



## Assessment of the Financial Capacity of Smallholder and Commercial Cassava Farmers in Ogun State

by the Pro-Poor Growth and Promotion of Employment (SEDIN)  
Programme  
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**Abuja, Nigeria, July 2015**

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## Acronyms

FI	Financial Institution
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
LGA	Local Government Area
MFB	Microfinance Bank
MSMEs	Micro, Small and Medium Enterprises
SEDIN	Pro-Poor Growth and Promotion of Employment in Nigeria

## About the Funding Project

The objective of the ***Pro-Poor Growth and Promotion of Employment in Nigeria (SEDIN)*** Programme of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) is to increase sustained employment and income generation in Micro, Small and Medium Enterprises (MSMEs). The target groups of SEDIN are the owners and employees of MSMEs as well as members of other economically active low-income households. SEDIN supports measures at federal level to have an impact on the entire country. Measures at state and local levels target three selected states (Niger, Ogun, and Plateau states).

As part of its mandate to improve access to affordable client oriented financial services for MSMEs in Nigeria, the ***Financial System Development Unit*** of the ***SEDIN*** Programme, supports the improvement of the regulatory environment for microfinance, the performance of selected microfinance banks, and assess possibilities to support financial institutions to increase their MSME lending activities, in particular for the selected SEDIN value chains (Cassava in Ogun, Rice in Niger and Potatoes in Plateau).

The overwhelming demands from financial institutions for reliable market data and information that would enable them to pre-assess the viability of extending financial services to the smallholder and commercial cassava farmers in Ogun State necessitated the commissioning of this study.

## Executive Summary

This study was commissioned to assess the financial capacity of smallholder and commercial cassava farmers in Ogun State in order to provide financial institutions with the necessary information to develop a business case for financing these farmers.

The research was conducted among 196 cassava farmers comprising of 53 smallholder farmers (farm size of 0.1-2 hectares) and 143 commercial farmers (farm size 2.1-28 hectares) selected from seven Local Government Areas (LGAs) namely Yewa South, Ipokia, Obafemi Owode, Odeda, Ikenne, Sagamu and Ado Odo/Ota in Ogun State using stratified random sampling method.

The study reveals that cassava farming in Ogun State is a profitable business with average revenue per hectare of N165,000 and 32% profit margin for smallholder farmer and average revenue per hectare of N177,000 and 41% profit margin for a commercial farmer. The average cassava expenses per hectare is N112,000 for smallholders while for commercial farmers it is N104,550. Labour is the major cost driver in the cassava farming for both the smallholder and the commercial cassava farmers in Ogun State.

The noticeable difference in the revenue, and the profit margin of the smallholder farmer compared to that of the commercial farmers is based on the fact that the commercial farmers have a slightly higher productivity (15tonnes/hectare) than the smallholder farmers (14tonnes/ hectare) and their expenses in terms of cost of rent, transportation and labour etc. are slightly lower due to their economies of scale and bargaining power

In terms of production risks, cassava is a high resilience crop and therefore the tendency of experiencing crop failure is lower compared to other crops. Market risk however, in terms of demand and price risks, varies depending on the type of buyer. Processors who are the main buyers are consistent in their demand for cassava tubers from the farmers however; the prices they offer do appear to change frequently.

Cassava farmers are savers. Majority (97%) of the sampled cassava farmers save either through formal or informal institutions. Commercial banks are the most preferred financial institutions for both smallholder and commercial farmers. Also, majority of farmers do not have access to credit but have indicated interest to apply for a loan in the future and their willingness to access a group loan. The most common reasons for applying for a loan are to: purchase inputs, rent/buy land and to purchase farm equipment.

Furthermore, cassava farmers (90% of the sample) use cash as their major mode of transaction. The use of payment systems such as cheques and wire transfers between

farmers, their buyers and suppliers are low. Only 22% of commercial farmers use wire transfers to send or receive funds in contrast to 6% of smallholder farmers. It can be deduced that smallholder and commercial cassava farmers that have a bank account rarely use it for their business transactions but rather for savings purpose. However this study did not assess the frequency of use of the farmers' bank accounts.

Additionally, the use of insurance products is rare for cassava farmers due to the lack of understanding and trust of the insurance sector.

Although cassava farmers are integrated in the value chain, the linkage between the farmers and other actors in the value chain are based on long standing relationships and not on formal contractual agreements. Also there is minimal flow of financing within the value chain, from processors and input suppliers to farmers.

Based on the findings of the study, there are a number of opportunities that are open to financial institutions:

- Explore further the relationships with existing farmer clients and processors in order to analyse their interactions to develop products and services to suit the needs of the value chain
- Introduce payment services and its value to the actors within the cassava value chain
- Provide insurance products linked to credit
- Analyse the business opportunities to provide loans related to the purchase of land, equipment and for working capital based on the assessment of farmer's repayment capacity and cash flow.

