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FEDERAL REPUBLIC OF NIGERIA

VALUE CHAIN DEVELOPMENT PROGRAMME (VCDP)

PROGRAMME DESIGN REPORT

West and Central Africa Division
Programme Management Department

REPORT No. 2597
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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

FEDERAL REPUBLIC OF NIGERIA
VALUE CHAIN DEVELOPMENT PROGRAMME (VCDP)

PROGRAMME DESIGN REPORT – MAIN REPORT

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CURRENCY EQUIVALENTS (November 2011)

Currency Unit	=	Naira (NGN)
USD 1.00	=	NGN 157
NGN 1.00	=	USD 0.0064

WEIGHTS AND MEASURES

International Metric System, unless specified in the text

FISCAL YEAR

1 January – 31 December

ABBREVIATIONS AND ACRONYMS

ADP	Agriculture Development Project
ADPEC	Agricultural Development Project Executive Committee
AfDB	African Development Bank
ALGON	Association of Local Governments of Nigeria
ATA	Agricultural Transformation Agenda
AMIS	Agricultural Market Information Systems
ATIC	Agricultural Transformation Implementation Council
AVCDC	Agricultural Value Chain Development Committee
AWPB	Annual Work Plan and Budget
BMO	Business Membership Organisation
CAADP	Comprehensive Africa Agriculture Development Programme
CADP	Commercial Agriculture Development Project
CBARDP	Community-Based Agricultural and Rural Development Programme
CBNRMP	Community-Based Natural Resources Management Programme
CDD	Community Driven Development
CIG	Commodity Interest Group
COSOP	Country Strategic Opportunities Programme
CPE	Country Programme Evaluation
DAI	Department of Agriculture and Industries
DFID	Department for International Development
EIRR	Economic Internal Rate of Return
FFS	Farmer Field School
FGN	Federal Government of Nigeria
FIDAfrique	IFAD network on knowledge management in the rural development sector in Sub-Saharan Africa
FM	Financial Management
FMARD	Federal Ministry of Agriculture and Rural Development
FMAWR	Federal Ministry of Agriculture and Water Resources
FO	Farmer Organisation
GAP	Good agricultural practice
GDP	Gross Domestic Product
GMP	Good manufacturing practice
GTZ	German Technical Cooperation
HACCP	Hazard Analysis Critical Control Point
HOD	Head of Department
IAR	Institute of Agricultural Research
IAR&T	Institute of Agricultural Research and Training

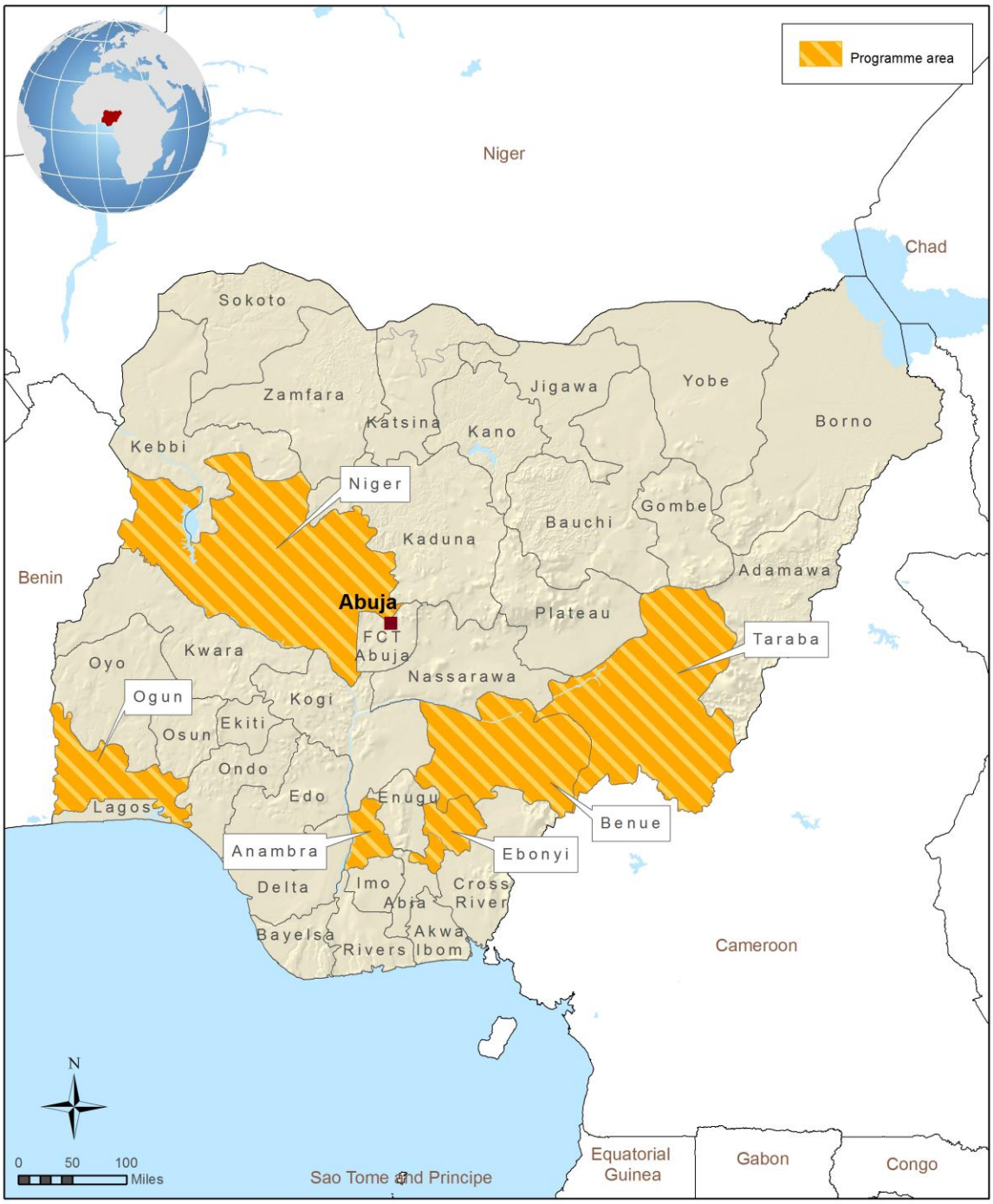
IFAD	International Fund for Agricultural Development
LGA	Local Government Area
LGC	Local Government Council
LGVCAC	Local Government Value Chain Advisory Committee
MARKETS	Maximizing Agricultural Revenue and Key Enterprises in Targeted Sites
MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MIS	Management Information System
MOA	Ministry of Agriculture (State)
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium-Sized Enterprise
MT	Metric ton
NAERLS	National Agricultural Extension and Research Liaison Services
NAFDAC	National Agency for Food and Drug Administration and Control
NAIC	National Agricultural Insurance Corporation
NAIP	National Agricultural Investment Plan
NASC	National Agricultural Seed Council
NEEDS	National Economic Empowerment and Development Strategy
NGN	Nigerian Naira
NGO	Non-Government Organisation
NPAFS	National Programme for Agriculture and Food Security
NPC	National Planning Commission
O&M	Operation and Maintenance
PBAS	Performance-Based Allocation System
PCR	Programme Completion Report
PDO	Programme Development Objective
PIM	Programme Implementation Manual
PME	Planning, Monitoring and Evaluation
PMU	Project Management Unit
PSC	National Project Steering Committee
RBDA	River Basin Development Authority
ReSAKSS	Regional Strategic Analysis and Knowledge Support System
RUFIN	Rural Finance Institutions Building Programme
SATIG	State Agricultural Transformation Implementation Group
SP	Service Provider
SPMU	State Programme Management Unit
SSC	State Steering Committee
SVCSC	State Value Chain Steering Committee
TOR	Terms of Reference
TOT	Training of Trainers
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
VC	Value Chain
VCAP	Value Chain Action Plan
VCDP	Value Chain Development Programme
VCIO	Value Chain Infrastructure Officer
VCO	Value Chain Organisation
VCSC	Value Chain Steering Committee
WB	World Bank

MAP OF PROGRAMME AREA

Nigeria

Value Chain Development Programme - VCDP

Design report

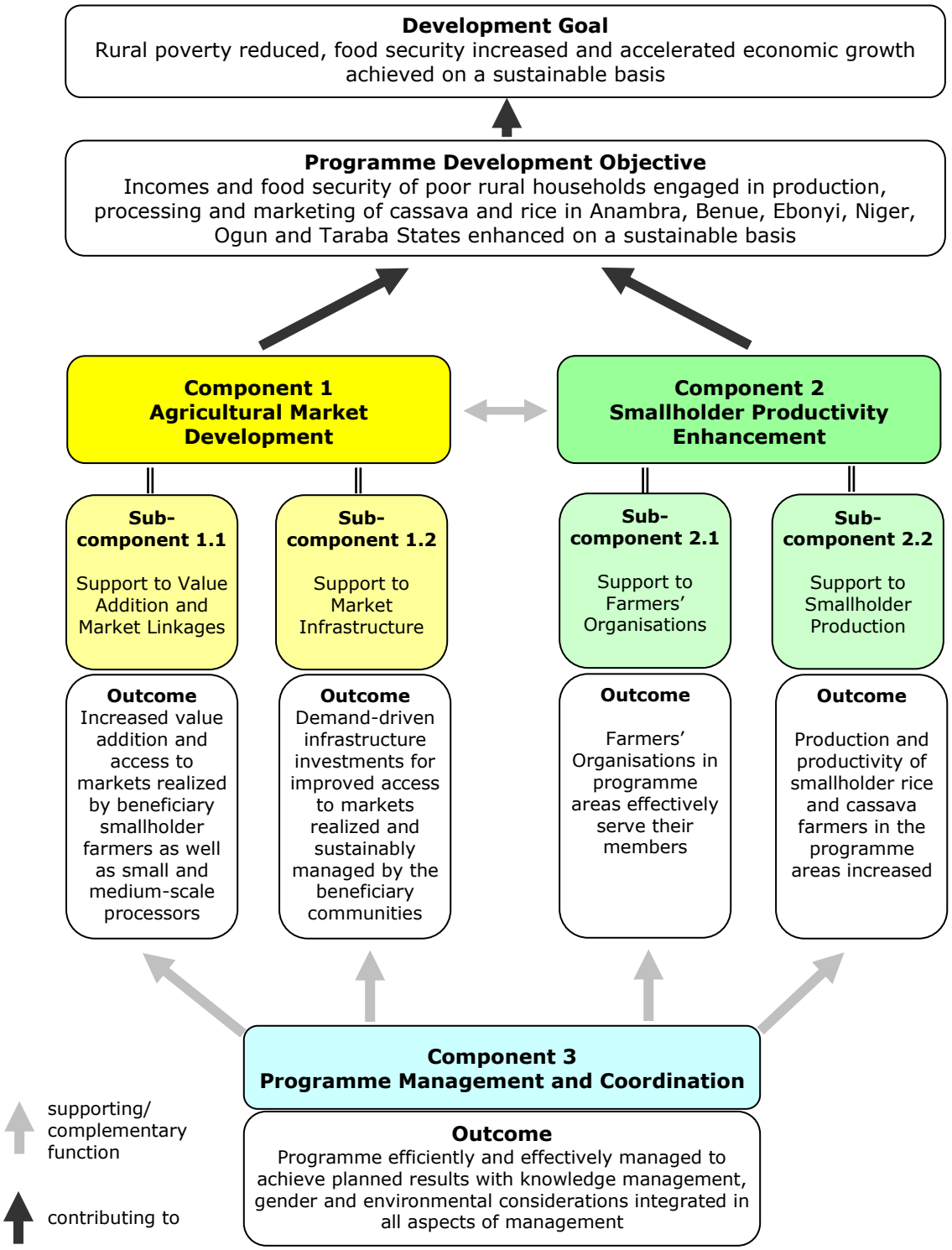


The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD *Map compiled by IFAD*

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

PROGRAMME OVERVIEW



EXECUTIVE SUMMARY

A. Background and rationale

1. The Nigeria Country Strategic Opportunities Programme (COSOP) 2010-2015 was conceived following lessons learned and CPE recommendations directing IFAD to focus its intervention on the agricultural sector, with emphasis on enhancing productivity and access to markets. In close alignment with evolving government strategy and policy, VCDP is well anchored in government's vision for agricultural development through adoption of a commodity value chain approach, as articulated in the Agricultural Transformation Agenda (ATA). It is also consistent with strategies set out in the National Agricultural Investment Plan and other key sector strategies promoting food security and rural development. Based on government priorities as well as market analysis and opportunities, VCDP will focus on addressing constraints along the cassava and rice value chains. Emphasis of IFAD's support is directed at supporting government and its development partners in laying a strong foundation and enabling environment for a much longer term strategy of value chain development.

