

# NATIONAL FERTILIZER QUALITY CONTROL BILL FACTBOOK

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## ABBREVIATIONS

AFEX	-	Agricultural Foreign Exchange
AU	-	African Union
FAOSTER	-	Food and Agriculture Organization Statistics
FEPSAN	-	Fertilizers Producers and Suppliers of Nigeria
FSS 2020	-	Financial System Strategy 2020
GDP	-	Gross Domestic Product
ha	-	Hectare
kg	-	Kilogram
NAERLS	-	National Agricultural Extension Research Liaison Services
NASSBER	-	National Assembly Business Environment Round Table
NASC	-	National Seed Council National
NBS	-	Bureau of Statistics
NESG	-	Nigerian Economic Summit Group
NIRSAL	-	Nigeria Incentive-Based Risk Sharing for Agricultural Lending
NISS	-	National Institute of Soil Science
SAM	-	Severe Acute Malnutrition
SDGs	-	Sustainable Development Goals

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## INTRODUCTION

The Alliance for a Green Revolution in Africa (AGRA), [www.agra.org](http://www.agra.org) is a not-for-profit organization working with African governments, other donors, NGOs, the private sector and African farmers to significantly and sustainably improve the productivity and incomes of resource poor smallholder farmers in Africa. AGRA aims to ensure that smallholder farmers have what they need to succeed: good seeds and healthy soils; access to markets, information, financing, storage and transport; and policies that provide them with comprehensive support. Through developing Africa's high-potential breadbasket areas, while also boosting farm productivity across more challenging environments, AGRA works to transform smallholder agriculture into a highly productive, efficient, sustainable and competitive system, while protecting the environment.

AGRA's mission is to catalyze an agricultural transformation in Africa through innovation-driven, sustainable, productivity increases and access to finance that improve the livelihoods of smallholder farmers. AGRA's overall vision of success is centered on two headline goals to achieve by 2020 through its efforts to catalyze, convene, and align with an alliance of partners and grantees. One of the goals is to double the incomes of at least 30 million farm households through productivity improvements and access to markets and finance.

The Nigerian Economic Summit Group (NESG) is a private sector led think-tank organization that promotes sustainable growth and development in the Nigerian economy. It is a not-for profit/non partisan organization with a mandate to promote and champion the reform of the Nigerian economy into an open, private sector-led economy that is globally competitive on a sustainable basis. Over the years, it has emerged as the leading platform for public-private dialogue in Nigeria.

The NESG functions within Public-Private Dialogue Institutional Arrangements referred to as "Policy Commissions". These Policy Commissions are structured to drive the mission and vision of the

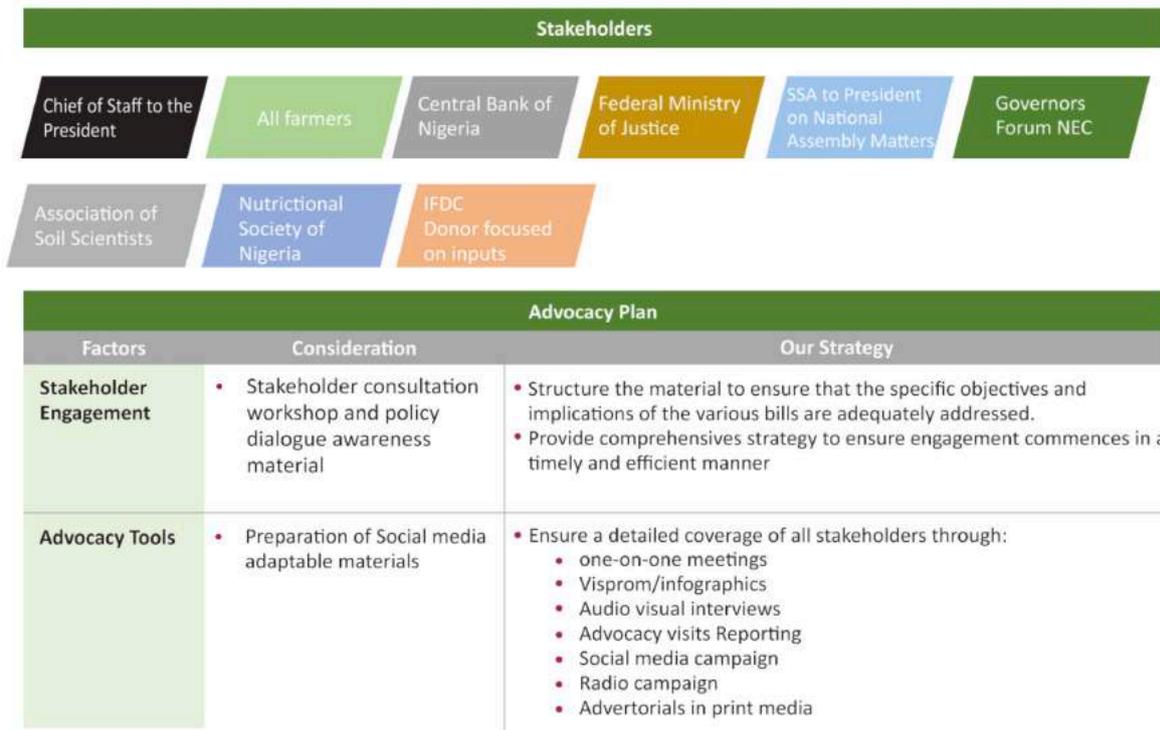
NESG, define and implement thematic focused policy reform agenda, implement and fast track the recommendations of the annual Nigerian Economic Summit (NES), which is the NESG's flagship advocacy and communication program.

There are currently eleven (11) Policy Commissions and over forty (40) Working Groups committed to driving change within their dedicated thematic areas. One of such Policy Commissions is the Agriculture & Food Security (with focus areas being Input & Production, Processing & Storage, Logistics, Access to Finance and Market Access) which adopts a value chain approach to solve industry issues.

In Nigeria there are millions of smallholder households/farmers and indigenous communities working to improve their livelihoods in an environment characterized by dwindling government support and increased competition between producers, processing companies and retailers within agricultural markets. This competition between players within the same value chains leads to concentration of powers in parts to the detriment of the other players leading to overall suboptimal performance for all. As part of efforts to respond to this challenge, the NESG Agriculture and Food Security Policy Commission in partnership with the Alliance for Green Revolution in Africa (AGRA) have flagged off a "Farm pain to Farm Gain" evidence based advocacy campaign, in Nigeria, on the benefits to farmers and the economy; the quick passage of the Fertilizer bill, and the Nigeria Independent Warehouse Receipt System bill by the National assembly, in addition to facilitating the Presidential Assent to the Seed Council Bill. This factbook contains evidence based advocacy briefs and factsheets.

November 2019

## National Fertilizer Quality Control Bill - Factsheet



## National Fertilizer Quality Control Bill - Factsheet

- The fertilizer control bill seeks to safeguard the interest of the farmers against nutrient deficiencies, adulteration, misleading claims and short weight of fertilizers.
- It also seeks to protect the interest of fertilizer enterprises and contribute to the creation of an enabling environment for private sector investment in the fertilizer industry.

- The bill ensures that any company involved in the manufacturing, blending or importing of fertilizer must operate with a permit, obtained from the government.
- It states that applications for permits must be approved or disapproved (with reason) within 30 days. This will reduce bottlenecks and ensure speedy grant of permits.
- Despite the bill seeking to create an enabling environment for private sector investment, the government still wields a strong regulatory function in the industry, through its Inspection Officers.
- The bill prohibits the conversion or diversion of fertilizer.
- It also ensures that fertilizer sold is adequately labelled and minimum standards, in terms of nutrient quality of the fertilizer is maintained.

- Quality control of the fertilizer market/sector, as government would regulate the sector to ensure adherence to standards.
- Protection of the soil from depletion.
- Improved yield which would mean improved income for farmers and improved food security.
- Job creation opportunities in the agricultural sector.
- The fertilizer industry will attract investments.
- Deficient fertilizers will attract penalties, which include jail terms.



