



Kingdom of the Netherlands



Marketing Palm Nuts *from* Benin *to* Nigeria

EXPERIENCES OF THE COMMUNAL
UNION OF PRODUCERS OF IFANGNI
AND COMFORT VEGETABLE OIL LTD.
IN NIGERIA



Consortium members





Challenges

The growing demand from the Nigerian agro-processing industry for palm oil is an opportunity for palm oil producers and processors in Benin. Members of the Communal Union of Producers (UCP) of Ifangni, in the Plateau Department of Benin, market palm nuts to Nigeria. Palm nut kernel, a by-product of palm oil extraction, has appeared as an alternative marketing opportunity for palm oil. There are a large number of vegetable oil refineries in Ogun and Oyo States in Nigeria. They have large raw material needs that are often met by Nigerian suppliers sourcing from Benin.

Comfort Vegetable Oil Ltd. is a Nigerian family business, specializing in palm nut, palm oil and soybean oil refinery. They have a processing plant in Atan in Ogun State, Nigeria (about 60 km from the Commune of Ifangni in Benin) and a refinery in Lagos. The plant has a processing capacity of 150 tons of palm nuts per day, resulting in 70 tons of refined palm oil per day. But in view of supply constraints, including the scarcity of palm nuts on the Nigerian market, the plant is currently processing an average of 50 tons of nuts per day. The raw material for running the factory often comes from Benin through Nigerian suppliers.

Current purchase prices of the raw material prevent Comfort Vegetable Oil Ltd. from competing on the market with Nigerian companies that already have direct contacts with Beninese producers. In addition, the facilities granted by the Nigerian state to large Malaysian importers who market oil in Nigeria (e.g., customs exemption) lead to market distortion, which weakens Nigerian small and medium-sized enterprises. This state of affairs explains the need for these companies to reorganize their raw material supply in order to become more competitive. For example, Comfort Vegetable Oil Ltd. aims to reduce its production costs by coming into direct contact with producers in Benin, hoping to obtain affordable prices and better-quality nuts, as well as a sustainable source of raw material supply.

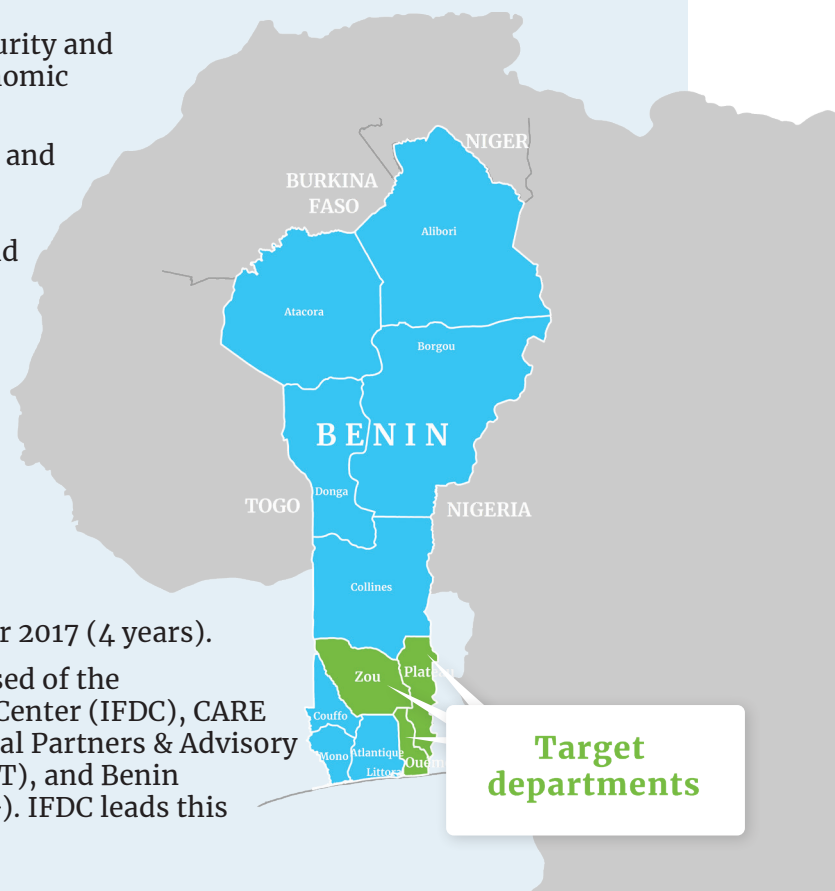
The Ifangni UCP in Benin and Comfort Vegetable Oil Ltd. in Nigeria carried out a pilot experiment (Box 1) on the marketing of palm nuts kernel, which was facilitated by the Communal Approach to the Agricultural Market (ACMA) program. The program's intervention mechanism is based on multi-stakeholder consultations within the agricultural business clusters (ABCs). These ABCs are networks of producers, processors, traders and public and private service providers in a given sector organized to provide a competitive supply of agricultural products for the Nigerian market. The ACMA program connects the ABCs with buyers in Nigeria, which allows them to better understand the requirements (volume, quality, etc.) of the potential buyer and the procedures to follow, etc. The ACMA team has facilitated the marketing of palm nuts kernel through its technical support in linking and negotiating the terms of contracts of the two parties. It also provided a subsidy for the cost of transporting nuts to producers. These experiments made it possible to identify marketing constraints to Nigeria and to apply practical solutions to address them. In doing so, it has facilitated learning as well as the gradual development of a business relationship.



