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Efficient Power: Addressing a Critical Element in Nigeria's Agro-Industrial Revolution

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As Nigeria's government comes to grips with the economic slowdown that has followed the global spread of the novel Coronavirus, known as COVID-19, the agriculture sector is back in the spotlight as a viable foundation for sustainable and inclusive growth for Africa's largest economy and most populated country.

However, to truly harvest the potential of the country, most observers agree that large scale agribusinesses and agro-processing must be an integral part of the government's economic policy. Energizing that growth is a responsibility that public and private sector players must embrace. Given the unreliable supply of electricity from the grid, independent power plants (IPPs) are a viable alternative source of energy for the operations of agro-allied industries.

The prospect of agribusinesses getting reliable power from the grid remains dim in the short term. It will take strong political will and significant private capital to fix several problems across the power value chain. Even if the public and private sector show such commitments, the required investments in generation, transmission and distribution infrastructure could take years to complete for industrial users to feel comfortable adopting the grid as a power source.

Supplying Energy Efficiently

This challenge presents an opportunity, and, in typical Nigerian fashion, some entrepreneurs are awake to the opportunity. Fenchurch Power, an infrastructure development company with operations across Nigeria is one such example. Following its successful capital raise, the firm aims to add 150 megawatts of IPP capacity to the country over the next 5 years to power a range of industries, including the agriculture sector. There is a huge opportunity in the supply of energy to power agro-allied and manufacturing industries in Nigeria. For these players to compete locally and in the international market, they must not only provide the energy to fuel agro-allied operations, they must do so in the most efficient way possible.

Unrealized Potential

Agriculture remains the mainstay of the Nigerian economy, providing the main source of livelihood for most Nigerians. With over 80 million hectares of arable land and a population of over 200 million people, the potential for business success is huge. However, the sector faces many challenges, notably an outdated land tenure system that constrains access to land, a very low level of irrigation development, limited application of research and new technologies, and the inefficient distribution and high cost of farm inputs. Other constraints to the growth of investment in the sector are poor access to credit, ineffective procurement and distribution of inputs, inadequate storage facilities and poor access to markets.

As a result, according to the National Bureau of Statistics, the value of agricultural goods imported into the country have risen steadily over the last 4 years to N959 billion in 2019 while exports have declined over the same period to N269 billion. Notably, exports are also almost exclusively made up of raw materials, denying the country of the higher revenues that come with adding value to raw agricultural products.

As part of its program to catalyze the growth of the agricultural sector, the federal government has announced plans to establish special agro-industrial processing zones (SAPZ) in collaboration with the African Development Bank. Given the infrastructure and other incentives that such zones will offer agribusinesses, they have the potential to support the growth and emergence of export-oriented agribusinesses.

Grid Supply Void

Powering Large Scale Agro-Investments

IPPs are a logical solution to addressing the current challenges that prevent industrial users from adopting distribution companies as a reliable source of electricity. Several factors across the power value chain prevent distribution companies from becoming reliable suppliers to industrial users. A case can be made for the distribution companies to have power at the medium voltage end of the value chain. This helps to eliminate some of the technical and commercial losses experienced and allows the discos receive more power into their network to feed industries.

According to a recent Price Waterhouse Coopers report, only a fraction of power generated ends up with industries.

This clearly shows a significant gap that must be filled. There should also be more partnerships between independent power plant developers and the distribution companies. These partnerships will significantly increase the revenue profiles of both parties and reduce the size of the alternate market for generators. Greater integration between the gas suppliers and the power generating business is also an important dynamic that will evolve from the increased usage of IPP solutions.

In the meantime, large scale agro companies such as Flour Mills, Olam, Honeywell Group and the Dangote Group, have invested billions of naira in a wide range of projects across the country. Many of these investments are unlikely to be within the proposed SAPZs. These companies therefore must make the most of the opportunity where they are cited. An important part of that effort is to be an efficient producer.

Due to the unreliable energy from the national grid, these companies have invariably invested in alternative power projects to support their operations. However, the development and operations of these power assets is not the core business of these large scale agro companies and is therefore an inefficient use of capital that could fund the expansion of their core businesses. They are best suited to focus on increasing production, quality control and business development.

While electricity is a vital resource for agribusinesses, investing in power generation projects is inefficient for several reasons. First, the investment is a distraction from their core business. In addition to managing often problematic production value chains, agribusinesses bear the burden of running power generating plants and the responsibilities associated with the staffing and maintenance of these facilities. Second, because these companies are focused on generating reliable power for their operations, they are unable to optimize the value of the power generating assets.

In the search for a more efficient model, the mobile telecom industry presents an example of a sector that has embraced the concept of outsourcing to achieve greater efficiency. After the Nigerian government issued licenses to mobile telecom operators in 2001, an essential part of the investment required to achieve national coverage was the construction of cell towers. A decade later, most telcos have shied away from investing in cell towers and have embraced the idea of selling these assets to third party companies such as Helios Towers and IHS that are better equipped to optimize the value of these assets.

In the process, companies like MTN Nigeria, 9Mobile and Airtel were able to also unlock capital previously tied up in managing cell towers, diverting realized resources into their core operations. There is a lot to learn from how telcos have handled cell towers for their operations. Agribusinesses can realise similar benefits if they outsource the power infrastructure that they need for their operations. Private power infrastructure companies are equipped and better placed to take over the management of a wide variety of assets. They are designed to provide the required energy more efficiently and at a reduced cost.

There are several options for agribusinesses seeking a path to greater energy efficiency. By partnering with the host state governments, distribution companies, and large corporations, power infrastructure companies can execute customized power purchase agreements (PPAs) that will underpin independent power projects for specific industries. Furthermore, where such contracts exist, power infrastructure companies with greater capacity are willing to purchase the underlying power assets from providers with constraints to meeting the terms of their contracts. They can also purchase power assets from agribusinesses and then execute a PPA which will guaranty the supply of electricity to the firm. A key to delivering power efficiently to multiple users is having a business model that is built to do exactly that. Properly structured power infrastructure companies are able to accommodate a variety of scenarios and deliver solutions that optimize the peculiar conditions that confront agribusinesses.

The full or partial lockdowns and the associated decline in demand for goods and services that have followed the outbreak of Covid-19 in Nigeria present a significant challenge for businesses operating in Nigeria. A key to wading through the difficult times is to innovate in ways that not only expand the markets for producers with a view to boosting revenues but also reconfigure the cost base for operations. Outsourcing electric power supply presents one way to improve the operational efficiency of agribusinesses going forward. Power infrastructure firms such as Fenchurch Power are strategically positioned to revolutionize how players achieve the much-needed efficiency.

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