B. Rural context, geographic area of intervention and target groups

2. **Rural context**. With an estimated 52% of the total population of nearly 140 million people living in rural areas, agriculture is a mainstay of economic activity. The agricultural sector accounts for more than 40% of GDP and up to 60% of total employment (2007 figures). More than 70% of the total farming population is composed of smallholder farmers, cultivating less than 5 ha and producing up to 90% of the total national output. Over the last five years, whilst agricultural growth has been relatively well performing at 7%, it is insufficient for longer term sustainable food security and poverty reduction (estimated to require a 10% growth rate). Poverty remains largely a rural phenomenon, with two-thirds of the rural population considered poor. The livelihood of smallholder farmers has been constrained by a host of challenges: low productivity; paucity of opportunities for value addition; environmental degradation; limited access to productive assets and inputs; inadequate support services (extension and research); limited access to rural financial services; inadequate market and rural infrastructure (including water supply); post-harvest losses and a constrained enabling environment.

3. **Institutional context**. The rural and agricultural sector effort is guided by multiple strategic directives, amongst which emphasising the value chain, through productivity increases and promotion of agro-processing, is emerging as an important consideration. However, the institutional context of the sector is highly complex, plagued by frequent policy interventions and inconsistencies. This has resulted in a large number of nascent formal public or semi-public institutions, few of whom have adequate capacity to serve the interests of Nigeria's smallholder farmers. This has given rise to the need not only for support to government (especially FMARD) in consolidating and handling the various sector development initiatives, but also highlights the opportunity to facilitate improved engagement of the private sector, and of farmers' organisations themselves, in the development effort.

4. **Geographic scope**. The programme recognizes the importance of maximizing the opportunity to link cassava and rice smallholder farmers to markets, and ensuring complementarity of activities. In addition to evident demand and commitment, as well as production and development potential/ opportunities, this serves as the basis for the set of criteria used in identifying the programme areas in which VCDP will intervene. In the interest of maximizing impact, only six states were selected for programme implementation: Anambra, Taraba, Benue, Ebonyi, Niger and Ogun. Within each state, the programme will target three (3) Local Government Areas (LGAs) selected on the basis of objective criteria. It will be implemented in one additional LGA for each of the

leading cassava and rice states. Consequently, 20 LGAs will be targeted under the current programme.

5. **Targeting strategy**. Poor rural households engaged in the cassava and rice value chains serve as the primary target group, including smallholder farmers cultivating up to five hectares of land, small-scale processors and traders. The entry point will be through organized groups of producers and processors, with particular attention to both women and youth groups. To ensure that programme interventions will be demand-driven and respond effectively to needs, an institutional mapping of these organisations, particularly farmers' organizations, will be undertaken to determine their maturity levels, needs and scope of activities to strengthen them. Specific eligibility criteria will be established. It is expected that there will be approximately 17,480 direct beneficiaries of the programme (15,000 smallholder farmers, 1680 processors and 800 traders), and 22,000 indirect beneficiaries benefiting largely from infrastructure improvements, amongst other things.

C. Key Project Objectives

6. **Programme strategy and vision**. The programme seeks to adopt a holistic and demand-driven approach to addressing constraints along the cassava and rice value chains. This necessitates an inclusive strategy of capacity strengthening of actors along the chain (producers, processors and their organisations), as well as enablers (public and private institutions, service providers, policy and regulatory environment, etc.). In parallel, strong emphasis is placed on developing commodity-specific Value Chain Action Plans at LGA level for specificity, and which serve as the basis for rolling out relevant and sustainable activities. The programme strategy is anchored in a longer-term vision of value chain development for poverty reduction and accelerated economic growth, setting the foundation for fundamental organizational and functional capacity of key actors in the agricultural sector. The gradual transformation will also contribute to achieving food security, increased production and productivity, as well as expand income-generating activities and employment opportunities.

7. The specific **programme development objective** is that the incomes and food security of poor rural households engaged in production, processing and marketing of rice and cassava in the targeted LGAs are enhanced on a sustainable basis.

D. Components

8. *Component 1: Agricultural Market Development*. The aim of this component is to enhance the profitability of smallholder farmers and small/medium-scale agro-processors by improving their access to markets and their capacity to add value to locally produced raw materials. This will be achieved by (a) facilitating the linkage of farmers' organisations' and VC operators to local, national and – where appropriate – international markets to sell their products and (b) easing critical market infrastructure constraints to the processing, storage, handling and marketing of farm produce and their processed products. The component is divided into two sub-components, comprising (i) support to value addition and market linkages, and (ii) support to market infrastructure. Intervention mix will consist of an integrated set of activities at multiples levels, and include amongst others: improving the policy and regulatory framework for VC development; establishing quality control and standardisation systems; improving the market information systems; fostering linkages between actors along the value chain and to financial services; building business management capacity of value chain organisations; promoting adoption and acquisition of improved/ efficient processing, storage packaging and handling technologies; and improved feeder roads, marketing facilities and water supply.

9. *Component 2: Smallholder Productivity Enhancement*. The main objective of this component is to enhance smallholder farmer productivity on an economically and environmentally sustainable basis. Outcomes from this component, in the form of

increased volume and quality of marketable produce, feed directly into Component 1. The component is divided into two sub-components, comprising (i) strengthening of farmers' organisations, and (ii) support to smallholder production. Activities will include technical and management/ governance capability building of FOs and key service providers; production and dissemination of improved cassava planting material and certified seeds of rice; promotion of sustainable agricultural practices; access to inputs, improved cuttings and certified seed; irrigation and water control.

10. *Component 3: Programme Coordination and Management*. This component will ensure that the Programme is efficiently and effectively managed to achieve expected results. Gender, youth, environmental, knowledge management and communication considerations will be integrated in all aspects of programme management. In addition, the programme will assist in value chain policy development under the Government's Agricultural Transformation Agenda (ATA) by providing financing support (for two years) to the Agricultural Transformation Implementation Council (ATIC) for technical advisors.

11. The programme's components have been designed to be complementary and mutually reinforcing. The mix of activities to be implemented will be determined through a participatory and demand-driven process, and will take consideration of priority needs on the one hand, whilst accounting for implementation readiness and capacities on the other. An important mechanism in rolling out activities will be the matching grants fund to enable financing of key VC investments because rural financial services in the target areas are very limited and access to credit by the beneficiaries is almost non-existent. It is expected that the 50% subsidy rate for consumable inputs (fertilizers) is required for two years maximum. For equipment, the 70% subsidy provided by the programme will be a one-time operation for a group meeting the criteria set.

12. **Gender strategy**. The particular visible activities and role of women along the two value chains, provides a credible opportunity to adopt a comprehensive gender strategy that includes facilitating women's access to assets, strengthening their groups in terms of value chain governance, and easing their workload and improving their well-being. Thirty-five percent of the matching grants will be earmarked for women to enable them to upgrade their production and processing technologies and capacities. In addition, the programme will apply the Gender Action Learning System (GALS) to provide a community-led empowerment methodology, strengthening communication and win-win collaboration.

E.Benefits

- 15,000 smallholder farming households, 1680 processors and 800 traders are direct beneficiaries;
- 200 km of existing feeder roads rehabilitated; 200 km of new feeder roads constructed; 100 bridges and 200 culverts constructed;
- 600 FOs benefiting from capacity strengthening activities;
- 36 VC-linked water supply schemes constructed; 24 rehabilitated;
- 2,500 ha in selected irrigation schemes rehabilitated; 30,000 hectares of land protected from seasonal flooding;
- Other non-quantifiable institutional benefits (improved service provision, improved delivery capacities, etc.).

F.Implementation arrangements

13. The Programme will be placed under the technical responsibility of FMARD and the State ministries of Agriculture (MoA). Whilst implementation at the national level will receive oversight and guidance from the Value Chain Steering Committee (VCSC), FMARD as the lead implementing agency, will delegate the function and day-to-day implementation and coordination responsibility to the National Programme Management Unit (NPMU). In addition to providing technical support and coordination of programme

activities undertaken by the States, and consolidating the programme AWPB and progress reports from participating States for approval by VCSC and IFAD, the NPMU will ensure regular supervision and monitoring. In each State in which the programme will intervene, day-to-day implementation will be the responsibility of the State Programme Management Unit (SPMU), which will ensure effective and efficient implementation of programme activities by service providers, supervision, capacity building and M&E. As a whole, the programme will also be supported by strategic institutional and technical partners, as well as service providers (other agencies, NGOs, etc.). Service providers will be recruited in a competitive basis with performance-based contracts.

G. Links with other initiatives

14. The Programme will establish close linkages with ongoing projects, programmes and organisations that have adopted the value chain approach in their operations. These include the UNDP facility for inclusive market (FIM); USAID-funded MARKETS II Project; DFID-funded PropCom Project; GTZ-funded agricultural value chain work, JICA-funded Rice Post-Harvest and Marketing Pilot Project; and the World Bank funded Micro, Small and Medium Enterprises Project (MSME) and Commercial Agriculture Development Project (CADP). Furthermore, the Programme will seek appropriate coordination and collaboration with relevant complementary operations in the programme states (e.g. in the areas of infrastructure development, support to agro-based economic activities in rural areas, support to smallholder productivity enhancement, and rural finance). Every effort will be made to link VCDP with the IFAD-funded Rural Finance Institution Building Programme (RUFIN), launched in 2010, to facilitate rural finance outreach to smallholders.

H. Costs and financing

15. The total programme cost is estimated at USD 105.9 million, over a period of 6 years. IFAD's contribution is a loan of USD 75.4 million (71% of total cost), with an additional USD 0.5 million grant. The remainder of the financing is from federal, state and local government contribution, as well as beneficiary contribution.

I. Risks

16. Key risks to implementation include: poor governance at multiple levels, thereby increasing cost and/or reducing impact; heightened insecurity in the country leading to disruption of economic and social life, and implementation and supervision of activities; environmental degradation and elite capture of activities. Mitigation measures have been designed and they include: emphasis on capacity building of multiple actors in technical, management and governance aspects; close monitoring and supervision; promotion of sustainable land and water management practices; and strengthening of women's and farmers' organisations.

J. Environment

17. The Value Chain Development Programme (VCDP) is comprised of farm production, agro-processing and infrastructure and facility construction activities which have potential impacts on renewable natural resources such as arable land, rangeland, forest/woodland, soil, air, water and vegetation. These resources provide critical environmental goods and services that impinge directly on agricultural potentials, ecosystem integrity and environmental quality. The strategic economic role of these resources is given by the fact that they constitute sources of employment, livelihood and incomes for the bulk of the population. Some of the impacts of programme activities on these resources will be positive while others will be negative. While the positive environmental effects will be promoted, the negative environmental effects will be subject to mitigation measures to reduce resource and environmental degradation. Additional imperatives for mitigating possible environmental degradation come from the

increasing risks of climate change impacts and the implications for crop choices, soil productivity, crop husbandry and input use. By the nature and extent of the likely environmental effects, the VCDP is classified as a Category B programme in line with IFAD's EA procedures. The potential negative environmental effects are assessed to be within controllable limits.

K. Knowledge management, innovation and scaling up

18. The programme will package and disseminate information to respective stakeholders in various formats (e.g. brochures, studies, articles, newsletter, TV and radio programmes), using the central knowledge management and communication platform established by the ongoing programmes under the leadership of the Country Office. The programme will also develop an online information system which will focus its services on market information, technologies, training materials, farmer organizations and disseminate the information through a web portal. This knowledge sharing process will be supported by a well-focused series of workshops and learning events. In addition, the programme will use the Nigeria Country Programme Management Team (CPMT) as a mechanism for learning and exchanging knowledge among the IFAD-supported programmes and between them and other in-country programmes.

19. Over the longer term, the programme will seek to encourage expansion and replication of positive and successful experiences, based on lessons learned. Successful approaches, processes, investments, technologies, etc. could be progressively scaled-up where there is demand and where the conditions prevailing are favourable.

PROGRAMME LOGICAL FRAMEWORK

NARRATIVE SUMMARY	VERIFIABLE INDICATORS (*RIMS indicator)	MEANS OF VERIFICATION	ASSUMPTIONS
OVERALL GOAL *Contribute to NAIP goal " Rural poverty reduced, food security increased and accelerated economic growth achieved on a sustainable basis"*	– Percentage reduction in households below the poverty line by 15% in target LGAs – Percentage reduction in no. of people under-nourished by 25% in target LGAs. – Real agricultural GDP growth rate increased by 5% in target LGAs.	– National statistics and NAIP/MDG Progress – Monitoring Reports ReSAKSS.	
PROGRAMME DEVELOPMENT OBJECTIVE *Incomes and food security of poor rural households engaged in production, processing and marketing of rice and cassava in the targeted LGAs of the 6 targeted states enhanced on a sustainable basis*	– 50% of targeted smallholder farmers and VC operators (by sex and age) have increased their real agricultural income by at least 25% in the programme areas*. – Increase in household asset index * of 10% by PY6 in programme area. – 25% reduction in the prevalence of child malnutrition in the programme LGAs*. – 25% increase in households food security in target LGAs *	– Programme impact assessment and surveys. – Periodic evaluation. – National/state statistics. – Poverty surveys.	– Socio economic stability in the county
Component 1: Agricultural Market Development			
Sub-component 1.1: Support to Value Addition and Market Linkages ***Outcome 1.1:*** *Increased value addition and access to markets realized by beneficiary smallholder farmers as well as small and medium-scale processors* *Output 1.1.1: Improved market linkage and increased market information* *Output 1.1.2: Value addition technology promoted*	– At least 50% of the volume of target commodities in programme areas is marketed by smallholder farmers and their organisations*. – At least 50% of the of cassava and rice produced by smallholders is processed*. – At least 25 contractual arrangements are formalized and effective between targeted producers and processors in each state*. – 10 trade promotion activities organized – 40% of the target smallholders use the information generated by the Agricultural Market Information System by PY5. – number of contractual arrangement signed between FOs and processors * – 7680 VC operators trained in recommended technologies* – 50% of smallholders adopt improved processing and storage technique*	– Baseline survey and M&E reports. – Published yield and price data. – Agro-industry & market surveys. – Rural household surveys.	– Government policy supports/favours the emergence of strong value chains professional organisations. – Market prices remain above 2006 levels – Access to finance for FOs and VC operators progressively grows.