## 1. Introduction

The agricultural sector is the economic mainstay of majority of Nigerian households and accounts for about 45% of Nigeria's GDP and generates roughly 60% of employment. Nigeria is the largest producer of Cassava in the world with an annual production of about 46.19 million tonnes in 2011 and a growth rate of 3.04 % per annum from 2000 to 2011 (FAOSTAT2012) making this subsector vital to the Nigerian economy. Cassava is important not only as a staple crop but also as a major source of income for farmers.

Ogun is one of the states in the south western region of Nigeria with a high production of cassava. The state accounted for about 14% (6.28 Million tonnes) of the total cassava production in Nigeria as at 2011 (OGADEP). Cassava production growth in Ogun state has been healthy, growing at roughly 4.5% per annum from 2000 to 2011 (excluding the abnormally high growth rates of 98% and 66% in 2005 and 2006 respectively). Over 85% of the total cassava production in Ogun state is cultivated by smallholder farmers. It is estimated that the state has about 200,000 cassava farmers.

The smallholder and commercial cassava farmers in Nigeria play a dominant role in the growth and development of the agricultural subsector. However, their productivity and growth is hindered due to, among several issues, the lack of adequate and affordable access to finance.

Cassava farmers especially the smallholder and commercial farmers lack access to adequate financial services, especially credit to support their investment in quality inputs (e.g. seeds, fertilizer, pesticides, herbicides, machine services, etc.) in order to enhance their cassava production in terms of quality and quantity to meet market demand. The issue of lack of access to finance is exacerbated as financial institutions lack adequate data to build a business case on the overall profitability and the loan repayment capacity of cassava farmers.

The objective of this study is to generate and provide necessary information to financial institutions on the profitability and financial capacities of smallholder and commercial cassava farmers in Ogun State and to present a business case for financing them. **The study assesses three key areas: the financial capacity of the farmers, their value chain linkages and access to finance.** The report also identifies key opportunities for financial institutions in the cassava farming sector. With this report it is expected that financial service providers will be encouraged to develop products and services that meet the growing needs of cassava farmers in Ogun State and in other cassava producing states in Nigeria and in doing so, play a crucial role in supporting the sector's development.

## 2. Methodology

196 cassava farmers were selected among seven Local Government Areas (LGAs) namely Yewa South, Ipokia, Obafemi Owode, Odeda, Ikenne, Sagamu and Ado Odo/Ota in Ogun State, using a stratified random sampling method. The farmers were divided into two categories and were defined as follows: **Smallholder Farmers** are those with **0.1-2 hectares** of land and **Commercial Farmers** are those with **2.1-28 hectares** of land. The data collection was based on structured questionnaire interview process. The data collected were analysed using descriptive statistics.

The majority of the sampled cassava farmers were male. About 62% of the sampled farmers were between the ages of 31-50 years. More details on the demographics of the sample can be observed in Figure 1.

Each farmer surveyed is a member of a cassava farmers' cooperative group and is also part of the Cassava Grower Association which is a subgroup of the **All Farmers Association of Nigeria (AFAN)**.

