



**Assessment of The Micro, Small and  
Medium Enterprise (MSME) Sector in Nigeria**

**Volume 2: Draft PRISMS Design**

**PRISMS: Promoting Improved Sustainable Microfinance Services**

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**by:**

**Chemonics International Inc.**

**in association with:**

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## **CONTENTS**

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### Volume 2: Draft PRISMS Design

Acronyms		i
SECTION A	STRATEGIC FRAMEWORK FOR DESIGN	2
	A1. The Microfinance Imperative	2
	A2. The Institutional and Project Environment Imperative	4
	A3. The USAID/Nigeria Rural Economic Growth Imperative	7
SECTION B	GUIDING PRINCIPLES FOR PRISMS DESIGN	13
SECTION C	PRISMS PROVISIONAL RESULTS FRAMEWORK	15
	C1. Improved Enabling Environment	16
	C2. Expanded Rural Economic Development	17
	C3. Strengthened Public-Private Partnerships	20
SECTION D	APPROACH TO DESIGN PHASE	21
SECTION E	DRAFT OUTLINE OF PRISMS DESIGN DOCUMENT	22
ANNEX A	PRISMS DESIGN TEAM SCHEDULE	24
ANNEX B	COMMODITY CHAINS AND ECONOMIC CLUSTERS	25
ANNEX C	LIST OF BUSINESS CONTACTS FOR DESIGN PHASE	46

## ACRONYMS

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AGOA	African Growth and Opportunities Act
CBN	Central Bank of Nigeria
DAIMINA	Developing Agri-input Markets project
DEC	Development Exchange Center
DFD	CBN's Development Finance Department
DFID	Department for International Development, U.K.
GDA	Global Development Alliance
GON	Government of Nigeria
IEHA	Initiative to End Hunger in Africa
JDPC	Justice, Development and Peace Commission
LEAP	Lift Above Poverty
NACRDB	Nigerian Agricultural Credit Rural Development Bank
NIPC	Nigerian Investment Promotion Council
NUSHO	National United Self-Help Organization
OF	Outreach Foundation
OFID	CBN's Other Financial Institutions Department
PDC	Peace Development Center
SAP	Save and Produce
SEAP	Self-Reliance Economic Advancement Programme
SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
SMIEIS	Small and Medium Industries Equity Investment Scheme
SO	Strategic Objective
UNDP	United Nation Development Program

## Draft PRISMS Design

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As part of its Phase 1 activities, the PRISMS team carried out an in-depth assessment of the policy and program environment within which the PRISMS project would be implemented. This assessment was to provide the foundation for project design within the context of a landscape shaped by numerous actors and initiatives, each seeking ways to contribute to the emergence of a sustainable microfinance program and the related policy, regulatory, and institutional systems needed to support access to finance for millions of underserved Nigerian MSMEs. The PRISMS team would then use assessment results to provide USAID/Nigeria with a design for PRISMS implementation that would build on and add value to current and planned activities in support of MSME development and financial access.

The scope for PRISMS design is rooted in the findings of the assessment process, which included in-depth analysis of:

- MSME subsector characteristics;
- Current and planned Central Bank of Nigeria (CBN) approaches to financial sector policy and regulation, particularly with regard to MFIs;
- MSME requirements for both financial and non-financial services;
- Commodity chain activity and related MSME opportunities in targeted areas;
- Current and planned activities of private and public sector organizations; and
- Projected and planned activities of USAID/Nigeria and other donors.

To facilitate linkages between assessment and design, main findings and recommendations of the assessment process are presented in the form of action areas that: 1) address gaps and constraints, 2) build on USAID/Nigeria comparative advantages, and 3) fit within PRISMS resource constraints.

The action areas for PRISMS design, as presented in the assessment report, are:

- Promoting an enabling environment;
- Supporting increased access to MSME finance;
- Closing the demand-supply gap for MSME non-financial services;
- Building local capacity to provide microfinance training; and
- Enhancing the effectiveness of external assistance.

## SECTION A

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### Strategic Framework for Design

Recommendations for design presented in this volume are based on team analysis of the strategic implications of assessment findings in terms of three design imperatives: the microfinance/financial services imperative; the institutional and project environment imperative; the USAID/Nigeria rural economic growth imperative. Together these imperatives provide the strategic context for determining the ways in which PRISMS can best be implemented, as well as a framework for responding directly to USAID/Nigeria's requirements with regard to identification of "major action areas and proposed elements for the PRISMS program, the comparative level of effort to be targeted to the micro, small and medium enterprise sectors and the ways in which action elements would most effectively address problem areas identified in the assessment and link effectively to USAID/Nigeria's SO12 IRs." (from Contract # 620-C-00-04-00037-00). The sections below describe each design imperative and identify what appear to be the directions for design specific to that imperative.

#### **A1. The Microfinance/Financial Services Imperative**

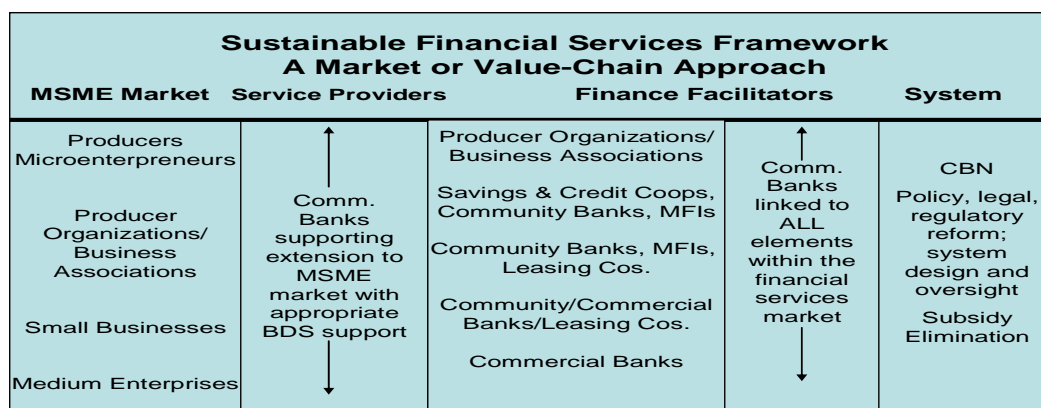
The mandate of the PRISMS project, as stated by USAID/Nigeria, is to "increase access to critical financial services for microenterprises and SMEs as part of the Mission's effort to strengthen and diversify Nigeria's economy under SO12." A major thrust of the assessment was, to paraphrase directly from the PRISMS contract, *"a comprehensive review of the microfinance and microenterprise subsectors that could be used as the basis for donors and practitioners to inform decision-making with regard to effective ways to allocate resources to relieve constraints and support establishment of a sustainable microfinance industry in Nigeria."*

The starting point for design of PRISMS activity areas therefore is a definition of sustainability for Nigerian microfinance given the unique characteristics of the Nigerian microfinance and MSME landscape. As identified and reported in the assessment, some of the characteristics of the financial system that must be addressed in working toward a sustainable microfinance program include the following:

- State-owned development finance institutions that continue to run large subsidized, targeted credit programs that work against market-based principles and free and efficient allocation of funds within the system;
- A central bank which, although lacking in capacity, is committed to addressing these problems, strengthening microfinance operations as an integral part of the mainstream financial system, and providing improved regulatory and supervision support;
- Many community-based, "multi-purpose" NGOs that operate both social programs and microcredit operations and are not yet operationally self-sufficient, let alone financially self-sufficient;
- A relative few "single purpose" NGOs dedicated to microfinance and striving to achieve financial self-sufficiency that potentially could, with access to intensive and systematic training and technical assistance, provide increased numbers of microfinance and "missing middle" loans;
- Hundreds of thousands of microenterprises who remain outside of the existing financial services frontier and are not adequately served by the system as it currently functions.

The graphic below provides a conceptual framework for a sustainable financial services value chain based on the results of PRISMS assessment. As illustrated by the graphic, the assessment shows that of all mechanisms already in place, Nigeria's community bank system offers most potential to reach the entire range of MSMEs, whether urban or rural. It further shows that community banks have greatest potential (because of location, structure, and regulatory arrangements) to move most quickly to operate as sustainable mechanisms through which: 1) individual agricultural producers and MSMEs, which form the backbone of the economy, can receive access to financial services; and 2) other entities operating in the financial services chain can extend their services either upward or downward with increasing cost effectiveness and decreasing risk.

## Microfinance/Financial Services Imperative



The keys to sustainability for the system lie in the strength of the policy and regulatory framework, the business soundness of the finance facilitators, the ease and profitability of linkages between finance facilitators, and the cost effectiveness of outreach between MSME clients and financial facilitators.

As an agency, USAID has vast microfinance experience and is involved globally in projects that address sustainability for microfinance initiatives. This PRISMS assessment indicates that strategic directions for USAID and for PRISMS design with regard to microfinance and the financial sector, include:

- Working with the Central Bank of Nigeria and formalizing a CBN request for USAID support with, e.g., strengthening the policy, regulatory, and supervisory functions needed to provide the critical foundation for a sustainable microfinance program; by providing support to the CBN through PRISMS, USAID can influence the thinking and actions of the entire system;
- Providing access through PRISMS to the wealth of microfinance and best practices models drawn from USAID experiences around the world, including other countries in Africa;
- Using PRISMS to transfer USAID's cutting-edge experience, including in Africa, with expanded access to MSME finance by applying adapted best practices to forge new linkages between microfinance and traditional financial institutions; and

- Introducing private sector-driven models for building and working through institutions, both in the delivery of financial and non-financial services that are themselves sustainable within the marketplace without long-term subsidy.

### **Elements of a Vision for a Sustainable Nigerian Microfinance Program**

#### **Policy and Regulatory Framework**

- Government macroeconomic and sectoral (financial and agricultural) policies developed to support rather than distort market forces and movement in the chain.
- A Central Bank fully committed to building and supporting a financial system that can deliver services to all parts of the economy.
- Presence of appropriate support entities, such as a credit bureau, rating services, supervisory bodies.

#### **Financial Services Delivery Framework**

- A core of commercial banks and other financial institutions providing access to MSME financing through development of effective and profitable linkages with other financial operations within the chain.
- A strong network of profitable community banks operating with expanded MSME portfolios through introduction of best practices and new financial products, including microfinance.
- MFIs differentiated from NGOs, with only those NGOs totally focused on microfinance and FSS able to use the designation MFI.
- MFI/MDIs classified in terms of stage of development and developing sustainable operations using best practices.

#### **Outreach and Services Expansion Framework**

- Strong member-driven producer organizations and business associations able to provide access to business development and financial services on a sustainable basis by working within product to market value chains.
- NGOs that offer microcredit as a component of other service packages operate under special guidelines and incentives to expand access to the financial system.
- BDS providers able to provide appropriate services to enterprises and financial intermediaries at all points in the chain.
- Donor programs developed to support rather than distort market forces and movement in the chain.

## **A2. The Institutional and Project Environment Imperative**

As a next step, and to further define the areas where USAID/Nigeria would have capacity to contribute to a sustainable microfinance industry through PRISMS, the team looked at projects and activities already underway and/or being planned by other organizations and entities.

**Government of Nigeria.** The Government of Nigeria, as reported in the assessment, continues to operate on two tracks with regard to its approaches to the financial system. On the positive, reform track, the Central Bank of Nigeria is now circulating the draft of a national microfinance policy that calls for classification and regulation of MFIs and for set up of various support entities (such as credit bureau and ratings agencies). CBN's Development Finance Department (DFD) and its Other Financial Institutions Department (OFID) have informally indicated the need for capacity building support from USAID through PRISMS. In other positive moves, the GON is using resources provided through the World Bank's upcoming MSME project to add value to the work of SMEDAN, the Small and Medium Enterprise Development Agency of Nigeria, and support SMEDAN's ability to operate as a more effective advocate on behalf of MSME-directed economic growth. The activities of the Nigerian Investment Promotion Council (NIPC), which will operate as the executing agency for the World Bank project, have also been restructured to support a heightened SME focus.



In terms of what still needs to be done, while the GON has reformed some aspects of the system, for example, by merging government programs and restructuring development finance institutions such as the Bank of Industry and the Nigerian Agricultural Credit Rural Development Bank (NACRDB), the GON continues to operate with subsidies through such operations even as it works in other areas to establish market-focused reforms. In another double-edged sword example, the GON put the Small and Medium Industries Equity Investment Scheme (SMIEIS) into place by requiring banks to set aside 10 percent of their pre-tax profits for equity investment in SMEs, but most investment to date has taken place in Lagos and has not gone to microenterprise. Now, although the GON has agreed that banks can allocate up to 10 percent of their SMIEIS contributions for investments in the microfinance sector, this “permission” overlooks the fact that demand for equity investment among SMEs – even at the high end – is low. Special attention and intermediation are needed to support CBN’s ability to tackle these situations, which, if and when rationalized, will have a far-reaching impact on the entire financial system, including the microfinance industry.

**Services Suppliers.** Assessment of NGOs involved in the provision of microfinance and of providers of both financial and non-financial services to MSMEs shows that most are heavily donor dependent. The amount of donor funding flowing into and through NGOs – whether as microfinance practitioners or as BDS providers to such practitioners is staggering. Most NGOs provide forms of microcredit services as an adjunct to their core social and technical programs. These “multi-purpose” NGOs, which include most of those operating microcredit activities in Nigeria, find themselves caught between their social goals and the more profit oriented focus needed for operation of a successful MFI. To date none of the NGO MFIs operating in Nigeria has begun the process that is necessary to support transformation to become a micro deposit-taking institution (MDI) – a process likely to take several years and cost a minimum of a million dollars each, based on ample international experience. Existing BDS providers operating in Nigeria themselves do not currently have the capacity to support the MFI-to-MDI transformation process. They will need to develop these skills and do so in ways that support their ability to address their own sustainability issues.

**Donor Activities.** Review of donor programs shows heavy investment in the importance of building a sustainable microfinance industry. In addition to the support it will provide for GON institutions involved in the provision of MSME development support, The World Bank’s planned MSME project (due for startup in June 2004) seeks to expand access to microfinance by attracting outside investors to set up and operate a commercially viable microfinance company. The World Bank project, as currently defined, will take a subsector approach that calls for strengthening MSMEs within targeted value chains, specifically by working with and expanding the ability of BDS providers to provide appropriate services to businesses and financial intermediaries, particularly those providing leasing services, within the chain. By using competitive approaches to the selection of BDS providers, the World Bank seeks to address issues identified in this assessment with regard to lack of technical innovation and sustainable approaches in the delivery of services to MSMEs.

