6 ORGANIZATIONAL STRUCTURE**

Board of Directors

At the apex of the Company shall be the Board of Directors comprising of 11 members as follows appointed by the shareholders as follows:

* 5 members from the private sector investors
* 4 members from the public sector investors, including Eneneche’s Agro-World Enterprise
* 2 independent directors

The Board would be responsible for policy and strategy formulations for the growth and development of the company.

Management

The day to day management of the company shall be handled by the Managing Director to be assisted by three General Managers - one for Finance & Administration, one for Marketing and the other for Operations (Procurement, Supply Chain Management, and Research & Extension Services).

**6.0 OPERATING STRATEGY**

**6.1 INTRODUCTION**

At the outset of its operations, Enenche’s Agro-World Marketing Enterprise will deal in Sesame, Soya Beans, Ground nut, Cassava, Ginger, Maize, and Rice as core products for the export and local markets. Overtime additional agricultural products will be added to the list. There are future plans to include solid minerals in the list of commodities to be procured and traded by the Enterpise.

**6.2 OPERATIONAL STRUCTURE**

As part of the PPP model arrangement, daily field operations of Enenche’s Agro-World would be performed by appointed private sector players comprising of a Project Implementation Manager and State Implementation Managers.

Project Implementation Manager:

The Project Implementation Manager shall be responsible for supervising the State Implementation Managers. The Project Manager would be a consortium of consulting firms in the fields of

1. Accounting;
2. Procurement & Monitoring & Evaluation Specialist;
3. Marketing Specialist; and

iv) Agricultural Economics; The main role of the Project Implementation Manager is to manage field operations relating to Commodity Purchases, Storage Grading, and advice on Marketing. The PIM shall also be responsible for effectively managing the work of the State Implementation Managers who would be reporting directly to the PIM.

The appointment is for an initial period of 5 years subject to the terms and conditions of appointment of the Project Implementation Manager and the detailed scope of work as contained in the Appendix to this report.

**State Implementation Managers**:

The State Implementation Managers shall be appointed for each of the States of Nigeria. Each State Implementation Manager would be a consortium consisting of the following professionals:

1. Agricultural Economist
2. ii) Marketing/Procurement Specialist
3. iii) Accounting/finance specialist

The State Implementation Managers will be appointed for an initial period of 3 years and may be renewed after satisfactory assessment of performance.

The appointment is for one year subject to the terms and conditions of appointment of Local Buying Agents and the detailed scope of work as contained in the Appendix to this report.

Local Buying Agents: To minimize the burden on farmers having to transfer or move their products over long distances to the market, EAE LTD shall appoint Local Buying Agents (LBAs) in agric commodity producing areas within the length and breadth of the States of Nigeria. LBAs could be Cooperatives, Companies and Enterprises, or Individuals. The LBAs shall be responsible for the procurement of specified agric produce for EAE LTD at pre-agreed prices and quality standards.

The appointment is for one year subject to the terms and conditions of appointment of Local Buying Agents as contained in the Appendix to this report.

**SIM: State Implementing Manager LBA**: Local Buying Agent

Operational Coverage

Enenche’s Agro-World Enterprise Ltd is to operate in all Nigerian states covering as many as possible.

Operational Headquarters It is recommended that the operational headquarters of the company shall be located in Kano due to the following reasons:-

1. Kano as the commercial nerve center of Northern Nigeria, has the highest number of Agro-allied industries in the region. It would therefore, provide the management of the company a shorter time, easier and personal contact to some of these agro-allied industries to facilitate the marketing of the company’s products.
2. Kano also hosts the highest number of transportation and haulage companies in Northern Nigeria. Even though the company would utilize the services of transporters from all over the region, its location in Kano will provide an added advantage in coordinating and fast-tracking the transportation needs of the company.
3. The famous groundnut pyramids were associated with Kano. If the company is located in Kano, the nostalgia of the pyramid days and the famous groundnut merchants will assist the young company find its feet quickly.
4. Kano has the oldest and busiest International Airport in the Northern part of Nigeria. For perishable products of EAE Ltd, air transportation would have to be used. Certainly Kano would be the best hub for exporting these commodities by air transportation; besides facilitating easy reach for interaction between the local and international business community.

**Commodity Coverage**

All Cash and Food Crops produced in Northern Nigeria but varying from time to time according to exigencies of the market. Examples include: Soya Beans, Sesame Seeds, Groundnut, Maize, Rice, Cassava, Ginger etc.

**6.3 Crops Selected**

***SESAME SEEDS Domestic Scenario***:

Sesame seed is one of the oldest cultivated oil seeds in the world and is highly tolerant to drought-like conditions. Nigeria is one of the world’s largest producers of the crop. Other major producers of sesame seeds are Ethiopia, Burma, Sudan, Mexico, Venezuela, Turkey and Uganda. Sesame has high oil content. With a rich, nutty flavor, it is a common ingredient in cuisines across the world. The world harvested about 4.8 million metric tonnes of sesame seeds in 2013.

Product Varieties: There are two types of sesame seeds in Nigeria; the white and black sesame seed. Both verities are widely accepted in Nigeria.

* Agro-Ecological Conditions: The growth of sesame is intermittent as the plant continues to produce leaves and flowers so long as the weather permits. Weighing roughly one ounce each, seeds of higher colors are considered of higher quality. Sesame is drought tolerant though not tolerant of water logging.
* Commercialization: Industrial processing and utilization of sesame seeds have not been fully developed in Nigeria. However the product is locally processed and utilized in various forms. Oil is also extracted from the seeds. The major commercial concern of sesame however, is export. The product has a lucrative export market.
* Price: Sesame seed wholesale prices have exhibited high intra and inter year variations over the last few years, reflecting domestic supply and periodic trends of global demand and supply situation.

***MAIZE Domestic Scenario:***

Maize is a cereal crop that has gain popularity in Northern Nigeria. It is widely cultivated in almost all parts of the region within varying agroecological environments. It is said to be introduced to Africa in the 1500s and since assumed the position of African’s dominant food crop. Product Variety: Different variety of maize exists. The popular varieties of maize in Northern Nigeria are the white, yellow and red varieties. They vary in texture, grain shapes and sizes. The grains are rich in vitamins A, C and E, carbohydrates, essential minerals and contain about 9% of protein. They are also rich in dietary fiber and calories which are good source of energy. Agro-Ecological Condition: Maize is cultivated mainly in warm and humid soil moistures. It is generally planted in late May or early June depending on which part of Northern Nigeria. In the Southern part the rains arrive early.

***Domestic Production***: According to NAERLS crop production estimate, Nigeria harvested 5.7million hectares of maize in 2014, the highest producer in the subSaharan region. Maize production is mainly a Northern Nigeria activity.

***Domestic Trade***: in general terms production of maize in Northern Nigeria is from smallholder subsistence farmers. Supply generally for consumption with surplus for sale. However, commercial maize production has started gaining ground in Northern Nigeria. Market participants in maize trading include farmers, retailers, buying agents etc.

