

Productivity and profitability of inorganic fertilizer in Nigerian Agriculture

Value-Chain Finance – A Microfinance Perspective

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A REVIEW OF THE NIGERIAN FERTILIZER POLICY/IMPLEMENTATION

A historical review of Nigerian fertilizer policies indicates inconsistencies of government fertilizer policy over the years. Policy changes year-on-year were meant to address issues of availability, leakages and arbitrage.

The role of an effective Agricultural finance policy, just like in the industrial and service sectors, cannot be over-emphasized, given that it is the oil that lubricates optimal production.

- Inconsistency of government fertilizer policy over the years

- Not addressing problems Identified

- Poor Management -

- Poor Strategy

STRATEGIC REQUIREMENT

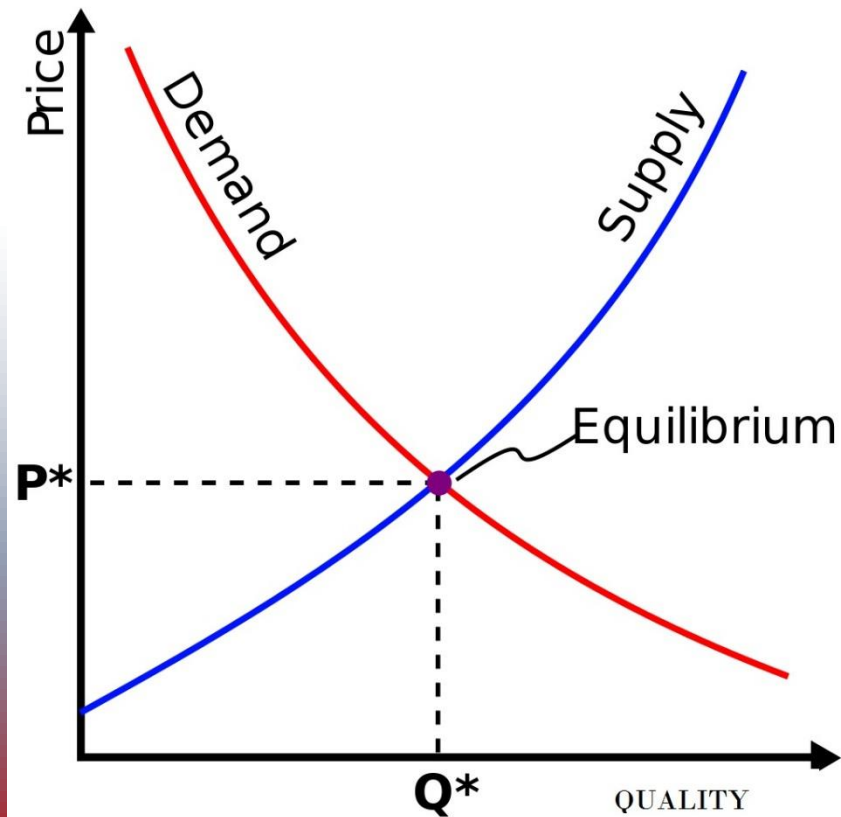
- Nigeria will need an adequate level of strategically targeted investment in agriculture. A key element of this strategy is an efficient and well functioning agricultural inputs market, making use of varied complements among fertilizer, improved seeds and crop protection products.
- While the government is saying "the reason for fertilizer subsidies is that farmers cannot afford a free market fertilizer price". Field Reports Indicates that, "quality and availability are the main constraints".
- Target in Agriculture
- Emphasis on Input Market
- Linkage among Fertilizer, Improved Seeds and Storage
- Access to Free market
- Quality and Availability

STRATEGIC REQUIREMENT (Contd.)

- Low fertilizer use is professed to be among the many reasons for low agricultural productivity in Nigeria. Fertilizer application, estimated at 13 kg/ha in 2009 by the Federal Ministry of Agriculture and Rural Development, is far lower than the 200 kg/ha recommended by the United Nations Food and Agriculture Organization (FAO).
- Although the low usage of fertilizer in Nigeria (and in SSA) could be traced to demand and supply factors such as low farmer incomes and high market prices resulting from limited fertilizer availability, public policy responses to fertilizer-related issues have also contributed to the continuing gap in usage. Several policy approaches have been used to promote increased use of fertilizer among smallholder farming systems (Crawford et al. 2005).