**ECONOMIC IMPACT ANALYSIS  
REPORT ON FERTILIZER USAGE  
IN NIGERIA**

## EXECUTIVE SUMMARY

Contemporary agricultural practice depends largely on the use of critical inputs such as improved seedlings, high quality fertiliser and other farm implements. Nigeria's agricultural production remains largely subsistent and reliant on the usage of fertilizer a component which has not been applied in the desired quality. The implications of this low quality fertiliser application include low productivity, loss of yield, low nutrition, failing health, soil/ environmental damage, etc.

This study was commissioned by the NESG to determine the "economic impact of fertiliser usage in Nigeria" using stylised data in a 20-year time series 1997 to 2016. Nine (9) crops were selected grains (Rice, Maize and Sorghum), tubers (Yam, Cassava and Sweet potatoes) and tree crops (Cocoa, Cashew and Oil palm) based on their high level consumption, involvement of large number of farmers and total land use.

The findings indicated a very low level of fertilizer usage of 7.32 kg/ha compared to required usage of 400 kg/ha showing a huge shortfall of 393 kg/ha or 335,588,868 tons loss in production.

This gap has a direct impact on the current food supply system, food insecurity and availability of raw material for agro based industries in Nigeria. To close the fertiliser usage gap of 393kg/ha and position the country Nigeria on the path of sustainable food security, raw material supply support to industries, Nigeria would require an average annual investment of N4.6 trillion over a period of three (3)years.

Furthermore, the study reviewed the nutrition indices for malnutrition in Nigeria. Data available showed that stunting, wasting and underweight rates is at 37%, 18% and 29% respectively, for children under 5 years. The anaemic status of Nigerian women (15-49 years) on the other hand, showed a reproductive

age of 50%. To create and deliver an impactful, scalable and sustainable programming would require a seamless Public Private Partnership on food value chain.

The passage of Fertilizer Quality Control Bill to drive this Agenda is not only timely but a rational strategic alternative. This would ensure the

availability of high quality fertiliser to the Nigerian Farmer, promote food systems, nutrition and agro-based raw materials regulations and security.

### 2.0 METHODOLOGY

a. Nine (9) crops across 3 sub-sectors of grains (maize, rice, sorghum), tubers (yam, cassava, sweet potato) and tree (cocoa, oil palm, and cashew) crops were selected on the basis of high local consumption, employment and export potential.

b. Time (20 years) series data were generated for:

- i. Production (tons)
- ii. Fertilizer use (kg)
- iii. Land use (ha)
- iv. Cost of fertilizer (N)
- v. Gross Domestic Product (GDP)
- vi. Inflation
- vii. Interest rate

c. Simple regression analysis : Model specification (simple regression equation):

Where

Y = crop yield/ha

X1 = fertilizer (kg)

X2 = total land usage X3 = cost of fertilizer X4 = GDP

Xs = Inflation

X6 = Interest rate a= Slope

c = Intercept

### 3.0 DATA REPRESENTATION

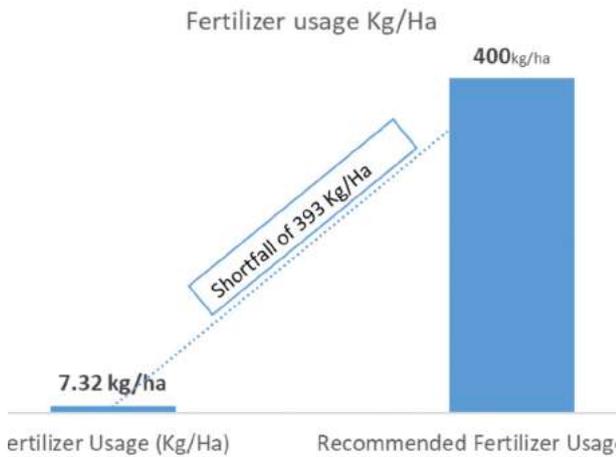
#### Assumption

i. Stylized Crops:	Grain: Maize, Rice, Sorghum Tuber: Cassava , Yam, Sweet potato Tree: Oil palm, Cashew, Cocoa
ii. Justification:	The crops selected are from the three main subsectors (grain, tuber and tree crops) and are the most widely produced and consumed in Nigeria. Hence, taking a large chunk of fertilizer usage.
iii. Fertilizer usage	The study assumed that the fertilizer usage was in the recommended quality (ratio and density).
iv. Seeds	The study captured production of each crops (quantity) but seed quality was held constant.
v. Time frame	1997-2016
vi. Total Land Cultivated (Ha)	10,359,544.36
vii. Total Production (tons) on cultivated	10.19
ix. Actual Fertilizer used (kg/ Ha)	7.32
x. Recommended Fertilizer Usage (Kg/ Ha)	400
xi. Gap in Fertilizer usage (Kg/ Ha)	393
xii. Opportunity cost of production (tons)	335,588,868
xiii. Opportunity cost of fertilizer investment (NJ)	4,614,346,930
xiv. Current revenue (NJ loss (at fertilizer gap of 393kg/ha)	80,720,308,954,918
xv. Current revenue (NJ level (at 7.32 kg/ha)	25,386,956,340,826

Source: FAOSTATS, NBS, NISS, Knoema, IndexMundi

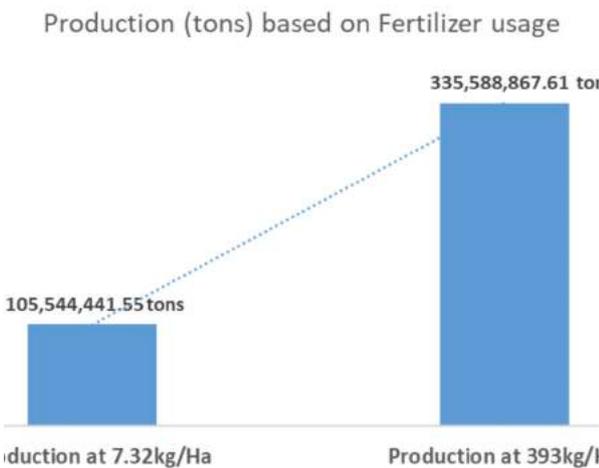
## 4.0 RESULTS & ANALYSIS

### 4.1 RESULTS



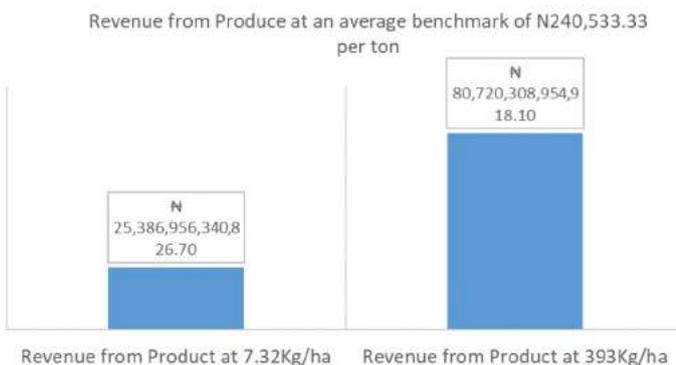
**Source: Figure 4.1. Fertilizer Usage (Kg/Ha)**

The findings of this study showed that for the three selected subsector (grains, tuber and tree crops) there is an average fertilizer usage of 7.32kg/ha which is a wide contrast from the recommended fertilizer usage for countries in the savannah zones. The National Institution for Soil Science (NISS) recommended an average of 400kg/ha in Nigeria. This implies that there is currently a shortfall of 393kg/ha of fertilizer usage in Nigeria.



**Figure 4.2 Production (tons) based on fertilizer usage**

Finding from this study showed that Nigeria currently produces an average of 105,544,441.55 tons of the selected crops studied (grains, tubers and tree crops) with an average fertilizer usage of 7.32kg/ha against the recommended 400kg/ha. A simple regression analysis of the shortfall of 393kg/ha of fertilizer usage showed that 335,588,867.61 tons of production yield is lost due to the inadequacy of fertilizer usage yearly.