***Global Scenario***: Growing demand for food in most developing countries is the key factor in driving price of maize to higher prices. Moreover, most food processing industries have expended their capacity utilization to meet the increasing demand of their products.

These factors have contributed in raising the volume of export of maize from Nigeria.

Prices: In Northern Nigeria, prices of maize are generally low with astronomical rise after the post-harvest season.

**COWPEA Domestic Scenario**:

Cowpea is one of the most economically important legume crops grown in arid zone and Savannah regions of Nigeria. All part of it are useful even the leaves which can produce 9 time the calories, 15 times the protein, 90 times the calcium and thousands of times more vitamin C and beta-carotene of cowpea seed. The crop is cultivated both as food and cash crop. It is a popular food crop in most parts of Nigeria.

Production varieties: Mainly two varieties (the white and red) cowpeas are cultivated in Northern Nigeria. Both varieties are popular for consumption and export.

* Agro-Ecological Condition: White cowpea is grown throughout west and central Africa, its adaptation to draught makes it especially important for the Sahel. Overall, three man production zones can be identified; primary zone lying state between 300 and 1000mm annual rainfall; a secondary zone between 1000 and 1400mm rainfall; and a tertiary, zone above 1400 annual rainfall. There are typical Agro-ecological conditions in Northern Nigeria. Domestic Production: Nigeria is the largest producer of cowpea worldwide, as 58% of worldwide production comes from this country. Yet Nigeria is still the largest consumer of the crop. To supplement our production, substantial amount come into Nigeria from neighboring countries. In 2014 the volume of cowpea production in Northern Nigeria is 1, 397 Million tons. It is a crop that smallholder farmers grow mostly for commercial purposes. Global Scenario: About 5.4million tons of dried cowpeas are produced worldwide from 11 million hectares, Africa produces nearly 5.2million. In West and central Africa cowpea grain are primarily in demand for human consumption. Variety of dishes is produced using cowpea. It is also of high export value worldwide where 2.4billion USD worth of cowpea was sold in 2010.
* Price: Generally the price of cowpea shows a rising trend. Quality of grain, time of selling, transactions cost (transport, storage and market tools and taxes) and sales location are the determining factors in the prices of cowpea.

**CASSAVA Domestic Scenario:**

Cassava is the third largest source of food carbohydrates in the tropics, after rice and maize. Cassava is a major staple food in the developing world, providing a basic diet for over half a billion people. It is one of the most drought-tolerant crops, capable of growing on marginal soils. Nigeria is the world's largest producer of cassava, while Thailand is the largest exporter of dried cassava.

* Production Varieties: Cassava is classified as either sweet or bitter. Like other roots and tubers, both bitter and sweet varieties of cassava contain anti nutritional factors and toxins, with the bitter varieties containing much larger amounts. They must be properly prepared before consumption, as improper preparation of cassava can leave enough residual cyanide to cause acute cyanide intoxication, goiters, and even ataxia or partial paralysis. The more toxic varieties of cassava are a fall-back resource (a "food security crop") in times of famine in some places. Farmers often prefer the bitter varieties because they deter pests, animals, and thieves.
* Agro Ecological Conditions: Nineteen million hectares of cassava were planted worldwide in 2007, with about 63% in Africa. Cassava requires less labor than all other staple crops (21% in working days as compared to maize, yam and rice). However, it requires considerable postharvest labor because the roots are highly perishable and must be processed into a storable form soon after harvest. Roots can be harvested within six months after planting. Many varieties contain a substance called cyanide that can make the crop toxic if inadequately processed. Various processing methods, such as grating, sun drying, and fermenting, are used to reduce the cyanide content.

Cassava undergoes postharvest physiological deterioration, or PPD, once the tubers are separated from the main plant. The tubers, when damaged, normally respond with a healing mechanism. However, the same mechanism, which involves coumaric acids, initiates about 15 minutes after damage, and fails to switch-off in harvested tubers. It continues until the entire tuber is oxidized and blackened within two to three days after harvest, rendering it unpalatable and useless. Domestic Production: Nigeria is the highest cassava producer in the world ahead of Brazil, Thailand and Indonesia. Current production estimate is 38million tons per annum, a figure expected to double by 2020. Although the world leader in cassava production Nigeria is not an active participant in cassava trade in international market because most of our cassava is targeted at the domestic food market.

**Global Scenario**: World production of cassava root was estimated to be 184 million tons in 2002, rising to 230 million tons in 2008. The majority of production in 2002 was in Africa, where 99.1 million tons were grown; 51.5 million tons were grown in Asia; and 33.2 million tons in Latin America and the Caribbean, specifically Jamaica. Nigeria is the world's largest producer of cassava, producing 46 million tons in 2007. However, based on the statistics from the FAO of the United Nations, Thailand is the largest exporting country of dried cassava, with a total of 77% of world export in 2005. The second-largest exporting country is Vietnam, with 13.6%, followed by Indonesia (5.8%) and Costa Rica (2.1%). In 2010, the average yield of cassava crops worldwide was 12.5 tonnes per hectare. The most productive cassava farms in the world were in India, with a nationwide average yield of 34.8 tonnes per hectare in 2010.

No continent depends as much on root and tuber crops in feeding its population as does Africa. In the humid and sub humid areas of tropical Africa, it is either a primary staple food or a secondary co-staple. In Ghana, for example, cassava and yams occupy an important position in the agricultural economy and contribute about 46% of the agricultural gross domestic product. Cassava accounts for a daily caloric intake of 30% in Ghana and is grown by nearly every farming family. The importance of cassava to many Africans is epitomized in the Ewe (a language spoken in Ghana, Togo and Benin) name for the plant, agbeli, meaning "there is life". Commercialization: In many countries, significant research has begun to evaluate the use of cassava as an ethanol bio fuel feedstock. Under the Development Plan for Renewable Energy in the Eleventh Five-Year Plan in the People's Republic of China, the target is to increase the application of ethanol fuel by non-grain feedstock to 2 million tons, and that of biodiesel to 200 thousand tons by 2010. This will be equivalent to a substitute of 10 million tons of petroleum. As a result, cassava (tapioca) chips have gradually become a major source for ethanol production. On December 22, 2007, the largest cassava ethanol fuel production facility was completed in Beihai, with annual output of 200 thousand tons, which would need an average of 1.5 million tons of cassava. In November 2008, China-based Hainan Yedao Group reportedly invested $51.5m (£31.8m) in a new bio fuel facility that is expected to produce 33 million US gallons (120,000 m3) a year of bio ethanol from cassava plants.

**GINGER**

**Domestic Scenario**: Ginger (Zingiber Officinale) is a commodity that is highly valued in international markets for its aroma, pungency and high oil and Aleoresin content.

Nigeria is the third largest exporter of ginger in the world after China and India. Most of the dried ginger that are available for international trade are simply sun dried over a few days, but artificial drying is also used in area lacking a defined dry season to coincide with the harvest.