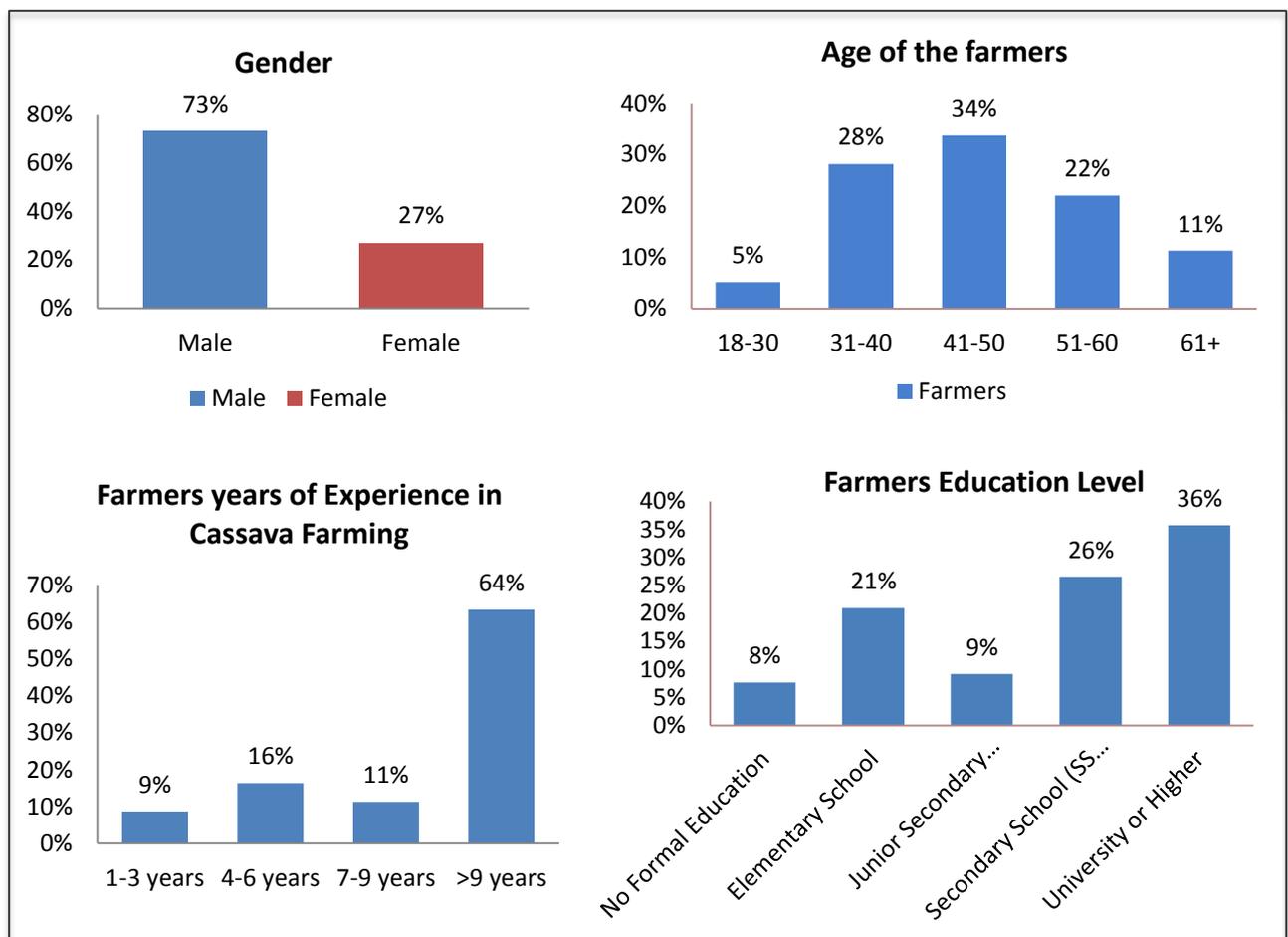


Figure 1- Description of the Sample

### 3. Key Results

#### 3.1 Cassava Farmers Financial Capacity

##### *Income from Cassava Farming*

The study shows that cassava farmers get their revenue streams for cassava farming from four sources: the sale of cassava tubers, processed cassava, cassava peels and cassava stems; however the major source of revenue comes from the sale of tubers (see figure 2 below).

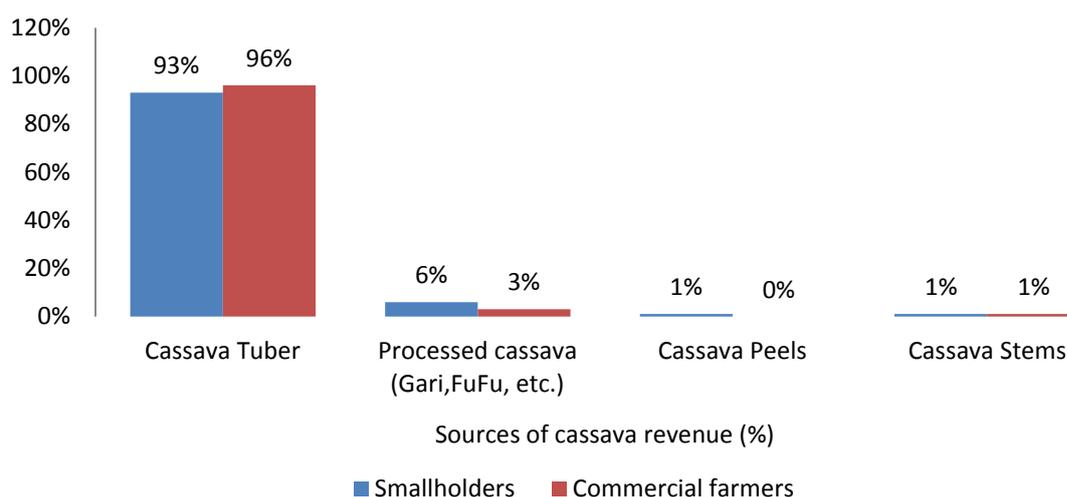


Figure 2 - Sources of Cassava Revenue

Furthermore, the study reveals that the average revenue and the net income per hectare from cassava farming for smallholder farmers is N165,000 and N53,000 respectively, resulting in a **profit margin of 32%**. While the average revenue, net income per hectare from cassava farming for commercial farmers is N177,000 and N72,450 respectively leading to a profit margin of 41%.