The United Nation Development Program (UNDP) will begin the next generation of MicroStart activities by building the capacity of five to 10 local MFIs to provide sustainable microfinance services to economically active clients, while, at the same time providing capacity-building support to BDS providers who provide technical assistance and training to MFIs. With preexisting relationships and technical methodologies and approaches in place with eight NGO MFIs, including the Justice, Development and Peace Commission (JDPC), the Self-Reliance Economic Advancement Programme (SEAP), National United Self-Help Organization (NUSHO), Outreach Foundation (OF), Peace Development Center (PDC), Development Exchange Center (DEC), Save and Produce (SAP),

and Lift Above Poverty (LEAP), MicroStart is the likely project to begin work to support the transformation of these and/or other targeted MFIs into MDIs.

DFID, Britain's Department for International Development, has two new upcoming projects. The first is highlighted in the box to the right. The second project, ProFinS is currently under design but is likely to target other aspects of the financial sector, such as capital markets development. GTZ through its Employment-Oriented Private Sector Development Program plans to work in two states to forge strategic partnerships with qualified financial services institutions and support their ability to develop and deliver products and services to MSMEs. The Ford Foundation, which has been supporting the evolution of a microfinance industry since 1992, launched its Seed Capital Development Fund in 2002 to support initiatives that would decrease poverty through MSME financial interventions that would result in increased incomes. IFAD, which follows a poverty alleviation and rural development strategy, is interested in providing support to community-demand driven rural development initiatives. Other donors, such as the Japanese International Cooperation Agency, the Canadian International Development Agency, the African Development Bank, and the European Union are following the microfinance industry carefully as they seek to determine, as USAID is doing, how best to approach this complex and involved marketplace.

#### **A Pro-poor Focus**

Britain's Department for International Development (DFID) provides yet another important piece of the donor mosaic. Through its ProOpCom project, DFID will support the ability of farmers and producers within commodity and value chains to form organizations and associations through which they can access markets and services. Through the approaches that it takes, DFID is seeking to strengthen organizations at the critical first stage of the financial services value chain – that which enables and supports the delivery of non-financial and financial services to thousands of rural producers and microentrepreneurs.

When the picture of donor involvement is pulled together from the perspective of the graphic for a sustainable financial services value chain, it becomes easier to see how donors in Nigeria have designed their programs and interventions to come up with what are, for the most part, complementary rather than overlapping approaches. USAID's approach to PRISM is then further defined in light of system gaps not currently being addressed, or addressed in the same way, by other donors. Within this context, USAID can make significant contributions by:

- Building on USAID's experience with and commitment to private sector-led growth to develop models for market-linked commodity chain initiatives through which PRISMS can link the commodity and financial services chains to support and create opportunities for MSME growth, for financial intermediary involvement, and for other donor participation;
- Supporting CBN's ability to lead the way forward with regard to sharpening and deepening the vision for a sustainable microfinance industry in Nigeria, putting required support systems into place, developing and implementing approaches to removing subsidies, and designing and mandating new approaches that will move SMIEIS funds into the MSME system;
- Within the above context, concentrating on financial sector and systems reform, including the community bank system, rather than on directing resources to intensive strengthening of individual NGOs (an area where other donors have already directed more resources); and

- Structuring and operating PRISMS as a catalyst, intermediary, and honest broker to monitor and provide information support to donors and programs operating in the financial services value chain and seeking ways to increase potential for sustainability.

### A3. The USAID/Nigeria Rural Economic Growth Imperative

The final imperative for the PRISMS project design is provided by analysis of USAID’s current and planned activities, the Strategic Objective (SO) 12 framework within which PRISMS is to be implemented, the potential for maximizing linkages and learning between SO 12 and other USAID SOs within the USAID/Nigeria Country Strategic Plan, and the potential for maximizing opportunities to work with USAID on a regional and global basis, through, for example, Global Development Alliance (GDA), Initiative to End Hunger in Africa (IEHA), and the African Growth and Opportunities Act (AGOA) activities.

As a project under SO 12, PRISMS project results contribute directly to achievement of SO 12 indicators, as shown in the box to the right. Directions for PRISMS design outlined in the financial services and institutional imperatives described previously are now further refined by the requirement to achieve results at the SO 12 level, as well as indicators attached to the Intermediate Results categories established for SO 12. USAID/Nigeria sees PRISMS as contributing most directly to two of the four IRs within the strategic objective. These IRs and their associated illustrative indicators are shown in the at right; sub-IRs were not available from USAID at the time this design was prepared.

According to a USAID/Nigeria SO 12 policy paper: *“SO 12 will address core problems of low productivity, lack of competitiveness, an inconsistent policy framework, and an unfavorable environment for investment and enterprise development that are stifling the Nigerian economy...A growing number of self-sustaining microfinance institutions and an increasingly sophisticated financial system will offer small businesses and consumers an increased range of financial services, including loans and savings options...There will be greater processing to add value to bulk commodities. Policy reform efforts will target issues of...accountable government procedures, financial markets, a more open and competitive Nigerian trade policy, and a more favorable investment climate...SO 12 will influence government policy and resource allocation, and provide targeted assistance to increase farmer access to improved technologies, inputs and markets through the private sector.”*

USAID’s SO 12 portfolio operates within two areas: economic reform and agriculture growth. USAID economic reform activities include budget process support (BPS Project), domestic debt management in cooperation with the U.S. Treasury Department, and access to telecommunications (through the Leland Initiative). The PRISMS effort is included within the economic reform section of the portfolio.

#### SO12 “Improved Livelihoods in Selected Areas”

Illustrative indicators:

- Incomes from selected commodities and products;
- Volume of production of selected commodities and products; and
- Value of production of selected commodities and products.

#### IR 12.2: Increased value-added of selected commodities and products

- # of new value-added commodities and products
- range of value-added products
- capacity index of assisted enterprises

#### IR 12.4: Improved policy environment

- Milestones achieved on policy reform matrix

The agriculture growth portfolio within SO 12 includes: 1) a national biotechnology program; 2) a project to develop clusters for the production, processing, and marketing of cassava in Bauchi and Akwa Ibom states; 3) the Developing Agri-input Markets (DAIMINA) project to promote private-sector marketing of fertilizer and other crop inputs; and 4) the new Cassava Enterprise Development Project being implemented under a GDA between USAID and Shell Petroleum to reduce the impact of Cassava Mosaic Disease, increase productivity for cassava, and develop and expand post-harvest processing and marketing outlets for cassava products.

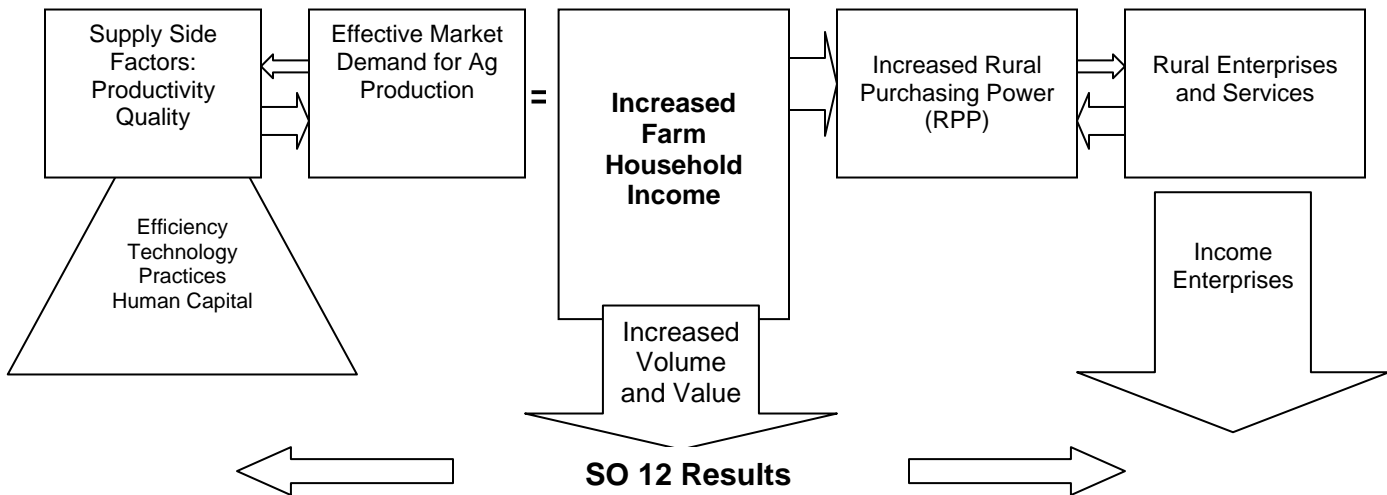
Because SO 12 remains “under construction and resource-constrained,” the PRISMS team sought to determine how the project might best be organized to contribute to both themes within the SO 12 portfolio and to maximize USAID/Nigeria potential to leverage additional resources to support implementation – whether in partnership with other donors in Nigeria and in the region, by maximizing opportunities under GDA, IEHA, etc. and/or by introducing a DCA loan guarantee program that would have the effect of spurring increased financial flows to SMEs.

To provide a framework for designing both enterprise development and financial services activities, we developed three models to provide a conceptual framework for seeing the linkages among economic reform, agricultural growth, and microfinance, as well as issues related to democracy and governance, food security, HIV/AIDS, gender, which are addressed in other USAID SOs.

**Three Development Models.** To define USAID’s rural economic development imperative, we look at economic development, business and market chain productivity, and competitiveness through three lenses – different ways of looking at what are essentially the same challenges.

**Rural Economic Development Lens.** This lens, which is illustrated in the model below, is a market-driven approach that looks specifically at the importance of generating effective demand for agricultural products that is transmitted through the commodity chain and results in increases in efficiency of production at lower unit costs. This efficiency is the result of factors such as better technology, better farming practices, and increased human capital. When these factors lead to production of the quantity and quality of goods sought in the marketplace, product results in sales, which in turn lead to increased farm household income – multiplied in many households.

### Rural Economic Development Model

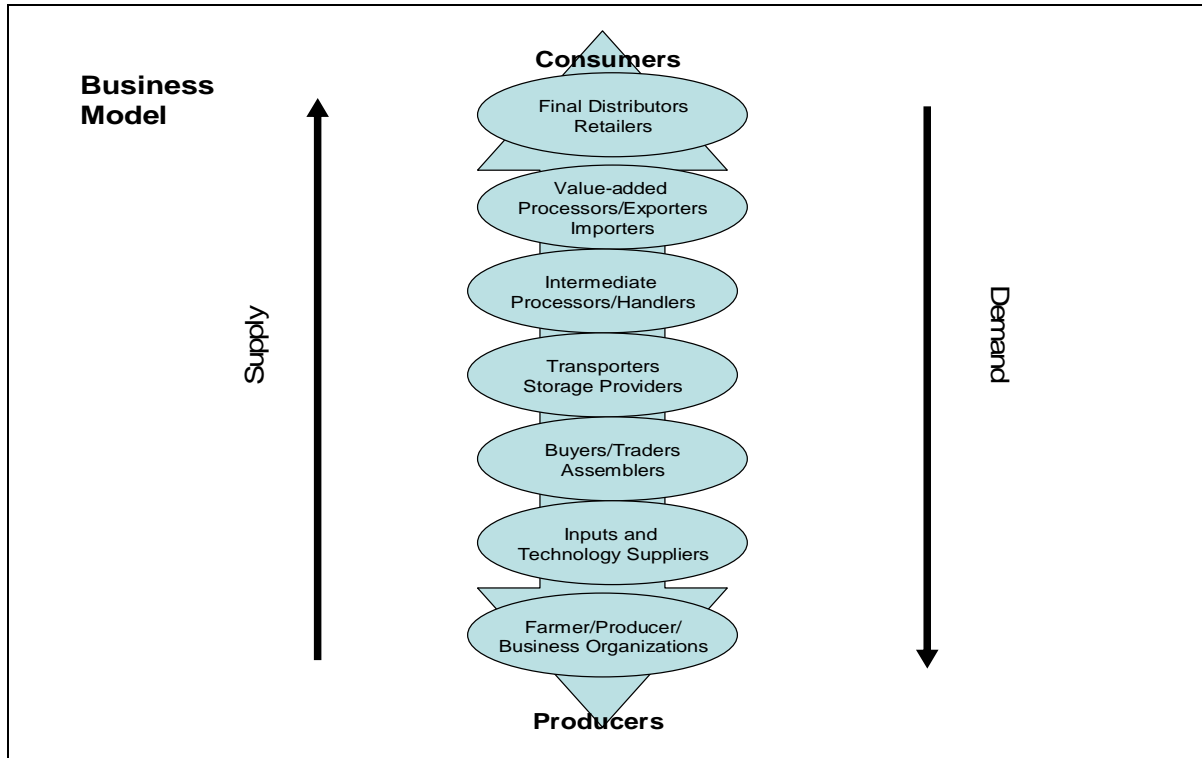


This increased income puts more money in the hands of rural consumers and results in increases in rural purchasing power (RPP), which itself is another form of effective demand that seeks goods and services in the marketplace. The most important of these goods are what economists call non-tradable goods, essentially perishable food and locally produced and consumed goods and services. The demand for these goods leads to expansion of rural enterprises and services because in a competitive environment rural enterprises make necessary investments and organizational changes to produce more efficiently. At the household level, the net impact is increased income, which translates to sustainable livelihoods. At the rural economy level, the net impact is increases in income, volumes and values of selected commodities and products – the results being sought under SO 12. PRISMS’ focus is on the central income generating core of this model, and on finding ways to increase financial flows to producers by linking them to opportunities for value-added enterprise development within market-linked commodity chains.

**Business lens/commodity chain model.** The second lens looks at the relationship between effective demand and the corresponding production to supply chain put into place to satisfy that demand. Through this lens, one can look at the same relationships defined in the rural economic development model, but this time from a private sector, business perspective. Looking at the model through this lens facilitates the ability to identify linkages between the consumer, where demand is generated, and the producer, who produces the basic material to meet that demand. Support enterprises and organizations along the chain transmit demand from consumers to producers and support the production and services required to supply the quantity and quality of goods demanded by the consumer.