**Product Varieties**: Ginger is in three {3} forms namely fresh {green} ginger, whole dry ginger and split dry ginger. The fresh ginger refers to the newly harvested ginger with little or no lost in moisture content. This type of ginger is not in hot demand in the international market because of the length of time it takes for the product to dry up and use in production.

Dry whole and dry split ginger are the most sorted after gingers in the international market with whole dry ginger commanding higher price because of the longer time it takes for the product to get dry and ready for sales. The type of ginger grown in Nigeria is the yellow type which possesses harsh pungent and very strong odour.

**Commercialization**: The export markets for ginger include the United Kingdom, Germany, Spain, Netherlands, France, United States of America, Russia, Saudi Arabia among others. Global Scenario: In 2013, with a global production of 2.1 million tons of ginger, India accounted for 33%, followed by China (19%), Nepal, Indonesia, and Nigeria.

**Agro Ecological Conditions**: The easiest way to get started growing ginger root is to get a few fresh rhizomes of someone who does grow ginger, at the time when the plant re-shoots anyway (early spring). Otherwise just buy some at the shops at that time. The best planting time is late winter/early spring (late dry season/early wet season, in the true tropics). Make sure you select a spot where the plants get plenty of light but no direct sun, and where they are protected from wind. The rhizomes dried to between 10 and 12 per cent moisture content. Dried ginger is usually presented in a split or sliced form. Splitting is said to be preferred to slicing, as slicing loses more flavour, but the sliced are easier to grind and this is the predominant form of dried ginger currently in the market. Harvest: harvesting of ginger starts from October and normally continues until April/May. This largely depends on the market situation as ginger can be left on the ground (not harvested) for two years. Prices: Export **Price**: The export free-on-board price of ginger ranges from USD (2,250/MT – 2600/MT) depending on the type and form in which the ginger is packaged and also the negotiation made with the buyers.

**Local price**: The local price of dry split ginger deliver to Lagos from kafanchan in Kaduna state varies from N250,000 and N300,000 per M.ton.. RICE Domestic Scenario: In Nigeria, rice (grown on 1.77 million ha) ranks sixth after sorghum (4.0 million ha), millet (3.5 million ha), cowpea (2.0 million ha), cassava (2.0 million ha) and yam (2.0 million ha), but if placed on a social scale, it can as well be ranked first because it is no longer just a mere festival meal, but the staple of most homes in urban and rural areas.

**Product Varieties**: The two commonly cultivated varieties of rice in Nigeria are Oryza Sativa and Oryza glabberima Indigenous red grain specie (Oryza glaberrina) include; Fadama rice, Upland rice, Lowland rice. Agro- Ecological Conditions: Rice grows mainly in the Niger-Benue through which divides Nigeria into three parts, Sokoto-Rima Basin in the north-west, Chad Depression in the north-east, Hadejia-Jamaare trough in the extreme north, and Cross River trough in the south. Nigeria has tremendous potential for the production as rice as it can be grown in every ecological zone.

**Domestic Production**: Farm size scale ranges from 1.1 to 5 hectares while only an insignificant percentage cultivate between 5.1 – 10 hectares. The land mass used for rice cultivation increased from 150,000 hectares in the 1960s to about 1.8 million hectares currently. More than 90% of rice is produced by resource poor small-scale farmers and about 95% of processors are small-scale using low capacity and obsolete mills. This scenario however is beginning to change in the last two years as large rice mills are now being set up all over the country.

**Global Scenario**: Nigeria, which is the largest producer of rice in West Africa and the third in Africa after Egypt and Madagascar producing about 3 million metric tons on the average annually, falls short of meeting its local demand which is placed at about 5 million tons. This particular statistic makes her the highest consumer of rice in the West African sub region and the second largest importer in the world, buying at least 2 million tons annually. On the average, Nigeria spends 1 billion Naira on rice importation daily (that’s a grueling 365 billion Naira annually). Prices: Local price of the commodity has risen from N9,500 to N18,000 for 50kg bag of the big seed rice over the course of last year (2016) and has remained around that price range till date due to deficit in supply.

**GROUNDNUT**

**Domestic Scenario:** Groundnut is grown on a large scale in almost all the tropical and subtropical countries of the world. Before the fossil oil boom, groundnut was one of the major sources of revenue and foreign exchange earnings in Nigeria. Between 1956 and 1967, groundnut was the country’s most valuable single export crop, exemplified by the famous Kano groundnut pyramids. Nigeria is the fourth largest producer of groundnut in the world.

**Product Varieties**: The recommended varieties of groundnut for all the agroecologies in Nigeria are; Samnut 10, Samnut 21, Samnut 22, Samnut 24, Samnut 25 and Samnut 26.

**Agro- Ecological Conditions**: Groundnut is essentially a tropical plant. It requires a long and warm growing season. The most favorable climatic conditions for groundnuts are a well-distributed rainfall of at least 50 centimeters during growing season, abundance of sunshine and relatively warm temperature. It seems that the plant grows best when the mean temperature is 21°C to 26.5°C. Lower temperatures are not suitable for its proper development. During the ripening period, it requires about a month of warm, dry weather. The crop is mainly grown in the northern part of Nigeria. These states are Kano, Katsina, Kaduna, Jigawa, Sokoto, Zamfara and Kebbi in the Northwest; Adamawa, Bauchi, Yobe and Borno in the Northeast; and Benue, Plateau, Taraba, Nasarawa, FCT Abuja, Kogi, Niger and Kwara in the Central Zone. The major Groundnut producing areas of Nigeria and their production levels are shown in the chart below.

**Domestic Production**: Nigeria is the fourth largest producer of groundnut in the world and the highest producer in Africa with 1.55 million metric tons.

**Commercialization**: Being a labor-intensive crop, it generates employment for the rural poor. Groundnut contributes to 23% of household cash revenue.

**Global Scenario:** Nigeria is the largest groundnut producing country in West Africa, accounting for 51% of production in the region. The country contributes 10% of total global production and 39% that of Africa. About 48% of the world output is for food uses and 52% is crushed, producing groundnut oil and cake. Consumption patterns vary widely from country to country. Prices: The local price varies a lot significantly from one seller to another, while the export price has stayed relatively at the range of $1,500.00 - $2,800.00 per ton.

**SOYA BEANS**

**Domestic Scenario**: Soya beans are species of legume widely grown for its edible beans. The plant produces more protein per acre than most other crops. It is therefore a cheap source of protein for both human consumption and animal feed. Soybeans are grown in all the states of Northern Nigeria. It is considered a highly versatile grain with a lot of application for both human and industrial purposes. Subsequently it has a very high demand especially for commercial uses in confectionaries and animal feed industries.