The ACMA team has facilitated marketing of Palm nuts

Box 1 | The ACMA Program (2013-2017)

- Overall objective: to improve food security and increase agricultural incomes for economic operators.
- Target groups: producers, processors, and traders, including 40% women, in the 22 communes of three departments bordering Nigeria: Ouémé, Plateau, and Zou.
- Target products: maize, pepper, peanut, soybean, cassava, palm nuts, palm oil, and fish.
- Donor: Embassy of the Kingdom of the Netherlands in Benin.
- Overall Budget: €10 million, of which 40% is for commercial infrastructure under municipal control.
- Duration: November 2013 to November 2017 (4 years).
- Implemented by a consortium composed of the International Fertilizer Development Center (IFDC), CARE International Benin/Togo, Sahel Capital Partners & Advisory Ltd, l'Institut Royal des Tropiques (KIT), and Benin Consulting Group International (BeCG). IFDC leads this consortium.



Start-Up Negotiations

In March 2015, the ACMA team organized a first business meeting at UCP headquarters in Ifangni between palm nut producers and the management of Comfort Vegetable Oil Ltd. The main objective of the meeting was to negotiate the conditions for the regular supply of palm nuts to the company.

Producers have decided to supply the company with 100 tons of palm nuts per week, which is part of its demand. Producers already had other customers to whom they supplied palm nuts in the informal market. They indicated that they would continue delivery to these customers until they had full control over formal transactions with the company.

The selling price of nuts was negotiated at 180,000 CFA francs (about 720,000 Naira) per ton, excluding transport costs. Since other transport-related costs, such as customs and other charges, were unknown, the company agreed to pay half of the estimated transport cost of 30,000 CFA francs per ton, and the ACMA program committed to subsidize the rest. The negotiated selling price was a minimum price plus an additional margin.

The trading period coincided with the beginning of the fall in the value of the Naira against the U.S.



dollar (USD) from 150 to 200 Naira to the USD. This fall was exacerbated by uncertainties around the Nigerian pre-election period. In addition, the Central Bank of Nigeria discouraged Naira's out-of-country transactions to reduce capital flight. As a result, the price initially negotiated in CFA francs had to be renegotiated to an amount of 175,000 CFA francs (about 70,000 Naira) per ton, plus 125,000 CFA francs (about 5,000 Naira) per ton for transport.

First Marketing Contract

In May 2015, the ACMA team organized a second business meeting between Ifangni's UCP and the management of Comfort Vegetable Oil Ltd. This time, the meeting took place at the company's plant in Atan, Nigeria. The outcome of the meeting was a review of the contract resulting in the renegotiation of the selling price of palm nuts at 180,000 CFA francs (about 72,000 Naira) per ton, including transport. In addition, both parties agreed that the company payment would be made in three instalments (30%; 20%; 50%).