Farmer Type	Revenue/ Hectare	Net Income / Hectare	Profit Margin
0.1 – 2 Hectares (Smallholder)	N165,000 /Hr	N53,000 /Hr	32%
2.1 – 28 Hectares (Commercial Farmer)	N177,000 /Hr	N72,450 /Hr	41%
Total	N172,800 /Hr	66,350 /Hr	38%

Table 1- Cassava Net Income

The noticeable difference in the average revenue, net income and the profit margin of smallholder farmers compared to that of commercial farmers is based on the fact that

commercial farmers have a slightly higher productivity (15 tonnes/hectare) than smallholder farmers (14 tonnes/hectare) and their expenses in terms of cost of rent, transportation and labour are lower compared to that of the smallholder farmers due to the use of automation and their economies of scale and bargaining powers (see table 2 below).

Automation	Economies of scale	Slightly improved output & better inputs
Commercial farmers Vs Smallholder farmers	Commercial farmers Vs Smallholder farmers	Commercial farmers Vs Smallholder farmers
<ul style="list-style-type: none"> <li>Significantly lower labour costs per hectare (N57,200 vs N71,400 /Hr)</li> <li>Higher investment in equipment (N12,300 vs N6,370 /Hr).</li> </ul>	<ul style="list-style-type: none"> <li>Slightly lower transportation costs (N9,700 vs N10,000 /Hr)</li> <li>Slightly lower costs of rent (N5,230 vs N5,740 /Hr)</li> </ul>	<ul style="list-style-type: none"> <li>Yield of 15 vs 14 tonnes /Hr</li> <li>Slightly higher investment in inputs per hectare (N15,700 vs N14,700 /Hr)</li> </ul>

Table 2 - Why commercial cassava farmers are more profitable than smallholder farmers

Cassava production is generally viewed as a labour intensive business and the findings of this report correspond with this viewpoint. Labour costs associated with bush clearing, ploughing, planting, applying inputs and harvest accounts for 57% of the total cassava production cost of the entire sample (see figure 3). Physical inputs (fertilizer, stems, pesticides, etc.) are the second highest costs, accounting for roughly 15% of total expenses. A further analysis on a strata basis reveals that labour cost account for 64% and 55% of the total cassava production cost for smallholder and commercial farmers respectively (see figures 4 and 5).

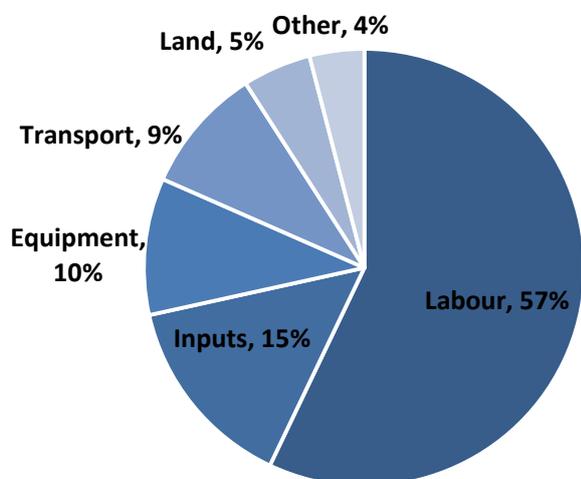


Figure 3 - Cost Drivers - Cassava production for complete sample

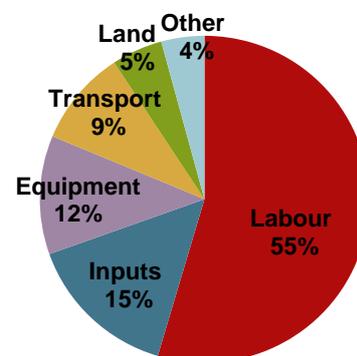


Figure 4: Commercial Farmers - Cost Drivers

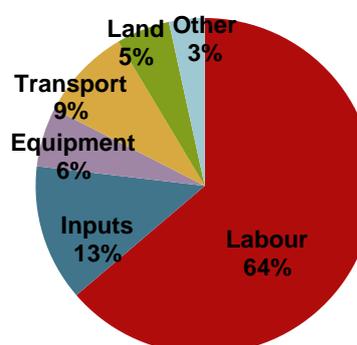


Figure 5: Smallholder Farmers - Cost Drivers

### *Income from all farming activities*

Though cassava is the main crop of the sampled farmers, majority still engage in other non-cassava farming activities. About 72% of the sampled cassava farmers intercrop, while 19% engage in livestock production. The most common complementary crops are maize (60% of farmers) and vegetables (18% of farmers).