Sub-component 1.2: Support to Market Infrastructure ***Outcome 1.2:*** *Demand-driven infrastructure investments for improved access to markets realized and sustainably managed by the beneficiary organisations* *Output 1.2.1:* Access to roads and water supply Output 1.2.2: Market, processing and storage facilities improved	– At least 60% of FOs supported have invested in at least one piece of equipment. – Arrangements for the operation and maintenance (O&M) of market. infrastructure/equipment is developed and operational after 2 years for at least 70 % of programme-financed infrastructure*. – At least 65% and 50% reduction in post-harvest losses for rice and cassava, respectively, are achieved*. – 200 km of roads constructed/rehabilitated by year 5* – 36 new water supply schemes linked to cassava and rice VC constructed. – 8000 farmers in programme communities have adequate access to safe and sustainable drinking water.* – 80 processing units with stores constructed* – 400 FOs' commodity stores constructed*	– Programme M&E/ progress reports. – Supervision mission, mid term-term review and completion reports. – Contractor reports. – Beneficiary perception surveys.	– LGCs and State Government provide adequate funds and mechanisms for infrastructure repair and maintenance – Effective FO management arrangements for infrastructure are sustained
Component 2: Smallholder Productivity Enhancement			
Sub-component 2.1: Support to Farmers' Organizations ***Outcome 2.1:*** *Farmers ' organizations (FOs) in programme areas effectively serve their members* *Output 2.1.1: Capacity of FOs strengthened*	– at least 40 % of FOs strengthened by programme (target 300) have access to market information for their members*. – At least 50% of FOs strengthened by programme (target 300) use bulk purchase method to procure their input. – At least 40 % of supported FOs have reached the next stage of autonomy by PY 5. – At least 80% of the target FOs legally registered with the Department of Cooperatives. – 2,400 group leaders trained in good governance issues*	– Programme M&E/ progress reports. – FO financial records – State MoA / Commerce and Cooperatives reports. – Service providers/operators reports	– FOs are recognized as legitimate interlocutors by the various stakeholders – Avoidance of political interference in FOs
Sub-component 2.2: Support to Smallholder Production ***Outcome 2.2:*** *Production and productivity of smallholder rice and cassava farmers in the programme areas increased* *Output 2.2.1: Access to fertilizers and agro-chemicals facilitated* *Output 2.2.2 Access to improved production techniques facilitated*	– % increase in yields for rice (target 40% for non-irrigated and 150% for irrigated) and cassava (target 50 %) produced by the target smallholder farmers (by sex and age)*. – 50% increase in rice and cassava produced by the target smallholder farmers (by sex and age)*. – At least 70% of smallholder farmers have adopted at least one technology promoted by the Programme (by sex and age)*. – 10 agreements signed with agro-input dealers – 30% of target households satisfy their annual input needs – 4800 smallholder farmers trained in spraying techniques – 50% of target smallholders have access to extension services – 480 Farmer Filed Schools established – 30,000 hectares of land protected from seasonal flooding	– Programme M&E/ progress reports. – National agriculture production surveys. – State Ministry of Agriculture reports. – NIRSAL reports.	– Favourable climatic conditions.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

FEDERAL REPUBLIC OF NIGERIA
VALUE CHAIN DEVELOPMENT PROGRAMME (VCDP)

PROGRAMME DESIGN REPORT: VOLUME I – MAIN REPORT

INTRODUCTION

1. The Value Chain Development Programme (VCDP) emerged from the IFAD Country Strategic Opportunities Programme (COSOP) covering the 2010-2015 period. This COSOP built on the recommendations of the Country Programme Evaluation (CPE) carried out in 2008/2009 April 2009 by the Federal Government of Nigeria (FGN) and IFAD. The CPE recommended to focus future IFAD interventions on agriculture, with emphasis on enhancing productivity and access to market.

2. The VCDP design is consistent with the CPE recommendations and builds on ongoing value chain (VC) interventions supported by Government, development partners (DPs) and the private sector in Nigeria. The VCDP is fully aligned with the National Agricultural and Food Security Strategy, the National Policy on Integrated Rural Development/Rural Development Sector Strategy and the National Agricultural Investment Plan (NAIP) of the Government of Nigeria. It addresses all five core components of the NAIP: (i) agricultural productivity enhancement; (ii) support to commercial agriculture; (iii) land management and water control; (iv) linkages and support to inputs and product markets; and (v) programme coordination, monitoring and evaluation. The Programme directly contributes to achieving the overall development targets of the NAIP[1].

3. The Programme is consistent with the Agricultural Transformation Agenda (ATA), the vision for agricultural development set by the new Government, to develop the agricultural sector through a commodity value chain approach. In line with the ongoing COSOP, the Programme will target two of the priority commodities identified in the ATA, cassava and rice, to take advantage of existing market opportunities and address the constraints along the value chain. Based on the CPE recommendation, the Programme will focus its intervention on six out of the country's 36 states for enhanced impact and learning towards possible upscaling.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country, Rural Development and Poverty Context

4. Nigeria is predominantly a rural economy. About 52% of the estimated total population of nearly 140 million people live in rural areas, where agriculture and renewable natural resource-based production is the main economic activity. With about 250 ethnic groups across land area of about 92.4 million hectares (ha) (out of which about 70 million is cultivable land) and agro-ecological diversity that stretches from forest through savannah, the country's rich natural resource base is self-evident.

5. The **agricultural sector** accounted for more than 40% of Nigeria's Gross Domestic Product (GDP) and up to 60% of total employment in 2007. In terms of sub-sectors, crops

[1] (i) Reduce poverty level by 50% by 2015 from 2006 level; (ii) Reduce the proportion of people under-nourished by 50% from 2006 level by 2015; and (iii) Achieve real agricultural GDP growth rate of at least 8% per annum by 2015.

contributed about 85% to the agriculture GDP, while livestock, fisheries and forestry accounted for about 10%, 4% and 1%, respectively. In terms of production structure, cereals (particularly maize, rice, sorghum and millet) accounted for the largest share of total cultivated area, while the share of roots and tubers (cassava and yam) in total output is the largest (due to weight advantage). However, cereals dominated in value terms because they attracted relatively higher prices. More than 70% of the total farming population is composed of smallholder farmers who cultivate less than 5 ha and produce up to 90% of total national output. Two agricultural systems are practiced: (i) the traditional production system dominated by fragmented landholdings, mostly less than 2 ha; and (ii) improved irrigation crop production system, mostly improved *fadama* farming in low-lying land which is often in waterlogged areas. Though the average agricultural growth rate of 7% in the last five years exceeds the 6% target set by CAADP, the performance falls below the 10% considered necessary by Government for sustainable food security and poverty reduction in Nigeria.

6. **Sector strategy.** Government strives to achieve food security with minimal food imports and to make agriculture a major foreign exchange earner by 2015. The key strategies for the sector include: (a) developing the capacity of FMARD to handle the various development initiatives; (b) encouraging private sector investment in agriculture; (c) promoting agricultural mechanization that is well suited to the operations of small and medium-scale farmers; (d) emphasising value chain, through productivity increases and promotion of agro-processing and product diversification; (e) strengthening agricultural extension services; (f) withdrawing Government from direct production, as well as input and output distribution systems; (g) providing various incentives, including price support to farmers/producers to boost production; and (h) facilitating linkages between financial institutions and farmers/producer groups, to ensure financing of agriculture and rural micro small enterprises. In regards to water and sanitation, the key strategy includes partnership with the private sector and non-governmental organisations (NGOs) in the development of sustainable water resources for human consumption, crop and livestock production, hydro-power generation, inland waterways transport, industrial use and environmental protection.

7. **Poverty.** Despite the efforts deployed by the FGN, poverty is widespread in the country. The 2003-04 Nigeria Living Standards Survey indicated that nearly 55% (69 million people) of the total population lived below the poverty line of USD 1 per person per day. It also showed that poverty is mainly a rural phenomenon, with the rural population accounting for nearly 70% of poor households. This result was confirmed by the 2006 survey conducted by the National Bureau of Statistics (NBS). According to the NBS, nearly two-thirds of the rural population is considered poor. In addition, the results showed that the Sudan/Sahel region recorded the highest incidence of poverty, with about 80% of the population described as poor. The Niger-Delta region has also witnessed growing poverty over the last 20 years, due in part to the activities of oil exploitation. This degradation has eroded the resource base, notably land and water, thereby constraining agriculture and fishery development. The situation is further compounded by incessant socio-economic conflicts and youth restiveness that have hampered development effort and severally compromised security of life and property.

8. **Rural Poverty.** Low productivity and the paucity of opportunities for value-addition are major factors contributing to rural poverty. Rural livelihood is further undermined by poor water and sanitation supply, as well as poor and limited infrastructure (rural roads, electricity, schools, health facilities and communication). Inadequate access to land and land tenure insecurity constrain agricultural development, limit private sector investment and credit financing. The rural population also suffers from limited alternative employment opportunities. Weak governance also contributes to higher rural poverty, notably in terms of inefficient local administration, corruption and inadequate involvement of the poorer segment of the society in political and resource allocation processes. Degradation of the environment is also a contributor to rural poverty. Smallholder productivity is threatened by poor agricultural practices, over-grazing, and deforestation (estimated at 3.5% annually),

exacerbated by the felling of trees for fuel wood as the main source of power for rural and peri-urban households. Productivity of the rural population is also hampered by ill-health, particularly HIV/AIDS, tuberculosis and malaria. According to the National HIV/AIDS Strategy Plan 2010-2015, Nigeria has about 6.2 million people with HIV/AIDS, yielding a prevalence rate of 4.4%. Despite this relatively low rate, Nigeria has one of the greatest numbers of people affected by HIV/AIDS in Africa.

9. Poverty in Nigeria is found to vary according to the education and gender of the household head, as well as the size of the family. Larger families (with 20 or more persons) and households headed by persons with little or no formal education tend to have the highest poverty incidence, depth and severity. The majority of the rural poor are women. At the national level, females earn about 45% of their male counterparts' incomes. Culturally women are unable to access land and agricultural water, while only a few are able to access production credit without the permission of their men folk/husbands. Nationally, only an estimated 10% of women own land. They generally obtain user-rights on a small portion of land through their husbands and other male relatives. Over 80% of women in rural areas make a living from small-scale agriculture and they play a major role in food processing. Increased poverty in the country has forced rural women and men alike to intensify their economic activities to meet basic household needs. Women are gradually taking on more financial responsibilities. In South Eastern Nigeria, for example, women are increasingly getting involved in paying school fees and food.

10. **Rural Institutions.** The institutional context in the agricultural sector in Nigeria is highly complex, reflecting the effects of frequent policy interventions and inconsistencies which have resulted in a large number of nascent, formal public or semi-public institutions of which few have fully realized their roles in supporting the sector's development and growth. At the same time, informal institutional arrangements have emerged through the private sector and through cultural and other traditional relationships which have filled some of the service gaps. However, many of these institutions have had limited interest or capacity to serve Nigeria's smallholder farmers, with the result of increasing inequities in terms of access to technologies, financing and markets, and as a result, increasing productivity gaps. As such, a major challenge for the agricultural sector is to build upon the private initiatives which have demonstrated their resilience in the face of a challenging and unpredictable sectoral policy environment, to ensure greater inclusiveness of the majority of farmers who have limited access to quality services.

11. **Farmers' Organisations.** There are many Farmers' Organisations (FOs) in Nigeria. . The very large umbrella organisations appear to be disconnected from the myriad of grassroots institutions and they tend to not represent the interests of smallholder farmers. These institutions, which are generally not well structured and focus little on economic activities or advocacy, will require building and strengthening the capacity of smallholder farmers to organize themselves into meaningful entities capable of bargaining with traders to generate profit for their members and managing partnership with service providers.