The company expressed its preference to make the payment into a Nigerian account, which resulted in UCP opened an account with Diamond Bank, which also operates in Nigeria, in Benin. Once the account was opened, a representative of Comfort Vegetable Oil Ltd. checked the initial stock of palm nuts producers in Ifangni, which was satisfactory to the company. This led to the signing of a contract worth 18.72 million CFA francs (approximately 7,200,000 Naira) between the two parties for the first time. This is the equivalent of 100 tons of palm nuts, which would be sold in three deliveries of 30 to 35 tons (Table 1).

Naira in Nigeria in mid-2016. Demand for white (human consumption) and yellow (poultry feed manufacturing) maize remained relatively strong and prices recovered.

As for gari and palm oil, products produced by local processing and marketed by processors, the incomes generated by these processors have gradually increased, despite the devaluation of the Naira. Here, too, demand seems to remain strong in the Nigerian market. In addition, gari and palm oil processors have succeeded in expanding the Beninese market by investing more in improving product quality.

Table 1 | Payments and Deliveries Made (1st Marketing, March 2015)

Date	Payments	Date	Deliveries
28/05/2015	5,702,400 FCFA (33%)	30/05/2015	29.82 tons
03/06/2015	3,830,400 FCFA (22%)	06/06/2015	30.61 tons
15/06/2015	3,801,600 FCFA (22%)	15/06/2015	31.37 tons
Not specified	4,096,656 FCFA (23%)	Not specified	0 tons
Total	17,431,056 FCFA (100%)	-	91.80 tons

As shown in Table 1, the percentages applied do not correspond to what is put in the contract (30%; 20%; 50%). There are many reasons for this change. The members of the UCP were not willing to deplete their stock of palm nuts for the first delivery because the prices were very low. All producers



were waiting for the right time to deliver. Under these conditions, only two palm nut aggregators were able to build up sufficient stock. Although the ACMA Program grant was supposed to cover part of the transport costs, delays in transfers were resulting in the transport costs being deducted from the prices paid. Therefore, the actual price paid per ton was no longer advantageous to producers. The price was also affected by the high exchange rate applied by the bank.

The UCP found it difficult to mobilize the second delivery, as the 20% did not cover the value of the goods to be delivered. No producer or aggregator agent wanted to release their product without receiving the full payment. This was because of limited trust between the UCP and the aggregators. The president of UCP had to pre-fund a portion to allow producers to build up enough stock to meet the delivery requirements. After the delivery, Comfort Vegetable Oil Ltd complained that the quality of the product delivered was inferior and did not meet required standards. There were no laboratory results presented by the company as evidence.

The contract did not provide for payments on the third delivery; however, Comfort Vegetable Oil Ltd. paid an additional 20% of the contract value to facilitate product mobilization. The aggregators prepared to supply their product without a prior payment. Meanwhile, UCP did not have working capital to buy nuts from the member producers. Fortunately, during this period, the ACMA grant was finally released. In addition, UCP obtained a loan agreement with a microfinance institution (ALIDé), which has enabled them to make the last delivery. However, the 2% interest rate per month that was applied significantly reduced the price, which was paid to the producers.

During delivery operations, discrepancies were observed between the volumes reported by the UCP and the volumes recorded by the company. The differences observed in the first two deliveries were mainly due to several weighing of small quantities for the constitution of the stock, which increased the margins of error. The highest deviation observed at the level of the last delivery was due to UCP's confidence in the collectors who loaded without weighing, since the collectors were supposed to condition 32 tons. Finally, the total observed deviation was estimated to be about one ton of palm nuts.

The Second Marketing Contract

In July 2015, a learning event with UCP members was organized by the ACMA program in Porto-Novo. The aim was to share experiences around the first contract, discuss constraints encountered and identify solutions.

The success of the first contract was due to quality. Because the palm nuts met the quality standard required by Comfort Vegetable Oil Ltd., they asked for a second contract. The known impact of transaction costs, bank charges and exchange rates from first contract allowed producers to agree on more realistic estimates of delivery orders and the modes of payment.

