MARKET LINK

issue 02 | October 2010

The Newsletter of PrOpCom | Making Nigerian Agricultural Markets Work for the Poor

PrOpCom

Making Nigerian Agricultural Markets Work for the Poor

New lease scheme set to boost farmers' access to tractors

An innovative tractor lease financing scheme, designed to help private operators own tractors and increase farmers' access to tractor services, has been launched in Nigeria. The scheme is being implemented by a leading financial institution, First Bank of Nigeria Plc, in partnership with Springfield Agro Ltd – the representative of the Mahindra tractor brand in Nigeria – and the Tractor Owners and Operators Association of Nigeria (TOOAN) – a group representing small-scale tractor service operators. PrOpCom is helping to facilitate the initiative through its Agricultural Mechanisation Intervention.

Mahindra brand tractors will be sold to operators and farmers through lease financing

The current market for tractors is dominated by the government, whose efforts to meet farmers' demand for tractor services have largely failed. Through Public–Private Partnership (PPP) schemes, the government sells tractors to farmers at a subsidised price, thus creating distortions in the market. These PPP initiatives need to overcome several challenges, not least the issue of selecting farmer beneficiaries, a process that in the past has been based more on political patronage than on farmers' ability to repay loans. The result is slow development of the tractor market with companies jostling for government contracts that are susceptible to overpayment and, ultimately, a failure to deliver tractors to farmers. For instance, existing schemes have seen tractors purchased at prices higher than on the open market.

The signing of the Memorandum of Understanding (MoU) at First Bank headquarters in Lagos on 17th June 2010 marked the launch of the private sector-driven financing scheme. This is the first time a financial institution in Nigeria is offering a product targeting the tractor market. It provides agricultural machinery companies and financial institutions with a new business model for machine targeted facilities.

Under the pilot phase of the tractor intervention scheme, 50 Mahindra

Continued on page 2

Continued from page 1

Mr Ernest Ihedigbo, Head of Agricultural Finance, First Bank Plc, at the MoU signing in Lagos

brand tractors will be sold to operators and farmers in Ogun, Oyo and Kaduna States through lease financing, with repayment spread over 24 months. Each tractor costs N3.75 million (£15,000) and participating farmers are expected to make initial equity payment of N745,000 (£2,980). The Central Bank of Nigeria and PrOpCom are providing a guarantee for each tractor, and Springfield is supplying the product, with funding support coming from First Bank. Additionally, scheme participants are given comprehensive insurance cover, a 2-year warranty, maintenance support and technical training by Springfield.

Speaking at the MOU signing ceremony, Mr Ernest Ihedigbo, Head of Agricultural Finance, First Bank Plc, noted that the bank sees the tractor intervention scheme making a significant impact in the agriculture sector. "This scheme is an opportunity to prove that the private sector can really take responsibility for making the economy work without everybody having to sit back and wait for the government to do it right," he said.

He added that First Bank looks forward to other banks replicating the tractor leasing model, as the pilot scheme will be a useful guide to other institutions that may seek to adopt it. Ihedigbo urged customers to ensure that the scheme offers safe transactions and becomes an exemplary industry model for increasing agricultural productivity and employment opportunities throughout the nation.

TOOAN Public Relations Officer, Mr Kayode Kumolu, speaking on behalf of his organisation, said that the scheme will provide TOOAN members, who ordinarily had no access to funding, with the opportunity to own a tractor, thus enabling them to raise their incomes through a tractor service business.

Mr Julian Peach, Programme Manager at PrOpCom, noted the potential of the tractor leasing scheme to bring about large-scale change in the agricultural sector. By expanding access to tractor services, the initiative will empower farmers to increase farm productivity and improve livelihoods.

Sunil Mohta, Chief Finance Officer, Springfield Agro, said, "We are proud to be associated with this project. When the project was first brought to our attention it looked a little difficult but, as we moved on, we have solved, step by step, every problem. We will do everything to make this project a success."