**Figure 4.3 Revenue from produce at 7.32kg/ha and at 393kg/ha**

An average benchmark of N 240,533.33 per ton was used to determine revenue from 9 crops selected in this report. The finding shows that at 7.32Kg/ha the revenue is about N25,386,956,340,826.70. Increasing the fertilizer usage to meet the shortfall of fertilizer usage 393 kg/ha will increase the revenue to N80,720,308,954,918.10. This further shows that the nation is losing in revenue generation by not making the recommended fertilizer volume available for farmers.

### 3 Years projection of fertilizer usage and revenue

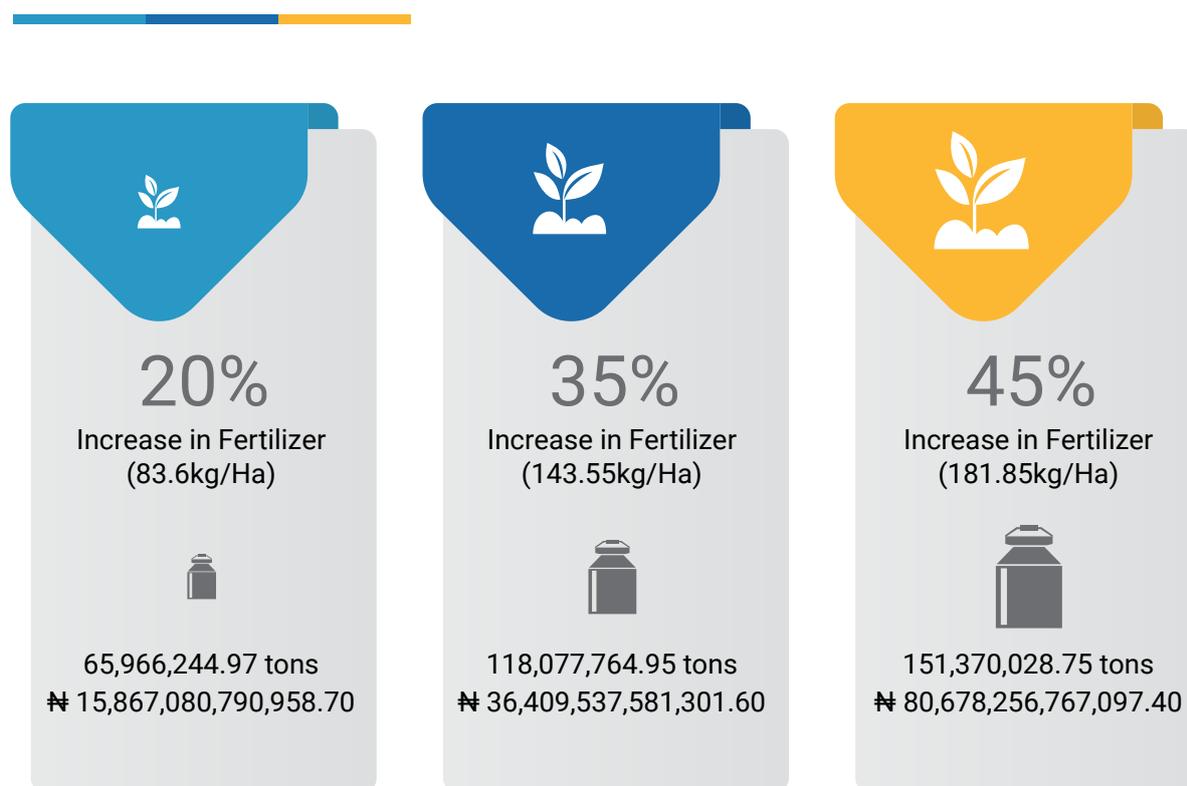


Figure 4.4 Three (3) year forecast on revenue gain from adequate fertilizer usage between 2019 -2021

The figure above indicates the three year forecast on adequate fertilizer usage to maximize revenue gain from the current fertilizer utilization by farmers. The actual fertilizer consumption is 7.32kg/ha. In order to increase crop yield, there is need for investment in the production of quality fertilizer and advocacy to farmers on application of adequate quantity of fertilizer to crops.

Achieving this multiplier effect in the next three years will involve injecting NIS,867,080 790,959, N36,409,537,581,302 and NS0,678,256,767097 in the fertilizer and seed industries in 2019, 2020 and 2021 respectively. This will result in fertilizer utilization of 83.6kg/ha, 143.6kg/ha and 181.85kg/ha in the 3 years successively. Subsequently, there will be an upsurge in yield (tons) from the present

average of 10 tons per hectare of the 9 crops evaluated to 151,370,029 tons per hectare.

#### 4.2 ANALYSIS

##### 4.2.1 Yield/ Hectare

For every hectare of arable land for the nine (9) selected crops, Nigeria currently loses 336 million tons due to inadequate use of fertilizer. Correspondingly, the estimated loss in revenue stands at N81 trillion (see figures 4.2 and 4.3 above).

##### 4.2.2 Nutrition

This amount (N81 trillion) if earned is sufficient to feed an estimated 71,428 people daily at an average of N2000 per person (N81trillion/ 189m\*N2000/365).

Malnutrition is a condition that occurs when people do not constantly consume adequate diverse nutritious foods and essential nutrients. With the worsened malnutrition prevalence in Nigeria, underweight prevalence (children who are thin for their age under 5 years) is estimated at 29%, stunting prevalence (children who are short for their age under 5 years) is estimated at 37%, wasting prevalence (children who are thin for their height under 5 years) is estimated at 18%. About 45% of all under-5 deaths are accredited to undernutrition, low birth weight which is a significance of maternal undernutrition. Approximately 2.5 million children under 5 years are affected by malnutrition in Nigeria. This accounts for one-tenth of the global total implication that about 1000 children deaths in Nigeria are malnutrition-related cases. To advance nutrition outcomes, the availability and affordability of safe nutritious foods must be improved especially for those most vulnerable to malnutrition.

Malnutrition has a high economic and health cost and a return of \$16 on every \$1 invested (i.e. N5760 return on every N1 invested). The N81 trillion revenue loss could be a source of domestic investment for the scale up of Community management of Acute Malnutrition in target States with high rates of undernutrition. This will influence increased budgetary allocation to nutrition in Northern Nigeria and in the Country at large. The greater opportunity is for government and others to invest in nutrition in an integrated way, across sectors that impact on nutrition outcomes directly, like agriculture and indirectly, like education, health, climate change, or water and sanitation.

GLOBAL TARGET & CURRENT NIGERIA INDICES FOR NUTRITION INDICATORS			
NUTRITION INDICATORS	GLOBAL BENCHMARK/TARGET	NIGERIA NUTRITION INDICES	REMARKS
Stunting prevalence for children under -5 years	Achieve a 40% reduction	37%	
Wasting prevalence for children under - 5 years	Reduce and maintain childhood wasting to less than 5%	18%	Negative
Anaemia in women of reproductive age between 15 - 49 years	Achieve a 50% reduction	50%	

Table 4.1 Global target and Current Nigeria indices of nutrition indicators

### 4.2.3 Health

Furthermore, this amount (N81 trillion) is estimated to provide a minimum of 324 primary health care centres across Nigeria (N81trillion/N250m per primary health care facility) (i.e. 9 primary health centres in each State of the Federation including FCT).

The budgetary allocation for health is far below the minimum targeted 15%. Enhancing efforts towards reducing malnutrition in Nigeria will relieve the burden on our already stretched health system. When malnutrition is managed, there will be less sick persons visiting the health facilities which directly has positive impact on our economic outcomes in terms of human capital development, productivity and gain in revenue.

### 4.2.4 Employment

Also, it is estimated that this amount (N81 trillion) will provide employment for 375,000 people annually, hence reducing the current rate of 16m unemployed Nigerians (N81trillion/N18, 000 minimum wage).

## 5.0 RECOMMENDATIONS AND CONCLUSION

The current fertilizer usage in Nigeria should be increased to the optimal recommended of 400kg per hectare as opposed to the current practice of 7.32kg/ha. This requires an additional investment of N81 trillion over the next 3 years which will be infused

into the Fertilizer and Seed industries between the three year period at 20%, 35% and 45% according to the forecast. Enhanced crop yield is very vital to resolve the issue of malnutrition in Nigeria because the nation will have access to varieties of nutritious diverse foods. As a result of this investment and passage of the fertilizer quality control bill, child and maternal morbidity and mortality will decline, thereby easing the burden on the health sector. Adulteration of fertilizers will be regulated and blending plants activities will be monitored and evaluated. The role sharing for this investment will be between Government on its part of sustained off take price (subsidy) of N5500 and private sector fertilizer manufacturers. This will increase the yield per hectare and will resolve the serious challenge in health, nutrition and unemployment in Nigeria.