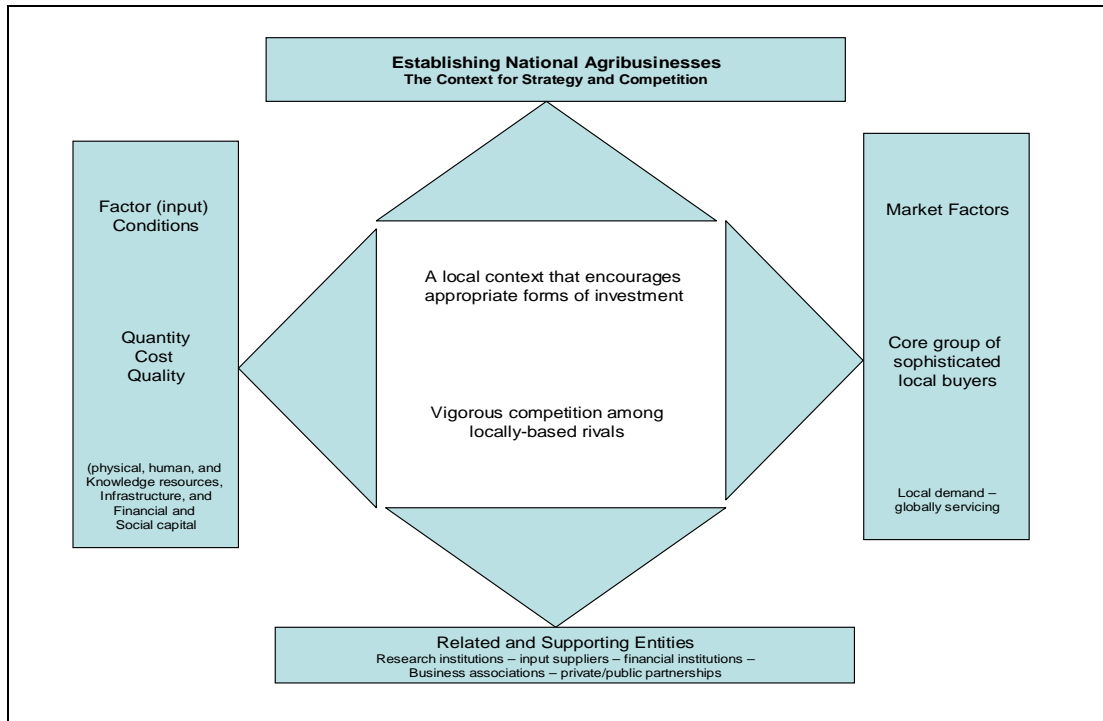
The business model provides another way to show how PRISMS will impact project objectives and achievement of SO12 indicators. Within the linkages between businesses within the chain, and within the framework of market-linked economic cluster activity, PRISMS will develop and facilitate expanded financial flows that lead to increased MSME activity along the chain. In so doing, PRISMS will forge new MSME support relationships between and among financial and non-financial services providers who are positioned to support the provision of access to finance to entities operating within the chain.

## Commodity Chain Business Model



**Competitiveness model.** The final lens is adapted from Michael Porter's competitiveness framework, which indicates the same elements shown in the other models while providing scope for acknowledging the roles of the wider range of private and public sector players in building toward expanded competitiveness for Nigeria in its target markets – domestic, regional and international. This model, which is presented on the following page, helps to showcase the importance of building private-private and public-private partnerships in support of competitiveness. When the same elements of the earlier models are viewed through this lens, the focus of activity shifts to developing and applying a market-driven national business strategy for each commodity and to identifying the roles for MSMEs and financing opportunities and requirements within the framework of such strategies.

## Competitiveness Model



Once in place, national, competitive business strategies facilitate ability to rally both government and private sector support and to create the range and type of partnerships needed to promote economic development of the scale required in Nigeria. Such strategies also provide frameworks that support identification of the ways in which Nigeria can transform from its current, predominant focus on

**Did you know??**  
That Nigeria has:

- 18 improved cassava cultivars
- 70 improved soybean varieties
- 126 improved varieties of cowpeas
- 68 improved yam varieties
- 36 improved maize varieties
- 5 improved rice lines

**but, so what???**

supply-sided technical development (understandably driven by the notable achievements of the country’s four international and 20 national research institutes) to a context characterized by assessments of potential for impact in target markets. The answers to the question of how Nigeria can best put its commodity, processing and crop systems technologies and improvements to use is provided when response to market demand requires adoption and application of such improvements as part of specific, market-linked business strategies. This context in turn supplies the momentum needed to spur MSME growth along the entire chain.

The nexus between PRISMS economic reform and agricultural growth activities can be found in the formation of economic clusters that build directly upon past and current work done in targeted areas by USAID and others. While the words “economic cluster” appear often in the many subsector studies reviewed by the PRISMS team, insufficient work has been done to translate activities associated with commodity improvements into effective, market-driven and private sector-led initiatives of the scale and size needed. Strategic directions for PRISMS design within the USAID SO12 mandate include:

- Building on USAID’s global experience with developing market-led economic clusters, organizing private sector-led growth, and employing flexible approaches to support work with business leaders on design and development of needed strategies;
- Structuring PRISMS to further USAID’s agency-wide mandate to develop and expand private and public sector linkages, with emphasis on using public sector funds to leverage and maximize private sector participation; and
- Providing access to a worldwide network of agribusinesses that have a stake in developing Africa through use of appropriate market-led business strategies.



## SECTION B

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### Guiding Principles for PRISMS Design

The following pillars – based on assessment and on the design considerations highlighted in this section – guide the PRISMS approach to the design phase:

**Strengthening macroeconomic policies and microeconomic foundations.** Nigeria’s ability to compete globally is a function of both its macroeconomic policies and its business environment, or the microeconomic framework that supports business growth. Through a design which supports its ability to work with and through the Central Bank of Nigeria, while at the same time working with and through carefully selected economic cluster activities, PRISMS will have the ability to influence Nigeria’s macroeconomic and microeconomic environments in ways that will have positive impacts that can translate into improvements in Nigeria’s Growth Competitiveness Index, in increased MSME access to finance, and in increases in rural value-added.

**Adding value to existing efforts.** In a project environment where there are so many support initiatives underway, particularly in microfinance, there is particular need for USAID to make its breadth of microfinance experience available in ways that will lend support to the initiatives of others. PRISMS’ design needs to incorporate roles for the project as an honest broker, a coordinator, a facilitator, a mentor, particularly in the design and development of a sustainable microfinance industry.

**Adapting best practices models that work.** USAID global microfinance experience brings access to models, for example, from the Philippines and Uganda that are adaptable to the Nigeria context in support of a sustainable microfinance industry. PRISMS’ design needs to look at ways to facilitate adaptation of these models using competitive approaches to transfer and training that will upgrade the ability of BDS providers to innovate and deliver appropriate services.

**Harnessing business initiative and market imperatives.** Current expanded interest on the part of U.S. and other international firms in developing African markets is a function of both business savvy and corporate responsibility. African markets represent one of the last frontiers for business; Nigeria is one of the largest. Experience shows that there is increasing interest on the part of businesses to enter into alliances that promote both good business and good development. The increasing interest in GDA activities is one indicator of the fact that market and economic development imperatives can make good bedfellows. In this context, there is more work to be done, for example, in the case of USAID’s cassava activities, to supplement current supply-sided approaches with more focused, business savvy strategies for subsector growth. PRISMS can be designed and implemented to provide impetus for formation of such strategies.

**Leveraging, mobilizing and maximizing resources.** Largely missing in the Nigerian context, yet sorely needed, is a project that maintains strategic perspective on the relationships between rural economic development and access to finance; and is able to identify and put into place initiatives and interventions that make good business sense and provide scope for USAID to leverage participation of other resource partners – whether corporations, other donors, GDA, IEHA, etc. PRISMS needs to be structured so that it is tasked to package and promote activities specifically designed to generate additional funds through leverage activities.

**Focusing on and promoting sustainability.** Within the microfinance subsector and within the commodity chain activities assessed by the PRISMS design team, there is lack of understanding of what is required for sustainability, and on how it can be achieved. USAID, more than any other donor agency active in Nigeria, has a clear focus on sustainability, on the impact of unsustainable practices on marketplace dynamics and on what types of approaches and strategies might be used to support achievement of sustainability. PRISMS design must incorporate this focus in all action areas.

**Mainstreaming cross-cutting themes (HIV/AIDS, gender, environment, youth).** PRISMS will not have the resources to carry out extensive, separate programming in these cross-cutting areas. Rather, PRISMS interventions will need to be designed and implemented to maximize opportunities for integration of these realities into the fabric of all PRISMS activities. To do this effectively, PRISMS will be designed and implemented to maximize potential for linkages to other USAID SOs, and for integration of other SO themes into all SO-supported interventions and activities.

## SECTION C

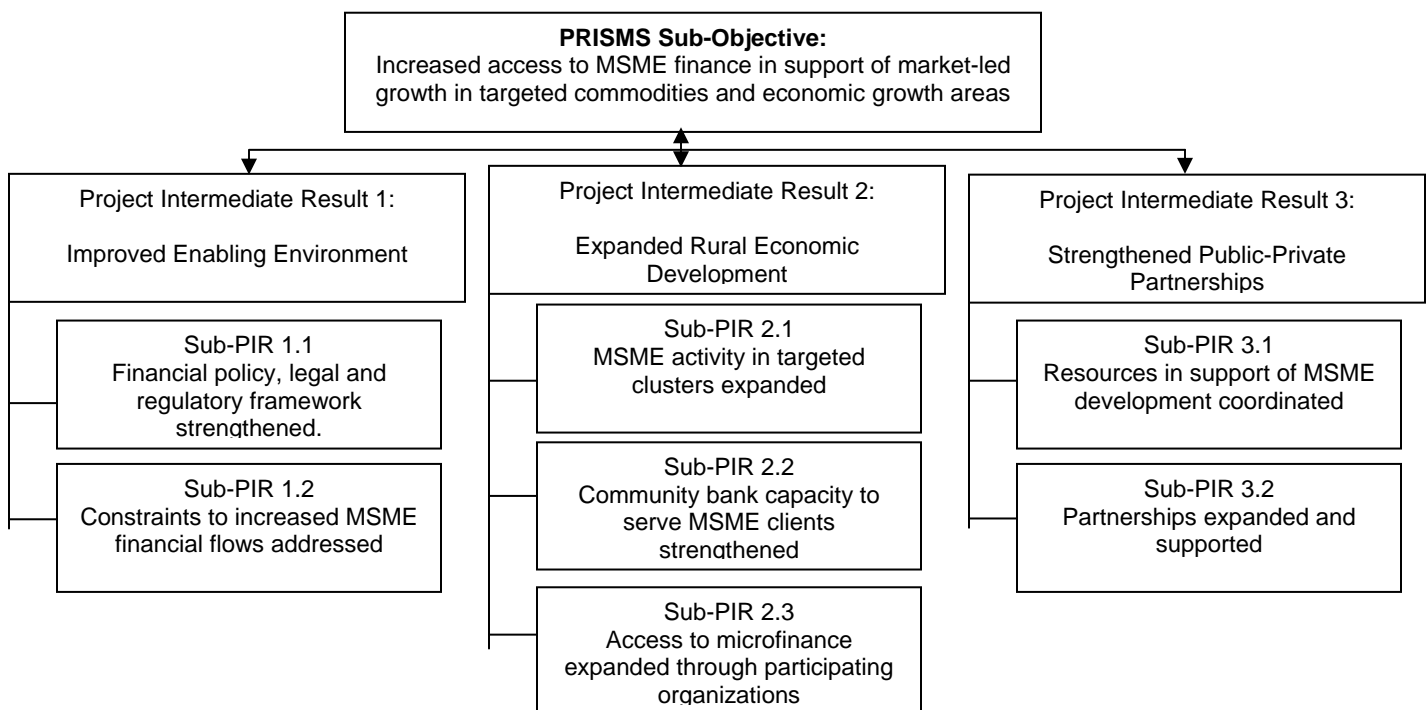
### PRISMS Provisional Results Framework

The results framework (RF) for PRISMS will be developed jointly between the PRISMS design team and USAID/Nigeria. The provisional RF presented on the following page is intended to provide a starting point for discussion. At the highest level of the PRISMS RF is SO12 – Improved Livelihoods in Selected Areas. This is the PRISMS project goal. While PRISMS expects to contribute significantly to this goal, it will do so through PRISMS’ own sub-objective – Increased access to MSME finance in support of market-led growth in targeted commodities and economic growth areas.

To achieve the project sub-objective that will lead in turn to achievement of SO12, PRISMS proposes to work through three implementation components, or Project Intermediate Results areas. These are:

- Improved Enabling Environment
- Expanded Rural Economic Development
- Strengthened Public-Private Partnerships

Each PIR is further supported by sub-PIRs as shown in the RF, each of which is a major objective or results area. Each sub-PIR has its own activity stream designed to implement assessment recommendations and guide the project toward desired results. The RF will be reviewed during Phase 2 design to identify priorities and propose the final design framework and activities for implementation.



## **C1. PIR 1: Improved Enabling Environment**

This component includes PRISMS activities carried out to support implementation of the following:

### **Recommendations for Promoting an Enabling Policy Environment:**

- Capitalize on existing relationships between PRISMS team members, the Central Bank of Nigeria and other GON ministries to achieve a comprehensive and consistent national microfinance policy (part of this will require establishment of a microfinance unit within the CBN);
- Carry out a comprehensive review of subsidized credit activities;
- Support identification of inappropriate policies and/or inefficient practices in government-sponsored credit and loan guarantee programs;
- Support the GON to formulate savings and credit policies that will enable government to facilitate access to financial services by the MSME sector;
- Design and present viable alternatives to directed credit and loan guarantee programs;
- Develop and propose a plan for transferring ongoing subsidized credit programs to a single institution and for phasing out such programs on acceptable bases;
- Develop and propose strategies for increasing private sector involvement in the delivery of financial services;
- Formalize a CBN/DFD-led microfinance working group/network;
- Facilitate agreement among network members on microfinance reporting and performance criteria;
- Determine approaches to establishment of necessary finance infrastructure (credit bureau, rating agencies, etc.).