**Domestic Production**: Nigeria is the largest producer of soybeans in the Sub-Sahara Africa. It provides about 30% of the requirement of animal feed industries in Nigeria. The annual industrial demand of soya beans in Nigeria is about 2,270,700 tons. Commercialization: Prices of soya beans are usually dictated by market forces of demand and supply. The Return on Investment (ROI) on soya beans trade is put at about 12% to 25%. The major producing areas of Soya beans in Nigeria and their production levels are shown in the chart below.

**Global scenario**: There is a global demand for soya beans. Market analysis has observed that Chinese soya beans imports demand is the reason for the high world soya beans market prices. The demand for soya beans has consistently been rising since 2006-2007.

**7.1PROCUREMENT STRUCTURE**

The EAE Ltd proposed procurement system will begin with the appointment of local buying agents and the establishment of assembling and collecting points to be located in selected strategic rural areas close to the producers of the selected commodities.

These appointed local buying agents will be authorized to buy the selected commodities at agreed grade/standards from farmers on behalf of the company. The EAE Ltd will be responsible for setting uniform prices for the selected commodities at the various assembling and collection points. These agents would operate in rural areas and penetrate the remotest place to purchase the commodities.

7.2 **PRODUCTS GRADING AND STANDARDIZATION** EAE LTD will develop strict measures of quality for products. Quality grading will be based on the standards developed for each product which will be duly communicated to farmers ahead of harvest. Quality grades provide a common language among buyers and sellers, which in turn assures consistent quality for consumers.

The company’s appointed local buying agents will be authorized to buy the selected commodities at agreed commodity grade standards from farmers.

Substandard crops will not be taken-off the farmers. Additionally, Management will maintain strict supervision of the crops received from Private Agents and Brokers.

***Crop Drying, Cleaning and De-stoning System*** Crops usually may not be dried to standards and may also contain unwanted particles, stones and other foreign objects. For competitive marketing, there is need to make sure the crops are dried to the required moisture level, cleaned, and de-stoned to meet the required commercial standards. To effectively do these, robust machineries from Alvan Blanch Group of the United Kingdom have been identified for purchase and use by EAE Ltd at its collection and storage centers.

Alvan Blanch Group has been in operational existence for the last 65 years with headquarters in the UK, and long-term market presence and market understanding of Africa for over 50 years. The company offers first class support through its Africa technical office based here in Nigeria. In its 60th year in business in 2012, the company was awarded the Queens Award for Enterprise: International Trade.

Alvan Blanch is offering EAE Ltd a wide range of fuel efficient continuous flow driers, cleaning and de-stoning plant for use on Sorghum, Rice, maize, Groundnut, Soya Beans, Cowpea and other crops. Each plant can handle from 25 ton/day (drying and cleaning) up to 75 ton/day (cleaning only). The plant is designed to fit a simple warehouse with flat concrete floor (on pits) and the package includes all supporting steelwork. The different steps involved in the process are: - A Magnet is used for removing tramp metal 150mm; - An Aspirator is used for removing light trash; - A Rotary Cleaner is used for removing large and small impurities. The system also comes with: - A Destoner DS3 used for removing stones, mud balls etc. by specific gravity differentiation; - A Reserve Hopper is used for providing reserve of grain before bagging 500kg;

- A Sacking system; accurately weighting, conveying and stitching sacks. A Floor Scale is used for weighing bags up to 100kg. The entire system design provides flexibility and convenient operation, while avoiding unnecessary over-complication.

EAE Ltd at the outset intends to procure and install 3 large Alvan Blanch complete crop/grain drying, cleaning and de-stoning plants, 1 in each of the six geo-political zones of Nigeria; and another 19 medium sized plants to be installed one in each of the nineteen northern states. More of these similar plants will be installed in subsequent years by EAE Ltd until all crop producing areas of the States are adequately covered. The cost implication of this infrastructure is given in the Financial Projections chapter of this report. In addition to its own plants, EAE Ltd will avail itself of the use of the 25 Alvan Blanch plants recently acquired by the Federal Ministry of Agriculture and Rural Development in Nigeria for its GRAIN AGGREGATION CENTRES to be set up throughout the country under the first phase of a programme to encourage crop production and reduce post-harvest losses by providing local distribution points where grain can be received, dried, cleaned and safely stored.

**7.3 STORAGE INFRASTRUCTURE AND WAREHOUSE MANAGEMENT** An inherent characteristic of agricultural production is that it is seasonal, whilst demand is generally continuous throughout the year, hence the need for storage to allow a smooth, and as far as possible, uninterrupted flow of products into the market. Thus, Storage is an important marketing function that involves preserving commodities from the time of production, to when they are needed for consumption. It is estimated that in Nigeria, each year between 25 and 40% of stored agricultural products is lost because of inadequate storage facilities. Thus, Storage Bags, Warehouses, Silos and Stores are critical complementary storage items and infrastructure to any commodity marketing entity in order to conserve the quality of products over long term storage, keep the products dry and cool, and protect them against insects, fungi, rodents, domestic animals and thieves.

***Storage Bags***: Jute Fibre Bags/Sacks: Jute ranks next to cotton as a natural fibre. Bags made from Jute have a number of advantages. They are organic, biodegradable, renewable, sustainable, durable, and printable.

***Additional advantages include the following***: The product put in a jute bag can have a slightly higher moisture content than when put into airtight storage, provided the sacks are stacked in such a way that air can move through the sacks for continued drying and cooling. The sacks also allow gasses to pass through and therefore insects may be controlled by using fumigants in a closed room or underneath a plastic sheet covering the stack.

The main disadvantage is that jute fibre sacks do not give much natural protection against insects, rodents, fungi and moisture. They are also easily damaged during transport and handling. The cost of these bags in Nigeria is much more expensive than bags from other materials due to high importation cost of the finished bags, or the fibre raw materials for local bag production. Besides, the few local jute bag manufacturers in Nigeria are almost extinct or comatose and hence unable to meet local demand. Jute bags are suitable for: cereals, pulses, oil containing crops, potatoes etc. Storage time: up to a year, depending on conditions.

***Woven Polypropylene (Plastic) Bags/Sacks***: Woven Polypropylene (PP) sacks are the toughest plastic packaging products ever. Durable, cost effective, economic, anti-tear, anti-slip, they are widely used for packaging many dry goods, also convenient for storage and transportation. Although Polypropylene sack is lightweight, it also represents a surprising amount of strength and durability. PP Woven bags are tear resistant, minimizing or eliminating product loss and waste. Most suited for storage of farm produce in humid and dry tropics such as Nigeria. An added advantage of PP sacks is that it is transparent making the product visible, which makes checking the contents easier. The costs of PP sacks are also cheaper than fibre woven sacks in the Nigerian market, and thus is the recommended bagging material for EAE Ltd commodity storage Suitable for: Maize, Rice, Sowing seed, cereals, pulses, groundnuts etc. Storage time: 6 - 9 months;

***Purdue Improved Commodity Storage (PICS) PP Bags/Sacks***: Of recent, an improved form of PP sack has been developed called the Purdue Improved Crop Storage (PICS) bags. The Purdue Improved Crop Storage is a three-bag, non-chemical hermetic storage system that limits the reproductive capacity of cowpea weevils that consumes grain after harvest. The bag which comprises of two inner High Density Polypropylene bags was developed by Purdue entomologist, Larry Murdock.