In order to avoid the difficulties associated with the mobilization of supply previously encountered, the UCP decided to make deliveries in smaller quantities. Difficulties in mobilizing supply at the producer level had even forced the president of the UCP to source palm nuts in Bohicon, Zou. On this basis, the total contracted quantity for the second marketing was fixed at 60 tons. During the contract signing period (August to September 2015), the price of palm nuts was up but very volatile. The selling price of the informal market changed from week to week. The selling price was therefore set at 187,500 CFA francs (approximately 75,000 Naira) per ton, or 11,250,000 CFA francs (equivalent to 4,500,000 Naira) for the 60 tons.



Because the company had already expressed its preference to make payments into a Nigerian bank account, an agreement was reached with Diamond Bank to make payments to the bank account in Nigeria and then transferred to the UCP Benin account at a rate of 2.64% including the bank's commissions. Both parties agreed that payments would be made in two instalments of 50%. Based on learning around the challenges of the first contract (e.g., difficulty in transferring money, maximum capacity of the lorry, limited to 30 tons), both parties revised the terms of payment and the delivery volume. Table 2 highlights how the total delivery volume was fixed at 56 tons with new modality of payment in three instalments (54%; 36%; 10%). Based on the trust that had been established between the two parties, it was not necessary to verify the stock.

Table 2 | Payments and Deliveries Made (2nd Marketing)

Date	Payments	Date	Deliveries
30/07/2015	5,421,600 FCFA (53%)	04/08/2015	30.29 tons
10/08/2015	3,945,000 FCFA (39%)	27/08/2015	25.47 tons
15/09/2015	801,167 FCFA (8%)	Unknown	0 tons
Not specified	4,096,656 FCFA (23%)	Not specified	0 tons
Total	10,167,767 FCFA (100%)	-	55.76 tons

During the first delivery period, the price of palm nuts was increasing, prompting producers to crush the nuts and store them for sale. Also, because the selling price was affordable for producers, the mobilization of supply was rapid. But the second delivery was more difficult. However, the UCP had difficulty mobilizing the product because of the high selling price of palm nuts in the informal market. This increase in the selling price made producers reluctant to add their products to the company's inventory. The selling price was up from CFA francs 5,000 to CFA francs 7,500 (about CFA francs 2,000 to CFA francs 3,000) per ton. The producers reversed the terms of the contract and offered a new price of 192,500 CFA francs (77,000 Naira) per ton, in accordance with the market price. However, after persuasion from the ACMA team to respect the terms of the contract, the president of the UCP was able to mobilize the 25.47 tons.



Financial Balance of Sales

The balance of the first sale was positive for the UCP of Ifangni and amounted to 372,198 CFA francs (Table 3). It should be noted that the producers at one time obtained a loan of about seven million CFA francs from the ALIDé microfinance institute, which made it possible to mobilize the product for the last delivery.

The second marketing was not beneficial for the UCP in Ifangni, which lost 873,533 CFA francs (Table 4). This loss, according to UCP officials, was made up by ACMA's financial support for the first-time commercial transportation. The president of the UCP said that this was acceptable and that they made this transaction to be able to strengthen their credibility with Comfort Vegetable Oil Ltd. and keep the good trading relationship established.



Table 3 | Financial Balance of the UCP Ifangni 1st Marketing, May 2015

Income	Amount (Naira)	Exchange Rate	Amount (FCFA)
Payment by Comfort Vegetable Oil Ltd.			
1st payment	2,160,000	2.64	5,702,400
2nd payment	1,440,000	2.66	3,830,400
3rd payment	1,440,000	2.64	3,801,600
4th payment	1,569,600	2.61	4,096,656
Total income	6,609,600	-	17,431,056
Charges	Amount (Naira)	Exchange Rate	Amount (FCFA)
Transport			
1st conveyor	165,000	2.75	453,750
2nd conveyor	165,000	2.75	453,750
3rd conveyor	165,000	2.75	453,750
Sub-total			1,361,250
Load			
1st load	-	-	35,000
2nd load	-	-	35,000
3rd load	-	-	35,000
Sub-total			105,000
Customs and Packaging			
Customs escort	-	-	6,000
Packaging	-	-	21,000
Sub-total			27,000
Payments by the UCP to Producers and Traders-Collectors	Price (FCFA/tons)		Amount (FCFA)
Nuts delivered (tons)			
91.80	169,560	-	15,565,608
Total charges			17,058,858
Balance for the UCP			+372,198