Although non-cassava farming activities can make up an important source of cash flows for farmers, cassava is usually the largest revenue source (80% of total revenue for both smallholders and commercial farmers). Non-cassava farming also appears to provide little additional net income, especially for commercial farmers. Table 3 displays the net income per hectare for all farming activities (including cassava) for both smallholder and commercial farmers.

Farmer Type	Revenue Hectare	Net Income / Hectare	Profit Margin
0.1 – 2 Hectares (Smallholder)	N205, 667 /Hr	N73,167 /Hr	36%
2.1 – 28 Hectares (Commercial Farmer)	N160, 667 /Hr	N65, 437 /Hr	41%
Total	N171, 333 /Hr	N66, 643 /Hr	39%

*Table 3 - Total Farming Net Income*

An interesting observation is that once all farming activities are taken into account, **the smallholder farmers' net income per hectare is higher than that of commercial farmers**. However, as observed in the profit margin, commercial farmers appear to be more efficient in achieving its level of profitability, possibly due to the adoption of agriculture best practices (such as appropriate spacing of crops) that may reduce input waste. Furthermore, it is likely that commercial farmers' net income per hectare is underestimated; as **more than 20 commercial farmers (14% of the commercial farmers) leave large areas of land to fallow thus distorting (sinking) the average overall income per hectare of the commercial farmers** in the survey.

### *Income from Non-farming activities*

The study shows that **60% of the smallholder cassava farmers and 46% of the commercial cassava farmers engage in non-farming activities**. The most common non-farming activities the sampled farmers engaged in were trade, artisanship & transport services.

The study reveals that the sampled smallholder and commercial cassava farmers made an average income **of about N105,809 and N128,105 respectively, from non-farming**

**activities** in the last year. The income derived from non-farming activities can vary widely and, unlike total farm income, it is not tied to the amount of land utilized by the farmer. It is also important for financial institutions to be aware that apart from income from farming and non-farming activities, farmers also receive income contribution from other household members. **The study reveals that about 77% of the sampled cassava farmer has at least 2-3 persons inclusive of the farmer contributing to household income.** Financial institutions need to take these additional income streams into consideration when analysing the cassava farmers' cash flow and financial capacity.

### ***Risk in Cassava farming***

The two major risks affecting the cassava farmer's income are production risk (risks that affect the crop output) and market risk (demand and price risk).

#### **Production Risk**

Compared to other crops, cassava has some inherent characteristics that positively affect its yield e.g. its high **resilience to pest and diseases, tolerant to low soil fertility and ability for the roots to be stored in the ground for months after maturity.** When farmers were asked on what factors most affect their cassava production, 58% of respondents said extreme or unseasonal weather, 42% said soil fertility and 30% said variety of the cassava stem. Corresponding with the view that **cassava is an inherently resilient crop, crop failure is not frequent.** About 17% of the sampled cassava farmers said they experienced "very bad harvest" every 4-6 years, while 27% said it 'very rarely' occurs and 11% had never experienced a "very bad harvest".

#### **Market Risk (Price and Demand)**

The risk associated with prices and demand for cassava products appears to be quite volatile. 73% of the sampled cassava farmers feel that prices of cassava tubers "changes a lot". 70% also believe that the demand for cassava tubers is inconsistent. The degree to which changes in price and demand affect a farmer's income may be dependent on "**who**" the main buyer of their product is. Farmers that sell to consumers appear to be the most exposed to both demand and price volatility. **Farmers that sell to processors appear to be less exposed to demand volatility.** However, prices offered by processors do appear to change drastically, likely based on the supply of cassava in the market. **Traders appear to be the most consistent in their price.** Table 4 below shows the constraints that affects a cassava farmer's business.

Constraint	Affects business “Severely” or “Very Severely”
<b>Lack of Capital</b>	<b>89%</b>
Price Fluctuations	85%
<b>Access to Finance</b>	<b>80%</b>
Labour Costs	62%
High Transport Costs	60%
Lack of Machinery	48%
Road Access	48%
Cassava Perishability	39%
Access to Information	19%

Table 4 - Constraints that most affect cassava farmer's business

### 3.2 Value Chain Linkages

The study reveals that there are linkages between the cassava farmer and other actors such as processors and input suppliers in the cassava value chain. However, these linkages are weak and are not based on formal contractual agreements but on long standing relationships. Also the flow of internal finance within the cassava value chain from the processors or the input suppliers to the farmers is rare.

**Cassava Buyers:** In the cassava value chain there are 3 potential markets for farmers to sell their produce: processors, traders and consumers. Processors are by far the primary main buyers for both smallholder and commercial farmers as 81% of them sell majority of their produce to processors. Traders and consumers appear to be a much smaller buyer group, with only 14% and 2% respectively, of farmers recognizing them as their primary buyer.