12. **Rural Finance.** Nigeria's authorities have recognized the need to improve the financial sector and have undertaken a series of reforms over the past decade to transform this underperforming sector into a growth catalyst. The most successful initiatives include the Central Bank of Nigeria (CBN)'s 13-point reform agenda and the Financial System Strategy 2020 (FSS220), which lead to a phased withdrawal of public funds from the banking sector as well as intense consolidation, reducing the number of banks from 89 in 2005 to 24 in 2008. At the end of December 2008, the Nigerian formal financial system comprised the CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM), the National Pension Commission (PENCOM), 24 deposit money banks (DMBs), five discount houses (DHs), 840 microfinance banks (MFBs), 113 finance companies (FCs), 99 primary mortgage institutions (PMIs), five development finance institutions (DFIs), 1,264 bureaux-de-change

(BDC), one Stock Exchange, one Commodity Exchange, 73 insurance companies, and three pension funds (CBN Annual Report, 2008).[2]

13. Despite the progress made through these various reforms, the financial sector remains underdeveloped and is still confined to particular sectors. The mostly domestic-owned banking sector, which constitutes the largest component of the financial sector, lends primarily to the oil and gas (25.5% of total credit to the private sector in 2008) and telecoms sectors (16.7%). The formal financial system services only a small minority of enterprises and households, with limited access to rural communities. In addition, a weak credit information environment, high costs of contract enforcement, shortcomings in corporate governance as well as inefficiencies in mechanisms for enforcement and registration of collateral lead to increased costs and risks of financial intermediation, which further contribute to exclude the rural poor from the formal financing sector. With little or no credit history, absence of securable collateral, weak farmer organizations, and limited marketing experience, small producers currently do not represent attractive, potential clients to banks or MFIs.

14. In 2009, IFAD launched the Rural Finance Institution Building Programme (RUFIN) with the aim of strengthening microfinance institutions (MFIs) and establish linkages between these institutions and formal financial institutions in order to create a viable and sustainable rural financial system. However, this promising Programme which is targeting 12 States only covers two VCDP States (Anambra and Benue) and only a limited number of Local Government Areas (LGAs) per State. It will take a few years to actually increase the outreach to smallholders and entrepreneurs.

B. Rationale

15. Nigeria's agricultural productivity[3] is generally low, mostly due to poor access to production-enhancing inputs; dependency on labour-intensive, low input-output technologies; considerable post-harvest losses of farm produce (an estimated 20% of grains and over 40% fruits/vegetables are lost due to poor post-harvest handling, inadequate agro-processing development, as well as rural infrastructure, particularly rural roads); limited access to capital; and low level of private sector participation, resulting mainly from weak enabling policy environment.

16. In addition to insufficient infrastructure, market access has been hampered by the poor organisation of actors, including farmers, processors, traders and a non-conducive policy environment (e.g., lack of norms and standards, ad hoc policy changes).

17. With a total production of 44.5 million MT and average yield hovering around 12 MT/ha, Nigeria grows more cassava than any other country in the world. Despite significant increases in the proportion of cassava marketed over the past decade, the industrial demand, which is growing at a high rate and estimated at 8.8 million MT, remains largely unmet. With regard to rice, Nigeria is one of the highest rice consumers in Africa (nearly 5million MT per year), and imports nearly 40% of its needs from the international market. The supply gap stems mainly from low yield (about 2 MT/HA). While yield potential under optimal production conditions could reach an average of 10 MT/ha for rice and 25 MT for cassava, current on farm yield under smallholder farmer conditions are as low as 1 MT for rice and 7 MT for cassava as per mission findings in the field. The Commercial Agriculture Development Project (CADP) funded by the World Bank has shown that rice productivity and production can be increased by nearly 30% and 50%, respectively among beneficiaries supported in the target project area. As the productivity-enhancing

[2] The World Bank. "Making Finance Work for Nigeria". 2009.

[3] For example, average yield levels of some major crops under smallholder farmer/producer conditions, compared to under national agricultural research conditions, average, respectively, 2.6 vs.7.0 t/ha (37%) for maize; 2.0 vs.3.3 t/ha (60 %) for sorghum; 1.9 vs. 10 t/ha (19%) for rice; 0.9 vs. 2.6 t/ha (35%) for cowpea and 9.6 vs. 20 to 25 t/ha (43%) for cassava (FMARD).

technologies promoted by CADP are similar to those of the proposed programme, it is safe to assume that VCDP will also result in substantial increase in rice productivity, production and marketed output. Similar assumptions can be made for cassava.

18. Cassava and rice are both staple and cash crops and contribute significantly to incomes and household food security in rural areas. Value chain analysis suggests that rice and cassava, for which demand is growing rapidly, can be financially profitable for all operators along the value chain, in particular through better storage, sorting, small-scale processing and adequate packaging (see Annex 10), with rice margins higher that cassava on average. Nonetheless, producer margins are small (about 5% of retail price for rice and as low as 1% for cassava) and hindered by a host of constraints at various levels, as mentioned above.

19. This Programme will help address the above constraints and thus improve the cassava and rice productivity and competitiveness as well as the value addition along the value chain for all operators with particular attention to increasing the share of the increased margin going to smallholder farmers. VCDP will focus on increasing the capacities of small producers to organize themselves into business entities which are able to attract and manage partnerships with service providers, buyers and other partners in the supply chain, while supporting these partners in their understanding of how to profitably work with smallholder farmer groups.

20. The Programme will be articulated around three complementary and mutually reinforcing components: (i) Agricultural Market Development, (ii) Smallholder Productivity Enhancement, and (iii) Programme Management and Coordination.

II. PROGRAMME DESCRIPTION

A. Programme Area and Target Group

Programme Area

21. In light of the opportunities and constraints identified above, the Programme will take a long-term perspective (ten to fifteen years) to create the necessary conditions for a sustainable and holistic development of the cassava and rice value chains. In this context and in line with the recommendation of the CPE to limit the geographical coverage for maximum impacts, the proposed Programme targets six states to start the implementation of the Programme activities funded under the resources of the current Performance-Based Allocation (PBA) cycle (2010-2012) for the first six years. In the medium-term, when new resources are available in the next PBA cycle (2013-2015), and based on implementation experience of this initial phase, the Programme activities will be scaled-up first within the selected states. The scaling-up could also entail replication in additional states and/or new value chains.

22. The selection of the six states where to implement the Programme in the first phase was carried out with a view to maximize chances of linking smallholders farmers to markets. The criteria used are as follows: (i) the existence of processors for value addition; (ii) political will of the State Government as measured by payment of counterpart funds for existing projects in the state; (iii) level of production; and (iv) the presence of other value chain programmes. On the basis of these criteria, the following six states were selected for Programme implementation: Anambra, Ogun and Taraba for cassava; Benue, Ebonyi and Niger for rice. As all states also produce significant quantities of both commodities, the programme will target both value chains in each state. Within each state, the programme will target three (3) LGAs selected on the basis of the following criteria: (i) volume of production (the higher the production, the higher the score); (ii) presence of

producers/processors clusters and organisations (including women/youth groups) to ensure market outlets; (iii) accessibility of communities; and (iv) demonstrated commitment of the LGAs to participate in the programme by bearing the salary of two Value Chain Liaison Officers. The Programme will be implemented in one additional LGA for each of the leading cassava and rice states. Consequently, 20 LGAs will be targeted under the current Programme.

Target Group

23. The primary target group for the Programme are poor rural households engaged in the cassava and rice value chains. This includes smallholder farmers cultivating up to five hectares of land devoted to cassava and rice, and small-scale processors and traders, with emphasis on women and youth.

24. Targeting Strategy: The entry point for the programme will be organized groups of producers/processors, with attention to women/youth groups. The Programme will establish specific eligibility criteria to select groups and organisations, with emphasis, where possible, on the consolidation of existing groups rather than the creation of new ones. One of the main criteria for participating in the Programme will be the size of the land of group members (not exceeding five hectares of land under rice/cassava) and the processing capacity of small-scale processors (an average of 2 MT/day for cassava and 4 MT/day for rice). The initial level of governance, social inclusion, and participation will also be considered as criteria for selecting organisations. The legal status of groups will not be considered as a criterion for selection, since the project will facilitate legal registration and strengthening of informal groups. These criteria will be further developed and validated with the programme staff and community organizations at the beginning of Programme implementation.

25. The Programme will apply the Gender Action Learning System (GALS) to provide a community-led empowerment methodology that strengthens communication and win-win collaboration between vulnerable and more powerful VC actors. The GALS is based on action-learning exercises that are used with different stakeholder groups (i.e. men and women farmers, middlemen and traders) at both the individual and collective levels, to identify challenges and opportunities at different nodes of the value-chain. Multi-stakeholder workshops involving different value chain actors will be organized to identify and plan win-win strategies. A peer learning structure will be built to promote the adoption of the GALS system among farmers (see Annex 2).

26. Partnership for targeting: Synergies will be created with programmes and projects that are engaged with the target group in the Programme area. For instance, the Programme will coordinate with the World Bank-funded FADAMA III with a strong focus on targeting youth, women and vulnerable segments. Collaboration will also be developed with the Economic Empowerment Programme of UN Women and the inclusive and market-led projects of USAID and DFID.

27. Strategy for rural youth: As in most of Nigeria, the population in the selected six states may be regarded as young (females and males aged from 25 to 39 years) and growing. A great number of youths are unemployed in rural areas, leading to rural-urban exodus. The challenge is to create sturdy job opportunities for the rural youths. The Programme will target them particularly in order to create income-generating activities through inclusion in the proposed value chains. To this end, 25 % of the matching grant will be earmarked to the youth (both female and male) to promote entrepreneurial activities related to the two value-chains supported by the Programme. The youth will be trained specifically in production, processing, marketing and management techniques to provide, among other things, the following services: contract spraying on farmers' fields, provision of transportation services to processors and equipment maintenance. Study tours will be organized to facilitate knowledge sharing among young entrepreneurs.

28. In order to ensure inclusiveness, the targeting performance will be monitored using participatory poverty monitoring and a tracer study that allows tracking of the target groups

Gender Strategy

29. Facilitating women's access to assets that are relevant to value chain development: The Programme will support those activities of the value chains in which women are already present in large numbers or have a comparative advantage, such as processing and value addition. Matching grants, of which 35 % will be earmarked for women, will enable them to upgrade their production and processing technologies and capacities, thereby contributing to improve their economic activities and income. Implementation of the GALS methodology will contribute to improving women's access to and control over productive resources, by promoting gender equity in intra-family decision-making and better sharing of household resources.

30. Strengthening women's groups in terms of value chain governance: Given the strong risk of male-capture that exists in mixed organizations, the Programme will strengthen the management, leadership and technical capacity of women-only groups in order to empower them so as to help them retain control over produce, technology and income. At the same time gender equity will be mainstreamed all along the value chain, through the use of the GALS methodology and the promotion of gender sensitive win-win strategies that benefit both women and men. Women groups will also play a key role in the preparation of the Value Chain Action Plans. A representative of women's farmers will have a seat in the Local Government Value Chain Advisory Committee (LGVCAC). The Programme will support the formation/strengthening of Apex organisations of women farmers.

31. Easing women's workload and improving their well-being: The Programme will promote the adoption of labor-saving processing machines by women's groups. Construction of rural roads will contribute to ease women's workload thanks to reduced transport time. The GALS will facilitate intra-household negotiations over the sharing of household responsibilities which is expected to bring about changes in the gender division of labour (e.g. husbands contributing more to farming activities and household-related tasks, thereby enhancing household productivity and income).

B. Programme Development Objective

32. The Programme will support Government's strategic vision for growth and development through strengthening the agricultural sector in order to: (i) achieve food security; (ii) increase production and productivity; (iii) expand the rural economy for employment and income generation; and (iv) expand exports and reduce food imports. As an integral part of the National Agricultural Investment Plan (NAIP) 2011-2014, it aims to contribute to the **Overall Goal** which is *"Rural poverty reduced and accelerated economic growth achieved on a sustainable basis"*. The **Programme Development Objective (PDO)** is *"Incomes and food security of poor rural households engaged in production, processing and marketing of rice and cassava in the targeted LGAs of the 6 targeted states enhanced on a sustainable basis". The achievement of the PDO at the end of the Programme life will be measured by the following indicators:*

- At least 30% of targeted smallholder farmers and VC operators (by sex and age) have increased their real agricultural income by at least 20%.
  Increase in household asset index * of 10% by PY6 in Programme area.
- At least 20% reduction in the prevalence of child malnutrition in the Programme LGAs (RIMS indicator).
- Increased households food security * of 10 % by PY6 in Programme area

C. Programme Components and Outcomes

33. The programme will be implemented over a six-year period and it comprises the following three complementary and mutually reinforcing components: (i) Agricultural Market Development, (ii) Smallholder Productivity Enhancement, and (iii) Programme Management and Coordination (see Appendix 1 of Annex 4).