Table 4 | Financial Balance of the UCP Ifangni 2nd Marketing, August and September 2015

Income	Amount (Naira)	Exchange Rate	Amount (FCFA)
Payment by Comfort Vegetable Oil Ltd.			
1st payment	2,250,000	2.41	5,421,600
2nd payment	1,500,000	2.63	3,945,000
3rd payment	392,000	2.04	801,167
Total income	4,142,000	-	10,167,767



Table 4 | Financial Balance of the UCP Ifangni 2nd Marketing, August and September 2015 (continued)

Charges	Amount (Naira)	Exchange Rate	Amount (FCFA)
Transport			
1st conveyor	165,000	2.75	453,750
2nd conveyor	165,000	2.75	453,750
Sub-total			907,500
Load			
1st load	-	-	35,000
2nd load	-	-	35,000
Sub-total			70,000
Customs and Packaging			
Customs escort	-	-	6,000
Packaging	-	-	21,000
Sub-total			27,000
Payments by the UCP to Producers and Traders-Collectors	Price (FCFA/tons)		Amount (FCFA)
Nuts delivered (tons)			
55,76	180,000		10,036,800
Total charges			11,041,300
Balance for the UCP			-873,533



Lessons Learned

Method of Payment and Transfer of Funds: Adaptation to Banking Systems for Smooth and Successful Exchange

The procedure for opening an association account in Nigeria required by the company during the initial negotiations required that the Ifangni UCP be registered in Nigeria and that the signatories be resident in Nigeria. Given the complications of this option, the ACMA program team contacted the heads of three banks to explore solutions. Attempts at Ecobank were unsuccessful, but for two other banks, the following options emerged:

- Online payment through the “U Collect” service offered by UBA Bank. This service requires that the buyer and seller each have a UBA account. Accounts were opened by Comfort Vegetable Oil Ltd. and the UCP of Ifangni. Online transfers are made at the Naira-USD-FCFA rate, applied by MasterCard, plus a 1.5% commission applied by UBA Bank. This initial rate was 3%, which was renegotiated down to 1.5%. However, during the process, the UCP faced a major difficulty, namely that the bank required the UCP to have a website to link to the “U Collect” platform. For any payment, the company should connect to the web address provided by the producers for online transactions. The bank places the amount paid online by the company on the producers’ account.



- Remittance of funds through Diamond Bank. This bank has proposed an informal transfer option whereby the funds are deposited in Naira into an account of Diamond Bank Benin located in Nigeria. As soon as the deposit is made, Diamond Bank in Benin shall make the funds available to the UCP in CFA francs. However, this amount was converted at a black-market rate, plus 1.25% commission, which did not suit the producers.

The ACMA team has also explored other options for making funds available in CFA francs with exchange offices whose promoters operate in both Benin and Nigeria. These offer the same procedure as Diamond Bank (deposit into an account in Nigeria, and withdrawal in Benin) with rates more or less advantageous for producers. Because of the confidence risks associated with the latter option, it was rejected.

The UCP opted to open an account at Diamond Bank in Benin to conduct the transactions. This option gives producers an equivalent in CFA francs which is not advantageous, but since the ACMA program subsidized transportation in part, the cost price of producers was more or less satisfactory.

In the future, the UCP proposes to negotiate further with Diamond Bank in order to lower exchange rates and commissions and reduce costs. The “U Collect” online payment option offered by UBA could be better explored, as the exchange rate is more advantageous. To this end, the Ifangni UCP must set up its website, which will be used to establish the online payment system.