PICS bags are more effective than other bags because they are made of 80 micron-thick, high-density materials. They are also more cost-effective and easy to use, which makes them an improvement upon storage insecticides, which could be misused to harmful effect. The bag is simple, convenient, and affordable and protects grains from insect-pests. It controls insect-pests, through depletion of oxygen without the use of pesticide. The bag can be used for a variety of crops such as maize, cowpea, sorghum, rice etc. The size of the bag is 80cm x 130cm which can store up to 100kg of maize for 3 seasons. PICS bags are now used on a large scale in 10 African countries with support from the Bill & Melinda Gates Foundation.

Warehouse Storage Warehouses are scientific storage structures especially constructed for the protection of the quantity and quality of stored products. In the context of EAE Ltd operations, 'stored products' primarily refer to bagged grains. Warehouses are generally of three types:

1. Private warehouses: These are owned by individuals, large business houses or wholesalers
2. Public warehouses: These are owned by government or government departments
3. Bonded warehouse: These are warehouses constructed at seaports or airports.

All the above 3 types of Warehouses would be required by EAE Ltd for efficient operations. To this end, EAE Ltd will identify suitable warehouses and store facilities located in major towns, villages, commodity markets and agric commodity producing areas across the 19 Northern States and at export exit points, such as Lagos, for long term rent / lease.

Silos Storage A grain silo is part of the storage infrastructure created to store commodity materials in bulk loosely. Modern Commodity Silos are usually tall and cylindrical and come in varying capacity sizes. Silos are most suitable for: cereals and pulses and could store commodities for over a year. In Nigeria most of the Grain Silos are owned by the Federal Government, with a few owned by the State Governments, and are spread across different locations in the country.

EAE Ltd plan’s is to acquire the use of existing sealed aerated grain storage silos on a long term concession from Federal and State Governments of Nigeria to optimize the Company’s long term grain storage facility investment and maximize harvest efficiency. EAE Ltd will commence discussion with the Federal Ministry of Agriculture and the Infrastructure Concession Regulatory Commission to acquire the use of some of the ministry’s silos in the major commodity markets and agric producing areas across the States.

**7.4 THE PROPOSED STORAGE SYSTEM** EAE Ltd would operate an integrated storage system from the receipt of commodities on the basis of industry-accepted grades and standards, for each traded commodity by type, to the ultimate delivery to customer on sale of the commodity. Commodities would be brought to the EAE’s Storage Facilities (warehouses, silos, stores etc) located across the States by LBAs. At these storage facilities, commodities would be sampled, weighed and graded using state-of-the-art technology grading and weighing equipment. The Weighing, Receiving and Issuance of commodities would all be linked to EAE Ltd Inventory Management System.

Once goods have been received by the EAE Ltd Storage facilities, an Electronic Goods Received Note would then be issue to the LBA or his/her representative, which will automatically initiate the payment process for the commodities received direct to the LBA's bank account. All EAE Ltd storage facilities would be equipped with both simple mechanical scale as well as platform scales, with enough scales to permit for normal flow of products into the warehouse. Portable Full Length Truck Scales would also be deployed. These scales are:

• Lightweight, easily moved from one site to another;

• Fast twist lock connections, no special tools needed;

• Easily transported;

• No civil works required;

• All lengths available;

• Steel Ramps;

EAE Ltd would adopt (in all its Storage facilities) global standards of inventory management which rely on First-In-First-Out principles, rotation, and careful environmental control. The system would generate daily stock position reports to be circulated to EAE Ltd Head Office, the Project Implementation Manager, and State Implementation Managers.

Commodities once taken into custody at the EAE LTD storage facilities must be properly handled involving amongst other things: store layout, stacking, bin no allocation etc. Also to be put in place is a Reporting system and formats for upto-date information exchange between Storage Facilities, EAE LTD Head Office, Project Implementation Manager and the State Implementation Managers.

To hedge against potential risks of fire and theft, all EAE LTD storage facilities would be insured at maximum risk coverage to protect against losses. A 24 hour Surveillance system using CCTV cameras would be put in place in all EAE LTD Storage facility centers.

Periodic surprise and unannounced visits by staff of the M&E department of EAE LTD and the Project Implementation Manager would be undertaken. Each of these M&E visits would involve the following elements:

* Verification of sampling and grading process at all NNCMC storage facilities;
* Spot tests of sampling, weighing, and the grading process;
* Spot tests at loading and unloading of commodities;
* Verification of laboratory tests on commodities;

7.6 **ADDITIONAL OPTIONAL INFRASTRUCTURE REQUIREMENTS**

***On-site office and sampling sheds*** An on-site office is ideal for keeping records and samples of stored grain. It can house expensive, sensitive testing equipment and be used as a crib-room for drivers and employees. Portable site offices are a common choice as they can be fitted with air-conditioning and are often pre-wired for electrical outlets. As a minimal alternative, an on-site cabinet for load documentation and records will ensure hard copies of silo contents and load specification details are kept on site.

***Dump pits*** Dump pits can be installed in combination with paddle or drag conveyors to quickly and easily take and elevate grain to load silos. Staff will carefully cover dump pits when not in use to keep water out and keep pits and surrounding areas clean to minimize contamination and spoilt grain.

***Elevators and Conveyors*** EAE LTD will explore numerous options for shifting grain from the central receiver and out loading point.

***Weighbridges*** Weighbridges can be incorporated into the silo’s load-and unload loop with effective installations providing readouts for the driver when approaching from both sides. A weighbridge, fully installed will add a cost of about €26,807 to the facility.

**Cleaning and facility maintenance equipment** Maintaining good site hygiene is easier with quality hard surface. Concrete pads are essential for silos to sit on but extended aprons can also assist cleaning spilt grain from loading and unloading. Common grain trap points include dump- pits, drainage or aeration channels and around silo bases. It is important to clean all grain off the site on a regular basis to avoid harboring insects, which may infest stored grain.

**Water Point** The Water point must be accessible for washing out silos after they are emptied. Grain vacuums are popular with owners of flat-bottomed silos to remove residual grain where sweep augers have not been able to reach.

**Facility earthworks** When determining the requirement for earthworks, EAE LTD will always allow a buffer around the pad for construction-vehicle movement. Raised pads are most common as they minimize the potential for water damage to the facility and stored grain. The height of the pad will typically vary according to the overall topography of the site relative to the landscape but 500mm above average topographic level is not uncommon.

**Sampling Spears** Sampling spears are designed to take a representative sample of the load and are best mounted on an elevated platform

 **Drainage** In addition to maintaining a raised firm pad for the storage facility, we plan for drainage to handle and direct run-off away from the pad. In some cases the natural topography of the site may assist free drainage while on flat sites, drainage channels may have to be formed to carry water away from the site. A well-designed pad for transportable cone-bottom silos will ensure water does not pool near the base structure, which can quickly rust out.