34. The following *Outcomes* are expected from the three components (see indicators in Logical Framework on page ix):

> Component 1: Agricultural Market Development: *(i) Increased value addition and access to markets realized by beneficiary smallholder farmers as well as small and medium-scale processors; (ii) Demand-driven infrastructure for improved access to markets realized and sustainably managed by the beneficiary.*
>
> Component 2: Smallholder Productivity Enhancement: *(i) Farmers' Organisations (FOs) in the Programme areas effectively serve their members; (ii) Production and productivity of smallholder rice and cassava farmers in the Programme areas increased.*
>
> Component 3: Programme Management and Coordination: *Programme efficiently and effectively managed to achieve Programme results with communication and knowledge management integrated in all aspects of Programme management.*

35. The programme will be implemented in three LGAs in each of first six states and one additional LGA in each of the leading cassava and rice leading states, bringing the total number of LGAs to 20 (see Section III A. below). It will holistically address the identified constraints that affect the smallholder households engaged in the rice and cassava value chains, either through direct Programme interventions or through strategic linkages with other initiatives supported by Government, Development Partners and the Private Sector. The starting point will be a Value Chain Analysis (VCA) which will provide the basis for a commodity-specific Value Chain Action Plan (VCAP) at the LGA level. The preparation of the VCAP will involve representatives from all major VC actors at the different stages of the VC. As this will be a participatory process and the plan will respond to identified needs, the interventions at the LGA level proposed below need to be considered indicative. Because of the demand-driven nature of the programme, there is an implicit flexibility in the proposed activities and there may be some changes in the programme components after the first implementation year or at midterm review. The value chain investment packages used in the programme design include the whole range of equipment and facilities needed by new enterprises and in actual terms, most of funding will be used by existing enterprises aiming to expand the volume on their operation. Though the overall Programme design based on the findings of thorough VC analyses for rice and cassava in the four Programme states[4] is highly relevant, the focus and scope of interventions will vary among the LGAs depending on the outcome of the VCAP.

36. At the same time, a number of activities will be implemented at national and state levels to (i) improve the policy and regulatory framework for the target value chains; (ii) strengthen the capacity of relevant public and private sector actors in these value chains; (iii) support the establishment of quality control, grading and standardisation systems; (iv) support the improvement and expansion of existing Agricultural Market Information Systems (AMIS); and (v) link the Programme beneficiaries to markets outside the LGA. The Programme components are summarized below. More details are provided in Annex 4, including an overview of direct Programme beneficiaries.

[4] See Programme Life File and Annex 4: Detailed Programme Description.

Component 1: Agricultural Market Development (USD 54.7 million– 52% of base costs)

37. The objective of this component is to enhance the profitability of smallholder farmers and small/medium-scale agro-processors by improving their access to markets and their capacity to add value to locally produced raw materials. This will be achieved by (a) facilitating the linkage of farmers' organisations' and VC operators to local, national and – where appropriate – international markets to sell their products and (b) easing critical infrastructure constraints to the production, processing, storage, handling and marketing of farm produce and their processed products. The component is divided into two sub-components, comprising **(i) Support to Value Addition and Market Linkages,** and **(ii) Support to market Infrastructure.** Both sub-components are necessary for sustained impact of the Programme interventions as the full benefits of value addition and market linkages will only be realised by smallholder farmers and agro-processors if adequate and reliable infrastructure for efficient and responsive market participation is in place. The outputs from Component 1 will stimulate supply response from activities under Component 2 (Smallholder Productivity Enhancement).

38. The Programme will follow a beneficiary demand-led and a participatory approach in the identification of support to be provided (through the VCAP process). It will work through FOs, VC organisations, private sector/business membership organisations (BMOs) and selected Micro, Small and Medium-Sized Enterprises (MSMEs).

Sub-component 1.1: Support to Value Addition and Market Linkages
(USD 17.0 million base costs)

39. The expected outcome of this sub-component is *"increased value addition and access to markets realized by beneficiary small and medium-scale producers and processors"*. Programme interventions consist of an integrated set of activities and measures at three interrelated stages or levels – macro, meso and micro.

40. ***Macro level.*** The programme will support the <u>improvement of the policy and regulatory framework for value chain development in the country</u>. Programme interventions will include, at the national and state levels, the assessment of existing capacity for public/private sector dialogue (PPD) on agricultural value chain development, contribution to/co-funding of relevant discussion fora, and capacity building of VC organisations in advocacy for improved business environment. It will collaborate with UNDP funded Facility for Inclusive Markets (FIM) to facilitate public/private sector policy dialogue.

41. The Programme will also support the <u>establishment of quality control, grading and standardisation systems</u> which are a precondition for credible and transparent markets. As starting point, the Programme will carry out an assessment of the existing state-level systems for regulating agricultural commodity quality, grades and standards, in order to understand the weaknesses and constraints and as a basis for addressing key issues related to the cassava and rice value chains. It will also broker or facilitate collaboration among relevant regulatory authorities (state and local government departments/ agencies) with statutory roles and responsibilities in establishing and enforcing agricultural commodity quality norms, grades and standards.

42. The programme will support the <u>improvement and expansion of the existing Agricultural Market Information Systems (AMIS)</u> which will start with the assessment of the coverage and effectiveness of existing systems in the country. Based on the assessment, the programme will provide Technical Assistance to support its expansion or realignment to match the needs and interests of cassava and rice farmers, agro-processors and market operators in the Programme states. The realignment will ensure that all operators along the value chains – input suppliers, farmers, processors, market operators, transporters and traders – have the necessary information to take sound business decisions and reduce inefficiencies in the value chains. To this end, the Programme will provide smallholder

farmers, agro-processors and market operators with training on how to access and use market information.

43. ***Meso and micro level.*** The programme will foster linkages between smallholder farmers, agro-processors and market operators, both within the Programme LGAs/states as well as with outside markets (national/regional). Within the process of preparing the respective commodity specific VCAPs at LGA level, the Programme will assess and identify vital market opportunities and product niches along the stages of the value chain. Upon the assessment, the Programme will broker market exchanges and contractual agreements between value chain operators, for example, between farmer organisations and large-scale processors. In addition, the programme will, in collaboration with state-level VC organisations, facilitate and organize annual trade/commodity fairs in each of the Programme states.

44. Furthermore, the programme will build and strengthen the business management capacity of VC organisations. This will include providing post-harvest value chain operators, through their BMOs, with training and technical assistance in business management and enterprise development (in particular the development of business plans, financial and organisational management, corporate relationships and strategic planning). The training activities will be primarily carried out at the commodity cluster and LGA levels.

45. The Programme will link agro-processors and market operators, through their various associations, to financial service providers and/or existing agricultural and rural finance projects (e.g. the IFAD-funded RUFIN), in order to obtain financial services such as credit and insurance. Specifically, the programme will (i) carry out an assessment of existing financial service providers in each Programme state that are prepared to extend their services to the Programme target groups; (ii) assist financial service providers in the preparation and dissemination of appropriate strategies and approaches (e.g. for savings mobilization, opening of bank accounts, memberships in financial institutions and applications for loans); (iii) negotiate terms and conditions with such service providers, and conclude where opportune and appropriate, memoranda of understanding (MoUs), through which the Programme target groups will be able to access financial services.

46. In order to improve the output, efficiency, profitability and competitiveness of the targeted agro-processor clusters and firms, the Programme will promote the adoption, acquisition and sustained use of improved and more efficient processing, storage, packaging and handling technologies. The support for processing and storage activities will cut across the various stages, including farm-gate processing/storage, cottage processing and service-oriented processing clusters. A compilation of available cassava and rice post-harvest technologies will be undertaken within the task of preparing the VCAP. The Programme will provide demonstration-based training to the VC operators in improved technologies and good management practices. It will also provide financial support to agro-processors and market operators (through a matching grant scheme and their various associations) for acquisition of recommended post-harvest and processing equipment and machineries. This will be complemented by technical support for effective group management, ownership structures, and sustainable O&M systems. Moreover, appropriate arrangements will be put in place during procurement for the manufacturers of the equipment to provide post-sales services such as installation of the equipment, training on O&M, sale of spare parts, and repair services.

47. To make sure that the above macro-level policies yield the desired effects, the Programme will carry out the following activities: (i) organizing awareness creation, advocacy and dissemination events for farmers, agro-processors and traders on quality norms, standards, grading and packaging of processed agricultural products; (ii) training of agro-processors, market operators, traders, farmers and other VC operators in food processing systems (including GAP, GMP and HACCP principles) and the use of quality norms, grades and standards for marketed rice and cassava; and (iii) supporting agro-

processing and market clusters in the acquisition of standard equipment for ascertaining product measures or quantities (weights and measures).

48. In addition to the expected institutional benefits, it is envisaged that at least 15,000 smallholder farmers, 1,680 agro-processors and 800 traders will benefit directly form interventions under Sub-component 1.1 (see Details in Annex 4, Appendix 3: Programme Beneficiaries and Outreach).

49. ***Implementation.*** In the interests of sustainability and inclusiveness, the Sub-component will work through existing service providers, either public/private organisations or NGOs that display the necessary skills, professionalism and commitment. To this end, the Programme will carry out an in-depth assessment of the service providers in the states in order to determine their capacity and suitability. This will provide a basis for engaging the service providers to ensure the highest technical and management standards. All service provider contracts will be performance-based.

Sub-component 1.2: Support to Market Infrastructure **(USD 37.8 million base costs)**

50. The expected outcome of this sub-component is *"demand-driven infrastructure for improved access to markets realized and sustainably managed by the beneficiary communities"*. This will be achieved through collaboration with relevant Government Ministries and Agencies, as well as local communities. The sub-component will improve the condition of selected VC-related feeder roads connecting production areas to market and processing outlets by rehabilitating the existing feeder roads. It will construct critical new roads, bridges and culverts when necessary. Activities under Sub-component are aimed constructing/rehabilitating agro-processing and marketing infrastructures (stalls, stores, structures for agro-processing units and related ancillary works). It will also provide safe, adequate and sustainable water supply to these processing and market facilities, as well as to the community in their vicinity by rehabilitating and/or constructing new schemes.

51. **Improvement of feeder roads**. Following an inventory of the existing network of rural roads in target areas, a rural road improvement programme will be developed (as part of the VCAP preparation). The Programme will rehabilitate 200 km of existing feeder roads and construct 200 km of new roads (on average 10 km each per Programme LGA). It will also construct 100 bridges and 200 culverts in selected spots where lack of these structures represents a critical bottleneck. A community-based road maintenance strategy will be developed and related road maintenance associations strengthened/formed at community level. Subsequently, training of trainers (TOT) will be provided to the staff of the Departments of Works of the LGAs on the developed maintenance approach. These LGA staff members will then train and mobilize the leaders of the associations. In addition, low-cost hand tools and equipment will be provided to the community to undertake routine maintenance. The programme will learn from the outcome of the planned studies for the design of maintenance arrangements of rural roads to be rehabilitated by the World Bank-funded RAMP-2 project, aimed at ensuring the sustainability of their investments. The consultancy is expected to evaluate the different possible maintenance alternatives (including a community-based approach to routine maintenance) and propose the preferred technical and financial arrangements that could be supported as part of RAMP-2 project.

52. **Improvement of market, processing and storage facilities**. On the basis of the VCAPs, the Programme will construct the following facilities for cassava and rice VC clusters to be strengthened/organized under sub-component 1.1: (i) 80 processing units with store; (ii) 80 market stalls with stores; (iii) related site work, effluent disposal systems and sanitary facilities (including latrines); (iv) 20 shared cassava flash dryers (i.e. paved shed with store); and (v) parboiling and de-stoning units (20 each). It will also construct 400 FOs' commodity stores under sub-component 2.2. Technical support will be provided to develop guidelines for sustainable management and O&M of these infrastructures, their

acquisition modalities, ownership structures, and instituting sustainable O&M systems. Related training will also be provided.

53. **Improvement of water supply**. The Programme will construct 36 cassava and rice VC-linked new water supply schemes and rehabilitate 24 existing ones. In addition to providing clean water to agro-processing facilities, the water supply systems would also address the drinking water needs of the community in their vicinity. The sub-component will support awareness raising of safe hygiene practices, both at home and for processing. It will also develop and implement the management and financial recovery system of these schemes and provide training to the water management committees on O&M to ensure sustainability.

54. ***Implementation.*** The activities under the sub-component will be implemented in collaboration with relevant Government Ministries and Agencies, as well as private consultants and contractors. Although feeder road maintenance is the responsibility of the LGAs, it is virtually non-existent in most LGAs. The detailed planning and implementation of all these activities will be through strong participation of the VC operators, the key stakeholders and the communities to ensure local ownership and O&M responsibility. In addition to the construction works, the sub-component will build the capacity of these actors to ensure sustainability. Construction of all the infrastructures of the sub-component will be undertaken by private contractors through competitive bidding. The Value Chain Infrastructure Officer (VCIO) of the State Programme Management Unit (SPMU) will be responsible for supervising all civil works, supported by the Engineers of the respective LGAs. Although the Programme is targeting the VC clusters, improved road infrastructure will directly benefit the communities in the Programme area. Therefore, the Programme will provide technical and physical assistance to the community road maintenance associations (existing or to be formed) in the area. Furthermore, the Programme will sign tripartite MoUs with the leaders of these associations and the target LGAs to ensure that LGAs assume responsibility for routine maintenance of feeder roads in collaboration with the community. It will also sign an MoU with the concerned State Ministries so that they assume full responsibility for recurrent, periodic and emergency maintenance which are beyond the capacity of the LGAs so as to ensure a stable financial base for maintenance[5]. The FGN Draft National Transport Policy stipulates, among others, that it will give top priority to effective routine, periodic and emergency maintenance of rural roads in all LGAs and communities through the use of Rural Maintenance Team that will be created at LGA level. The Programme will also collaborate with the Ministry of Commerce and Industry, municipalities and/or Local Government Councils (LGCs) to facilitate the construction of the market and processing infrastructures in the target LGAs. The VC water supply interventions will be coordinated by the State Ministry of Water Resources, the River Basin Development Authorities (RBDAs), the Water Board, and the LGAs. The VC clusters will be responsible for the day-to-day O&M of the developed water supply systems through its water committees. The Programme will support establishment of the management and financial recovery (through agreed water charges) system of the schemes and provide training to the water management committees on O&M to ensure sustainability. Communities must certify that the rehabilitated/constructed market infrastructure has been delivered before any payment can be made.