### **Recommendations for Developing Appropriate Regulations and Adequate Supervision for Microfinance:**

- Rationalize the roles played by DFD and OFID within the CBN framework with respect to microfinance policymaking, regulation, and supervision;
- Review the overall approach to creating a legal and regulatory framework for microfinance, including determining whether regulation should be institution or activity based;
- Assist DFD and OFID to develop microfinance regulatory guidelines;
- Provide capacity building support to OFID and offer technical assistance and training that introduces this department to microfinance operations, best practices in supervision for microfinance operations, and international experience in designing appropriate regulation and supervision for microfinance;
- Support revision of the CBN's Manual of Bank Regulations and Examination Procedures to support adherence to international best practices for microfinance operations.

**Strategy.** PRISMS will implement these recommendations within a strategy that calls for organizing and undertaking the project's policy activities by working directly with the Central Bank of Nigeria and its OFID and DFD branches to articulate and put into place the policies and procedures that will lead to establishment of an enabling environment that supports a sustainable microfinance industry and a financial system that provides maximum support to financial flows that benefit MSMEs. PRISMS will assist DFD to support formalization of a microfinance working group/network, to champion further development of a financial services value chain that facilitates access to SME

financing, and to identify private sector-led approaches to working with Central Bank to set up effective financial support entities required within the financial services chain. By working through the CBN, PRISMS has capacity to impact the entire financial system, even as it works to facilitate the flow of finance to MSMEs.

As a special subset of activities in this component, PRISMS will review subsidized credit activities and prepare, with the Central Bank, a plan for transitioning out of such programs. PRISMS will design and implement interventions that enable PRISMS to measure its performance in terms of, e.g., number of targeted reforms achieved, increases in fulfillment of audit responsibilities, increases in client satisfaction ratings of OFID services. In addition to strengthening the microfinance framework, PRISMS interventions will support a strengthened macroeconomic environment that supports investment and expanded trade.

Approximately 30 percent of PRISMS project resources will be allocated to this component.

## **C2. PIR 2: Expanded Rural Economic Development**

This component incorporates assessment recommendations presented in three separate categories as follows:

### **Recommendations for Supporting Increased Access to MSME Finance**

- Identify and work with business leaders to develop market-driven economic clusters and approaches to the integration of financial and non-financial services in support of MSME development within the cluster;
- Use viable community banks to drive the system;
- Identify potential participating community banks through a competitive tender process
- Install microfinance units in viable community banks to serve microenterprises based on international best practices;
- Strengthen viable member-based institutions such as cooperative societies and producer organizations that are positioned to play important roles within commodity chains and economic clusters;
- Create sustainable linkages between participating community banks and economic clusters in targeted areas;
- Address cross-cutting themes such as HIV/AIDS, at risk youth, gender, and the environment by maximizing opportunities for incorporating financial services and education activities that directly address critical populations.

### **Recommendations for Building Local Capacity to Provide Microfinance Training and Technical Assistance**

- Adapt proven methodologies and packages for installing microfinance units in community banks (e.g. adapting the Philippines MABS Model to the Nigerian context) and perhaps, interested commercial banks (though our focus will certainly be community banks);
- Expand on proven approaches to support community bank linkages to agricultural associations and producer organizations in the sustainable provision of financial services (e.g. adapting the Uganda SPEED Model to the Nigerian context);
- Encourage existing BDS providers to define and refine their specializations;

- Support existing BDS providers that are largely NGOs to transform into commercial ventures by assisting to build technical capacities, strengthen institutional structures and develop appropriate products for a commercial MFI market;
- Carry out competitive procurement to identify short-list of MSME training and technical assistance service providers;
- Encourage new entrants into the marketplace by providing assistance with product development and marketing;
- Encourage formation of associations as mechanisms for organizing and providing market development services and provide technical support in the areas of group formation and institutional development.

### **Recommendations for Closing the Demand-Supply Gap for MSME Non-Financial Services**

- Assist donor programs, if and as requested, to design their programs in ways that encourage competition, innovation and sustainability rather than continued dependency;
- Develop technical specifications for PRISMS-required services that define, introduce and require innovative approaches that can lead to fee generation and sustainability;
- Regardless of the type of BDS organization structure – NGO or consulting firm – operate only under the terms of competitive procurement, contracts for service and technical assistance agreements that specify results and deliverables and provide for direct technical oversight;
- Challenge BDS providers to work with PRISMS professionals to design and set up profitable rural consulting practices;
- Leverage project resources by establishing partnerships with community and faith-based organizations, many of which are linked to larger formal organizations that have systems, capacities and resources that can be applied to tackling problems associated with outreach and delivery of services;
- Investigate potential for a joint program with the National Youth Service Corps Program, a program under which 85,000 Nigerian graduates carry out one-year of community service;
- Support targeted BDS providers to assist community-based associations to provide BDS as group services and use community-focused and grounded mechanisms, such as those identified above, to support this activity;
- Design activities in which services are embedded within the framework of the business deal; for example, design programs that link producer organizations to processing enterprises in ways that make the provision of technical assistance training part of the arrangement, and train BDS partners to identify, develop and support such linkages;
- Contract BDS providers to carry out market research and surveys that can then be made available to MSMEs through business associations, and assist selected BDS providers to develop specialized subsector technical skills and training programs that can be sustained by the associations on a for-fee basis;
- Organize and offer opportunity for selected BDS providers to interact with PRISMS short-term technical assistance providers each time they carry out an in-country assignment.

**Strategy.** The PRISMS strategy for this component is to identify, develop and support implementation of economic clusters in three to four commodity areas that have a high priority for USAID/Nigeria in terms of location, potential for impact on large numbers of rural producers and MSMEs, etc. PRISMS will integrate and implement the above recommendations within plans put together for target economic clusters. Annex B to this design document provides an overview of four

major commodities – cowpeas, sorghum, cassava, and rice – and the workings of the commodity chains that typify each, including opportunities for MSME development and financing within the commodity chain. Other assessment data yielded basic information on the scope and location of production, size of population involved, location of community banks and other MFIs, existing projects for each of these commodities. The challenge for the design phase will be to hone in on the specific clusters that will provide PRISMS and USAID/Nigeria the biggest impacts – all factors considered – in terms of implementing the above.

It is abundantly clear that a major focus for PRISMS will be to identify and work only with market-linked clusters in which the starting point for development of all cluster activities will be identification of business leaders and/or champions who will serve as the driving force for development of business opportunities and strategies which will then drive activities down through the cluster. Potential business champions identified during the assessment phase might include the following:

- rice millers that seek to move upstream with existing and/or improved products to expanded domestic and regional markets and to work downstream with producers to improve quality and production yields;
- oil companies, for example in the case of Shell Oil and cassava, where there is opportunity to expand the current project design into a national business strategy developed around a clear investigation of target market potentials and what is required at various points in the chain to make this happen;
- breweries, such as Guinness, where there is clear opportunity to develop and spearhead an economic cluster aimed at providing demand pull for sorghum and other grains – the same project would also lend support for expanded cowpea production through intercropping activities;
- new business interests generated by interviews during the design phase with companies working at specific points within the market chain; for example, a conversation with biscuit and food manufacturers to determine the potential for developing a cluster to produce cassava for a new animal feed factory (a project now underway in Malawi as part of a joint venture between a South African multinational and Malawi’s largest biscuit manufacturers (see Annex C for list to be contacted in design phase).

Within the cluster context and selected areas, PRISMS will implement recommendations from the assessment by identifying the specific MSME linkages that can be put into place, the range of financial and non-financial services needed to support such linkages and financial service providers that are most likely to play significant roles in ensuring an adequate flow of financial resources through the commodity chain. PRISMS will place particular focus on strengthening the capacity of community banks operating within cluster areas to facilitate delivery of services to MSMEs within the cluster and to set up and operate effective microfinance units through which they will be able to serve individual microenterprises and interact under sound financial arrangements with producer organizations and business associations to reach thousands of individual producers and microentrepreneurs. BDS providers will provide short-term technical assistance under competitively issued contracts for services. Representative results indicators for this component may include: increases in income within targeted clusters, increases in value-added, increases in investment, increase in outreach and profitability of participating community banks, increases in the number of microloans disbursed.

Approximately 60 percent of project resources will be allocated to this project component.

### **C3. PIR 3: Strengthened Public-Private Partnerships**

This component operationalizes recommendations made in the assessment directed toward expanding public-private partnerships.

#### **Recommendations for Enhancing the Effectiveness of External Assistance**

- Strengthen the ability of the financial sector donor working group to coordinate and advocate for financial sector development and MSME finance issues by playing a leadership role with DFID;
- Support merger of the donor microfinance working group with the financial sector donor working group;
- Maximize GDA opportunities by fostering private public partnerships within the framework of economic clusters;
- Heighten the involvement of Nigeria's private business community.

**Strategy.** The PRISMS strategy for this component is to develop and use economic cluster models as an effective vehicle for expanding existing partnerships and developing new ones through which PRISMS and USAID can leverage additional resources to support cluster implementation. PRISMS will place priority on building partnerships that will bring external resources, for example, through GDA and IEHA to support cluster activities. PRISMS also will support USAID's ability to play a pivotal role in the Financial Sector Donor Coordination Group by packaging models in ways designed to support coordination of donor activities and funds within Nigeria. Representative indicators for this component are likely to include increases in funds leveraged in support of economic cluster development, increases in financial flows to MSMEs, and increase in number and type of collaborative alliances developed.

Since this component will depend for much of its success on work carried out under Components 1 and 2, and because it will be designed to bring more resources into the system, resource allocation to this component is projected to be only 10 percent at start-up.



## SECTION D

### Approach to Design Phase

The PRISMS design team will return in early May to refine the design and implementation activities, finalize the results framework, agree with USAID on the RF, indicators and approach to the performance monitoring plan for the project. Here we present an overview of the activities to be carried out over the four-week design phase.

**Week 1.** The Team Leader, Chief of Party, Design Coordinator/Start-up Operations Manager, Nigerian microfinance specialist, and PRISMS administrative support unit arrive in Abuja to meet with USAID and prepare for the arrival of the rest of the team the following week. A major focus of activity will be preparation for the stakeholder workshop to be held on May 11, 2004.

**Weeks 2 and 3.** The Deputy Team Leader/Project Design Specialist and the team's Microfinance Expert (Deputy Team Leader for the assessment phase) arrive at the beginning of Week 2. The beginning of Week 3, the long-term Operations/Knowledge Manager arrives. After facilitating the stakeholder workshop (see box at right), members of the design team will divide up and spend the remainder of Week 2 and at least part of Week 3 in the field – revisiting potential target areas to discuss follow-up with stakeholders, deepen understanding of potential focus activities, and identify specific potential partners and activities for focus. Visits to businesses that provide markets for MSMEs within commodity chains will be a major priority for the team.

#### PRISMS Stakeholder Workshop

In keeping with USAID/Nigeria's commitment to ensuring that PRISMS provides maximum scope for coordination of efforts with both public and private stakeholders in the microfinance and rural economic development fields, USAID and the PRISMS design team will sponsor a workshop that provides opportunity for participants to review and discuss assessment findings and to provide useful input to PRISMS implementation approaches; Through participation in separate design groups, attendees will identify high potential economic clusters and opportunities for MSME development and financing relevant to each.

Objectives for this part of the design phase will include: development of criteria for selection of economic clusters; definition and agreement on approaches to implementation with Central Bank partners; contact with potential business champions to discuss cluster opportunities and identify initial approaches and areas for collaboration; identification of specific potential economic cluster activity; development of specific knowledge management criteria, methodology, and requirements; conduct of follow-up meetings with other donors to review potential for collaboration in light of design; and work with USAID/Nigeria on refining components, targets and indicators.

**Week 4:** completion and delivery of the design document.

The following section presents the suggested outline for the full design document.

## **SECTION E**

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### Draft Outline of PRISMS Design Document

Executive Summary

Table of Contents

Acronyms

#### SECTION I Implementation Approach and Methodology

##### A. Overview of Financial Sector and Microfinance in Nigeria

A1. Financial Sector and MSME Sector Defined

A2. Operating Environment Defined

A2a. Macroeconomic and Policy Environment

A2b. Business Environment

A2c. MSME Development and Rural Economic Growth

##### B. The Institutional Landscape

B1. GON Activities

B2. Donor Activities and other Programs

B3. USAID Support

B3a. USAID/Nigeria and SO12

B3b. Other SO Partners and Activities

B3c. Regional Activities and Focus

B3d. USAID/Washington priorities and interests

B3di. Global Development Alliance

B3dii. DCA

B3diii. Initiative to End Hunger in Africa

Biotechnology

Food security

##### C. General Approach to PRISMS Implementation

C1. Project Components

C1a. Improved Enabling Environment

C1b. Expanded Rural Economic Development

C1c. Strengthened Public-Private Partnerships

C2. Pillars/Guiding Principles

C3. PRISMS Provision Results Framework

##### D. Detailed Design Approach

D1. Detailed Description of Project Components and Identified Activities

D2. Organization Plan

D3. Proposed Methodology for each Key Result Area and Support Activity

##### E. Training Plan (if appropriate)

##### F. Approach to Cross-cutting Issues

G. Management Plan and Administrative Elements

- G1. Management Structure
- G2. Operational Linkages with other Programs
- G3. Relationships with Key Nigerian Stakeholders
- G4. Donor Coordination and Collaboration
- G5. Project Steering Committee/Advisory Committee
- G6. Annual Work planning
- G7. Partners/Strategic Activities Fund
- G8. Potential Alliances
  - G8a. GDA
  - G8b. DCA
  - G8c. Initiative to End Hunger in Africa

H. Performance Monitoring Plan

- H1. Monitoring and Evaluation Arrangements (M&E)
- H2. M&E System Design
- H3. Approach to M&E
- H4. Types of Indicators
- H5. Data Collection and Reporting
  - H5a. Responsibilities of PRISMS
  - H5b. Baselines and Data Entry
  - H5c. Reporting and Review

SECTION II STAFFING

A. Staffing Matrix

B. Position Descriptions

C. Proposed Candidates

D. Approach to Start-up

**ANNEX A**

**DESIGN TEAM SCHEDULE**

Nigeria PRISMS Design Team Schedule		May: Week 1							May: Week 2							May: Week 3							May: Week 4							
		S	M	T	W	Th	F	Sa	S	M	T	W	Th	F	Sa	S	M	T	W	Th	F	Sa	S	M	T	W	Th	F	Sa	
<b>Total LOE</b> (pre/post)	<b>Team Members</b>	<b>Firm</b>	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
24	Douglas Leavens Team Leader Microfinance Specialist	CII	T																										T	
24	Jim Whitaker Microfinance/Rural Finance Specialist and COP	CII	T																										T	
24	Rachael Pierotti Design Coordinator/Operations Manager	CII	T																										T	
22	Olubunmi Adetunmbi Microfinance Specialist	DA																												
20 (2)	Laurel Druben Deputy Team Leader Project Design/Integration Specialist	ITI								T																			T	
15 (3)	Stephanie Charitonenko Microfinance Specialist	CII								T											T									
12	Samuel Adebisi Banking Policy Specialist	DA																												
32 (8)	George Oligbo Administrator	CII																												
32 (8)	Cordelia Chioma Dike Administrative Assistant	CII																												

**KEY:**

Work day	T Travel day (Int'l only)
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## ANNEX B

# COMMODITY CHAINS AND ECONOMIC CLUSTERS

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This annex provides assessment-based information that provides a critical part of the background for design of projected PRISMS activity under PIR 2: Expanded Rural Economic Development. The commodity chain section looks at the general characteristics of commodity chains and goes on to provide an in-depth look at the commodity chains as they exist in Nigeria for four major crops: cassava, rice, cowpea and sorghum. The PRISMS team looked at each of the major levels within the chain in terms of existing activity, types of financial and non-financial services requirements, and, to the extent possible within the scope of the assessment, potential for linkages between and among various parts of the chain. The second part of this annex is a short discussion of economic clusters, of how they are formed and why they hold potential for Nigeria and for PRISMS. Together these materials provide a starting point for PRISMS design activities.