- Farmers will use more fertilizer if prices are lowered, farmers would use **much more** fertilizer at prevailing market prices if the quality is good and if fertilizer is available when needed.

- This means that most of the increase in production will be coming from increases in yield and not increase in land area sown to crops.



Extension Agents' perceptions of challenges to farming

- **Limited access to credit** - The investment for a 50-kg bag of fertilizer is steep for most smallholder farmers, hence the disincentive for its use.
- **High prices of inputs other than fertilizer and seeds**
- **Inadequate supply of fertilizer** – Subsidized fertilizer supplies often times arrive late due to government involvement in distribution processes.
- **Lack of access to seeds and other planting material**
- **High fertilizer prices** - *Political Interference and various government policies and bureaucracy*

Source: Banful et al. 2010

- **Poor Fertilizer application methods**

Distribution System

Small Holder Farmers in Nigeria obtain fertilizer through two possible distribution systems:

- the subsidized fertilizer sold through the public distribution system
- or the market rate fertilizer sold through the private channels

The formal public subsidy system has, however, created a set of informal incentives that undermine a well-functioning distribution system and contribute to an inefficient and unresponsive market environment

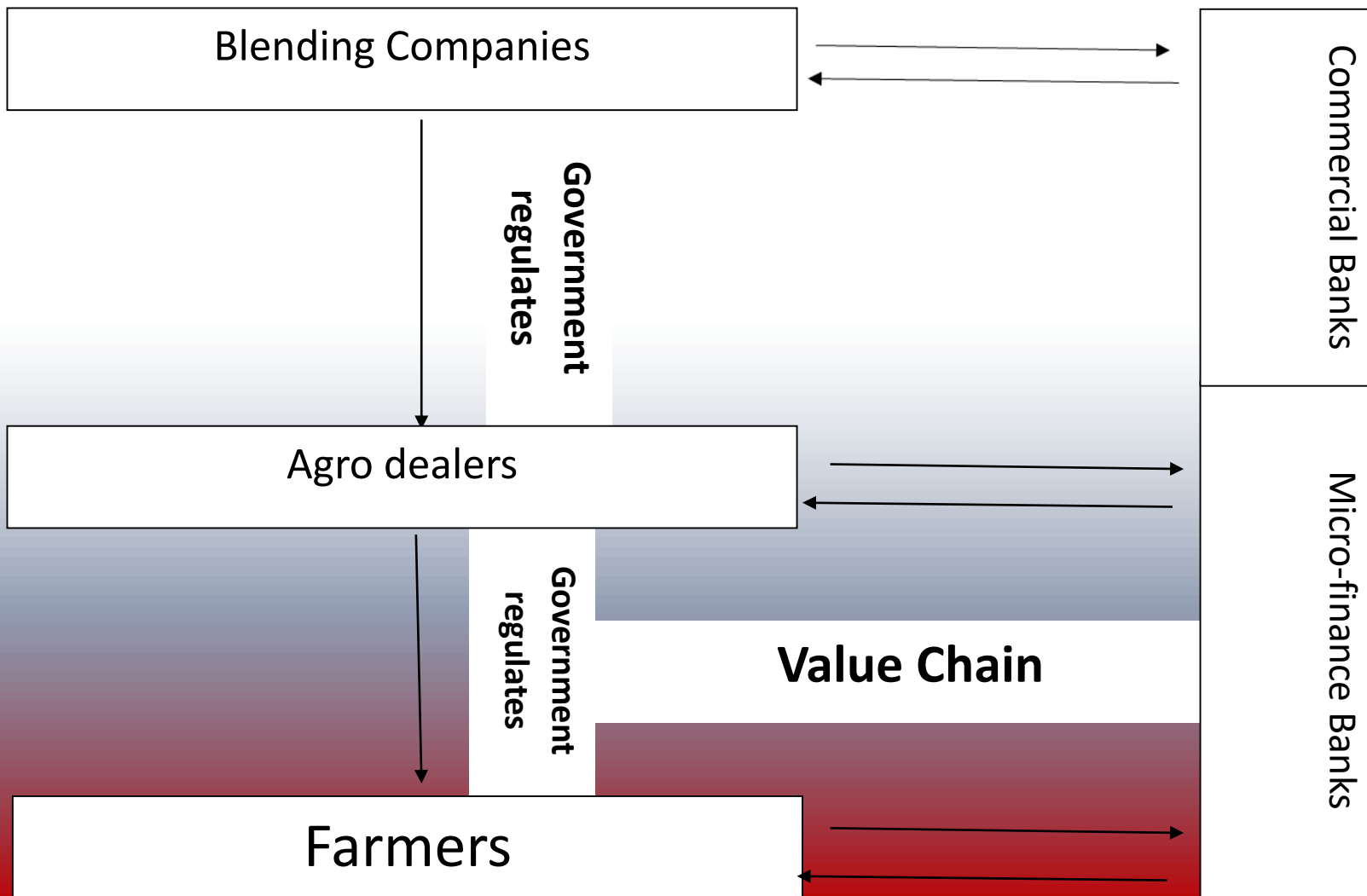
Micro-financing the Farming Business

The best probable solution to enhancing the distribution of fertilizer to the smallholder farmers in Nigeria is by the microfinance system of operation. Reasons are;

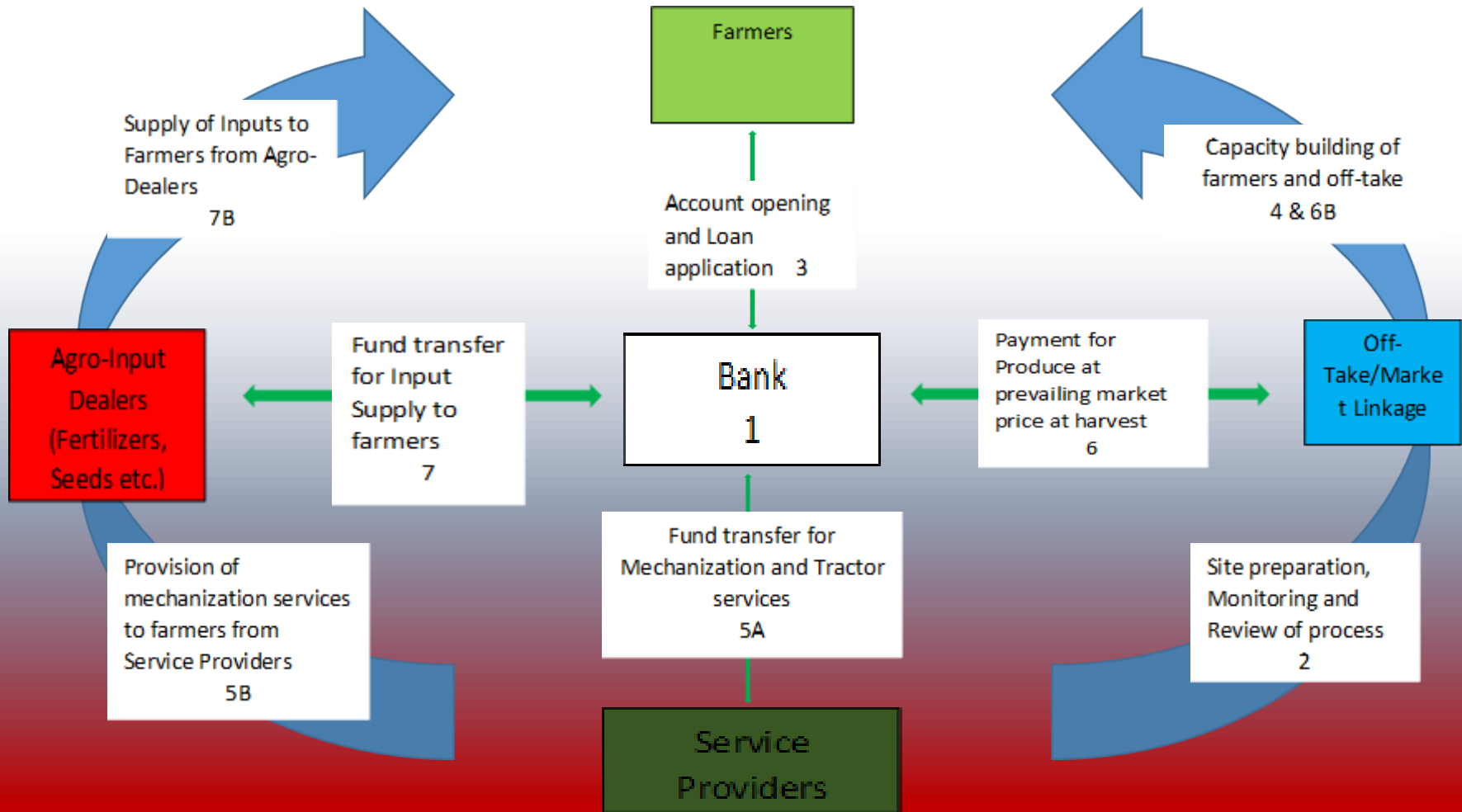
- Direct access to the farmers
- Distribution through local agro-dealers using the value chain model of financing
- Sales and transaction through mobile money cashless system.
- Reduced Prices; as products will come directly from the blending companies
- Government regulates prices and quality.

