The vast majority of farmers in northern Nigeria could increase their productivity. However, lack of access to credit, agricultural inputs, extension services and good storage facilities holding back their potential. As a result, financial institutions are reluctant to invest in smallholder farmers, even though they produce 70% of the country’s food.

There are alternatives to overcome this challenge. An innovative financing scheme introduced by Propcom Mai-karfi has enabled an agricultural franchise and a commodity exchange to expand their operations in northern Nigeria, both to their own benefit and that of tens of thousands of smallholder farmers.

Rather than providing grants or loans, Propcom has bought a series of social impact bonds called Raise Out of Poverty (ROPO) bonds, to be paid back by the bond issuers after a specified period of time. The activities financed by the bonds have illustrated that smallholder farming can be efficient and profitable, especially when large numbers of farmers coordinate their activities. As a result, the bonds have helped its issuers to leverage private sector investment.
Buying into a smallholder harvest

**Funding great farms**

The issuance of the first ROPO bond in 2013 marked the start of Propcom’s partnership with agricultural franchise Babban Gona, which means “great farm” in Hausa. Babban Gona’s principal aim is to help farmers increase their productivity and incomes by providing training, credit, inputs and marketing services.

One of the keys to Babban Gona’s success has been group formation. Babban Gona identifies high-performing smallholders and builds their capacity so that they can create and lead its farmer cooperatives, known as trust groups. It then trains farmers on good agricultural practices and offers members ₦80,000 (£178) of credit per hectare in the form of seeds, fertilisers, threshing services and other inputs.

The first bond, worth ₦72 million (£160,000), was used to scale up the franchise’s activities. The second bond of ₦40 million (£89,000) was designed to involve more women in Babban Gona’s activities. The third, issued in 2015, was a reinvestment of the first bond which the franchise had paid off. These bonds enabled Babban Gona to rapidly expand its activities. In 2012, there were just 16 trust groups with 100 farmers; by 2017, there were 4,200 groups with more than 18,000 farmers.

**Rural revival**

Farmers who are benefiting from the services of Babban Gona have significantly increased their crop yields. Most are now getting 3.5 tonnes of maize per hectare, high above the national average of 1.5 tonnes. Furthermore, the warehousing services provided by Babban Gona mean that farmers have access to safe, high-quality storage facilities, thus reducing post-harvest losses. Instead of selling just after harvest when prices are low, farmers can keep their grain in storage and sell at a later date when prices are higher. Babban Gona can also facilitate these sales on their behalf.

For these reasons, farmers with Babban Gona have increased their incomes by more than 150%. Many have bought land and expanded their farming enterprises, and the increase in income has enabled families to buy motorbikes, farm machinery and other assets. Better-off farmers are also more likely to send their children to school.

Babban Gona is hoping that 1 million smallholder farmers will be members by 2025. The creation of more profitable smallholder farming systems could attract large numbers of young people, an important consideration in a country with 60% youth unemployment. It could also help to reverse the conditions fuelling the insurgency in parts of the north.
Buying into a smallholder harvest

The power of good timing

In 2015, Propcom and AFEX Commodity Exchange Ltd. piloted a warehouse receipt system in Kaduna State. Farmers could store their grain in a certified warehouse for a small fee. This reduced post-harvest losses and provided them with the opportunity to hold onto their grain until prices increased. They were also able to use warehouse receipts as collateral for loans. The following year the programme was scaled up to eight states.

When AFEX started working with smallholder farmers at its inception, it found it difficult to compete in the market with traders. As a commodity exchange with limited working capital, AFEX had to wait until it had been paid by larger buyers before paying the farmers. A ROPO bond of ₦110 million (£244,000) helped AFEX overcome this problem.

Drawing on the bond, AFEX was able to make immediate payment to farmers who want to “spot sell” and could now compete with traders who often pay less. Mobile money agents were prepared to pay farmers directly in areas where AFEX is not active, knowing that they will be reimbursed promptly. Increasing numbers of farmers are now selling directly to AFEX, while others are taking advantage of its warehouse receipt system.