### A. Agricultural Commodity Chains

A commodity chain is the market-linked system that is in place to move agricultural commodities from the farm where they are produced into the marketplace. The chain looks very much like the business model presented in the design document. There may be more or fewer layers of “handlers” depending upon the commodity, but the basic concept of chains and how they work is the same. Farmers are at the bottom of the chain and, most often they have limited access to inputs, funding, markets, and technical support services. Because their final products are perishable commodities, they are often exposed to exploitation by middlemen who contract with them – keeping high margins for themselves and low margins for the farmers – to mitigate the risk associated with post harvest handling. In this context, the incentive for commercial production is weakened and commitment to quality is reduced. In some cases, farmers simply stop producing. The smallholder farmer, the one who farms on less than two hectares of land, remains the engine of the Nigerian agricultural sector. His ability to scale up is a function of how well his challenges are managed. The lack of organized platforms to mobilize producer groups and use them to negotiate and deal in input and output markets is a major source of lack of competitiveness at this level of most agricultural commodity chains. The promotion and development of producer groups and farmer business organizations, as illustrated by examples coming in from Malawi, Uganda, Zambia and is a viable strategy to achieve economies of scale that provide the impetus for realization of latent potential of producer groups within the commodity chain.

**Farmer/Producer Business Associations.** In the past, Nigeria’s community-based trade groups operated through traditional cooperatives principles. While many have failed, the self help philosophy that drove them remains valid. Because most challenges faced by farmers are faced by all farmers, farmer’s trade groups, or business associations, as they are beginning to be called, hold strong potential as vehicles for reducing production costs through group input and output marketing. Unfortunately most existing groups are too weak to be organized, efficient and effective in working into the marketplace. Where they are strong, they become effective business units that operate in the marketplace to take the place of middlemen and bring the middleman’s margins to their members. Such groups are primary change agents and need to be strengthened for effectiveness and efficiency.

**Intermediate Buyers/Distributors/Input Suppliers/Traders.** Depending upon the commodity and the time of year, there may be one or two layers of these service providers, Each layer represents another piece of the market price that DOES NOT go to the producer. In an increasingly effective commodity chain, this is the first level of consolidation. Providers at this level in the chain work in an economic sector that is highly risky. They will continue to operate under current practices, which include paying poor prices to farmers, until producers are organized and able to force competition by tendering for the provision of inputs to their members and/or by seeking to move up the market chain themselves. By making these moves, producer organizations force marketplace consolidation and competition. At present there is no competition at all in the downward flow of inputs to producers except among input suppliers who jockey for access to supply working within small margins.

**Intermediate Processors/Handlers/Auctions.** Intermediate processing of farm produce in Nigeria is handled, to a large extent, at cottage level. This processing includes cleaning, grading, weighing, bagging, etc. Some cottage processing may involve oil extraction from oil seed, peeling and grating of cassava, cleaning and winnowing of grains and cowpeas etc. At this level in the chain there is demand for equipment, operating capital, new technologies, market information and quality assurance programs. For such operations leasing and trade credits and inter-firm linkage opportunities supported with guarantees may be options for consideration in financial and non financial services.

**Value-added processors & exporters.** These categories of value chain operatives are either producers of finished good or semi-finished industrial commodities. Cassava, sorghum and rice fall in this category as they both have domestic and industrial application. The capital demand for both operating and capital items is rather high and difficult to source as commercial and community banks are not playing the roles expected of them. The inability of this category of value providers to access critical funding has largely been responsible for existence of the missing middle value added processors and processing in the rural and semi rural parts of the country. Some of the products of this category of service providers include industrial starch, corn grits, malted sorghum, yam flour, ground rice, crude ethanol, palm oil, etc.

**International processors, exporters and importers.** Corn/Cassava starch, malted sorghum, corn grits, cassava pellets, etc, are industrial products valued and priced by urban based international processors such as Cadbury, Nestle, Nigerian Breweries, Guinness, Lever Brothers, etc, many of whom are responsible for processing these industrial commodities to finished consumer products.

With this general commodity chain framework in mind, we present an overview of four commodity chains that are of interest as potential focal points for economic cluster activity given location, size of population involved, nature of opportunities for value-added processing, opportunities for big business involvement and MSME development, etc.

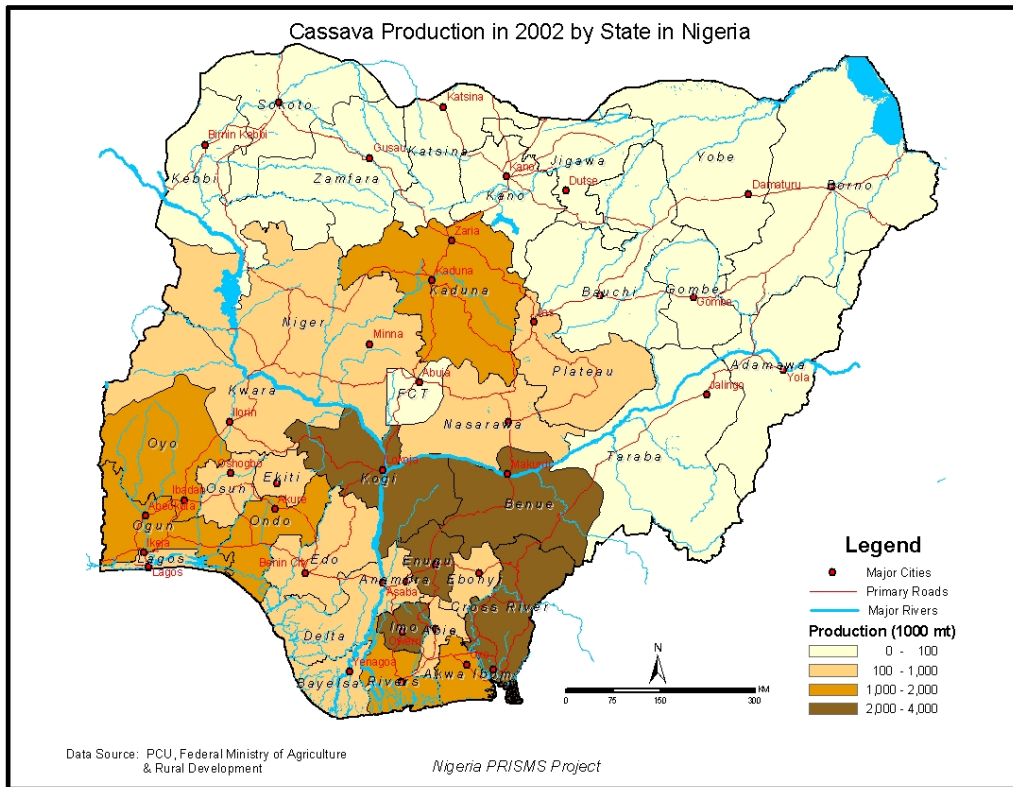
## A1. The Cassava Commodity Chain

**Cassava overview.** Cassava is primarily a subsistence crop, requiring few inputs and affording the opportunity to delay harvest up to six months if market prices are not suitable. FAO statistics indicate that Nigeria is the largest producer of cassava in the world, estimating 2001 production at 33.9 million mt. Average yield was estimated at 10.83 mt/ha over 3,125,000 ha. Varieties available in Nigeria have potential to produce over 40 mt/ha but this potential is yet to be achieved due resource constraints i.e. fertilizers and other recommended practices. Considering the estimate that in the mid-sixties Nigerian produced 8 million mt from an area of 830,000 ha. Therefore, increased production was due primarily to increasing the area planted, not productivity per unit planted. Considering the potential of high yielding varieties, and assuming availability of inputs, the present production could well be achieved using less than half of current area planted.

The GIS map on the following page shows that cassava production is widespread in a belt from east to west across the southern part of the country, with major production focused in the southeast and lesser but still large production volumes found in the southwest and central parts of the country. Major production potential is focused around Cross River, Benue, and Kogi. Most cassava is processed for food and household consumption, with the estimated amount standing at 30 million mt annually (Potential Market for Cassava in Nigeria, RUSEP Web site). A marketable surplus of about 30% exists to meet industrial demand; therefore the future of cassava competitiveness in Nigeria lies in adding value rather than increasing production.

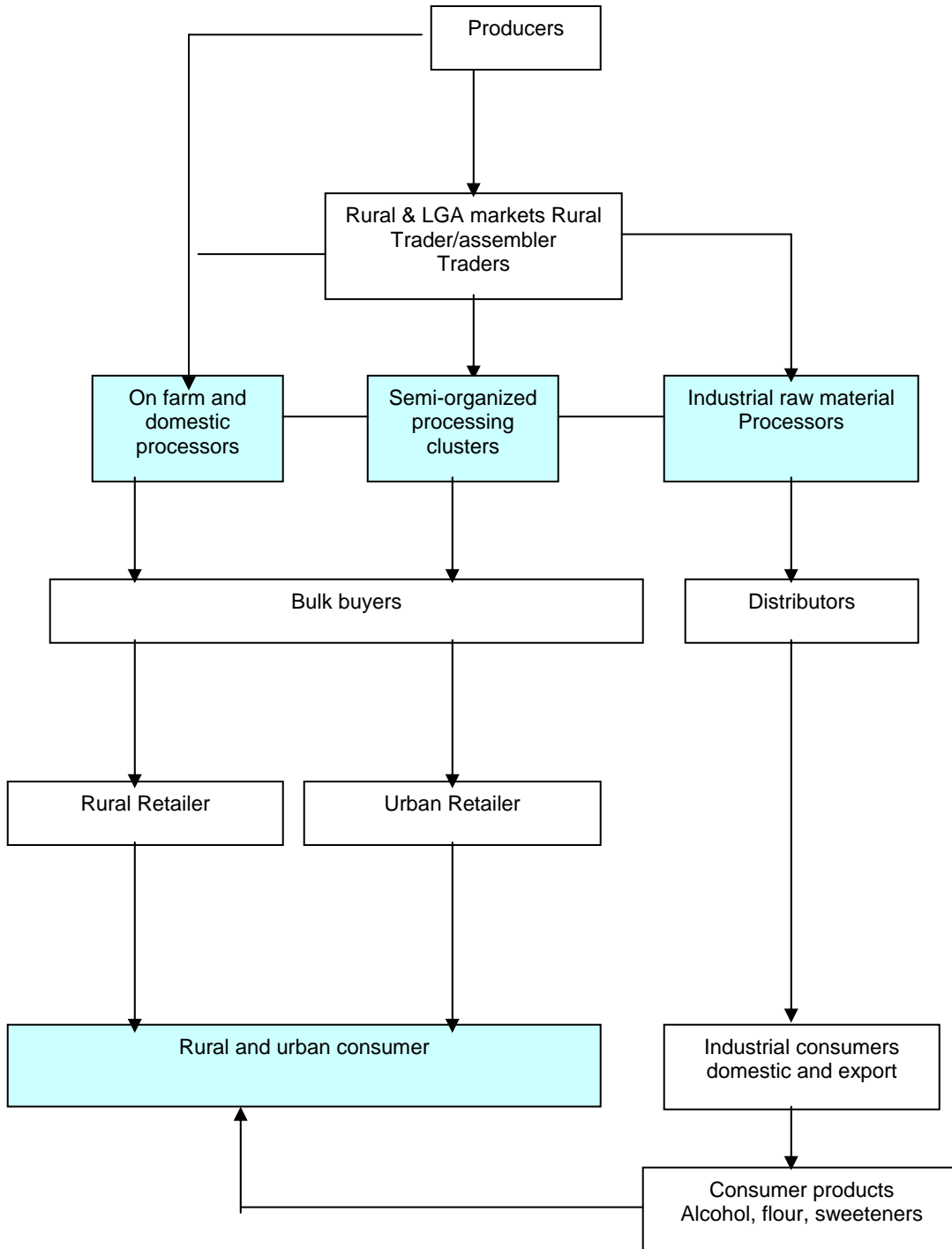
**Production.** The key inputs in cassava cultivation under current practices are primarily planting materials and labor. Wider availability and adoption of fertilizer and other agrochemicals could prompt better yield than the current low level of 8-12 tons per hectare compared to 25-30 tons that is experienced in Thailand and other Asian countries. Most producers cultivate less than 2 ha of cassava compared to plantation system that is very common in Asia. Variable costs of production of cassava for Abia State were estimated at N 75,400 per ha. (RUSEP Website, 1992 costs) Main financial demands are stems for planting (N18,000) and harvesting (N18,400). Producers normally use stems from their own plants for plantings, meaning that the harvesting labor is the most expensive component of cassava production. Without an increase in demand for cassava, there is little need for financing the production process. The current approach to cassava production is more for food security rather than as a cash crop. Middlemen often purchase cassava at the farm gate, especially in times of a glut. At these times, producers might not be able to recover the cost of harvesting, which as indicated above is the largest component of labor. Alternatives include delaying harvest for up to six months in hopes of a better market or selling the production in the ground with the purchaser being responsible for harvest. Middlemen achieve rapid turnover and do not require finance. They can sell cassava tuber to either traditional or industrial processors. Farmers themselves also bring product directly to processors.