**Lighting (Power Generation) Loading and out-loadin**g is often carried out well into the night and thus effective lighting not only makes the job easier for drivers but also improves safety at the site. Efficient and robust forms of lighting, including LED, are suitable choices for short-throw requirements. EAE LTD will invest in Solar Power Generation from Inception to manage the Silos Aeration Controller placement and also provide power to other machineries, equipment and operations generally.

**8.0 MARKET AND MARKETING STRATEGY**

One of the key success factors of any commodity marketing entity is its ability to dispose the commodities procured by it at an appropriate time, at an appropriate price, through an appropriate channel that will yield a profit. For EAE LTD, three marketing channels for sale of its commodities have been identified as follows: - Domestic Market (public consumption, & agro-allied industrial usage); - Export Market; and Both the domestic and export markets can also be accessed through: - Commodity Exchanges.

**8.1 Domestic Market (Public Consumption) Open Markets:** Nigeria's huge population of about 170 million people widely dispersed across the country from Agric-rich region of the north, to the not so Agric-endowed region of the south is an enough market for EAE LTD facilitating this inter-regional flow of these commodities.

Nigerian cities are also growing very fast, and will need to be supplied with food. Much of the incremental demand will have to be supplied from the cities’ hinterland. Nigeria's current annual import bill for foodstuffs such as rice, wheat, sugar, fish etc is said to be over =N=1 trillion according to government statistics (2015). There's thus a huge domestic market that will serve as off-take for EAE LTD procured commodities. This Domestic Market would be accessed directly via distributors, wholesalers and large retailers in the traditional open air markets. The nature of demand in the domestic market is also changing, with consumers demanding more in terms of grades and standards which only organized commodity marketing entities such as EAE LTD can meet.

***Structured Demand***: Another important segment of domestic consumption is structured demand from large buyers such as the Government. Large buyers like the Government can help commodity marketing entities such as EAE Ltd take-off, grow and be sustainable over the long run. Colombia provides a good example of how large buyers can help commodity entities to grow. Government rules mandate that all public entities (from municipalities, to the army, to schools, and prisons) have to buy bulk commodities, above a certain value, through the country’s commodity exchange. This eliminates procurement-related corruption and reduces the costs for the buyers – and probably, also leads to better prices for producers.

For EAE Limited, structured demand from the Government will be a targeted opportunity that will be vigorously pursued by executing off-take agreements with the Federal, State Governments for their programs such as: Strategic Grain Reserves, Individual State Food Security Initiatives, School Feeding programs, Emergency Relief Assistance, etc. The Schools Feeding Program of the Federal and State Governments, for example, will be a major market outlet for the proposed EAE Limited. The Federal Program alone envisages feeding of 5.5 million school children daily. The quantum of food stuff required for this program and the logistics of its provision in all the targeted locations can best be imagined. Only a structured supplier would be able to ensure the attainment of the government's goal.

 **Domestic Agro-allied Industries**: Agric produce are the major raw materials for the agro-allied industries, from the oil mills, to the flour and feed mills, to the textiles, breweries, confectioners etc. Nigeria has a rich collection of these industries, some of them, major conglomerates. Although over the last two decades, over 70% of these industries have been made dormant due to a variety of reasons (including shortage of raw materials) the sector is still in constant need of locally available raw materials most especially in these days of serious Foreign Exchange scarcity in the country. Thus, the domestic agro-allied sector would be an important marketing outlet for EAE Ltd Limited via off-take contracts with individual agro-allied industries.

**8.2 Export Market** The exportation of cash crops is central to the business model of the New Nigeria Commodity Marketing Company, especially in these days of weaning the Nigerian economy from reliance on crude oil sales as the main source of foreign exchange for the country. Global food demand is rising sharply, including right here in Africa. There are large opportunities for agricultural commodities trade in Africa, and most of these opportunities lie in national and regional trade. According to a 2005 estimate, the value of the market for Africa’s traditional export commodities, such as cocoa, coffee and cotton, is projected to increase from US$8 billion in 2000 to US$10.5 billion in 2030 (in constant dollars). The markets for high-value exports (e.g., flowers, fruits, vegetables) would increase from US$3 billion to US$10 billion. However, the African urban market for food was expected to grow from US$50 to US$150 billion.

The rapid growth of urban demand should be seen in the light of rapid urbanization of the continent. From 2010 to 2025, the population of ten large African cities, such as Lagos, Abidjan, Dar-es-Salaam and Kinshasa, is expected to grow by more than 50 per cent. In 2025, there will be 18 cities in Africa with more than 2 million people. Half of Africa’s fast-growing population will live in cities, up from a third now. Africa is already a large net importer of food which is used to feed its cities.

This trend in Africa is the same across the other continents and regions. For example, in the GCC region where food import is 90%, food consumption is predicted to expand at a Compound Annual Growth Rate (CAGR) of 3.1% over 2012 - 2017; Per Capita food consumption in the region is said to reach 983kg by 2017. The good news for Africa is that with the exception of the continent and countries such as Nigeria, about 80% of land suitable for farming is already in use in most parts of the world. Thus, there is huge potential for Africa in general, and Nigeria, in particular to export food to the rest of the world. Here lies the opportunity for organized entities such as EAE Limited. EAE Ltd export marketing will be highly structured and focused on specific buyer groups and prospect. This will necessarily require knowledge-based marketing efforts. EAE Ltd will commission quarterly comprehensive export research to identify marketing opportunities and constraints within individual foreign markets and also to identify and find prospective buyers and customers. Results of this research will inform the company about:

* the products in high demand;
* the largest markets for its products;
* the fastest growing markets;
* market trends and outlook;
* market conditions and practices; and
* Competition.

**8.3 Commodity Exchanges**

Over the long run, domestic and international commodity exchanges would be important outlets for the sale of EAE Ltd stock of commodities. Commodity exchanges cannot overcome the barriers created by government policies, but where such policies permit, they can provide a backbone for regional trade. They can then also act as catalyst for the growth of the industries related to such trade, e.g., transport and other logistics services, information services, and even the financial services needed in regional trade (banking, insurance etc).

The World Food Program (WFP) which is the largest single buyer of food commodities in Africa has started procuring through some of Africa’s commodity exchanges. In September 2008, WFP started a program to increase its procurement directly from smallholders, buying from farmers’ organizations, structured trading systems (commodity exchanges and warehouse receipt systems), small and medium traders and local, well-established food processors if these are procured from farmers’ organizations. Following this, it started buying through exchanges in Ethiopia, Malawi and Zambia, and through warehouse receipts (which are regulated by the Uganda Commodity Exchange) in Uganda; it also buys at Mali’s cereals fair. From its start in September 2008 to June 2012, 17 per cent of WFP’s P4P purchases were through commodity exchanges in Ethiopia, Malawi and Zambia; another 2 per cent was through Uganda’s warehouse receipt system. - (World Food Programme, Summary P4P Procurement Report: Sept 2008 – June 2012).