To provide the enabling environment for this projected investment to succeed. There is an urgent need to pass the fertilizer Bill which will address issues of quality, availability, higher revenue and yield, good health, environmental sustainability and general economic development. The repercussion of the Government's continuous delay to pass the Fertilizer Quality Control Bill, Seed Bill and Warehouse Receipt System Bill will weaken the entire agricultural value chain, increase undernutrition, stretch the already weak health system and worsen unemployment.

This in our considered opinion, will be a rational policy alternative.

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World Bank



[www.nesgroup.org/farmgain](http://www.nesgroup.org/farmgain)



The Nigerian Economic Summit Group  
RC:203317



Federal Ministry of Agriculture and Rural Development

# NATIONAL AGRICULTURAL SEED COUNCIL BILL FACTBOOK



BILL & MELINDA GATES foundation



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# Content

SEED POLICY BRIEF  
SEED FACT SHEETS

# EXECUTIVE SUMMARY

Seed is one of the most crucial elements in the livelihoods of agricultural communities. The potential benefits from the use of good quality seed by farmers can be enormous, and the availability to farmers of quality seed of a wide-range of varieties and crops can increase productivity, reduce risks from pest, drought and disease pressure, and increase incomes. Production increases through the use of adapted varieties in a given area could create employment opportunities related to processing, marketing, and other activities generated through quality seed production.

The repeal of the National Agricultural Seeds Act Cap. N5 LFN 2004 and enactment of the National Agricultural Seeds Council Act will create a vibrant thriving seed sector and promote a competitive seed sector which is pivotal to ensuring timely availability of appropriate, high quality seeds at affordable prices to smallholder farmers in Nigeria.

The passage of the bill by Parliament and assent by the President provides a unique opportunity and momentum for the Federal Government of Nigeria to rapidly put the regulatory framework of the seeds subsector into action through the matching of the diversity of seed systems whilst promoting entrepreneurship and professionalism in seed value chains, and thereby enhancing the performance of seed sector administration and the agricultural sector of Nigeria as a whole. The National Agricultural Seeds Council (NASC) will be the principal institution responsible for the administration and implementation of National Seed Policy for Federal Government of Nigeria including the regulation of the market towards competitiveness and quality control to protect the farm population and the environment. As principal

coordinator, it will play the lead support role, maintain public-service infrastructural and service support required to maintain efficient seed supply, enhance farmer demand for improved seeds, and create a favourable enabling environment for investment in the seed subsector. It will also be tasked with the facilitation of the production and distribution of sufficient quantities of high-quality seed of improved varieties of all relevant crops to farmers in order to ensure production of the required food, feed and fibre (National Seed Policy 2015).

This bill when signed into law, will also support the building of a thriving seed system in Nigeria which will not only include an effective distribution network, promotion of the adoption of improved crop varieties by smallholder farmers, seed quality certification and assurance, increase household income, national food security and the sector aligned to the ECOWAS seed regulation framework and responding to the Malabo Commitments and CAADP result framework.

This policy brief posits that a strong regulatory policy framework and legislation should be put in place to facilitate the access to agricultural inputs (seeds) which will serve as catalyst or is pivot to transform agriculture in Nigeria. It will also contribute directly to one of five key executive priorities, as indicated in the National Economic Recovery Growth Plan (ERGP) of the Federal Government of Nigeria; which include input supply; seeds, water, land, fertilizer and agro-chemicals. These were identified as one of the strategies for achieving food self-sufficiency; but of all the yield-enhancing inputs in crop production, seeds give the most dramatic and most cost-effective return on investment. Improved seeds have provided 50% of the productivity gains in agriculture.



# INTRODUCTION

Food security is heavily dependent on the seed security of the farming community and Seed sector development is essential to foster agricultural growth. All these obvious benefits are attainable through a well-developed seed sector (AU 2015).

Although Agriculture is the economic and social mainstay of over 500 million smallholder farmers worldwide, on the African sub-continent, the sector is currently at a crossroads because of the persistent food shortages which are compounded by threats from climate variability (Diallo 2018). Sub-Saharan Africa is dominated by rain-fed agriculture, while 75% of its surface area is dry land or desert. This makes the region highly vulnerable to droughts and floods, threatening its agricultural sector and food security. Many African countries experience severe water scarcity, which is likely to increase in the coming years. Therefore boosting the agriculture sector's productivity, profitability and sustainability is essential for fighting hunger and poverty, tackling malnutrition, and ensuring food security (FAO 2010)

In order to address this, the Federal Government of Nigeria's (FGN) *Agriculture Promotion Policy (APP) 2016-2020, which seeks to operationalize the Comprehensive Africa Agriculture Development Program (CAADP) principles, was crafted with a thrust to boost productivity, intensify the role of*

*private sector investments*, and build the capacity of the Federal Ministry of Agriculture, and Rural Development (FMARD) to formulate and administer policy as well as position agriculture as a business. The ultimate goal of Nigeria's agricultural policy is the attainment of self-sustaining growth in all the subsectors as well as the realisation of the structural transformation necessary for the overall socio-economic development of the rural areas in the country (FMARD 2015).

Through the Federal Ministry of Agriculture & Rural Development (FMARD), the Federal Government of Nigeria (FGN) envisions improving its food security by facilitating equitable access, availability and affordability of quality foods to all Nigerians. This vision has become more important due to the rise in global food prices. Achieving this vision requires deliberate and sustained efforts to improve agricultural productivity growth through strategic investments in the input system: seeds, fertilizer, and irrigation. While boosting production of good quality seeds is one of the necessary steps towards improving agricultural productivity growth, the uptake of improved seeds by farmers is another very important activity. This is being slowed down by both supply and demand constraints within the sector (IFPRI 2009).

## OVERVIEW OF THE SEED SYSTEM IN NIGERIA

The seed subsector of Nigeria's agricultural economy has undergone different stages of development since the 1960. From the National Seeds Service (NSS) which was established in 1975 to the enactment of the Nigeria Seed Law and resultant National Agricultural Seeds Council (NASC); which not only took over the functions of the National Seed Service but also expanded the scope of administration of the entire subsector with the consequent National Seed Policy of 2010. The National Seed Policy has since undergone review under technical guidance of FAO and through a two-stage methodology; review of the subsisting seed policy and consultative workshops with various stakeholders including farmers, seed producers, policy makers, policy service providers, among others (FAO 2016, NSP 2015). The objectives of the National Seed Policy include the following: (a) support and fast track varietal development, (b) registration and release of new crop varieties as well as the (c) rapid multiplication of released varieties, (d) improve the quality of seeds sold to farmers for higher yields and better income, (e) encourage

private sector participation in seed operations through appropriate policies and promotional activities/incentives, etc. (FAO 2016, National Seed Policy 2015). The policy lists and highlights all activities and stipulated roles of actors in the seeds-subsector while it further defines the role of government in the management of the production and distribution of improved varieties of high quality of all relevant crops to farmers in order to ensure production of the required food, feed and seeds as needed by farmers in the country.

Overtime, the farmers' self-reliance to provide own seed and other planting materials is continuously being undermined by both natural (like; climate change) and manmade effects (e.g. fake/poor quality seed on the market). Smallholder farmers have been most affected by seed insecurity yet they produce more than 75% of total food production for consumption and marketing in Nigeria (Adeleke, 2010).

It is also universally accepted that the use of improved quality crop seed cultivars by farmers has been recognized as the most important effort in boosting agricultural production and ensuring food security (Oyekale et al.2014). Secondly, farming activities depend on a continuous supply of good quality seeds and planting materials (Oyekale 2014, Oyekale and Adebisi, 2005). But unfortunately, the Nigerian seed industry has not fully developed the capacity to perform this role very well due to the absence of the Seeds Act which would provide the legal framework for guiding the development of the seed sector (e.g. the coordination and management of the different sub-activities which include the National Crop Variety Registration and Release Committee (NCVRRRC) with functions that are listed under the National Crop Varieties and Livestock Breeds (Registration) Act of 2016).