**Processing.** Cassava roots from the farm can enter two distinctly different channels, traditional processing and industrial processing (see cassava commodity chain following GIS map). Cassava is a bulky commodity as it contains 70 percent water. Reducing the bulk of the roots at the farm level through chipping/drying would reduce transportation costs and address the deterioration problem experienced with roots, thereby providing a higher value product that can be marketed over an extended period of time. Accordingly, a chipper (N 85,000) and related drying accessories could be an investment by farmers that would add value without increasing production. This would be most effective as an investment by an association.





### CASSAVA COMMODITY CHAIN



**Traditional Channels.** Traditional processing is oriented primarily toward food. Opportunities for expanded uses for cassava as food depend on developing new food products rather than increasing the amount of cassava processed into gari, which constitutes 70 percent of food use. Since traditional processing is labor intensive, there is room to increase efficiency and therefore opportunity for investment in new processing technologies that may require finance input. The bulk of processing of cassava is currently done at household level but as indicated above, some initial processing on the farm would add value and extend marketing options.

Peeling, grinding, fermenting, and grating are time-consuming processes. Mechanized grinders are often now in use. There are a number of processing clusters in different parts of the country (see box at right), which operate with motorized equipment to undertake some of their activities. Their scale of operation and process efficiencies are usually better than the household processors. Some of the key challenges faced by this category of operators include reliable supply of tubers, operating and investment capital.

Farmers Groups could be promoted and organized to feed into the raw material needs of established processing clusters. Such farmers group could utilize chippers to process roots near the farm, thereby capturing some of the value presently accruing to processors. Chipping and drying near the farm would reduce the level of cost incurred for transportation and possibly expand their markets to cover the industrial chain. This cluster approach to processing and production is based on a group cooperation principle, which is required to achieve economies of scale. As individual producers are very small in scale, working together in associations like the processors would be a suitable means of achieving sufficient scale for mechanization and market competitiveness. Within the context of PRISMS, there are opportunities to develop well structured financial service to address the demands of this model. The scope of the financial service needs include longer-term equipment facilities or leases as well as enterprise based working capital that covers purchase of raw materials, transportation and labor.

**Industrial processing.** Industrial processing of cassava tuber offers the best opportunity for new markets but will take time to develop. There are four broad categories of industrial usage: starch, flour, animal feed and ethanol. Starch is used in a variety of industries including textile, pharmaceuticals, food, wood products, and chemical. Cassava flour can replace a portion of wheat flour for breads and almost completely in pasta without a noticeable change in taste. Animal feed usage of cassava chips could supply domestic as well as international markets. Cassava peels are now commonly fed to pigs. Cassava is particularly suitable for ethanol due to its high sugar and starch content.

To realize the goal of alternative utilization for cassava in Nigeria, there is need to promote and support clusters of intermediate processors to transform raw cassava roots and tubers into industrial raw material required for the uses described above. The requirement of the industrial users varies depending on their end products. The specification for cassava-based raw material needs to be

#### **Cassava Processing Cluster Approach**

At the Onipepeye Old Ife Rd. Cassava Processors Association in Ibadan, a cluster of 2,748 owner processors and employees cited need for procuring Lister engines, graters and presses, all of which would increase processing efficiency. The Association indicated the items could be obtained through credit, but this would also be an opportunity for leasing. Following are prices for various items of processing equipment (RUSEP Website, 2002 base prices): Grater (3 hp, petrol) capacity of 1 mt per hour; N55,000, Grater (5 hp diesel) capacity of 2 mt per hour; N75,000, Chipper ( 3 hp petrol): N85,000. Lister diesel (6 hp) N60,000. The Association reports a high demand for its processed output. **They have difficulty in obtaining enough cassava root**, so they will lease 25 acres to plant cassava for their operations. An interesting note: farmers sometimes provide cassava to the processors on credit, allowing processors five days to pay.

established from production to intermediate processing for each use. This demand-based approach to value addition in the cassava chain represents an opportunity for financial services as mentioned below.

The RUSEP project sponsored by USAID facilitated training for a group of entrepreneurs in Aba who were involved with the National Association of Small Scale Industrialists. The training exposed them to a variety of industrial processing techniques to convert cassava into flour, starch, chips and alcohol. Capacity building of processor groups was intended to be part of the training and did achieve results. As a result of the September 2002 training, the Cassava Processors Association of Nigeria (CAPAN) was formed. The group has yet to consolidate at a single location, but is in the process of doing so in Aba. UNIDO will be assisting them in design and layout of the site and the intention is for the site to serve as a demonstration center for cassava processing as well as the site for individual members to locate their operations.

This nascent association is a good platform for building a cluster of industrial processors for which a set of financial products can be developed and targeted. Of 37 participants in the training, 25 have become engaged in CAPAN. The group is encouraged by possibilities of contracting for large quantities of cassava chips for livestock feed. Some of the financial services demanded by this group include equipment purchase and leasing, warehousing, and operational funds to purchase raw cassava. CAPAN indicated that Union Bank has expressed interest in considering credit for working capital once all equipment is in place.

Based on CAPAN's experience, it may be some time before the industrial market becomes a significant factor in cassava. Constraints in procuring a fresh, uniform and consistent product in sufficient quantities and on a timely basis will need to be addressed if production is to meet industrial demand.

## A2. The Rice Commodity Chain

**Rice Overview.** Nigeria is the largest African importer of rice and traditionally one of the top three markets for imported rice. In 2002, Nigeria imported 1.9 million mt of rice valued at \$500 million (USDA FAS, 2003). One reason imported rice captured such a large share of the market in Nigeria is that total consumption has grown at 10 percent per annum over the past three decades, more than anywhere else in the world. Nigerian

production increased by 9 percent per year over the same period, but largely due to increases in planted area rather than increased productivity. The poor quality of locally grown and milled the rice has contributed to Nigeria's appetite for imported rice. (See box.) Rice producers and millers interviewed by the Assessment Team asserted that local rice is superior in taste

### Consumer Issues with Local Rice

"I prefer to buy imported rice, because it is clean and readily available. If I buy local rice, I have to spend a lot of time removing stones or chaff from it," says Mrs. Nike Abamu from Port Harcourt. Mrs. Grace Adigun from Ibadan declares, "My husband grumbles when I cook local rice; sometimes it stinks because it is not well processed." (Newsletter, January-March 2003 Number 1, WARDA-The Africa Rice Center)

and nutrition to imported rice. However many consumers think otherwise. Increasing the competitiveness of Nigerian rice will require action along the entire commodity chain. For instance, well-processed local rice is packaged and sold as imported rice, thereby commanding a premium. Local rice's reputation for stones and foreign material hampers market development and consumer preference for local rice.

Limited availability of improved seed means lower yields and less uniform grains. Small plots coupled with seed quality constraints means it is difficult to aggregate sufficient volumes of uniform grain for milling. Crude technology used before, during and after parboiling can result in foreign material commingling with rice and off flavor rice. Due to non-uniform sized grains in paddy, milling produces a lot of cracked grains. Typically in Nigeria, a ton of paddy produces less than 600 kg of rice after milling. In countries with advanced rice systems, the yield is over 650 kg per ton paddy.

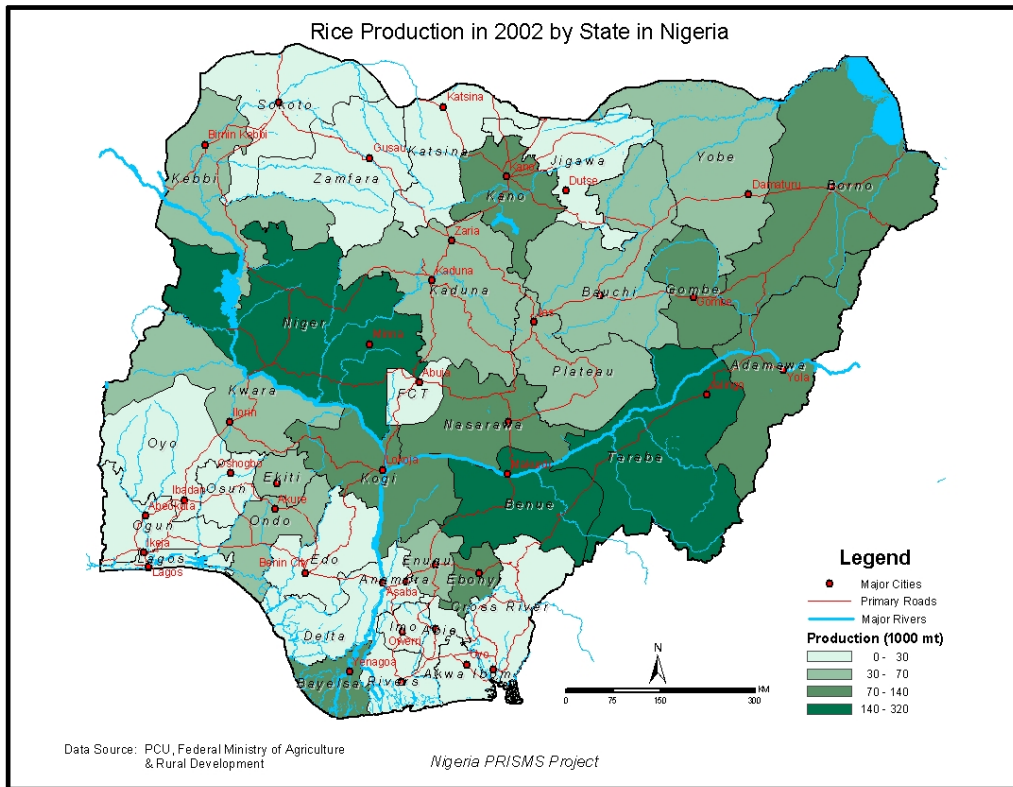
There are three major systems of rice production in Nigeria: upland, lowland and irrigated. The chart below shows the area planted and tonnage produced for each of the systems.

### Rice production systems in Nigeria

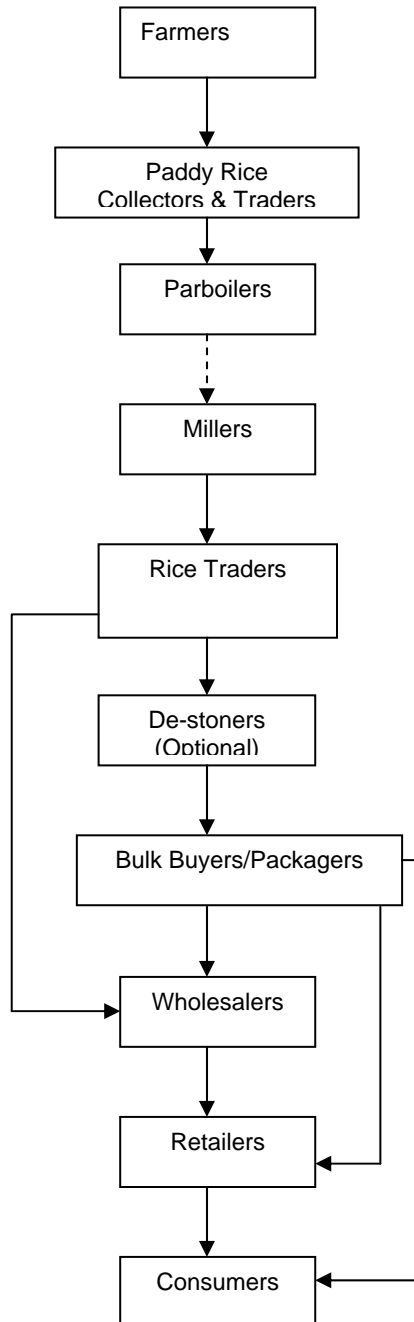
	Area (000 ha)	Area share	Yield (mt/ha)	Rice (000 mt)	Production share
Upland	493	30%	1.9	562	28%
Lowland	854	52%	1.7	871	43%
Irrigated	263	16%	3.7	583	29%
Mangrove	16	1%	2.0	20	1%
Overall	1 642		2.1	2 036	

(Source: Operationalizing the strategic framework for rice sector revitalization in Nigeria, November 2003, WARDA)

The GIS map on the following page shows that rice production is widely spread across the country, with major rice production centers spread out in Benue (also a major cassava concentration), Niger and Taraba.



## RICE COMMODITY CHAIN



**Production.** Harvested rice is known as paddy, which requires processing to yield a finished product. At the farm level, paddy is first threshed to separate the grains/paddy from the stalks. On-farm production costs account for 90 percent of production costs for lowland and upland rice and 82 percent for irrigated rice. (ibid. WARDA Paper) Labor is the largest component of on-farm costs, representing 83, 87 and 86 percent respectively of costs of lowland, upland and irrigated systems. Hired labor accounted for 31, 43 and 59 percent respectively of labor costs for each system. Technologies that improve productivity of labor are key to increasing Nigerian rice competitiveness. Land preparation, weeding, harvesting, threshing and winnowing are the major requirements for labor. Mechanization for land preparation, zero tillage, herbicides and mechanization of threshing and winnowing offer opportunities for improved labor productivity.

The PRISMS team analyzed production costs from two sources and triangulated it through reference with rice farmers. Producers require on the average about N53,000 in variable costs per ha for upland rice. (RUSEP data for Abia state) and labor for weeding, bird scaring, harvesting and threshing constitute 83% of this cost while fertilizer application accounts for the rest. Because of the labor intensive nature of rice, the producer's family labor cannot supply all the requirements. Using an allocation of 50 percent for hired labor, (N 23,200) and the full cost of fertilizer and seed (N6,500) as the credit requirements the estimated credit requirement per hectare is N29,700 (\$220). Rice farmers interviewed were using own resources or borrowing from family and friends for financing production, they indicated the banks had not been helpful.