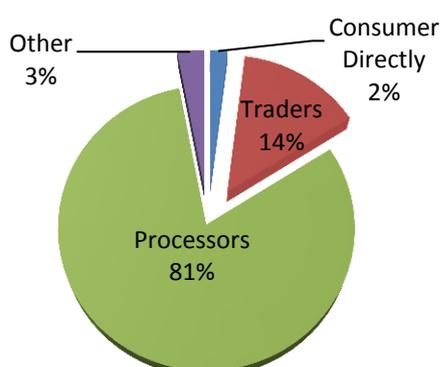


Figure 6 - Main buyers of cassava tubers

The study shows that there are no formal contractual relationship between the cassava farmers and the processors. Most of the farmer's relationships with the processors are based on verbal and long term relationship with no binding contract. Only 7% of the sampled farmers have a written agreement with their processors.

There is limited flow of finance from the buyers to the farmers. Only 5% of the sampled cassava farmers have ever received finance in form of cash from their main buyer.

**Input Suppliers:** Input suppliers include sellers of fertilizer, pesticide and stems. The study showed that there is limited flow of finance from the input suppliers. Only 2% of farmers had a relationship with an input supplier whereby they could pay for inputs at a later date (credit).

### 3.3 Access to Finance

#### Savings

**Cassava farmers are savers;** majority (97%) of the sampled farmers save their money either through formal or informal means. Figure 7 shows in detail where smallholder and commercial farmers save. The main reasons for savings are; **investment in the agricultural business, day to day expenses and school fees (see figure 8)**. More smallholder cassava farmers have accounts with commercial banks (58%) than with Microfinance Banks (13%). This is an interesting observation as MFBs are generally oriented to provide services to micro enterprises.