The current national seed uptake is also less than 10%, while the regulatory and enforcement capacity in the industry has been weak (Oyekale et al 2014). The Nigerian agricultural seed sector has evolved over the last 30 years in terms of seed science and commercial seed production capabilities. However, the sector is still under-performing in terms of meeting the agricultural seed needs of the country (Oyekale et al 2014).

Unlike most other African countries, the seed industry in Nigeria consists of four systems; and are generally categorised: (a)farmer-saved, (b) public-private composed of the National Agriculture Research Institutes (NARIs) with private seed company involvement in certified seed production, (c) public led systems, and (d) private-led systems dominated by local seed companies and some international seed companies. The farmer-saved seed systems represent the majority of seed volume. While smallholder farmers in Nigeria are aware of improved varieties, the rate of adoption is low across most agro-ecological zones, as the majority of smallholder farmers recycle seeds of improved varieties. However, some fraction of farmers buys improved seeds while others depend upon free seeds acquired from subsidy programs and donor/ NGO-funded input intervention programs. Adoption of improved varieties is higher for some crops than others, with smallholder farmers tending to adopt improved varieties of grains more than improved varieties of root and tuber crops, because root and tuber planting material is easily recyclable (USAID 2016). Based on this analysis, a larger percentage of the smallholder farmers' seed requirements are met through the informal sector.

To date, over 80 percent of the crops in Nigeria are still planted with farmers' varieties and farm-saved

seeds. In the past, the public sector, universities, governmental organizations and international research organizations, were the major sources of new varieties and quality seeds of food crops for the smallholder farming sector, especially self-pollinating crops. However, in recent years many countries, donors and international organizations have encouraged privatization of the seed sector. This, combined with cut-backs in international agricultural research organizations, has led to reduced investment in public-sector plant breeding and seed production. This has very seriously constrained progress towards food security in many developing countries including Nigeria (FAO 2010). This argument is further buttressed by (Oyekale et al., 2014) who posits that the most important prerequisite for good crop production is the availability of good quality seeds of high-yielding varieties; and that the quality of seeds alone is known to account for an increase in productivity of at least 10–15%.

This policy brief therefore identifies that a strong regulatory policy framework and legislation should be put in place to facilitate the access to agricultural inputs (seeds) which will serve as catalyst or is pivot to transform agriculture in Nigeria. It will also contribute directly to one of five key executive priorities, as indicated in the National Economic Recovery Growth Plan (ERGP) of the Federal Government of Nigeria; which include input supply, consisting of seeds, water, land, fertilizer and agro-chemicals. These were identified as one of the strategies for achieving food self-sufficiency; but of all the yield-enhancing inputs in crop production, seeds give the most dramatic and most cost-effective return on investment. Improved seeds have provided 50% of the productivity gains in agriculture. The other 50% has come from improvement in management, including timeliness, best use of fertilizer, crop protection measures and equipment (Shobowale 1994; Gupta 1994; Joshua 1999; Echekwu1999; Louwaars and Marrewijk 1999; Adamu 2000, P. Kormawa et el2014). Good quality seed greatly contributes to agricultural production and productivity as well as continuity of farming systems. It is therefore of paramount importance that farmers have control and access of well adapted quality seeds in adequate quantities at all times to ensure sustainable agriculture development. (FAO2016). To surmise this policy brief: the passage and assent of the Nigeria Agricultural Seed Council Bill will be a strong regulatory policy framework and legislation for the development of the seed industry in Nigeria, especially those geared towards safeguarding against any potential threats to the interests the various stakeholders in the industry including smallholder farmers.

# CHALLENGES OF THE NIGERIA SEED SECTOR

The Nigerian agricultural seed sector has evolved over the last 30 years in terms of seed science and commercial seed production capabilities. However, the sector is still under-performing in terms of meeting the agricultural seed needs of the country.

Almost all the units and sectors involved in seed development in Nigeria are faced with one problem or the other with resultant poor performance in delivery. Some of these problems are identified as:

Table 2: Challenges of the Nigeria Seed Sector

SEED MANAGEMENT ISSUE	CAUSE/EXPLANATION
Low production of breeder seeds	The output of the research institutes is far below what is required to meet the growing requirement for improved seeds and seed technology Funds are reportedly inadequate, disbursed late, resulting in distortions in the breeding process.
Weak seed certification and quality control arrangements	Laboratories required for seed testing, certification, and quality control are inadequate, and those available are understaffed and as a result there have been cases of unlabelled seeds being sold in markets and stores. There is need to upgrade all existing zonal seed testing laboratories to attain international standards and get accredited by ISTA and OECD. Without seed testing accreditation and following of international standards in seed testing, certification and testing, Nigeria cannot actively engage in the international seed trade. The inability to export seed will reduce production of better Nigerian varieties with export potential.
Weak Seed distribution network	There is poor seed distribution network across the geopolitical zones. There is a yawning gap in the distribution and management of improved seeds produced by the public sector sold to the farmers through farmers' supply companies, agro service centres, ADPs, cooperative societies, etc. Due to this gap in provision, most farmers in such regions buy their areas mostly buy seeds from private seed companies. As a result, these private sector players are taking advantage of this lack/ limited market access. The resultant effect of this is that they have the market power to set prices of inputs/ seeds higher than in competitive markets.  (if any)/seed entrepreneurs/dealers in the open market. Some of the fallout of such arrangements is exorbitant prices farmers are forced to pay; Secondly, they often run greater risks of buying unviable seeds due to poor storage and handling by the seed traders.
Reduced activity of NASC	The NASC has a pivotal role to play in the development of the nation's seed industry, including the production of foundation seeds, supervision, monitoring and quality control, etc. But their activities have been grounded due to epileptic funding mechanism to perform quality control functions and research support services. A dearth of capacity and capacity strengthening processes has also constrained the development of the seed market.
Lack of resources for training and information dissemination	The resultant effect of this problem has also been the inadequate supply of certified seeds to the farmers; and flooding of adulterated and unlabelled seeds in the market. Improved seed varieties are not readily disseminated to the farmers due to inadequate number of extension agents. There is a yawning gap in the delivery of capacity strengthening in seed testing, quality control and provision of technical assistance to contract growers due to lack of funding.

<p>There is limited investment in private research programs by seed companies to generate own foundation seed.</p>	<p>Most of the seed companies have limited working capital to invest in the necessary infrastructure for seed processing as well as for the costly research to generate own breeder and foundation seed. Even the resource-rich companies are reluctant to invest in research which takes long to realise results.</p>
<p>Market development</p>	<p>Policies and regulations governing seed imports need to be clarified, as stakeholders are unable to import seed even in the face of acute shortages. The National Seed Council needs to put in place clear guidelines and policies on seed trade consistent with the ECOWAS regional seed agreement. There is need for awareness-raising campaigns and capacity building that will support effective implementation of regionally consistent seed. Given the dearth of locally produced and available certified seed in Nigeria, regional imports can fill the gap. This provision is proposed in the bill for the enactment of the National Agricultural Seeds Council.</p>
<p>Sustainable operation of Private Seed companies in Nigeria</p>	<p>The various policy revisions are shaping the seed industry in the country. Interviews with major stakeholders, including the private seed companies, indicate that the National Seed Company is making efforts to assist and cooperate with private seed companies in the provision of foundation and breeder seed from public bred varieties. However, the private sector still faces very unfair competition with state agencies, particularly the Agricultural Development project (ADPs), as well as a debt load created by government seed procurement programs that delay payments for seeds supplied or in some cases do not honour commitments. The government urgently needs to divest the ADPs or bring them in line to operate as private seed companies</p>
<p>Seed trade and seed imports</p>	<p>Nigeria has virtually no international trade in seed. Except for inbred lines and new varieties for seed development purposes, importation of large quantities of seed is subjected to multi-locational trials by officials of the National Coordinated Research Project (NCRP). The lack of clear-cut import procedures and a cumbersome clearing process with the relevant authorities were identified as the major issues in seed import. Restrictions on imports to supplement domestic supply continue to exacerbate the problems of certified seed shortages in Nigeria. In theory, there is a duty of 5% on all seed imports. The National Seed Council in collaboration with the department of customs and excise is supposed to monitor and regulate the import of seeds of all types into the country. Streamlining seed import procedures and making them clear and easily available to prospective importers is much essential</p>

# THE IMPERATIVES OF A STRONG SEED POLICY FRAMEWORK AND LEGISLATION

Agriculture remains one of the most effective pathways out of poverty. Gross domestic product (GDP) growth that originates in agriculture is approximately four times more effective in reducing poverty than GDP growth that originates in other sectors (World Bank, 2008). The sustainable increase in agricultural productivity needed to achieve food security and inclusive economic growth in Nigeria and the world at large is majorly dependent on a viable and sustainable seed sector.