Thus, commodity exchanges such as the Abuja Securities & Commodity Exchange; Domestic Regional Exchanges (when established); Exchanges in other African countries; and other International Exchanges would all be important marketing outlets for NNCMC Limited's commodities.

**8.4 PUBLICITY AND INFORMATION DISSEMINATION** Information dissemination is an important tool for the creation of an efficient commodity marketing system. EAE Ltd Market Information dissemination strategy would involve harnessing the power of modern information and communication technologies (ICTs) to empower all market actors, with the necessary skills to actively participate in the commodity marketing activities of the company. The key market dissemination channels for EAE Ltd would be Mass Media (TV, Radio, and Newspaper), Mobile Phone Short Messaging Service (SMS), Interactive Voice Response (IVR) service, and the EAE Ltd Website.

Mass Media (TV, Radio, and Newspaper): The main information disseminating channels for EAE Ltd would be the mass media via radio, television and newspaper. Television and Radio program productions form a key platform in Agricultural information dissemination strategy in Nigeria. This is because of their wide coverage and the fact that these media are accessible to majority of Nigerian Farmers. Before and during each farming season, prices and buying procedures would continuously be disseminated via the various media of Nigeria's major language.

EAE LTD also intends to advertise in National Newspapers at the commencement of the project to create awareness to all stakeholders (farmers, agro-allied industries, government, exporters, private traders etc) across the country.

The Mobile Phone Short Messaging Service (SMS) SMS is text messages sent and received via mobile phones. EAE LTD would harness this technology to disseminate market information and intelligence. With one of the highest tele-densities in Africa and wide network coverage across the country, EAE LTD would develop an SMS market information via all of Nigeria's five main mobile phone service providers. This way, the SMS system will allow anyone from anywhere in the country where the mobile phone network exists to easily access in simple, easy steps EAE LTD commodity price offers, physical market prices, commodity related news headlines, weather forecasts, and other relevant market information.

The Interactive Voice Response (IVR) System EAE LTD intends to develop an Interactive Voice Response (IVR) system which will be fully automated telephone based that will allow stakeholders to access price information 24 hours a day, 7 days a week. The system may be accessed using mobile / wireless/ fixed line telephone networks which makes EAE LTD market price information within the reach of stakeholders located in all parts of Northern Nigeria and beyond. The IVR system will feature a voice menu that disseminates EAE LTD price information for the selected Crops of the current market season in English, Hausa, Fulfude, Yoruba, Kanuri, Tiv, Igala, Idoma, Berom and other major languages of Nigeria.

The Website As a standard modern tool of Corporate Communication, EAE LTD shall develop its own web portal where information about the company, selected commodities currently being traded, current EAE LTD buying prices for the selected commodities, list of all LBAs and their locations, list and addresses of SIMs, contact details of the PIM, EAE LTD operating procedures, etc would be presented. A customer complaint section and details of EAE's 'whistle blower' system would also be created and conspicuously shown on the website. The portal would also provide historical data, research, news, graphs, contract specifications and other key information.

**8.5 RISK ANALYSIS AND MANAGEMENT**

Enenche’s Agro-World Enterprise will be exposed to a wide range of Risks. These risks must be identified, professionally assessed, and appropriate measures taken to manage and mitigate them. The selection of an appropriate risk management strategy to address each domain of risk is based on sound understanding of the underlying risk after a comprehensive assessment of it, and a good sense of EAE LTD appetite for risks. NNCMC risks management systems would be designed to protect the following:

• Assets and Properties of the company

• Business Objectives of the company

• Quality of service delivery

• Image and Reputation of the company

• Farmers

• Other stakeholders (LBAs, other commodity buyers, general public, employees)

• Contractual and statutory obligations

EAE LTD risk management strategy would focus on risk avoidance and the identification and management of acceptable level of risks. The company is conscious that it must accept risks in almost every activity undertaken in pursuit of its business objectives. These may range from quantity and quality issues to logistical issues relating to final delivery of commodities to its customers. The Board in conjunction with senior management would periodically define, ratify and review the risk appetite against key drivers of success.

Some of the risks to be managed within EAE LTD domain are:

• Operational risks

• Political Risk

• Credit risks

• Market risks

• Financial risks (Liquidity & Currency)

• Reputation and image risks

**8.6STRATEGIC PARTNERSHIPS & ALLIANCES** The EAE LTD shall collaborate and establish strategic partnerships and alliances with local and international organizations, including development partners, local NGOs, farmer associations and grassroots based organizations that are supporting rural farmers with technical and financial assistance towards enhancing their productivity, quality of produce and income generating capacity.

**8.7 FUTURE PLAN**S

Recall that the vision of EAE LTD is to transform and integrate the economies of the States of Nigeria by linking sectors such as agriculture and solid minerals to transport and logistics, warehouse and delivery centers, manufacturing, banking and financial services in a market information system that reaches the remotest rural areas. For EAE LTD to effectively to do this, the company must consider in the medium to long term extending its business focus to the following areas:

1. Creation of a Regional Agric Micro Finance Bank:- Nigeria's current endemic poverty can best be addressed through the creation of employment opportunities for the populace through the Agric sector. The major impediment to this job creation goal is the absence of needed capital resources in the hands of the people. There's abundance of land, there is abundance of water resources, what is lacking is the capital for these other resources to work. EAE LTD would consider in the medium term, the establishment of a Regional Micro Finance Bank for the each Statento provide interest free but profit sharing agric facilities for the populace. Repayment of the loans could be by way of agric produce rather than cash at the option of the beneficiary farmers.
2. Establishment of a Regional Commodity Exchange for the States:- EAE LTD recognizes that a Commodity Exchange would complement and support the operations of the company as an important platform for the sale and marketing of its commodities. To this end, EAE LTD would partner with interested private sector players to establish a Regional Commodity Exchange for the States of Nigeria.
3. Marketing of Sold Minerals:- EAE LTD should not limit itself to agriculture. The States are blessed with abundant solid minerals deposits and fuels such as Kaolin, Bentonite, Gypsium, Magnesite, Amethyst, Lead/Zinc, Gold, Uranium, Graphite, Mica, Aqua Marine, Ruby, Rock Crystal, Tourmailine, Topaz etc. Ideally, a commodity marketing entity should trade in multiple asset classes, from agricultural to energy and mineral commodities. In the medium to long term period, EAE LTD would consider playing an active role in the development of these mineral resources of Nigeria by organizing this hitherto currently disorganized sector as well as opening up export market for these mineral resources.
4. Promote the Establishment of Agro-allied industries:- The EAE LTD will encourage the establishment of agro-allied industries through the private sector. Local value-addition, before export, is key to maximizing returns and for economic sustainability. The private sector, being the dominant player in the modern economy, would be encouraged and partnered to set up agric produce processing industries across the 19 Northern States.