Mr Gabriel Ogungbe, Chair of the TOOAN Board of Trustees, signs the MoU on behalf of his organisation while TOOAN and PrOpCom staff members look on

Tak Aminchi, the farmer's choice

In Nigeria, fertiliser use is very low, particularly among poor, smallholder farmers. The Food and Agriculture Organization of the United Nations (FAO) reports that, on average, Nigerian farmers apply just 7 kg of fertiliser per hectare each year. At the same time, an average of 56 kg of nutrients per hectare are removed from the soil. This massive nutrient depletion reduces crop yields and is one of the major causes of low incomes for farmers.

Fertiliser supply and distribution in Nigeria is an erratic and often politicised process, with the government controlling a large portion of the market. Government funds used to purchase fertiliser and subsidise its supply are often diverted to reward political patrons and buy off political challengers. The result is that the intended beneficiaries – poor farmers – often end up with insufficient amounts of fertiliser, late delivery, or high prices that do not reflect any subsidy. Furthermore, smallholder farmers tend to be poorly informed about how to use fertiliser effectively.

To respond to this market opportunity and help poor farmers to access fertiliser, PrOpCom is working with Tak Agro and Chemicals Ltd on a fertiliser distribution and training pilot scheme in Kaduna State.

New rice business group promotes advocacy and capacity building

Kano State has a large market for rice because of its large population and its position as the commercial and industrial centre of northern Nigeria. However, historically, rice stakeholders in Kano have lacked a forum for engaging with the government on policy, or with their fellow stakeholders. Hence, the formation of the Kano Rice Business Group (KRBG), which provides a platform for stimulating

Tak Rural Promoters receive training in fertiliser application on a demonstration plot

A Rural Promoter holding a 1 kg bag of *Tak Aminchi* fertiliser and a bag of seeds.

The scheme aims to expand the private channel for fertiliser and reach consumers at the 'bottom of the pyramid'.

In May 2010, Farm Input Promotions Africa (FIPS-Africa), a non-governmental organisation based in Kenya, was contracted through PrOpCom to provide technical assistance to Tak Agro. Tak Agro management, which is keen to expand its market beyond government, announced that the company would produce an improved blend of fertiliser with more nutrients than the previous Nitrogen, Phosphorus and Potassium (NPK) blend: '*Tak Aminchi*' (NPKSCa – Nitrogen, Phosphorus, Potassium, Sulphur and Calcium and Urea + Sulphur).

The company plans to make the new blend available to farmers in 1 kg packs, which are more affordable for small-scale farmers than existing products. Farmers, who will be able to buy as many packs as they need, will also be protected from purchasing an adulterated product, which is a common risk with sales from open bags.

Tak Agro will pilot the scheme through its major distributor, Hulhulde International Ltd, and 30 retailers. To facilitate the distribution of fertiliser and ensure farmers learn the correct application methods, the company has hired Promotion Coordinators (PCs).

FIPS-Africa conducted a 2-day training course for PCs on 10th–11th June in Kaduna. The course aimed to build the capacity of the newly recruited Tak PCs by equipping them with the skills needed to set up demonstration plots and sell the 1 kg fertiliser bags. The PCs will serve as advisers to Tak Agro's fertiliser retailers and oversee 150 Tak Rural Promoters (village-based retailers).

Under the pilot scheme, the Tak Rural Promoters aim to set up 1,500 demonstration plots and take Tak Aminchi and new farming practices to 45,000 farmers in five target areas of North and Central Kaduna. Initial pilot activities in support of this intervention are expected to generate about N550 million (£2,300,000) in increased income for the poor.

responses to investment opportunities, enhancing information flow, and communicating with the government on matters affecting the rice sub-sector.

In the last quarter of 2009, PrOpCom facilitated a rice stakeholders' meeting in Kano city to discuss and validate the development of a policy designed to create an enabling environment for efficient production, processing and marketing of rice in the state. At the meeting, key rice stakeholders from the business community, motivated by the state government's strong commitment, participated actively in the policy's development process, which provided an opportunity for them to organise formally – thus creating the KRBG – and partner with the government to ensure effective follow-up.