A beneficial exchange

In Nigeria, many farmers find it difficult to source authentic fertilisers, as they are often adulterated by unscrupulous traders. Using money from its settlement fund, part of which came from the ROPO bond, AFEX was able to source high-quality fertilisers and establish a scheme which involves farmers “paying” for their fertilisers with grain.

Others are benefitting from a loan scheme set up by AFEX. Although some banks are willing to provide loans to buy fertilisers, their prerequisites can be daunting and farmers are often wary of doing business with them. AFEX got around this problem by establishing a partnership with the Lift Above Poverty Organisation (LAPO), a micro-finance institution. After AFEX had assessed how much fertiliser a farmer needed, it worked with LAPO to provide a loan covering the expense of this high-return input.

The ROPO bond has benefited both AFEX and a growing number of smallholder farmers. AFEX has increased its trading activities and farmers supplying AFEX now have access to safe storage, as well as financial services and reliable inputs. The farmers also know they will be treated fairly. AFEX is known for using a precise weighing system when farmers deliver their crops, unlike many traders who gauge quantities roughly and are often suspected of under-estimating the weight of their purchases and paying less.

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<th>ROPO bonds</th>
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<tr>
<td><strong>2013</strong>: Babban Gona, ₦72M (£160,000)</td>
<td>Repaid in June 2015</td>
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<tr>
<td><strong>2014</strong>: Babban Gona, ₦40M (£89,000)</td>
<td>Repaid in April 2016</td>
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<tr>
<td><strong>2015</strong>: Babban Gona, ₦82M (£182,000)</td>
<td>Repaid in December 2016</td>
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<td><strong>2015</strong>: AFEX, ₦110M (£244,000)</td>
<td>Repaid in July 2017</td>
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Repaid and reinvested
Buying into a smallholder harvest

Over the past few decades, donors have poured large amounts of money into Nigerian agriculture, yet most of it has failed to make smallholder farming more productive or profitable. Understandably, this has acted as a deterrent to private investors. Propcom’s experience in northern Nigeria suggests that social impact bonds which provide upfront risk capital for development programmes could succeed where many traditional aid programmes have failed.

One of the purposes of establishing ROPO bond agreements between the bond issuers, Babban Gona and AFEX, and the bond holder, Propcom Mai-karfi, was to demonstrate that it is possible to set up efficient and profitable farming systems by banding together large numbers of smallholder farmers and responding to some of the biggest challenges which they face. The project also wanted to see whether seed capital financing of this sort could leverage private sector investment.

On these terms alone, the project was successful. The bonds enabled Babban Gona and AFEX to significantly expand their activities and reach large numbers of smallholder farmers. As an integral part of this, both the agricultural franchise and the commodity exchange made a positive effort to involve more women. In doing so, they have helped raise the incomes of smallholder farmers, increase food production and create more sustainable farming communities.

By demonstrating to investors that smallholder agriculture can be profitable, the ROPO bonds have helped to leverage significant investment. In 2016, for example, Babban Gona attracted US$13 million of equity and grants from investors. Among those who have invested in the franchise are the Bill and Melinda Gates Foundation, Kiva and First City Monument Bank. In 2017, its success was recognised with a Skoll Award, celebrating achievements in social entrepreneurship and innovation.

This growing recognition shows just how important innovative financing is to foster creative efforts like those of Babban Gona and AFEX. Providers of finance need to be just as creative if they wish to bring more and more farmers the resources to rise out of poverty.

Up and out of poverty

Propcom Mai-karfi (which means ‘stronger’) is a programme supported by the UK Government to make rural markets work for the poor.

By engaging with private sector partners and governments, Propcom Mai-karfi has raised the incomes of over 500,000 people in northern Nigeria.

Through its partnership approach, the programme has stimulated £20 million in private and public investment into the rural economy.

www.propcommaikarfi.org