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FINANCING FERTILIZER DISTRIBUTION THROUGH CLOSED VALUE CHAIN FINANCE MODEL



1. Fortis MFB (Bank) establishes working relationship with partners in the value chain
2. Land Identified and site preparation progresses as relationship is established between Service providers and Off-Taker
3. FMFB Profiles identified farmers for account opening, loan application and disbursement
4. Capacity building of farmers commences on GAP and financial management based on project objectives (Partnership between FMFB, AGRO-DEALERS AND MARKET)
5. FMFB Transfers fund required for services to be provided by Pre-qualified/Identified Service Providers from Farmers Loan Accounts
6. Service Providers Deploys machines to Farm Site for Land Preparation and Planting Activities
7. Off-Taker pays to the Bank upon Harvesting on pre-agreed terms and conditions (prevailing market rate)
8. Agro-Dealers Deploys inputs (Herbicides, stems) to farmers
9. FMFB Transfers fund required for delivery of fertilizers and inputs required for project

ADVANTAGES OF THE CLOSED VALUE CHAIN FINANCE MODEL

- Agro-dealers have access to funds to buy the desired quantity and quality from blending companies;
- Farmers are able to have timely access to Fertilizers in the **quantity** and **quality** desired;
- Loan repayment is secured to a reasonable extent, as a result of **market linkage** and **repayment structure**; and
- There is a reduced risk of funds diversion.

Government can further enhance this process by providing access to or introducing a **Fertilizer Development Fund**, with the objective of;

- facilitation activities, technical assistance, information dissemination, law reform, and project preparation;
- providing credit guarantees for fertilizer importers and distributors;
- support establishment of regional fertilizer procurement and distribution facilities; and
- developing financing mechanisms in support of fertilizer production, distribution, and agriculture generally.

OUR PARTNERSHIPS AND PROJECT AREAS ON CLOSED VALUE CHAIN FINANCE

1	AFRICAN AGRICULTURAL TECHNOLOGY FOUNDATION (AATF)	Transfer of proprietary Agricultural Technology to small farm holders in Africa, with focus on Cassava mechanization and access to market. This partnership has established value chain finance model in Ogun State with expansion plans to Oyo, Delta and Osun States.)
2	INTERNATIONAL FERTILIZER DEVELOPMENT COMPANY (IFDC)	Identification and training of SME Agro Dealers in rural communities with Focus on fertilizer distribution, Certified seeds, Chemicals etc. Access to finance and quality Agro-Input for onward delivery to farmers; project implementation ongoing in FCT, Kaduna, Sokoto with expansion plans to Kogi, Oyo and Osun states.
3	Allied Atlantic Distilleries Limited (AADL)	Expansion of cassava mechanization project in Ogun state to additional 5,000 hectares with guaranteed off-take by AADL

4	Flour Mills of Nigeria (FMN) PLC.	Expansion of Cassava Project to Osun State for Identified out-growers on 1 000 hectares with guaranteed off-take by FMN PLC.
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5	Saianwaraijumai Consultaire Ltd (SCL)	Closed value chain finance for Sorghum and Maize production in Kwali, FCT with focus on 400 farmers. Guaranteed product off-take by SCL Limited.
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6	PLETHORA FARMS LTD.	Closed value chain finance for Maize production in Kaduna with focus on 200 farmers. Guaranteed product off-take by Plethora Farms Ltd.
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THANK YOU!

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