The above analysis mirrors WARDA findings citing costs of production ranging from N 57,550 to N 65,000 depending on the system. Using WARDA data, if all costs of production other than family labor were financed, the credit demand per ha would be N 32,000 N 25,000 and N 42,000 per ha respectively. Irrigated farmers use about twice the amount of hired labor that lowland farmers use. As the rice industry works to increase competitiveness, more of the demand for finance can be expected to be for agrochemicals, improved seed, fertilizer and mechanization. In particular, demand for mechanization will result in requests for longer term credit, from farmers, farmer associations and possible custom operators.

Demands for production inputs are far from being met. Fertilizer and improved seed are difficult to obtain. Discussions with the chairman of the Rice Farmers Association of Nigeria (RIFAN) emphasized the constraint faced by farmers particularly due to shortages of fertilizer and quality seed. In the short term, agro-input dealers could use finance to procure inputs in sufficient quantity to become more efficient. In the longer term, producers might organize to reduce margins taken by dealers, or bypass them altogether by dealing directly with importers. Based on 1.64 million ha of rice planted in Nigeria and 150 kg fertilizer per ha, about 250,000 ton of fertilizer (were it readily available) could be used for rice. This compares to an estimated 300,000-400,000 mt of fertilizer imports at present. Importers are reluctant to bring in product that might be undercut by changes in government programs on fertilizer as has happened in the past. Assuming an import price of \$250 per mt, approximately \$62 million of product would be imported for rice. Letters of credit would be required for importation.

**Parboiling.** Parboiling marks the beginning of processing paddy and softens the grains, increases ease of husk removal and reduces the quantity of starch. Total processing costs for rice are N 6.5 per kg and parboiling accounts for 75 percent of those costs (WARDA Paper). Energy requirements for processing are high and represent 59 percent of total processing costs. Parboiling accounts for 87 percent of energy costs. Traditional parboiling technology is inefficient. Improving productivity of

parboiling can increase Nigerian rice competitiveness and help mitigate environmental degradation caused by demand for wood as an energy source. Using rice hulls as a heat source for parboiling may be an opportunity to lessen pressure on wood resources. Drying completes the parboiling process. This could be either done in the sun or in mechanical dryer. The process of sun drying is usually done on the ground thereby lowering the quality of rice as stones and other foreign matter intermixes with the paddy.

Parboilers are small operators who provide the intermediate step in processing prior to milling. Relatively few farmers and millers do parboiling themselves. Most of the parboiling is done through traditional methods (the drum and firewood approach which is considered unfriendly to the environment.) Finance requirements for parboilers are primarily to upgrade the boiler technology as well as meet the recurrent cost of energy and labor. An indicative cost of a manufactured parboiler is N60,000 (\$445); the parboiling process is energy intensive and most parboilers are fairly primitive. Opportunities exist for consolidating the process to increase operational efficiency and the quality of output through larger scale parboilers that are more energy efficient. The estimated cost of this will depend on the technology and source of energy, which is the critical component of the cost.

**Milling.** Once the paddy is dried, it is milled to remove the husks/chaff from the grains. The cost for milling represents 17 percent of the processing costs of N 6.5 per kg. Milling is well mechanized and offers relatively little room for improved productivity compared to parboiling. Credit demand by millers is primarily for operational costs and capital improvements. Most purchases of paddy are made on a cash basis. However milling of paddy is typically made on credit, with repayment made to millers upon the receipt of payment from sales by wholesalers and retailers. From this scenario it is evident that commercial millers finance operations and inventory. Other categories of millers operate on a fee basis. They do process some paddy from their own production and small amounts of rice purchased from producers and traders. Abakaliki, capital of Ebonyi State, adjacent to Abia State is a major rice milling center.

From the paddy produced by rice farmers, about 11 percent is retained for seed. The remaining amount is milled parboiled and milled. Millers would process about 19 percent of the paddy for their own account after purchase from producers and traders. The balance of the paddy would be primarily milled on a fee basis. About 29 percent of paddy is milled for traders who then further trade the rice downstream. About 41 percent of paddy is milled for producers, who keep about 11 percent for their own consumption and sell the balance to traders.

De-stoning removes stones, other foreign matter and split grains. De-stoning is performed on rice after milling as a separate operation. Unfortunately, not all the rice is de-stoned and this leads to consumer preference for imported rice. Owners of rice will decide on de-stoning the product depending on the intended market. Owners of milled rice usually decide on de-stoning the product depending on the intended market. A de-stoner with 700 Kg/hr capacity would cost about N 250,000 (\$1,850) and would be a worthwhile investment for many millers if all rice were de-stoned. Lack of quality standards and enforcement discourages more widespread de-stoning. The team interviewed the owner, a de-stoner who used to market rice in bags imprinted with the de-stoning certification as a marketing tool. Since bags are re-used, traders who marketed inferior product in the recycled bags tarnished reputation for the de-stoned rice. A simple certificate of de-stoning on the bag upon closure has replaced the certification printed on the bag.

Opportunities for finance abound in the industrial complex. Since this is a major meeting point for farmers and merchants, it could serve as a center for distribution of farming inputs. For example the



association would like to handle fertilizer procurement and distribution to its farmer-suppliers and has estimated it could easily manage 15,000 ton. This would necessitate finance for procurement and the center could serve as a source of finance to producers.

Just outside the milling complex lie rice husk, chaff, cracked grains, and other foreign material dumps that constitute an environmental problem. Through technology and capital injection there is high potential for use as feed and fuel. For example a prototype machine for producing fuel bricks from the by-product from South Korea cost about \$22,000. The bricks could serve as a source of fuel for parboiling and other heating applications, perhaps for cassava drying.

**Traders and Wholesalers.** Traders and wholesalers typically buy and sell paddy and rice on credit. However, the terms of credit are between buyers and sellers; a bank does not act as an intermediary and no interest is charged. On farm purchases of paddy are made on cash basis while the finished product is made on credit to distributors, who then pay upon receipt of payment by re-sellers. Studies from the NNF rice competitiveness study reveal that there is a 10-15 day repayment cycle between purchase and selling. Repayment for a previous purchase is typically made at the time when the next shipment is ordered. Most funds for traders and wholesalers came from own funds, with 17 percent reporting a combination of own funds and borrowing from moneylenders for financing their operations. Among those who borrow, quantities received range between N50,000 -500,000 at high interest rates (10 percent per month) for relatively short periods (3-6 months).

### A3. The Sorghum Commodity Chain

**Sorghum Overview.** Sorghum offers the highest potential for value addition and immediate impact of the four targeted commodities. This is due to ongoing industrial demand for sorghum by breweries (Guinness, Nigerian Breweries, other breweries), confectionary and sweet manufacturers (Nestle, Cadbury), flour mills, feed mills and baby food manufacturers. Ministry of Agriculture statistics for 2002 indicate that sorghum, with 4.02 million ha, is the cereal crop with the largest area cultivated in Nigeria. In fact, the area cultivated for sorghum exceeds that of any other crop grown in Nigeria, including the very popular cassava. Sorghum is a food crop (especially in the North) as well as an industrial crop. (See map at the end of this section.) Like Cowpea, sorghum is primarily grown in the North. Sorghum compliments cowpea well in that it fits as the cereal in the cowpea cereal rotation. Accordingly, growers of cowpea can easily integrate sorghum into their operation.

Planting time depends on the zone and occurs after the rains are well established, usually in July. Harvest occurs in November and December. Sorghum can be stored either unthreshed or threshed. For industrial use, it is best stored threshed.

**Production.** Based on data from RUSEP's 2001 Needs Assessment for Katsina State, cost of production varied from N 24,800 per ha to N34,900 per ha depending on the zone of production. Labor accounted for approximately 50% of costs. Assuming that half the labor is hired (balance is unpaid family labor) and the balance of the costs is financed, approximately N18,600 to N25,800 per ha could be financed.

**Assembly for Industrial Usage.** At one time, industrial processors dealt with producers on an outgrower basis. When government policy changed to bar imports for various commodities, industrial processors invested in their own farms. With shifts in government policy, imports were again allowed and it was not profitable for processors to continue producing the raw material. Because of their requirement for substantial quantity and due to the small scale of most producers, the processors deal with commodity merchants to obtain uniform sorghum product as a raw material.

Commodity merchants procure sorghum directly from the farmer based on specifications from industrial processors. Depending on the end use, such as beverages, confectionary, animal feed, a different variety of sorghum would be required. Usually, SK5912 is used for malt extraction for breweries and Farafara (white sorghum) for glucose extraction. Commodity merchants can also utilize commodity assemblers to obtain the product directly from the farmer. This adds another layer to the system. Generally, assemblers and merchants would not require finance.

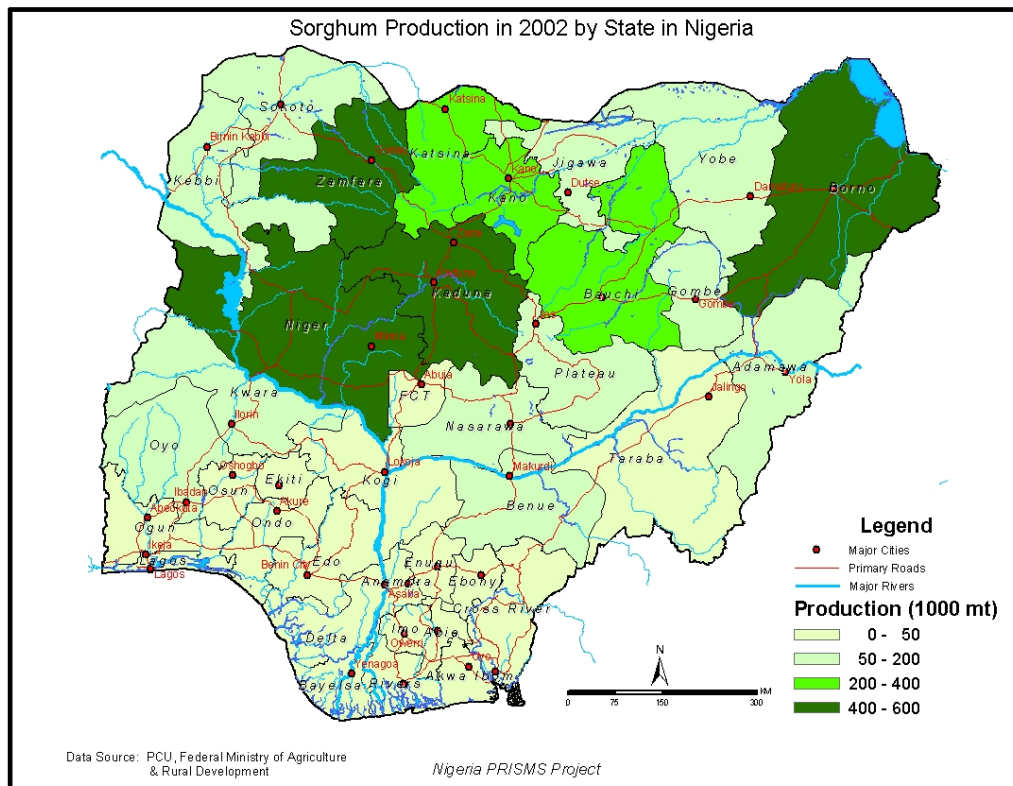
**Industrial Processing.** Industrial processors would normally have heavy investments in processing equipment. Their finance requirements would be along the lines of term finance, equipment leasing and perhaps accessing guarantee programs. Some short-term finance may be required during peak procurement periods.

**Input Supply.** Input supply related to sorghum is similar to that of the other featured commodities. Quality seed is needed. There is a substantial requirement for fertilizer. Agrochemicals are required both for production and storage of sorghum. Finance requirements of input suppliers are short-term in nature to be able to purchase inventory in sufficient bulk to reduce costs.

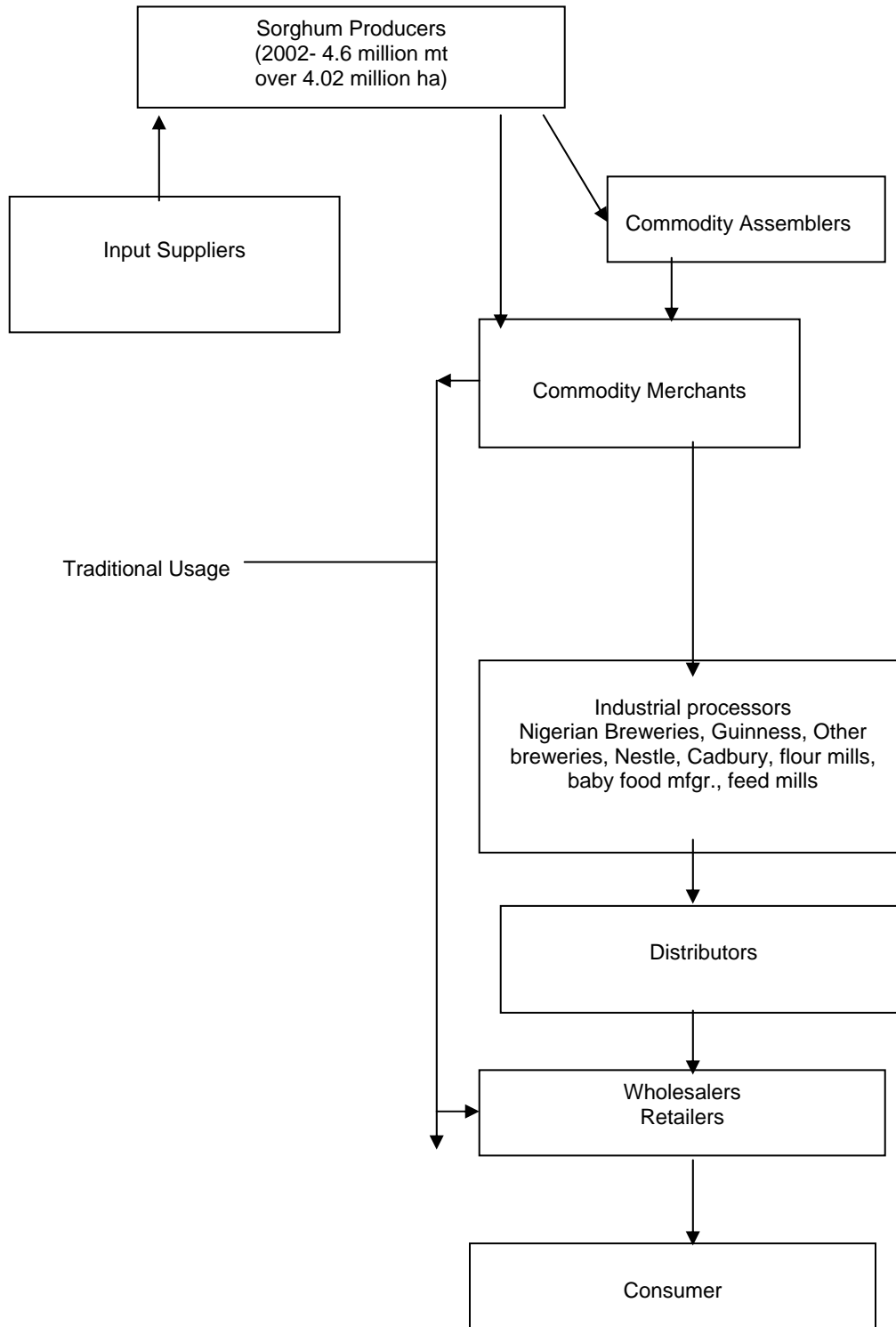
**Opportunities for producers in the commodity chain.** Producers as individuals are price takers and hold little market power. There are substantial profits in the marketing of the product. Marketing

of sorghum to industrial processors depends on aggregating product through commodity merchants and assemblers. Should producers organize and participate in the marketing of sorghum, substantially higher income could be realized. The marketing margin for sorghum in the RUSEP Assessment for Katsina State was 18 percent of the farmgate price. This margin normally accrues to middlemen. Collective action by producers could add this margin to the producer's account instead of the middlemen's.