Product Transportation



A truck transports palm nuts

In order to ensure a formal transport of palm nuts, it was required to have an import permit in Nigeria, which Comfort Vegetable Oil Ltd. did not have. The company’s efforts to obtain this document from the Nigerian Agricultural Quarantine Service (NAQS) proved difficult, as the administrative procedure is cumbersome and, above all, not controlled by the company. Procedures to Customs and other contacts at the level of the Economic Community of West African States (ECOWAS) have revealed that the procedure could take up to six months.

Producers explored the possibility of hiring an informal carrier.

Unfortunately, the latter was confronted with the association of palm nut buyers in Idiroko, the border market in Nigeria, which gives itself the exclusive right to collect the palm nuts from the producers. It threatened to block any direct contact between Beninese producers and Nigerian companies. Further on, some members of this association, who are already suppliers of Comfort Vegetable Oil Ltd., have threatened the company to stop supplying it with raw materials if it decides to enter the Beninese market directly.

These constraints slowed down the marketing process for about two months, until the ACMA team found an alternative solution with a carrier that would cross the border at Baoudjo, another location



in the Commune of Ifangni. This was a detour that affected the cost of transportation. However, the price was still affordable, estimated at 16,500 CFA francs (about 5,500 Naira) per 25 L. The carrier informed the UCP of the incidental expenses that are paid on the way to customs officers and police between Benin and Nigeria. The transport had to be carried out in the middle of the night to reduce road congestion. It is recommended that for future transactions, a representative of the UCP should accompany the goods in order to identify the problems encountered. This can serve as a basis for improving transport and reducing its costs.

Finally, it should be noted that trucks, which are often available to transport products, generally have a loading capacity of 30 tons. There are tonnage restrictions on some routes. Thus, the negotiation of future contracts in multiples of 30 tons will limit the problems related to transport.

Mobilization of a Quality Offer

A key factor in negotiating the contract was the quality of the palm nuts to be delivered. Palm nuts must not contain more than 3% shells. The very first delivery met these standards and was of very good quality. However, during the other deliveries, the producers were not able to deliver the same product quality.

An important investment of the ACMA program is co-financing for the construction of a pre-commercial packaging store. It is equipped with simple devices to check the quality of products before collection, according to criteria known by all producers. Also, it is essential to keep a sealed sample of the stocks to be delivered, in order to be able to compare the buyer's feedback on the quality of the product delivered.

The UCP was not yet sufficiently organized to carry out a group marketing of products collected from these members. They do not have enough confidence and are accustomed to individualism. In fact, only a few collectors were able to mobilize the stocks to ensure the deliveries made. In practice, large producers or collectors contribute a great deal to the build-up of stocks, which is more difficult for smaller producers. It is therefore important to ensure a better organization of producers, both large and small, for the mobilization of the product.

Access to Financing for Organized Producers

As the UCP works, product mobilization is possible only if the UCP has working capital to purchase stocks from collectors or producers. In the first case, where large producers or collectors have a monopoly on building up stocks, the incomes will not go to the producers at the base. In the second case, that of working capital contracted, more deliveries are needed to allow the UCP to make the credit profitable.



Control of Transaction Costs by Producers

So far, there have been no studies to confirm the basis on which producers claim that they would incur losses if the contract were not subsidized by the ACMA program. Also, in the event of actual production costs that are too high, the program's role is to introduce technologies to producers to reduce production costs and be more competitive. Such a study would make it possible to know the minimum price below which producers will make a loss. This knowledge would also allow producers to be better equipped during contract negotiations.



ACMA Technology Palm Oil Production Stand exhibiting at Ogun State, Nigeria

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financed by the Embassy of the Netherlands and implemented by a consortium of five institutions - International Fertilizer Development Center (IFDC - Lead Partner), the Royal Tropical Institute (KIT), CARE International, Sahel Capital Partners & Advisory Ltd, and Benin Consulting Group International (BeCG). It has been developed (from november 2013 to 31 december 2017) in three Nigerian border departments with high agricultural potential - Ouémé, Plateau and Zou through seven value chains (VC) initially: palm oil, maize, gari, chilli and fish, then peanuts and soya. The overall objective of the ACMA programme is "the improvement of food security and the increase of agricultural incomes of the direct actors".

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