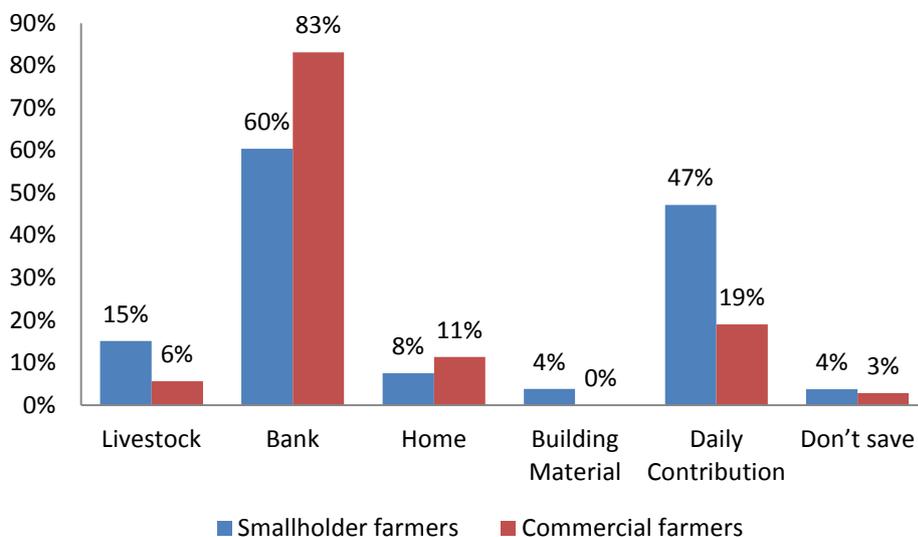


Figure 7 – Where cassava farmers save

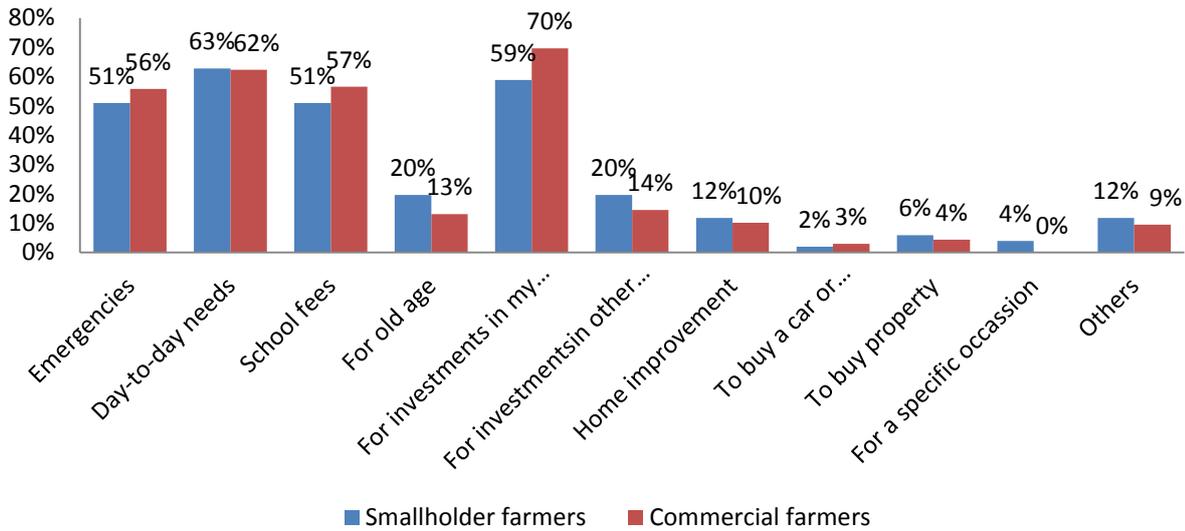


Figure 8 - Reasons for saving

### Payment System

Most of the sampled cassava farmers (83%) receive payment of their cassava tubers between 1 and 8 weeks of delivery. While only 17% of the farmers said they receive payment from their buyers the same day.

As expected, majority (90%) of the cassava farmers **use cash as their major mode of transactions** to receive and make payments. Only 22% of commercial cassava farmers use wire transfers to send or receive funds in contrast to 6% of smallholder cassava farmers (see figure 9 below). It can be assumed that commercial farmers are much more likely to use financial institution payment services than smallholder farmers given the convenience and the size of their business transactions.

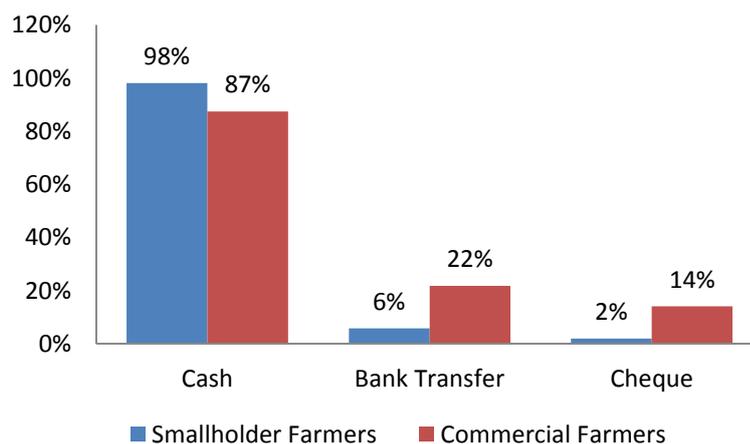


Figure 9 - Mode of payment

### **Credit**

Demand for credit is high amongst cassava farmers and most are willing to access a group loan. **A high number of farmers (94%) indicated interests in applying for a loan** with the most common reasons being to purchase inputs (85%), rent/ buy land (65%) and to purchase farm equipment (54%). Of the farmers that said they would like to receive a loan, 91% said they will be willing to access group loan.

46% of cassava farmers said they have applied for a loan in the past, with no significant variation between smallholder or commercial farmers. 54% of cassava farmers have never applied for a loan mainly due to the high interest rate charges among other reasons.

Of those that applied, 71% were successful at least once in their application. Loan amounts vary considerably, but were usually around N 250,000<sup>1</sup>. The most common sources of credit were cooperatives with 33% of total loans, the Bank of Agriculture (with 27%) and MFBs (with 20%), while commercial banks, though the biggest provider of savings accounts, only provided about 13% of the total loans.

15% (10 farmers) of those that received a loan admitted to missing at least one loan payment. The most common reasons cited were: crop failure and business failure. For most cassava farmers who were unsuccessful in receiving a loan, many (44%) were not provided with a reason why their application was not approved. Of those that were given a reason, the lack of collateral (29.4%) and/ or guarantor (8.8%), were the most common causes.

The study reveals that only 4% of the sampled farmers have a certificate of occupancy (CofO) on their farmer land, while majority (74%) of the sampled farmers leased their farmland. This shows that majority of the farmers do not have a proper title on their farmland to enable it to be used as collateral for a loan.

### **Insurance**

21 percent of respondents have had insurance in the past, with life (38%) and crop (30%) being the two most common types of insurance bought. The main reason for the lack of insurance by most cassava farmers is the distrust they have in insurance product. 43 percent either “do not believe in insurance” or feel insurance companies “do not settle claims” and 27.5% don't know where to get it insurance. However, the most common types of insurance the sampled farmers indicated that they may buy in the future are mainly crop insurance (79%) and life insurance (27%).

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<sup>1</sup> N230,000 for commercial farmers. N290,000 for smallholder farmers. Why smallholder farmers received larger loans is not clear.

#### 4. Conclusions

It is clear from the study that cassava farming is a profitable business with a profit margin of 41% for commercial farmers and 32% for smallholder farmers. Majority of the cassava farmers have additional income from other farming activities and non-farming activities including income contribution from household members. However, smallholder farmers are more engaged in other farming and non-farm activities than commercial farmers. Commercial farmers seem to focus more of their resources on cassava farming.