Producer associations could play a significant role in marketing to industry. Additionally collective action can reduce costs of inputs substantially and help insure obtaining a quality product. For example, Global 2000 farmer groups in Kano have been able to source fertilizer directly from importers. They achieved reductions in fertilizer prices not available even to some input dealers. It has been reported that farmer associations in other countries have achieved up to 50 percent reductions in input prices through collective action.



### SORGHUM COMMODITY CHAIN



#### A4. The Cowpea Commodity Chain

**Cowpea Overview.** Cowpea and cereal crop rotation is a dominant farming systems practice in Nigeria. Over the years, crop breeders have developed improved seeds. This has been highly successful through the efforts of the IITA Station in Kano. The system utilizes 2/3 cowpeas or 1/3 cereal, which enhances soil fertility and provides good yields. Cowpea requires a well-drained soil; it is planted in late July to early September depending on the particular agro-ecological zone, with medium-late maturing varieties being planted much earlier. Where the land was previously cropped, minimum tillage practices may be employed, involving spraying to clear the vegetation. Planting requires 25-30 kg/ha of seed. Generally, 1-2 bags (50-100kg) per ha of fertilizer are required. Producers must spray twice to control pod borer, a critical pest. Weeding is normally done at three weeks after planting and subsequently on a five weekly basis. Harvesting takes place 55-86 days after planting, depending on the variety, the crop is dried to 10-12 percent moisture and then can be sold or stored. Cowpea leaves nitrogen in the soil for the cereal crop, provides human food from harvest and livestock food as a byproduct of the harvest. One ha of cowpea residue can support 8 sheep, increasing protein availability to the producer and providing additional income. See map for areas of cowpea production.

##### Demand for Financial Service

Through a concerted effort by local farmers, IITA, USAID, Gatsby Foundation and ADPs, cooperated to increase cowpea production through the use of improved seed and production practices. Strip planting using alternating bands of cowpea (2/3) and cereals ( 1/3 of either maize, sorghum or millet) provide gross returns of N100,000 - 200,000 on an additional investment of N8,800 (\$65) /ha. Following proper management practices, the return is up to 10-12 times additional investment, with 7-8 times as a worst case. From a humble beginning with 60 farmers in 2002 in 2003 the program included 938 farmers, 101 of which were women. This year, 2,000 farmers are expected to participate. Key success factors will be extension, improved production practices and timely availability of seed and fertilizer, which can be facilitated through finance.

**Production.** Cowpea producers in a seed multiplication program, in Jigawa, Kano, and Kaduna states require about N8,800 per ha (\$65) to finance fertilizer and chemicals. In 2003, there were 938 farmers organized into 62 groups and estimates of 2,000 farmers are expected to participate in the program in 2004. Based on this projected number of farmers the demand for financial services based of the hectare production budget is about \$130,000. Importantly, more farmers are expected to adopt the improved cowpea program as evidenced by the current rate of 5 adopters of the improved system for every farmer participating in the program. Thus potential demand could grow by another \$650,000 in this multiplication program area alone. Using the 2002 figures From the Ministry of Agriculture, as a base, there are 2.4 million hectares of cowpea under cultivation in Nigeria which account for 1.2 million mt. FAO Statistics for 1999 indicated 3.6 million acres were cultivated. A study by IITA researchers in September 2000 relied on FAO statistics and estimated domestic demand for cowpea at 3.8 million mt. More careful analysis of the real situation regarding cowpea is required to assess the gap in supply and demand. If the demand figure is accurate, there is a huge potential demand for financial services to sustain the current level of production and meet the deficit in food security needs of cowpea. Due to the early maturity of cowpea, credit for production would be required for about three months plus enough time to realize increases in market prices some months after harvest. Credit for raising sheep and goats to follow the crop would also be merited.

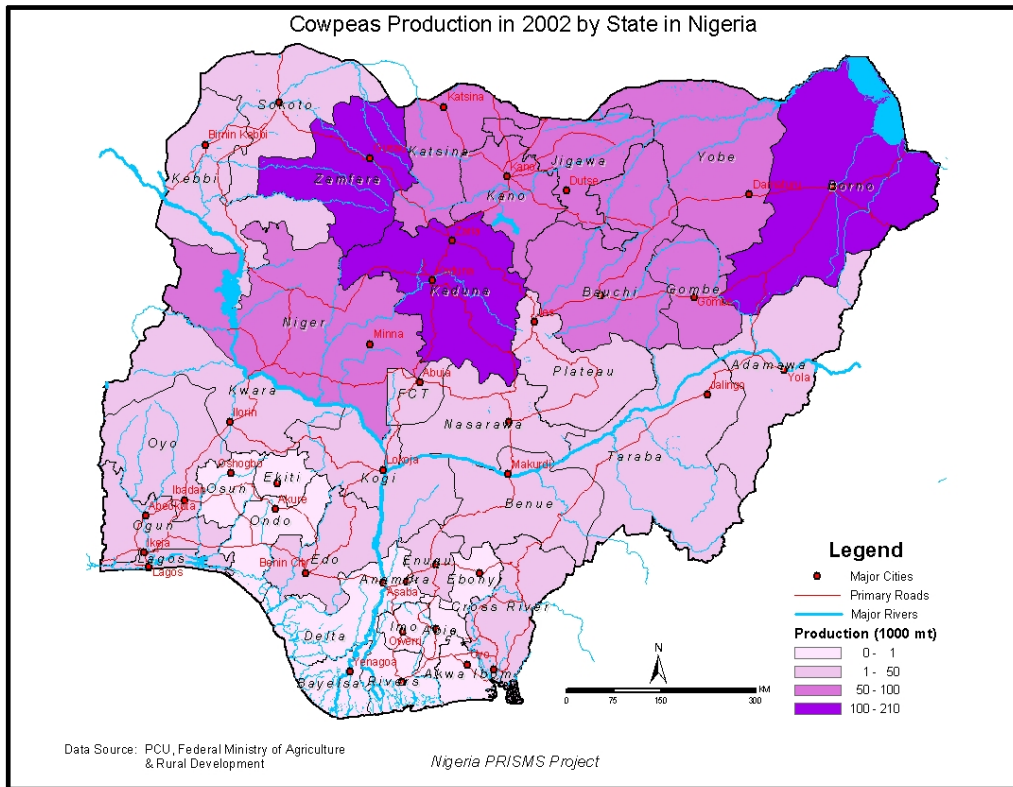
**Input Supply.** The demand for financial services in the cowpea chain is largely concentrated at the production end of the chain. Manufactures and importers of inputs such as fertilizer, herbicides, and fumigants require trade finance to open letter of credit for raw material or finished products for sale to farmers. This type of finance is provided by commercial banks, for example agro-dealers such as

those assisted by the DAIMINA project require funding to acquire inventory in preparation for crop seasons. Without sufficient capital they are forced to purchase in small uneconomic quantities and pass this cost on to producers. According to DAIMINA estimates, a six-month overdraft facility of N500,000 to N1,000,000 (\$3,700-\$7,400) would allow an input dealer to achieve increased efficiencies through better inventory management.

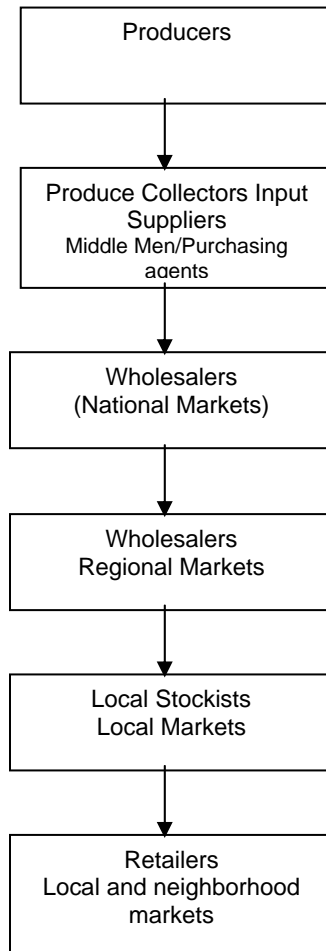
Quality seed is in short supply. The adoption of improved cowpea technology by 5 farmers for every one participating in the seed multiplication program is evidence of the demand for improved seed. Participating farmers received seed from IITA in kind and this was repaid in kind after harvesting. These farmers sold some of their seed to nearby farmers who wanted to adopt the improved cropping system.

**Processing.** The cow pea chain does not have a notable value-added processing niche. From the assessment visit to the Dawano market (Kano) wholesalers of bagged cowpeas had large quantities ready for sale into the household food consumption chain. At the present time, cowpea is largely a food security crop rather than an industrial crop with limited opportunities for value addition and processing.

**Storage and Marketing.** In the absence of major industrial use for cowpea, storage and marketing is the next most important area of financial service needs. At harvest, prices are often N 25 per kilo, later they can reach N 50 and even up to N 75. Without adequate storage capacity, these value increases accrue to middlemen and traders. Increased investment in on-farm storage, requiring finance is one option. Other avenues might be collective storage for groups or collections of groups. Should secure storage be available, farmers might be able to obtain a loan on the product to meet expenses while waiting to market the crop at an advantageous price. Based on interviews with a group of maize farmers in Maska, Katsina State, storage was the preferred method of savings among group members. They stated that price appreciation far exceeded returns available in the banks. They met cash needs by selling limited quantities of product in the market, thereby maintaining the remaining stock for further price appreciation.



## COWPEA COMMODITY CHAIN





## B. Economic Clusters

A major challenge facing Nigeria is to tackle the job of shifting thinking and approaches from current absorption with agronomics to market-directed actions in which the starting point for determining how to move forward is derived from definition of specific business opportunities. To do this, Nigeria and its planners can take the first step by shifting from thinking in the linear rural economic development model presented earlier to looking at commodities within the framework of the business model. The material presented in Section A to this annex was developed to support this shift. It provides insight into the types of business linkages that do – and do not yet exist – within the commodity chains. And it identifies areas where efforts are being made to develop improved linkages and models that will begin to build toward greater productivity and efficiency within commodity chains – and to do so in ways that generate improved livelihoods for producers, as well as opportunities for expansion of on and off-farm enterprise.

Assessment indicates that PRISMS can operate by moving into the third model – the competitiveness model – and forming economic clusters around targeted potential activities within commodity chains and economic areas targeted by USAID. This is done by selecting and working with business leaders in what has been called by the US-funded SPEED project in Uganda, Enterprise-Linked Models. The concept is simple and powerful. Focus on working with businesses that already are working in the marketplace and help them develop and drive market expansion strategies that take their benefits right back through the market chain by the way the facilitating group, in this case, PRISMS, designs and packages the activity. The largest clusters would have potential to drive an entire subsector; smaller ones to drive more regionally or even locally focused activity, but all would provide powerful models for moving forward. And all provide ample opportunities for leveraging private sector participation, expanding public-private dialogues, creating business opportunities throughout the chain and attracting other participants and financial resources which are needed to attract financial institutions to participate in cluster activities.

The starting point for PRISMS during the design phase, then, is to build on this existing body of information and hold extensive conversations with businesses that have potential to drive economic clusters. Such clusters could be formed around expansion of activities already underway and/or by identification of new ones.

The following annex provides a representative list of businesses active in Nigeria who will be contacted by the PRISMS team in the design phase. Some of the companies listed operate directly in areas of relevance to the project; others do not. Experience shows that companies have many reasons for supporting and participating in development activities – many of which are not obvious at first. For this reason, PRISMS will hold interviews with as many businesses as possible during Weeks 2 and 3 of the design phase.

## **ANNEX C**

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# REPRESENTATIVE LIST OF BUSINESS CONTACTS FOR DESIGN PHASE

### **Farm Input and Supply Businesses**

Nigerian Agricultural Fertilizer  
Company (NAFCON)  
Premier Seed Company Ltd.  
Leventis (Agriculture Division),  
Pfizer  
Ladokun Feeds

### **Agricultural Machinery and Equipment Suppliers**

Leventis Technical  
SCOA Ltd.  
Dizzengolf  
Gottschalk

### **Automotive Industry**

Michelin  
Dunlop  
Odotola  
Ugo Tire Industries

### **Large Commercial Farms**

Obasanjo Farms  
Mitchell Farms

### **Food Processing and Beverages**

UAC Foods  
Vegfru  
Quality Foods  
Cadbury  
Nigeria Breweries Plc  
Guinness Plc  
Nigeria Bottling Company  
Coca-Cola  
Bacita Sugar Company  
Nestles (Nigeria)

### **Tobacco and Oil**

Nigeria Tobacco Company (NTC)  
Phillip Morris  
Shell, Chevron, Mobil, Halliburton

### **Meat, Dairy and Fish**

Zatech (Nig.) Ltd.  
Kaduna Cold Storage Commission  
Ibru Fish Industries  
Coastal Trawlers Ltd.  
Danjuma Fishing Co.

### **Cotton and Textiles**

ABC Cotton Ginners  
AREWA Textiles  
West African Textiles