The KRGB's first rice business meeting was convened in March 2010, but the group was not formally launched until April 2010. Membership of the group cuts across rice farmers, processors, millers, agro-input dealers, bankers, the academic and research community, and representatives of government. It is the only publicly recognised stakeholders' forum in the Kano rice

Farmers attending an input application training session organised by Jubaili Agrotech Ltd sub-sector that represents the voice of both the influential and poor value-chain actors.

Since its launch, the self-funding KRBG has carried out various initiatives to enhance its sustainability, including drafting a constitution and establishing levies for members. A 6-month draft work plan for the group is also ready and implementation has begun.

In addition, KRBG visited the State Commissioner for Commerce, Industries and Tourism on 29th April 2010, to advocate for rapid approval of the rice policy. The policy, which was drafted in 2009, had not been approved and the KRBG's visit brought the request once again to the attention of the commissioners. The policy was consequently approved on 23rd June 2010.

In June 2010, the group organised a demonstration on the use of herbicides for farmers in Imawa village in Kura Local Government Area. One of the agro-input companies, Jubaili Agrotech Ltd. (also a member of the group), led the demonstration free of charge. Both farmers and agrochemical dealers were pleased with the demonstration.

"The Jubaili training was very good, because most of the agro-dealers who spray our farms with agrochemicals now have a better knowledge of the products," said Alhaji Lawal Bello, a Kano-based rice farmer and member of the KRBG. "Before the training, they misapplied the chemicals; instead of killing the grass, these chemicals killed our rice crops. Now, if you see my farm, you will not see any rice that is affected by this misapplication, mainly because the agro-dealers are now well trained."

The KRBG plans to extend the demonstration to other major rice-producing communities in the state.

These initiatives demonstrate how a small organised group can pick up the role of agricultural extension and thereby influence partners both within and outside its network. Future proposed KRBG activities include continuing dialogue with the government on the implementation of the rice policy, organisation of seminars to enlighten members on how to access funds, more field demonstrations, and recruitment of more members.

Recharge card sellers to act as mobile banking agents

Mobile banking developer eTranzact has teamed up with the International Finance Corporation (IFC) to design a pilot programme for the delivery of eTranzact's products in rural areas. Central to this programme was the equipping and training of telecommunications company MTN's recharge sellers as 'micro-agents' of eTranzact's products, the idea being to reach the 'rural un-banked' through a network of mobile banking agents who already provide phone-based services to users.

The pilot programme also involves microfinance banks with branches close to the agents, including Oghene MFI in Enugu, DEC MFI in Bauchi, and SEAP MFI in Ilorin and Lagos. At these branches, agents can deposit their daily or weekly takings into their virtual accounts and prepare for another day or week of selling virtual credit. Once equipped with the skills and technology, these micro-agents will be able to help end-users cash in and cash out of their virtual accounts for a small fee, which is shared between the agents, the banks supporting the initiative and eTranzact.

In May 2010, the first set of training courses was carried out in Enugu, Bauchi, Ilorin and Lagos as part of a 2-month pilot phase. In total, 50 MTN recharge card sellers were trained along with 60 micro-finance bank staff members. Trainers from eTranzact visited each city with training kits and spent 1 day teaching bank staff how to deal with the agents' banking needs and 1 day training the agents on how to register new users and help them use their accounts.

PrOpCom acted as an observer and provided advice to the IFC–eTranzact partnership to ensure the success of the pilot programme and spur the move to a nationwide roll-out. PrOpCom has been working with eTranzact since 2009 to devise and implement strategies that will enable the extension of mobile-banking services to the rural un-banked.

Mobile recharge sellers and micro-finance bank staff are trained on mobile banking in Ilorin

Rice farmers to benefit from low-cost rice thresher

Consumption of rice, a staple food in Nigeria, is estimated at 5.6 million metric tonnes per year, against annual domestic production of a little over 2 million metric tonnes. The remaining 3-plus million metric tonnes are imported, putting a huge drain on the country's foreign exchange reserves. Several factors adversely affect local production of rice, with lack of access to new technology for processing ranking high amongst them.