Component 2: Smallholder Productivity Enhancement (USD 34.9 million – 33% of base costs)

55. The main objective of this component is to enhance smallholder farmer productivity on an economically and environmentally sustainable basis so as to increase incomes and employment, improve food security and reduce poverty. Outcomes from this component, in the form of increased volume and quality of marketable produce, feed directly into

[5] In view of this, the Government of Nigeria has taken major steps through the creation of the Federal Road Maintenance Agency (FERMA) to build commitment to this sector with the aim to guarantee more funding for road maintenance. Source: Support to NEPAD-CAADP Implementation TCP/NIR/2906 (I) (NEPAD Ref 06/44 E).

Component 1. Direct beneficiaries of the component are 15,000 smallholder farmers and their commodity groups in 20 LGAs in the six Programme states which will also be supported under Component 1. The component has two sub-components:

Sub-component 2.1: Strengthening of Farmers' Organisations (USD 4.3 million base costs)

56. The expected outcome of this sub-component is "*Farmers' Organisations in Programme areas effectively serve their members*" (through facilitating access to inputs, improved technologies, credit and information). The sub-component will support capacity building of FOs in order to enable them to provide, in a sustainable manner, needed services to their members, with a view to improving their access markets and enhancing profitability.

57. A thorough institutional mapping of existing FOs in each of the six states will need to be carried out before the beginning of the project implementation in order to fine-tune the strategy of intervention and the activities to be undertaken in support of the FO's capacity building. This mapping, scheduled to be carried out by specialized NGOs, will assess the member characteristics (men , women, mixed, youth) and purpose, the type of services rendered to members, the level of maturity and governance and presence in the selected LGAs. The mapping will lead to a classification of the FOs in three maturity categories (low, medium, high) for which a differentiated approach, including milestones to move from one category to the next, and associated support package would be elaborated. In parallel to the mapping exercise, reputable partners will be identified to carry out the capacity building of the FOs.

58. **Strengthening of selected FOs**. The Programme will strengthen the capacity of 600 selected FOs (including a minimum of 35 % women and youth) through training sessions on: (i) group dynamics promoting good governance of FOs; (ii) group management; (iii) enterprise planning and management using FAMAS[6] modules; (iv) participatory Monitoring and Evaluation; and (v) functional literacy. A service provider will be contracted to coordinate implementation and will be responsible for organizing training sessions under the overall coordination of the SPMU, if training modules are available. Training sessions on specific topics will be outsourced to consulting firms or consultants/research centres or universities. The Programme will build on the existing social structure through strengthening grassroots organisations' capacity. The capacity strengthening will draw on IFAD regional and international experience as well as relevant Nigerian Programmes such as ADPs, Fadama, FAMAS and donor-funded initiatives in support of agricultural organisations.

59. **Registration of FOs and development of by-laws for FOs and women's organisations.** In order to facilitate FOs' access to rural finance and the establishment of contracts with suppliers or traders, the Programme will assist 600 non-registered FOs (including women's groups) in (i) the registration with the Department of Cooperatives of the State Ministry of Agriculture (SMARD); and (ii) the development of by-laws. This activity will be implemented by a service provider under the overall coordination of the SPMU and in close collaboration with (a) the Department of Cooperatives of SMARD that will provide the by-laws format and be in charge of the registration; and (b) the ADP Extension Agents that will inform board members about the requirements of registration and assist FOs in adapting the by-laws to their situation.

60. **Formation of APEX FOs and women's organisations**. The Programme will facilitate the formation and strengthening of one APEX organisation in each state which will advocate in favour of the selected FOs and women's groups with regard to access to subsidized fertilizers, increased bargaining power vis-á-vis traders and processors, and also facilitate the access to micro-credit and recovery of loans. To this end, the Programme will carry out training sessions in group dynamics, management, advocacy and leadership, and

[6] FAO funded project on Strengthening Farm Management Survey and Data Analysis in Support of Agricultural Policy Formulation and Advisory Services (FAMAS).

loan recovery facilitation. Twenty-five board members, who will be represented in the APEX organizations, will be trained in each state (one per FO). A service provider will be contracted, under the overall coordination of the State Programme Management Unit, to develop training modules and organize the training sessions.

Sub-component 2.2: Support to Smallholder Production (USD 30.6 million base costs)

61. The expected outcome of this sub-component is "*Production and productivity of cassava and rice smallholder farmers in the Programme areas increased*". This will primarily be achieved through facilitating access to: (i) improved planting materials of cassava, quality seeds of rice, fertilizers and agro-chemicals; (ii) improved production techniques; and (iii) mechanization for land preparation and harvesting. The following major activities will be implemented:

62. **Assessment of the rice seed supply chain.** Main activities include: (i) *Assessing mechanisms of production, supply and distribution of certified seeds at Federal, State and Local Government level*. This will include assessing the capacity of major stakeholders (e.g. NASC, National Cereals Research Institute, ADPs, seed companies), their roles, responsibilities and constraints, and mechanisms of multiplication of improved/certified seeds set up by donor funded projects or public/private agencies (seed companies, outgrower schemes and farmers' groups); and (ii) *designing a national seed supply strategy as well as a national seed sub-sector development plan*. These activities will be carried out in Programme year 1 by a service provider who will focus on the four selected states, using a participatory approach and analysing existing multiplication mechanisms at state, LGA and community level. The appropriateness of the current seed policy to the current situation will be assessed. The findings will be validated by stakeholders in five workshops conducted at federal and state level. It is expected that the national seed sub-sector development plan will help link the demand for improved/certified seeds (small-scale farmers) with the suppliers (seed companies, FOs, outgrowers) for a better access to quality seeds of rice.

63. **Strengthening of the quality control mechanism.** Main activities include: Providing ADPs in each state with small testing laboratories based in ADPs within the National Agricultural Seed Council to carry out major tests on seed germination and quality determination; and (ii) training technical service staff (ADP) in germination testing and use of equipment. Laboratories will be licensed by the National Agricultural Seed Council (NASC) which will be responsible for: (i) training the state seed and quality control officers, and (ii) ensuring that the quality control mechanism is effective and visits of Regional and Federal inspectors are timely.

64. **Production and dissemination of improved planting material of cassava and certified seeds of rice**. Main activities will include: (i) providing support to the ADP farms in the six states for preliminary selection of improved cassava varieties and production of improved cassava cuttings on 7.5 hectares. This will include facilitating access to equipment and inputs, and building the capacity of the ADP agronomists in preliminary selection of improved cassava varieties and in cropping patterns for production, handling, storage and distribution of foundation cassava cuttings; (ii) facilitating the establishment of 120 farmers' groups in the 20 Programme LGAs for production and dissemination of improved cassava cuttings and certified rice seeds by providing them with inputs, foundation seeds of rice and improved cassava cuttings. These groups will grow one hectare of rice and one hectare of cassava and they will be provided with technical assistance on cropping patterns, certified seed production, handling, price determination and storage. Hundred and twenty Farmers' Field Schools (FFS) will be established with the aim of screening improved cassava and rice varieties at grassroots level, as well as building FOs' capacity in improved/certified seeds sorting, cleaning and packaging to meet quality standards. A service provider will implement this activity under the supervision of the Agronomist of the SPMU, and in close collaboration with Extension Agents for providing FOs with matching grants/subsidy to

purchase improved cassava cuttings and foundation seeds of rice, fertilizers and with technical assistance. NASC and the National Cereals Research Centre will be responsible for supplying the foundation seeds of rice to selected FOs through the ADPs. NASC, through the existing seed quality control mechanism at state level, will carry out seed certification. Foundation cassava cuttings will be provided by the RTEP Headquarters to ADP farms that will supply selected FOs responsible for producing and disseminating improved cassava cuttings. The Programme will build on the experience carried out by the AfDB-funded Nerica Rice Dissemination Project (particularly in Taraba) and RTEP. Improved cassava and improved/certified seeds producers will be linked to the beneficiaries of the Programme.

65. **Promotion and dissemination of sustainable agricultural practices.** The programme will establish 600 FFSs in order to promote sustainable agricultural practices. This will include soil fertility management, given that soil fertility is a major constraint in the target states due to limited access to fertilizers and land degradation caused by demographic pressure (particularly in Anambra state). To address increasing water scarcity due to changes of rainfall patterns, and to exploit the existing yield potential, the System of Rice Intensification (SRI)[7] will be introduced. This will be supported by the introduction of mechanized land preparation as described below. Main activities include: (i) assessing the existing capacity in FFS at state level and at LGA level; (ii) designing curricula adapted to each state/LGA or ecology; (iii) establishing the FFS for 2 years; (iv) training trainers and facilitators; and (v) conducting farmer-to-farmers visits. The Programme will contract a service provider for building the capacity of ADP staff (e.g. Research Centre, FAO) in FFS and will train five trainers of trainers and 25 facilitators. Curricula will include modules on soil fertility management, mobilization and use of organic matter, adoption of rotation integrating legume crops, sustainable agricultural techniques combining the use of organic matter and chemicals. The Programme will build on the experience gained by the ADP extension system during the implementation of the NPFS.

66. **Access to mechanization.** The Programme will ease some of the labour constraints by facilitating mechanized land preparation. On a demand basis, selected FOs, particularly those involving youth, would be provided with a matching grand to purchase threshers and power tillers. The FOs eligible to this activity will belong to the mature category. The programme will support the selected FOs to strengthen their capacities in management and sustainable O&M. The equipment will be managed either by FOs themselves or private operators hired by the FOs. The equipped FOs will become remunerated service providers to their own members as well as other farmers on a demand driven basis.

67. **Access to fertilizer and agro-chemicals as well as to improved cuttings and certified seeds**. In collaboration with the agro-dealers association of Nigeria, the result of the institutional SWOT analysis carried out during the design will be updated and refined. To enable FOs to apply the improved technology, the Programme will facilitate their access to inputs in a timely manner and in adequate quantity through a voucher system, on a matching grant basis, with the existing input suppliers and local agro dealers. For this system to function, FOs will be strengthened to enable them to collect and aggregate the needs of individual members prior to the cropping season. The information will be provided to the State Programme Management Unit (SPMU) which will then make the order for the needed quantity from the agro dealers. The SPMU will provide the vouchers to the FOs which will redeem them directly to the agro-dealers and make arrangement for the actual delivery of the inputs. Once the FOs receive the inputs, they will be responsible for the distribution to their individual members.

68. The 600 benefiting FOs are expected to set up a pass-on scheme for cassava cuttings and certified rice seeds. Certified rice seeds and improved cassava cuttings will be procured in the beginning of the project from existing providers such as seed companies, NASC as well as the ADP farms and RTEP.

[7] SRI is a cropping model that allows to increase rice yields by developing the root system with reduced irrigation water. It requires intensified land preparation and early transplanting.

69. The Programme will support the ADP extension system by: (i) building the capacity of about 70 Extension Agents and five subject matter specialists in improved agricultural practices, communication as well as in systemic approaches and production systems in each state; and (ii) providing the selected Extension Agents with motorcycles.

70. **Irrigation and water control.** As double cropping of rice through small-scale irrigation agriculture is often impeded by poor O&M of the irrigation system and rice and cassava production are often affected by excessive floods, the Programme will: (i) rehabilitate selected irrigation systems (2,500 hectares); (ii) protect 30,000 hectares of land from seasonal flooding, through construction of dykes and drainage canals; and (iii) strength the capacity of 1400[8] water user FOs to maintain and manage these structures. The irrigation and drainage interventions will be coordinated by the State Ministries of Water Resources, the RBDAs, the State Ministry of Agriculture and the LGAs. Private sector consultants will conduct a rapid assessment of the irrigation schemes in need of rehabilitation and areas affected by floods. The rehabilitation of the irrigation schemes and construction of dykes will be undertaken by private contractors as designed and supervised by specialized consulting firms. The community, through its FOs, will contribute in labour and/or in kind (local material) as appropriate. The FOs will be responsible for the day-to-day O&M of the developed infrastructure as supported by the Ministries and the RBDA. As a result of the interventions, it is expected that double cropping of rice in selected areas will be introduced and a reduction in losses of cassava and rice due to flooding, particularly in Anambra and Benue states, will be achieved.