Cassava farmers are savers. Majority of them save either through formal or informal means. Commercial banks are the most preferred financial institution for both small holder and commercial farmers. Although most cassava farmers save in a bank, their day to day transactions are mainly cash based with a few number (mainly commercial farmers) using cheque or wire transfers to make or receive payments.

Most farmers indicated they would like to apply for a loan in the future and are willing to access a group loan. The most common reasons for applying for a loan are to: purchase inputs, rent/buy land and to purchase farm equipment. Additionally, the use of insurance products is rare for cassava farmers. Most of the cassava farmers do not have insurance due to lack of understanding and trust of the insurance sector.

There is some linkage between the cassava farmer and processors, however, this linkage is not strong and not contractual but based on verbal and long standing trading relationships. A link with input suppliers is rare; cassava farmers do not receive inputs on credit. Additionally, there is minimal flow of finance from the processors and the input supplier to the farmers.

Based on the findings of the study, there are a number of opportunities that are open to financial institutions in terms of products and services to offer to cassava farmers. Financial institutions can therefore explore further the relationships with existing farmer clients and processors, analyse their interactions and develop products and services to suit their needs. The results show that there is a demand for savings and payments products that can be adapted to suit the farmers and the value chain's needs. Insurance products are also in high demand especially crop insurance and life insurance. There are also business opportunities to provide loans related to the purchase of land, equipment and for working capital; however, an in-depth assessment of the repayment capacity and the farmer's cash flow that considers all the farm enterprises and even non-farm income is crucial for decision making purposes. The recommendations section of the report elaborates more on the business opportunities for financial institutions.

## 5. Recommendations

There are a number of business opportunities that remain open for financial institutions in terms of products and services that they can offer to cassava farmers. The recommendations highlight key opportunities that have been identified based on the findings of the study.

### *Opportunity 1: Provision of Savings Account Products*

With the high number of farmers having the habit of saving in formal and informal institutions, there is an opportunity for financial institutions to attract new and current clients to use new tailor-made products that suit the savings profile of cassava farmers (there could be more cross selling of products and services especially for saving purposes).

23% of farmers the sampled cassava farmers do not save their money in a formal financial institution. An estimate of about N25 million of the total income generated by the sampled cassava farmers is saved outside the banking system. This amount is an assumption of the total net income of 23% of the sampled cassava farmers that do not save in the bank. If an extrapolation is done to the entire population of cassava farmers in Ogun state that do not save in the banking system, the amount of untouched potential deposits could reach enormous proportions. This presents a huge market opportunity for banks to target the unbanked cassava farmers with tailored made savings products in order to bring them into the financial system.

### *Opportunity 2: Provision of Payment Systems*

About 90% of the sampled farmers carry out their business transactions using cash. This provides a huge market opportunity for the introduction of payment services by financial providers to farmers, including other players within the value chain such as processors, input suppliers etc. The introduction of the payment system provides a number of benefits including minimizing the use of cash, reducing the amount of funds that are outside the financial system, and to better understand the farmer's cash flow (creating a transaction history with the financial institution).

As most farmers have mobiles phones, financial institutions can introduce mobile banking and mobile money payment services. Financial providers also need to create more awareness on the benefits of the use of other payment systems such as electronic bank transfers, mobile banking and even paper based instruments like cheques etc.

### *Opportunity 3: Insurance linked to credit*

Although insurance is not a core function of commercial banks and microfinance banks, there is an opportunity to partner with insurance companies to market services and educate

farmers on the benefit of insurance policies especially for life and crop insurance. Another opportunity would be to provide insurance products linked to credit; such as credit life.

About 79% of the sampled farmers have never had an insurance policy. The main reasons given were related to a lack of believe and trust in insurance as well as not knowing where to get insurance; meaning that companies that create more awareness and can change the preconceived notions of insurance products may be heavily rewarded.

#### *Opportunity 4: Credit – Working Capital*

With the profitability rate of cassava farmers, loans related to working capital, equipment and buying land could be viable business opportunities. However to determine their repayment capacity financial institutions have to analyse the overall cash flow of the individual farmer, taking into consideration the farmer's total sources of income and expenditure. Understanding the agricultural calendar of each farmer, the number of planting seasons and considering the complete farm enterprises that create a cash-flow for the farmer is key in this regard. An important consideration is that the loan would need to have a long duration (9+ months) due to the long growing season associated with cassava production.

It takes up to 8 weeks for cassava farmers to receive payments for cassava tubers supplied to processors. This can be an opportunity for financial institutions to provide farmers with invoice discounting products that can bridge the period until payment.

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Pro-poor Growth and Promotion of Employment in Nigeria (SEDIN)

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