Continued on page 5

Continued from page 4

Participants view the new mini-thresher at a demonstration in Ekiti

In rice processing, threshing involves detaching rice grains from the stalk either manually or mechanically. The system used for threshing determines the quality of the grain and ultimately the price farmers receive for their produce.

Nigerian rice farmers predominately practise manual threshing, which results in stones and other foreign materials being swept up with the grain. It is also labour intensive, taking 10–12 men three days to thresh 1 hectare of produce, at a cost of N10,500 (£42) to the farmer. Conversely, mechanised threshing costs a farmer N6,000 (£24) per hectare and takes only one day.

Manual threshing also leads to higher grain losses – around 10% compared with just 2% for mechanised threshing. Similarly, manual threshing is more likely to result in broken grains of unequal sizes, while mechanised threshing produces uniform grains, thus increasing overall quality.

Nova Technologies (Nig) Company Ltd, a leading producer of agricultural machines, has developed a locally manufactured mini-thresher designed to meet the needs of Nigerian rice farmers. After a brief design phase, manufacture began early in 2010, with the first demonstration taking place in July 2010.

The demonstration, held at Ikole-Ekiti in Ekiti State, was attended by 110 rice farmers from 16 local government areas, Agricultural Development Programme officers, members of the Rice Farmers Association of Nigeria, and other public- and private-sector rice stakeholders. Participants learned about the mini-thresher's operational details, various functions and potential on-farm benefits.

Engineer Bankole Oyeniyi, Managing Director of Nova, explained that "mechanisation of rice processing in Nigeria will bring efficiency and reduce labour time and cost".

Oyeniyi said that the thresher, which features a fuel-efficient 3.5 horsepower engine, has fuel consumption of 1.2 litres per hour and correspondingly low running costs. It can thresh 150–200 kg of rice per hour, is multi-functional (combining threshing and winnowing), and has an in-built straw-thrower chute for easy collection of biomass.

Further demonstrations will cover Benue, Nasarawa, Kano and Adamawa States in northern Nigeria. PrOpCom is supporting Nova Technologies in the design, engineering and production of 100 threshers to be sold to Nigerian rice farmers. PrOpCom is also supporting the marketing of the product through demonstrations and road shows to be held in rice-producing states in southwest and northern Nigeria.

PrOpCom

Making Nigerian Agricultural Markets Work for the Poor

PrOpCom (Promoting Pro-Poor Opportunities through Commodity and Service Markets) is an innovative market-driven programme that aims to reduce poverty in Nigeria. Funded by the United Kingdom's Department for International Development (DFID), the programme works with government institutions, businesses and individuals to enable agricultural markets to work better for the poor. PrOpCom started full implementation in 2008 and will be operational until April 2011.

The overall intention of the programme is to facilitate basic changes to market systems, to improve how markets operate, and to increase profits and revenue whilst providing benefits to the poor from these market interventions. PrOpCom facilitates and catalyses these changes – making them possible or making them happen faster – through active engagement with businesses, civil society and government, in order to address problems in selected commodity sectors. The programme works along the entire value chain, including production, processing and marketing of agricultural products.

Using this market-led, pro-poor development approach, PrOpCom works through market forces to support the poor to:

- enhance their incomes
- increase their job opportunities
- broaden their access to markets
- create more choices for them
- reduce the economic risks they face.

PrOpCom is currently facilitating activities in five markets within a framework of 12 interventions, in order to promote market development that is beneficial to poor people in Nigeria. PrOpCom anticipates that these interventions will positively impact some 412,000 poor households, generate N8.6 billion (£34.4 million) in additional income and create about 70,000 new jobs as they mature.

DFID Department for International Development

PrOpCom is funded by the UK's
Department for International Development.

PrOpCom
40 Mississippi Street,
Maitama,
Abuja,
Nigeria

www.propcom.org
info@propcom.org
Find us under 'PrOpCom' on Facebook

Editing, design and layout: Green Ink Ltd (www.greenink.co.uk)