71. **Matching grants:** A matching grant fund will be put in place to address partially the financial constraints of the target groups to enable them to procure the necessary inputs, equipment and infrastructure. Following the FO mapping to carried out prior to Programme start-up, the matching grant targeting, eligibility, management, level, type of investment, disbursement and monitoring procedures will be detailed in the Project Implementation Manual which will be issued at the beginning of the Programme. It is expected that the 50% subsidy rate on consumable inputs (fertilizers) is required for two years maximum. For equipment, the 70% subsidy provided by the programme will be a one-time operation for a group meeting the criteria set. Thirty-five percent of the matching grant will be earmarked for women.

Component 3: Programme Coordination and Management (USD 14.8 million – 15% of base costs)

72. This Component will ensure that the Programme is efficiently and effectively managed to achieve expected results. Gender, youth, environmental, knowledge management and communication considerations will be integrated in all aspects of programme management. The performance indicators of this component will include quality and timely execution of annual work plan and budgets, timely submission of progress reports and annual audit reports, operational M&E able to document key indicators , actual level of disbursements in line with planning. Details of the component are provided in Section III below and Annexes 5-8.

73. This Component will also assist value chain policy development under the Government's Agricultural Transformation Agenda (ATA) by providing support to the Agricultural Transformation Implementation Council (ATIC). The ATIC will be established as a national level body with powers and authority to drive the ATA along the value chains for the purpose of achieving food security, employment generation, effective response to the raw-material needs of agro-industries, value addition, and efficient storage of agricultural produce and marketing. Specifically, the Programme will finance for a period of two years the following: (i) Office of the Senior Technical Adviser to the Minister of Agriculture; (ii) Office of the Senior Technical Adviser and Team Leader, Cassava Value Chain; (iii) Office of

[8] At an estimated 1 ha of irrigable area per household and 25 households per water user FO.

the Senior Technical Adviser and Team Leader, Rice Value Chain; and (iv) Office of the Senior Technical Advisor, Agri-business Investments.

Innovative Features

74. The most innovative feature of the Programme is the interplay between farmers' organisations and other VC stakeholders to create market opportunities and address issues along the value chains so as to maximize impact. In this context, the profitability and sustainability of small-scale farming depends on the linkages not only between farmers' organisations and other private sector operators (input dealers, processors, traders, financial institutions, etc.) but also between the private sector as a whole and the public sector. Policy dialogue aimed at setting the enabling environment is key to creating market opportunities that can help smallholder farmers increase income and reduce poverty.

75. Other features that can be considered innovative in the Programme include: (i) strengthening the governance of farmers' organisations to enable them to provide the required services to their members in a transparent and sustainable manner; (ii) increased involvement of beneficiaries in the procurement process of goods and services to ensure transparency and accountability; (iii) strengthening of service providers for efficient and sustainable service delivery; and (iv) mainstreaming of the private sector extension providers in the agricultural development process. Furthermore, the Programme's Integrated Information, Knowledge Management and Communication System presented below will make use of innovative and locally adapted media for knowledge dissemination (both text-based and visual media to illustrate progress and lessons).

D. Lessons learned and adherence to IFAD policies

Lessons Learned

76. The CPE has drawn several lessons from past and on-going IFAD-funded programmes. The Programme design has addressed the following key lessons that are relevant in the context of the VCDP:

77. ***Refocusing on smallholder agriculture based on a value chain approach***. The recent IFAD support to rural finance and micro-enterprise development has been seen by Government as largely not conducive to lifting rural populations out of poverty because of the lack of focus on increasing agricultural production - a concern that necessitates renewed attention to critically address the main challenges of smallholder farmers described above. On the basis of the findings, a more systematic approach to agricultural production and market development by adopting a value-chain approach has been proposed to enhance smallholder profitability.

78. ***Geographic focus.*** The CPE has also identified the wide geographical coverage of the IFAD-funded operations as a major challenge to Programme implementation. The volume of resources which IFAD provides in support of agricultural development and poverty reduction in Nigeria is small relative not only to investments by Governments (Federal, State and Local), other development partners and the private sector, but also in relation to the large size of the country. Implementing activities in an integrated way and limiting the geographical coverage of the IFAD operations would not only facilitate coordination, implementation and supervision, but ensure wider synergies and greater sustainability of benefits.

79. ***Promoting pro-poor innovations and best practices***. IFAD-assisted interventions have been fairly successful in promoting pro-poor innovations and best practices. This is exemplified by the development of new pest and disease resistant cassava varieties, improved group processing and marketing, especially of cassava, promotion of the CDD approach, as well as the successful replication and up-scaling of tested innovations by some State and Local Governments. As such, IFAD needs to focus its interventions on promoting

pro-poor innovative solutions to rural poverty which can be replicated and scaled-up by the Government, development partners and the private sector.

80. ***Strategic partnership challenges***. IFAD-funded operations have faced two challenges in their effort to develop strategic partnerships in Nigeria: (a) delays in the provision of or lack of counterpart funds from State and Local Governments have hampered the implementation speed of programmes, thereby adversely affecting the disbursement rate of the loan proceeds; and (b) weak partnerships with non-governmental stakeholders, especially the organized private sector limit opportunities for the replication and up-scaling of best practices. Therefore, there is a need to establish strategic partnerships in programme implementation.

81. ***More effective country presence***. The establishment of an IFAD Country Office in Abuja in 2006 and a CPMT in 2008 has had a positive impact on the management of the country programme. The involvement of the Country Programme Officer and the CPMT in the supervision missions is creating the knowledge base to provide improved implementation support to the on-going Programmes.

82. **Long delays in programme start-up**. IFAD-funded Programmes have faced long delays in start-up, at times up of 2 to 3 years between Executive Board approval and effectiveness as a result of: (i) long Government procedures to process the loan through the National Assembly; and (ii) Government inability to meet effectiveness and disbursement conditions. The consequence of the long start-up delays has been the reduction in the programme relevance in relationship to objectives. As such, Government and IFAD need to work closely to reduce the observed delays.

83. ***Other challenges***. Other operational challenges faced in the implementation of IFAD-assisted Programmes in Nigeria include: (a) Inadequate financial management in preparing withdrawal applications (WAs) has created financial bottlenecks, resulting in failure to achieve intended investment objectives and targets. As such, like for other key positions, care should be taken to recruit a highly qualified finance officer under whom the WAs are prepared; and (b) inadequate arrangement for learning, sharing and managing of knowledge, experiences and lessons emerging from the implementation of country programmes. As such, it is important to design a coherent learning and knowledge management strategy in future programmes.

84. **Adherence to IFAD Policies.** The proposed Programme is in line with the 2010-15 COSOP, as well as IFAD's Strategic Framework 2011-2015 and IFAD's corporate policies in the field of: (i) Private Sector Development and Partnership Strategy; (ii) Rural Enterprises Policy; (iii) Targeting Policy; (iv) Gender Policy; and (vi) Environmental and Social Assessment Procedures.

III.PROGRAMME IMPLEMENTATION

A. Approach

85. The Programme will take a holistic approach to addressing constraints along the value chains. To make sure that the constraints of the main beneficiaries, particularly women and youths, are addressed adequately (notion of inclusiveness), the Programme will adopt a demand-driven approach consisting of carrying out activities emanating from the Value Chain Action Plan at the LG level. This inclusiveness entails strengthening the capacity of FOs to enable them to serve their members better through efficient input delivery, bargaining better input and output prices to increase profitability, and participating in policy dialogue at the local, state and federal levels. The capacity building of the FOs will be contingent on the level of maturity based on a set of criteria to graduate from one level to the other. The Programme will rely on competent service providers who will be recruited

competitively on the basis of the national procurement system as long as it is compatible with the IFAD Procurement Guidelines. The Programme will partner as much as possible with existing private and public institutions, as well as donor-funded projects/programmes to avoid duplication of efforts and maximize impact on beneficiaries.

B. Organisational Framework

86. **Overview.** The Programme will be placed under the technical responsibility of FMARD and the State ministries of Agriculture (MoA). The Federal Ministry of Finance (FMF) is the representative of the Borrower. Through its Department of International Economic Relations (IER), it ensure efficient and effective utilization of programme resources for the intended purposes. Key among the implementation agencies are the Federal Department of Agriculture and the Department of Agriculture and Industries (DAI) of the National Planning Commission (NPC). While the NPC is the lead agency for national planning and macroeconomic development, the DAI is responsible for the national three-year rolling plan for agriculture, in consultation with the Joint Planning Board and FMARD. The DAI also ensures that annual plan and budget proposals from the FMARD and State MoA are consistent with the proposals of the three-year rolling plan.

87. **Programme Implementation.** At the national level, the Programme will receive oversight and guidance from the Value Chain Steering Committee (VCSC), a sub-committee of the Agricultural Transformation Implementation Council (ATIC). Chaired by the Honourable Minister of Agriculture and Rural Development, the VCIC will be composed of (i) Permanent Secretary – FMARD; (ii) Director – International Economic Relations Dept., FMF; (iii) Director – DAI of NPC; (iv) Director - Federal Department of Cooperative, FMARD; (v) Director – Federal Department of Agriculture, FMARD; (vi) Director – Planning, Policy Analysis and Statistics, FMARD; (vii) Director in charge of Extension, FMARD; (viii) Director – Rural Development Department, FMARD; (ix) Director - Bank of Agriculture; (x) Director – Bank of Industries; (xi) Director – Department of Development Finance of CBN; (xii) Director of the Standard Organization of Nigeria; (xiii) Executive Director of National Agency for Food and Drug Administration and Control (NAFDAC); (xiv) Director of Raw Material and Research Development Council; (xv) Director of Trade, Federal Ministry of Trade and Investment; (xvi) one Representative of the Organized Private Sector; (xvii) one Representative of Women's Organization from each State; (xviii) the six Regional Directors of FMARD, (xix) the Team Leader of Cassava and Rice Value Chain at FMARD,(xx) one Representative Farmers' Organization from each state in the Programme area; and (xxi) one Representative of Input Suppliers (Agro-chemical, Seed and Fertilizers). While the Federal Department of Agriculture will be the secretariat of the VCSC, the Secretary will be the Programme Coordinator of the National Programme Management Unit. The VCSC will meet at least twice a year to, among other things, review and approve the Annual Work Plan and Budget (AWPB), as well as assess progress made in programme implementation.

88. At the State level, there will be a State Value Chain Steering Committee (SVCSC) which will be a sub-committee of the State Agricultural Transformation Execution Group (SATEG). Chaired by the Commissioner, State Ministry of Agriculture, the SVCIC will have the following members: (i) Permanent Secretary, State Ministry of Agriculture, (ii) Director of the line department of the State Ministry of Agriculture, (iii) Programme Manager - Agricultural Development Programme (ADP), (iv) one representative of Ministry of Finance and/or Economic Development, (v) one representative of Ministry of Works, (vi) one representative of Ministry of Commerce and Industry, (vii) one representative of Ministry of Water Resources and Environment, (viii) one representative of Ministry of Local Government Affairs, (ix) one representative of Ministry of Women Affairs, (x) one representative of Ministry of Youth Development, (xi) one representative from each of the State Farmers' Organizations, (xii), one representative of input dealers, (xiii) one representative of the Organized Private Sector, (xiv) one representative of participating financial institutions (xv), participating Local Government Council (xvi) Chairman of State Association of Local Governments of Nigeria (ALGON), and (xvi) State Director of FMARD.

Others may include Planning Commission, Ministry of Economic Planning and Budget, River Basin Development Authority and Agricultural Produce Marketing Agency. The SVCSC will meet twice a year and on ad-hoc basis when required to provide oversight/coordination function, review and approve the AWPB, as well as assess progress made in programme implementation in the state.

89. As the Implementation Agency, the FMARD will ensure that the level of annual funding for the Programme agreed in the approved budgets is available and that these funds are released in a timely manner. It will also support coordinate the roles of the Federal agencies involved in the Programme. The FMARD will delegate the function and the day–to-day implementation and coordination of the Programme to the National Programme Management Unit (NPMU). The NPMU will report directly to the Honourable Minister of Agriculture and Rural Development. The NPMU will provide technical support to and undertake coordination of Programme activities undertaken in each State. It will be staffed by a Programme Coordinator, a Financial Controller, a Procurement Officer, a Planning and M&E (PME) Advisor, a Knowledge Management and Communication (KMC) Advisor, a Market and Enterprise Development Advisor and an Agricultural Production Advisor. All the staff members will be recruited competitively. The positions will be advertised and sourced professionally. The NPMU will be responsible for consolidating the Programme AWPB and progress reports from the participating states for approval by the VCSC and IFAD. It will ensure regular supervision, monitoring and publicity of Programme activities.