In this context, the promotion and provision of improved seeds for enhanced food provision, affordability and accessibility in Nigeria is critical for food security and development. Nigeria remains a minor player in the global multi-billion-dollar seed trade. We should take advantage of this opportunity in eliminating the barriers that are severely limiting market size, strengthen the capacities in seed delivery systems, and invest in adequate science and entrepreneurial capacity for commercializing seed innovations and increasing the competitiveness of Nigerian seed product

Policies are important in providing a level playing field for all stakeholders, encourage private-sector investment in the seed sector and ensure institutional support to develop new, improved varieties; provide ide quality assurance; improve market infrastructure; enforce contracts; and establish simplified procedures, that are all important for the growth of the sector.(Francis, J.& Waithaka, M., 2015). Policies should promote the informal system to eventually become formal. They should support an integrated seed delivery system that links seed systems with local, national, regional and international markets. This will provide options to beneficiaries and the pulling force and motivation needed to increase productivity.

This policy brief advocates for an inclusive and efficient public policies and legislation for the seed sector to deliver services in implementing more coherent seed policies; improving the governance of seed sectors; improving performance and responsiveness of the seed research – development scheme; strengthening the capacities of all relevant actors and crowding in funding that is accessible to stakeholders

#Table 8: Key Policy Goals of the National Seeds Bill	
1	Support and fast track varietal development, registration and release of new crop varieties as well as the rapid multiplication of released varieties
2	Improve the quality of seeds sold to farmers for higher yields and better income.
3	Re-orientate the operations of public sector agencies along commercial lines.
4	Encourage private sector participation in seed operations through appropriate policies and promotional activities/incentives
5	Promote technology and policy best practices in the global seed industry
6	Maintain genetic biodiversity of the crop ecologies



## CONCLUSION

It is noteworthy that an effective seed system is germane to increased agricultural production and overall productivity of any nation. Nigeria's Seed Industry has not developed remarkably about two decades or more after the formulation of the National Seed Policy and the enabling Agricultural Seed Decree No. 72 of 1992. The various bodies involved in the implementation of Nigeria's Seed Policy have not performed creditably. Effective implementation of the seed policy by the relevant bodies had been constrained, among others, by inadequate manpower and financial resources, as well as institutional problems. The private seed industry is viable although the profitability level is comparatively low.

In order to ensure Nigeria is consistent with the current dynamics in the global seed trade and create a better conducive atmosphere for private sector participation in the nation's seed industry, this policy briefs advocates for the passage of the Bill for an Act to repeal and Re-Enact the National Agricultural Seeds Act No. 72 of 1992 and for other related matters. This will ultimately enable the National Agricultural Seeds Council to promote and stimulate the development of dependable seed industry, support the registration of released varieties, protect the farmers from the sales of poor-quality seeds, facilitate the production and marketing of high quality seeds in Nigeria, and provide legal backing for official testing, certification, sales, importation, exportation and use of seed. Also, it would promote greater private sector participation in the seed sub-sector in line with the current agricultural seed policy globalization and export trade promotion.

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Federal Ministry  
of Agriculture and  
Rural Development



The Nigerian Economic Summit Group



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# NATIONAL INDEPENDENT WAREHOUSE RECEIPT SYSTEM BILL FACTBOOK



BILL & MELINDA GATES foundation



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# Content

- WAREHOUSE POLICY BRIEF
- WAREHOUSE FACT SHEETS



## EXECUTIVE SUMMARY

Warehouse Receipt Legislation enhances the potential inherent in the implementation of the warehouse receipt system of any country. It creates the framework for the necessary enabling environment for the adoption and use of the warehouse receipts in carrying out transactions. The warehouse receipts have numerous benefits including but not limited to enhanced liquidity through trading on a recognized exchange, financing/ credit mobilization, de-risking of the agricultural lending sector, uniform grading and standardization as well as boosting foreign investor confidence etc. Additional benefits of promoting commodities exchange and the ecosystem include, provision of a mechanism for price transparency and price discovery, moderation of consumer prices, agribusiness becomes attractive, fostering financial inclusion and improving industrial output and profitability as well as government revenue.

Warehousing is key in the entire agricultural value chain and is a critical ingredient in solving majority of the issues facing the agricultural sector.

The critical role of warehousing in the economy has majorly been underplayed, the resultant effect of this is the Billions of Naira being lost on a daily basis due to absence of storage facilities or poor handling of commodities in storage. One major impediment towards having a vibrant commodities market is the financial exclusion of farmers, especially smallholder farmers who produce most of the commodities traded, albeit in small individual units.

Numerous efforts have in the past been made towards having a robust warehouse receipt legislation in Nigeria. Such efforts include that of the Securities and Exchange Commission Technical Committee in implementing the recommendations highlighted in its report on developing a thriving commodities ecosystem in Nigeria. Other stakeholder agencies have also played a major part in ensuring that this bill sees the light of day.

## INTRODUCTION

The enactment of the warehouse receipt bill into law will be a critical factor in nursing the implementation of the warehouse receipt system in Nigeria. This has yielded some result with an executive Bill on the subject matter sent to the National Assembly in 2017. The Bill, at the time of preparing the policy brief had been passed by the Senate and awaiting the concurrence of the House. With a Warehouse Receipt system in place, farmers can access finance using the Warehouse receipt as exchange for purchasing inputs. In terms of grading and standards, the WRS Bill will create a uniform and nationally accepted grading system. Infrastructural development can be fast-tracked with the WRS Bill in place.

Nigeria in its bid to diversify its economy and reduce overdependence on oil through the Economic Recovery Growth Plan (ERGP) has made concerted efforts to develop the agricultural sector. Agriculture contributes about 25 percent to nominal Gross Domestic Product (GDP) in Nigeria. Nonetheless, it is estimated that less than 5 percent of bank lending in Nigeria goes to agribusiness. The critical role of warehousing in the economy has majorly been underplayed, the resultant effect of this is the Billions of Naira being lost on a daily basis due to absence of storage facilities or poor handling of commodities in storage. Warehousing is key in the entire agricultural value chain and is a critical ingredient in solving majority of the issues facing the agricultural sector. An organized commodities market consists of multiple players that form the agricultural value chain. They include commodity exchanges, farmers, merchants, aggregators, processors/producers, commodity market operators, warehouse operators, collateral managers, banks, insurance companies, clearing houses, and logistic companies. It is important to organize this market to enhance its efficiency, growth and competitiveness which will better position it to play a strong enabling role in food security, employment generation and economic diversification. The 2018 Report on Commodities Trading Ecosystem in Nigeria by the Technical Committee on

Commodities identified about twenty benefits of promoting commodity exchanges and the ecosystem in general. In addition to some of the benefits highlighted above, they provide a mechanism for price transparency and price discovery, assist in moderating consumer prices, promote attractiveness of agribusiness, foster financial inclusion and improve industrial output and profitability as well as government revenue. They enhance the wellbeing of the farming community and help reduce rural - urban drift. Furthermore, they provide risk management tools and promote quality and standards for Agro-based export commodities. Finally, they create opportunity for investment in the commodities value chain with multiplier effect on socio-economic development.