***8.8 CONCLUSION***

The successful implementation of the foregoing business and operational strategies will position NNCMC to exploit the market opportunities presented by the huge vacuum in commodity trading and marketing with the abolishment of Commodity Marketing Boards in 1986, and enable the Company to operate as a viable, sustainable business.

**9.0 FINANCIAL INFORMATION AND STRATEGY**

**9.1 INTRODUCTION**

This chapter presents the inputs, assumptions, and general parameters that form the basis of the financial appraisal of EAE LTD Limited (“the Company”), as well as the resulting financial projections demonstrating the financial viability of the project. The financial model is designed to cover a 5-year forecast period and to provide a sufficient basis for investment appraisal by the project sponsors and other prospective investors.

***9.1MACROECONOMIC ASSUMPTIONS***

The assumptions adopted in the financial model reflect the prevailing macroeconomic conditions in Nigeria.

***Taxation***

The financial forecasts took into consideration the current Corporate and Education Tax rates on the taxable and assessable profits respectively of companies operating in Nigeria. Based on Nigeria's current tax regulations, the applicable tax regime for EAE LTD Limited will be 30% of taxable profits as Income Tax and 2% of assessable profits as Education Tax. The company will comply with the tax provisions with respect to capital gains and withholding taxes. It is assumed that all set-up costs and other expenses are inclusive of Value Added Tax (5%).

***Reporting Currency & Exchange Rate***

The company’s functional currency shall be the Naira (N) and its financial projections have been prepared in the same currency. An Exchange Rate of =N=305 to US$1; and =N=390 to GBP1 has been assumed in converting foreign currency denominated costs.

**9.3 GENERAL ASSUMPTIONS** Presented below are the assumptions as they relate to the funding of the company, and its dividend policy.

Dividends It is assumed that no dividend will be paid in the first 2 years of operation. However, from the 3rd year, 50% of the profit after tax will be paid out as dividend. The balance after the payment of tax and dividend will be retained as additional capital for future operations of the company.

**9.4 OPERATING ASSUMPTIONS**

Roll-out strategy The timeline for the roll-out of EAE Ltd's full scale operations is assumed to be 1st September 2017 which is commencement of the 2017 Cropping Season. A detailed Implementation Time table is presented in this Business Plan.

Market Share The EAE LTD strategy is hinged on being a niche player in the Commodity Trading industry in Nigeria. Consequently, the NNCMC will seek to gain increasing market share of the market. It is expected that NNCMC market share will grow as it provides quality services to its customers and greater awareness is created of its services.

***Staffing Requirements***

EAE LTDproposed staffing requirement of about 70 people in the first year is based on the organizational structure described in the operating model section. For subsequent years to 2021, staff requirement have been estimated based on projected volume of business (see details in Appendix to this report). In addition, support staff functions such as security men, cleaners, etc will be outsourced.

CROP SELECTION A total of eight crops were selected as pilot crops for EAE’S first 5 years of operations as presented below. The selection criteria used were: availability; ease of storage to minimize risk; contribution to realization of EAE LTD's 4 main objectives of: Foreign Exchange Earnings & diversification of the economy; revival of domestic industries; Stabilization of prices, food security, poverty alleviation; Job creation through the whole value chain

**Crop Purchase Prices (open market**)

The following were the average prevailing market prices of the selected commodities during the 2019/2020 farming season sampled from a number of markets in Northern Nigeria.

|  |  |  |
| --- | --- | --- |
|  | **Price at harvest season** | **Price off-season** |
| **=N= Per M.ton** | =**N= M.ton** |
| Beans | 186,000 | 257000 |
| Groundnut | 100,000 | 200,000 |
| Cassava | 25,000 | 45,000 |
| Sesame seeds | 286,000 | 543,000 |
| Maize | 157,000 | 257,000 |
| Rice | 167,000 | 250,000 |
| cowpea | 186,000 | 343,000 |

Projected Crop Purchase Price Estimates (2021 -2025) Per M.ton: Adopting the same working format as in the table above, the following is a summary of the projected EAE LTD crop purchase price estimates for 2020 to 2025:

 5 YEAR PROJECTED EAE LTD CROP PURCHASE PRICE ESTIMATES PER

|  |  |  |
| --- | --- | --- |
|  |  |  |
| S/N | **CRPOS** | **2021** | **2022** | **2023** | **2024** | **2025** |
|  | N | N | N | N | N | N |
| 1 | Soya beans |  234,770 | 266,722 | 290,050 | 311,412 | 336,325 |
| 2 | Groundnut | 126,415  | 143,619 | 156,181 | 167,684 | 181,098 |
| 3 | Cassava | 31,604  | 35,045 | 39,045 | 41,921 | 45,275 |
| 4 | Sesame seeds | 361,345 | 410,689 | 39045 | 39921 | 45,275 |
| 5 | Maize | 190,562 | 857,499 | 234,789 | 127,678 | 129,456 |
| 6 | Rice | 21,563 | 233,422 | 456,098 | 345,890 | 907,654 |
| 7 | Cowpea | 234,099 | 610,765 | 345,886 | 456,734 | 358,986 |
| 8 | Ginger | \_ | 112,497 | 127,856 | 237,987 | 345,987 |

**Determination of Working Capital available for Crop Purchase**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| SOURCE | 2021=N= | 2022=N= | 2023=N= | 2024=N= | 2025=N= |
| Opening Balance | - | 33,755,000,000 | 70,305,280,516 | 99,776,656,834 | 101,952,151,639 |
| Ordinary Share Capt | 2,000,000,000 | 5,000,000,000 | 5,000,000,000 | - | - |
| CBN Real Sector Support Facility |  | 5,000,000,000 | 5,000,000,000 |  |  |
| CBN- NEXIM Non-Oil Export Support Facility | 15,250,000,000 | 15,250,000,000 | - |  |  |
| IDB Murabaha Finance [us$ 100million] | 4,655,000,000 | 7,980,000,000 | 7,980,000,000 | - | - |
| 19 selected state govts, [Pref. shares] | - | 3,050,000,000 | - |  |  |
| AFDB Youth Facility [us$ 10million] | - | - | 10,000,000,000 |  |  |
| World Bank Loan |  |  |  | 10,000,000,000 |  |
| External Funding Available | 34,955,000,000 | 70,035,000,000 | 98,285,280,516 | 99,776,656,834 | 101,952,151,639 |
| Less: Project Take-off Costs | 1,200,000,000 | - | - | - | - |
| Net External Funds Available for Working Capt. | 33,755,000,000 | 70,035,000,000 | 98,285,280,516 | 99,776,656,834 | 101,952,151,639 |
| Retained Earnings B/F [see p&l | - | 270,280,516 | 1,491,376,218 | 2,175,494,805 | 2,651,589,966 |
| Total Funds Available for Crop Purchases | 33,755,000,000 | 70,305,280,516 | 99,776,656,834 | 101,952,151,639 | 104,603,741,605 |