One major impediment towards having a vibrant commodities market is the financial exclusion of farmers, especially smallholder farmers who produce most of the commodities traded, albeit in small individual units. These farmers should be organized into cooperatives to aggregate produce and be encouraged to become members of the exchange. Introduction of the Electronic Warehouse Receipts (EWRs) and the enactment of a Warehouse Receipt System Bill into law will go a long way in ensuring that farmers can access credit easily and affordably. Deliberate efforts are being made to develop public enlightenment and education roadmaps for the commodities market to improve understanding and encourage participation. It is also vital to encourage investment in all the requisite supportive infrastructure such as warehouses and storage facilities by exchanges and the private sectors. Similarly, to enlarge the scope of participation, existing commodity merchants and other relevant stakeholders should be encouraged into the exchanges either as traders or investors.

To provide a ready market for the sale of commodities and incentivize the use of storage facilities (warehouses) which can help minimize post-harvest losses;

To provide warehouse receipts which can enable farmers including small holder farmers borrow against the commodities in the warehouse thereby promoting agricultural produce financing and development

To provide warehouse receipt system, which can also be used as collateral to unlock finance from financial institutions. The passage of the Warehouse Receipt Bill into law should make it possible for exchanges to develop standardized warehouse receipts for trading and which should create liquidity.

This has yielded some result with an executive Bill on the subject matter sent to the National Assembly in 2017. The Bill, at the time of preparing the policy brief had been passed by the Senate and awaiting the concurrence of the House of Representatives.

Structured enlightenment of stakeholders on the benefits of the use of the exchange as well as the introduction of credible and transparent trading platform to provide timely price information would also be vital for liquidity enhancement.

The warehouses can be useful information centers to farmers and participants in various locations. Given that many of the warehouses are within farming vicinity, the exchanges should as a matter of policy, designate the warehouses as price information centers; displaying price and other information electronically, on blackboards or other means. The SEC and the exchanges should also engage relevant agencies such as the Ministry of Agriculture and Rural Development, Nigerian Communications Commission (NCC) and the Telcos on disseminating key market information via text messages to farmers by the exchanges. This has been successful in Ethiopia where the ECX disseminates daily information through text to farmers and others.

This initiative according to the IFC, has led to 70% of small scale farmers receiving final price information (EMCompass, April 2017). This same approach has also been successfully used by ACE exchange in Malawi.

## **PROBLEMS MILITATING AGAINST A THRIVING WAREHOUSE ECOSYSTEM.**

**Access to working capital:** Working capital ranges from farm inputs (fertilizer, seeds, CPP, etc.) for farmers; raw materials for processors and produce for exporters. Through the use of the warehouse receipts, farmers are able to participate in both Government sponsored intervention programs as well as private sector funded loan programs. The warehouse receipts provides security to the lender and ensures that holder can easily liquidate his position.

**Storage and Warehousing:** Access to proper storage of agricultural commodities leads to a reduction in post-harvest losses and has a resultant effect of increasing the value received by farmers for their produce. The warehouse receipt bill will stimulate the organic growth of the warehousing sub-sector through the availability of licensed warehouse operators and collateral managers.

## WAREHOUSE RECEIPT OVERVIEW

A warehouse receipt is a document that provides proof of ownership of a particular type, quantity and quality of commodities that are deposited in a warehouse or any storage facility for safe keeping. Besides ensuring that standards and grades are maintained, the warehouse receipts allows trading of commodities on a recognized commodities exchange, as well as enables depositors of commodities to leverage financing against commodities stored at accredited warehouses and lastly ensures trade security for all actors in the commodities trading ecosystem.

While the commodity is in the warehouse, the depositor can monitor the prices and sell when favorable, often resulting in a 15 - 20 percent increase in value.

“

*Banks and other credit providers perceive the risk of lending to agricultural producers as high and are reluctant to grant agricultural credits. Hence, countries may want regulatory reform to address these challenges facing producers and credit providers and to improve access to agricultural credit through the introduction of a warehouse receipt system.*

”

Source: FAO – Designing Warehouse Receipt Legislation.

## Grading and Standardization:

This is a direct fall out from effective storage and warehousing. A uniform and effective grading system for commodities over the years will lead to global acceptance of commodities exports from Nigeria and a boost in global competitiveness.

## Access to finance:

Small holder farmers require finance to meet their daily obligations such as feeding, clothing, health bills and other day to day expenses. Typically, farmers are forced to sell their produce at harvest when it is cheap, leaving room for middle men to take advantage of eventual price movements. A farmer can deposit his commodities at a accredited warehouse, obtain a warehouse receipt evidencing his claim to the commodities and be able to obtain financing on the back of the receipt from a financial institution.

## Infrastructure Development:

In many countries, the utilization of the warehouse receipt has proven to be a major contributor to fast tracking the infrastructural development in terms of roads, electricity, etc which have stifled the growth of the agricultural sector. Farmers will no longer have to undertake the huge costs of storage, logistics and other ancillary costs which can be exorbitant due to non – availability. The warehouse receipt will enhance liquidity and increase private sector participation in the commodity ecosystem.

This allows sales to continue over time from one harvest to another, thus stabilizing prices. Importantly, the system drastically reduces post-harvest losses as the storage and care of the commodity is transferred to certified warehouses equipped with appropriate facilities and expertise to ensure quality and quantity.

## BENEFITS OF WAREHOUSE RECEIPT LEGISLATION

Warehouse receipt legislation is necessary in countries where farmers and other producers do not have access to working capital or face difficulty in accessing short term financing by borrowing on the back of their produce at harvest.

Warehouse receipt legislation is also necessary in countries where the Government wishes to liberalize the agricultural sector and allow the private sector and foreign investors to participate fully and commercialize agricultural production.

Finally, warehouse receipt legislation is necessary for countries that wish to undertake reforms in their economy to ensure food sufficiency, adequate post-harvest handling, efficient storage and warehousing services.

## FRAMEWORK FOR LEGISLATION IN NIGERIA

The legal framework for governing warehouse receipts in Nigeria should regulate the following key elements;

- Scope and Definition
- Administration
- Licensing and oversight of warehouses
- Performance guarantees for warehouses
- Contractual rights and obligations of parties
- Legal status and format of the receipt
- Receipt details and form
- Registration of receipts
- Negotiation and transfer of receipt
- Settlement and release of stored goods
- Execution and priority of obligations
- Offenses and penalties
- World history and stats

## OVERVIEW OF THE CURRENT BILL

The current warehouse receipt bill amongst other things seeks to:

Provision	Comment
Establish the Nigerian Independent Warehouse Regulatory Agency to regulate the operations of licensed warehouses in Nigeria;	In order to fast track investment in the commodity markets, the already existing organizations with regulatory purview of aspects around the commodity ecosystem including the SEC, FMITI, FMARD and the Exchanges should come up with regulation to create an enabling environment for participants.
Provide a regulatory framework for trading in warehouse receipts;	This is necessary for providing security for participants in the warehousing sector. It will also give credibility to the use of warehouse receipts in Nigeria and boost the confidence of foreign investors.
Institutionalize best practices in commercial warehousing in Nigeria;	This will lead to effective storage, reduction in post - harvest losses, increase private sector participation in the warehousing sector and also lead to acceptability of commodities from Nigeria in international markets
Enable depositors store and retrieve agricultural and other commodities in commercial warehouses; and	This will commercialize the sector and entrench trust in the use of public warehouses.
Enhance the issuance and use of negotiable warehouse receipts as valid negotiable instruments and acceptable collateral by financial institutions in Nigeria	This will boost trading of commodities on a recognized exchange and also increase participation of retail and institutional investors in the commodities markets.

The Bill is clear as to whether it will be possible to trade warehouse receipts in a spot commodities exchange or commodity derivative markets and any oversight role the Securities and Exchange Commission (SEC) would have in the trading of warehouse receipts as part of its regulatory mandate.

# BENEFICIARIES AND IMPACTS

## I. REDUCTION OF TRANSACTION COSTS

The benefit of the Warehouse Receipt Bill and overall development of the commodities market ecosystem is going to accrue to the micro, small and medium enterprises (MSMEs) sector of the economy. The stakeholder engagement on the Warehouse Receipts Bill has indicated that in order for this benefit to accrue to MSMEs engagement in commodities trade the Warehouse Receipt Bill as a legislative measure/framework must bring about a satisfactory level of coordination across the commodities market ecosystem if there is any intention of raising the participation of MSMEs in the formal engagements that the legislative framework envisages. Therefore, the Warehouse Receipts Bill must significantly reduce transaction costs that would otherwise inhibit MSMEs participation where the replication or duplication of regulatory agencies with oversight over the commodities eco-system will increase transaction costs. To ensure that such regulatory duplication is addressed and at the same time not create gaps that will provide room for regulatory arbitrage, it has been recommended that:

- Securities and Exchange Commission (SEC) should be the regulatory agency with licensing powers, oversight and other supervisory rule-making of the implementation activities of the Warehouse Receipts transactions on the commodities market ecosystem
- Coordination and governance across the market players directed at meeting standards should be provided by existing regulatory agencies such as the Standard Organization of Nigeria (SON), Weights and Measures Unit in the Federal Ministry of Trade & Commerce – and that this is in keeping with international best practices and standards recognized by International Standards Organization (ISO).
- Accordingly, there is no need to retain the provisions in the Warehouse Receipts Bill that are geared towards establishing another regulatory body to regulate warehouse receipts, warehouses, weights, measures, grading, produce quality etc.

## I. ENHANCING THE USE OF COMMODITIES AS COLLATERAL

Farmers, traders, processors and exporters at the MSMEs level seeking access to finance for working and investment capital purposes are often unable to meet banks' demands for collateral. The types, quality and amounts of collateral that these enterprises can provide often do not meet banks' criteria, leaving such enterprises unable to secure their borrowing requirements. Adding to the problems, legal restrictions and institutional shortcomings for establishing, perfecting and enforcing security interests on company assets such as land, moveable or accounts receivable limit the acceptability of such assets as collateral.

The use of stored commodities by MSMEs as collateral is one way of overcoming collateral constraints and enhancing agricultural lending and provides a valuable addition to the traditional use of real estate and land as loan collateral. In addition, having in place a reliable and cost-efficient system for issuing warehouse receipts not only enhances commodity financing, but also contributes to improving the efficiency and transparency of commodity marketing by providing independent grading and quality

certification to all the actors involved in commodity chains. It allows commodity producers, processors and traders more flexibility in the timing of their sales and purchasing, by enabling easy refinance for the goods that they have in storage – for example, farmers are no longer forced to sell their produce directly after harvest to meet urgent financial needs.

A warehouse receipt will therefore give more security to credit providers and thereby improve the situation of poor access to credit which has been identified as a critical obstacle to MSMEs' access to finance. Commodities seem perfectly suited for this role. The simple idea behind using a commodity to secure a loan is the same as that of mortgaging a house, whereby a bank lends against the security of a house as collateral, even if the owner of the house (the borrower) falls bankrupt, the bank is not exposed because it has recourse to the house.

Collateralized financing can make access to credit easier and cheaper, helping MSMEs, agro producers etc., to reduce (to a very considerable extent) their costs, thus making them more competitive. It allows MSMEs, smallholder farmers etc. to provide greater security and more guarantees to their creditors and banks.

Enhancing the use that is made of commodities for collateral purposes has three economic benefits:

- An alternative source of ready finance is created; the pressure for immediate sales is reduced. This improves the functions of markets, and reduces volatility: for example, rice growers, maize, cotton etc. will not need to sell their produce immediately and directly after harvest in order to obtain cash. They can store their produce instead, for later sales, and obtain credit based on the produce placed in storage (warehouse).
- Large scale use of warehouses as “transit points” for sale of produce for value addition manufacturing off take stimulates the emergence of a more or less fixed relation of local prices to national price and world market prices: the physical price becomes the sum of a reference price and a location plus quality premium/discount. Such a process would enhance the usefulness of a future market in Nigeria for price forecasting and hedging purposes would increase competitive power of Nigerian agro entrepreneurs (because what will be the premium/discount is known under normal circumstances).
- Because the quality of commodities in a warehouse needs to be carefully specified and checked, Nigeria’s grading systems will be further developed and the trust of national and international markets in these local grading systems are likely to be improved and we will avert the recent embarrassing experience of

export of beans and other agricultural produce to Europe. This in turn makes it easier to sell on description, rather than by sample –which can reduce transaction costs to a considerable extent.

#### **Small holder farmers (SHF):**

Nigeria is home to an estimated 50 million farmers, 80% of whom are small-holder farmers. Land holdings in Nigeria are highly fragmented with SHF owning land sizes between 1-2 hectares. Due to inability to access proper storage facilities at an affordable rate, post-harvest losses has always been high.

The warehouse receipt will ensure provision of efficient storage facilities which will significantly improve the lives of small-holder farmers with a significant increase in yield per hectare and per capita income.

#### **Processors:**

Processors in Nigeria make up a huge pool of the demand side for agricultural commodities. Due to several factors such as lack of transparency in pricing, dearth of information, and absence of a structured market for buying commodities. The warehouse receipt system aims to address all these issues as well as allow the banks to finance purchase of all raw material requirement of processors at harvest when prices are typically low thereby hedging the risk of price fluctuation to investors and inflation protection in some instances.

#### **Retail /and Institutional Investors:**

Use of warehouse receipt will increase the participation of both retail and institutional investors in the commodities markets, effectively providing liquidity in the market through the wide range of products that will be developed around trading of the receipts. Investors will see worthwhile returns on their investments as well as have options for diversifying their portfolios and hedging risks associated with investing.



# CONCLUSION

The Warehousing Receipt System Bill creates a robust regulatory framework which clearly defines the rights and roles of participants and is crucial for a functional warehouse receipt system and would:

- Expedite the development of the commodity sector in Nigeria
- Boost the confidence of investors in the Nigerian economy

Being a policy document, the CBN, SEC, Ministry of Trade and Investment will come together to prepare the regulatory guidelines (as an interim arrangement) while the push for this legislation progresses.

It is therefore a collective responsibility of all stakeholders to ensure the smooth and speedy passage of a functional Bill into law.

# APPENDIX

AGRA and NESG's Partnership.

The Alliance for a Green Revolution in Africa (AGRA) is a not-for-profit organization working with African governments, other donors, NGOs, the Private sector and African Farmers to significantly and sustainably improve the productivity and incomes of resource poor smallholder farmers in Africa. AGRA aims to ensure that smallholder farmers have what they need to succeed: good seeds and healthy soils; access to markets, information, financing, storage and transport; and policies that provide them with comprehensive support. Through developing Africa's high-potential breadbasket areas, while also boosting farm productivity across more challenged environments. AGRA works to transform smallholder agriculture into a highly productive, efficient, sustainable and competitive system, while protecting the environment.

The Nigerian Economic Summit Group (NESG) is a private sector led think-tank organization that promotes sustainable growth and development in the Nigerian economy. It is a nonprofit/non-partisan organization with a mandate to promote and champion the reform of the Nigerian Economy into an open, private sector-led economy that is globally competitive on a sustainable basis. It has emerged as the leading platform for public-private dialogue in Nigeria.

The Nigerian Economic Summit Group serves as the Secretariat of NASSBER. The National Assembly Business Environment Roundtable (NASSBER) is a partnership between the National Assembly, Nigerian Economic Summit Group and Nigerian Bar Association – Section on Business Law. It is a platform which was created as an avenue for the legislature and the private sector to engage, deliberate and act on a framework that will improve Nigeria's business environment. This is accomplished through a review of relevant legislations and provisions of the Constitution.

NASSBER, through its Finance and Regulations Working Group is facilitating the development of an enabling business environment for Nigeria's Agricultural sector through the enactment/review of relevant enabling legislation such as the Independent Warehouse Receipt System Bill.

NESG-AGRA through the Advocacy and Stakeholder Engagement Program for the Independent Warehouse Receipt System Bill, with the overarching goal of strengthening the Input Systems, improving access to structured market and finance for smallholder farmers in Nigeria, will plan and organize stakeholder forums and widely disseminate stakeholder engagement materials and content through traditional and digital media.

The Nigerian Economic Summit Group



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[www.nesgroup.org/farmgain](http://www.nesgroup.org/farmgain)