90. The day-to-day implementation of the Programme at the state level will be the responsibility of the State Programme Management Unit (SPMU) comprising a State Programme Coordinator (SPC); a PME/KMC Officer and the following technical officers: (i) a Business, Market Development Officer; (ii) An Agro-processing/Quality Enhancement Officer (iii) Value Chain Infrastructure Officer; (iv) a Rural Institution (Farmers' Organisation) and Gender/Youth Officer; and (v) an Agricultural Production Officer. All the above-mentioned staff members will be recruited on a competitive basis. The positions would be advertised and sourced professionally. Furthermore, the SPMUs will include an Accountant and support staff including a Programme Assistant and Drivers. The SPMU will report administratively to the Commissioner of Agriculture in the state and technically to the Regional Director of the FMARD. The SPMU will ensure effective and efficient implementation of Programme activities by service providers, supervision, capacity building, monitoring and evaluation. It will support and supervise the work of the Service Providers and work closely with the two Local Government Value Chain Liaison Officers in charge of cassava and rice.

91. The SPMU will (i) promote and support the organisation within the selected commodity clusters of Commodity Interest Groups (CIGs) in the areas of production, processing and marketing; (ii) carry out sensitization of the CIGs on the Programme implementation arrangements; (iii) conduct needs/opportunities assessments of the CIGs with a view to developing Value Chain Action Plans which would form the basis for the LGC Value Chain Action Plan; (iv) facilitate capacity building on group management and business enterprise development; and (v) facilitate linkages between producers and market operators within and outside the LGCs. The SPMU will be the secretariat for the SVCIC. In each selected Local Government Area, a Local Government Value Chain Advisory Committee (LGVCAC) will be put in place to review and endorse the annual work plan and budget of the Community Clusters Action Plan and ensure its alignment with the Local Government Development Plan. The two Value Chain Liaison Officers will be recruited by LG Service Commission and deployed to the participating LGCs. The LGVCAC will be chaired by the Local Government Chairman. The membership will include the Head of the Department (HOD) of Agriculture, Supervisory Councillors for Agriculture and Works, LG Planning Officer, one representative of the service providers, Representatives of the organized private sector including one agro-dealer and one processor, two representatives of Farmers Organizations (rice and cassava), one representative of women organisation; the two Value Chain Liaison Officers and Office in charge of cooperatives. The Value Chain Liaison Officers will serve as the secretariat for the LGVCAC.

92. The programme will contribute to establishing a service provider data base at the ADP level which will build on the service provider registers developed under Fadama and other donor projects. The data base will facilitate identification of suitable service providers and provides a mechanism for monitoring and performance assessment of service providers by the Programme, ADP and beneficiaries. Resources will be made available for data base design and initial maintenance which will eventually be the responsibility of the ADP.

93. The Programme, in partnership with the Rural Institution Development Department (RID) of the ADP, will identify and mobilize existing groups for capacity strengthening, as well as assist other agencies/NGOs in group formation and strengthening. In collaboration with the Rural Institution and Gender Mainstreaming Officer and supported by service providers, it will assist the Programme in strengthening groups and communities to take advantage of market opportunities. It will ensure that groups are properly trained and registered and have legal and institutional status. Their governance will be strengthened. The ADP would also provide Extension Agents (EAs) to work with FOs and VCOs in the selected commodity clusters.

Prestart-up and start up activities

94. To ensure readiness for quick and effective implementation start up, the following activities will need to be carried out before the actual launching of the Programme: (i) FO mapping and elaboration of the capacity building strategy; (ii) mapping of rural financial institutions in targeted LGAs, (iii) based on (i) and (ii) elaboration of the matching grant procedure manual; (iv) selection/recruitment of the Programme staff.

95. The above activities should be carried out over a period not exceeding 8 months. Once the team is recruited, the baseline survey will be launched. The team will prepare the first AWPB and associated Procurement plan covering the initial 18 months of Programme implementation to be submitted for approval by the VCSC and IFAD. The Programme Implementation Manual (PIM), including the financial management procedure manual, will then be finalized.

Links with Complementary Projects

96. The Programme will establish close linkages with ongoing projects, programmes and organisations that have adopted value chain methods in their operations. These include the UNDP facility for inclusive market (FIM); USAID-funded MARKETS II Project; DFID-funded PropCom Project; GTZ-funded agricultural value chain work; JICA-funded Rice Post-Harvest and Marketing Pilot Project; the World Bank funded Micro, Small and Medium Enterprises Project (MSME) and Commercial Agriculture Development Project (CADP); and the private sector-driven Nucleus Estate Initiative (NEI) which is an agricultural intervention programme of the Agriculture and Food Security Policy Commission of the Nigerian Economic Summit Group (NESG). In their respective fields, these projects have all demonstrated the potential rewards of the value chain approach in the Nigerian rural context, where markets are often fragmented, non-transparent and hard for small farmers to access directly. Lessons learned from these interventions will be of great value to programme management in optimizing impact and sustainability through enhanced operational efficiency. Furthermore, the Programme will seek appropriate coordination and collaboration with relevant complementary operations in the Programme states (e.g. in the areas of infrastructure development, support to agro-based economic activities in rural areas, support to smallholder productivity enhancement, and rural finance). The main existing projects and programmes include: Rural Access and Mobility Project (RAMP, WB), Third National Fadama Development Project (Fadama III, WB), Community-based Agriculture and Rural Development Programme (CBARDP, IFAD/AfDB), Community-Based

Natural Resources Management Programme (IFAD), Multinational Nerica (New Rice for Africa) Rice Dissemination Project (AfDB), National Programme for Food Security (NPFS), funded jointly by AfDB, the Arab Bank for Economic Development and the Islamic Development Bank, and Rural Finance Institutions Building Programme (RUFIN, IFAD); and the Nigeria Incentive-based Risk Sharing Agricultural Lending (NIRSAL), housed at the Central Bank of Nigeria, to make agriculture investment attractive to commercial banks through, among other things, *an insurance scheme.*

97. Synergies and information sharing with these ongoing initiatives are important to enhance complementarily and overall Programme effectiveness. Regular consultations between the VCDP NPMU/SPMUs and relevant existing and new initiatives will be an integral part of the coordination mechanisms established and the partnership building efforts at national and state levels.

Integration within the IFAD Country Programme

98. The Programme will work closely with the ongoing IFAD-funded Programmes (CBARDP, CBNRMP and RUFIN). Like in other programmes, formal working relationships with other IFAD-funded Programmes would be facilitated to enable the Programme to take advantage of the gains recorded by the community-based programmes (CBARDP and CBNRMP) in community mobilization, institutional strengthening, participatory approach and exit strategy, as well as, in RUFIN in the area of institutional strengthening for improved access to rural finance by smallholder farmer groups. It will also build on the successes and achievements of the recently closed IFAD-assisted RTEP in the area of promoting the use of improved planting materials and resolving disease and pest attack. IFAD, through the Country Office (CO), will provide proximity implementation support to the Programme team and partners as well as be involved in oversight/supervision of field activities. The CO will work closely with the Lead Agency (FMARD) during the entire lifespan of the Programme.

C. Planning, Monitoring and Evaluation (M&E), Learning and Knowledge Management

99. **Overview.** Programme results are expected at three different levels (impact/outcomes/outputs) which are reflected in the Programme Logical Framework (see above). At each level, indicators have been developed to be integrated into the Results Monitoring Framework (RMF) presently established under the NAIP, taking into account IFAD's Results and Impact Management System (RIMS). The indicators will be operationalized in the form of an M&E Plan prior to Programme start (see Annex 6).

100. The NPMU and SPMUs will be responsible for setting up an effective Planning and Monitoring & Evaluation (PME) System during the first six months of Programme implementation which includes fine-tuning the M&E Plan, in consultation with the main Programme stakeholders. The PME System will be part of an integrated PME/Information, Knowledge Management and Communication System (IKMC) to provide: (a) timely and accurate information on implementation progress and constant feedback for decision making and addressing potential plan deviations and problems during implementation; and (b) the basis for assessing the achievement of Programme results. The Logical Framework and M&E Plan may be revised at a later stage if required. The logical framework approach will be applied to planning Programme interventions at all levels (including FO and VC Action Plans), actively involving the beneficiaries in the formulation of objectives and indicators.

101. **Core principles**. The VCDP PME system is guided by the following principles: (i) *establishment of a sound planning framework (logical framework)* with a limited number of indicators that can be monitored in a timely manner and at reasonable cost; (ii) *use of*

simple M&E processes, structures and instruments, including a tailor-made M&E software with a simple user interface which can be adjusted to make M&E information accessible to key stakeholders in a timely manner; (iii) *alignment with existing M&E frameworks at national, state and local government level* to strengthen the link between VCDP and NPAFS, ADPs and LGAs, and avoid duplication of efforts. The Programme databases will become an integral part of the NPAFS and ADP databases; (iv) *timely collection of baseline data for key indicators in the Logical Framework as specified in the M&E Plan*; (v) *integration of communication and KM in all aspects of Programme PME* to encourage feedback and reflection on results for effective adaptive management; and (vi) *provision of adequate resources for capacity building of stakeholders* involved in PME activities at all levels, with a focus on participatory PME approaches.

102. On the basis of the Programme's Logical Framework and the detailed cost tables, the NPMU and SPMUs will prepare, within three months after Programme start-up, the Programme's Overall Workplan and Budget (OWPB) and the first Annual Workplan and Budget (AWPB). In subsequent years, the SPMUs will supervise the preparation of State AWPBs during the fourth quarter of each Programme year (PY) for the following year, on the basis of participatory review and planning workshops with beneficiaries, implementing partners and service providers.

103. As stated above, commodity-specific Value Chain Action Plans (VCAPs) will be prepared at LGA level involving representatives from all major VC actors at the different stages of the VC. The VCAPs provide the basis for all Programme interventions at LGA level and will be reviewed and endorsed by the Local Government Value Chain Advisory Committees (LGVCAC). The SPMU will consolidate the LGA VCAPs and send the overall State AWPB to the State Steering Committee (SSC) for approval. The State AWPBs will be submitted to the NPMU for consolidation at least two months before the start of the next PY and sent by the NPMU to IFAD for no objection[9].

104. **Surveys and reviews.** A *Baseline survey* will be undertaken during the first semester of PY1, to assess the situation and establish benchmarks, including RIMS impact indicators, against which the outcomes and impact on the beneficiaries would be assessed. Baseline data will also be collected in the process of preparing VCAPs which will assess (i) the scope, capacity, and development needs of the main forms of VC organizations; (ii) markets, agro-processing enterprises and technologies (including constraints and potentials), critical infrastructures and services; and (iii) needs for capacity building for LGC staff, service providers and beneficiaries.

105. Annual implementation reviews will be carried out, involving implementers at all levels and key stakeholders to analyse and review lessons and challenges. The reviews will be linked with the Annual Workplan and Budget (AWPB) planning processes to ensure that lessons lead to improved implementation. In addition to regular implementation support missions from IFAD will be undertaken, as well as a *mid-term review* (MTR) mission during the last quarter of PY3 to assess Programme achievements against targets, interim impact, efficiency and effectiveness of programme management, sustainability arrangements, and in general pertinence and validity of programme design. On the basis of its findings, the MTR mission will adjust approach, activities and/or implementation arrangements for the remaining programme life and suggest any changes to the PIM, if required. At the end of the Programme, the NPMU will prepare an internal Programme Completion Report (PCR), which will include an assessment of the achieved versus planned impacts, to be submitted to Government and IFAD within three months after Programme completion. This PCR will provide the basis for IFAD's PCR.

106. **Monitoring of VC development.** The M&E Unit will have the responsibility, together with concerned implementing partners, to monitor systematically once a year the evolution of cassava and rice profitability at the farm and processing levels throughout the life of the

[9] Details will be described in the Programme Implementation Manual (PIM).

programme. The Federal Ministry of Finance (FMF) and the National Planning Commission (NPC) will exercise oversight functions in the M&E process.

107. **Monitoring and Evaluation of infrastructure sub-projects**. Service providers and beneficiaries will play a key role in the monitoring and evaluation of value chain infrastructure sub-projects. On completion of each sub-project, a post-implementation evaluation of the sub-project will be carried out by a contracted independent body under the overall responsibility of the NPMU but in collaboration with the LGVCO, to assess the achievements and draw lessons for the design and implementation of future sub-projects.

108. **Reporting**. Each implementing partner and service provider will be required to submit regular progress reports to the NPMU/SPMU which will be compiled by the PME Unit of the NPMU on a quarterly basis, and fed into the Programme overall half-yearly and annual progress reports. The half-yearly and the annual progress reports will be presented at the PSC and SSC meetings to guide adjustments of the AWPB and preparation for the next year's AWPB. The PME Unit will conduct periodic field checks and verifications on a random basis through independent auditors or other service providers. Annual reports would reflect cumulative progress, compliance with legal requirements and reconciliation of the expenditures. All Programme reports will reflect gender disaggregated data.

109. **Programme Knowledge Products and Learning Processes.** The Programme will package and disseminate information to the respective stakeholders in the appropriate formats (e.g. brochures, studies, articles, newsletter, TV and radio programmes), using the central knowledge management and communication platform established by the ongoing Programmes under the leadership of the Country Office. The Programme will also develop an online information system which will focus its services on market information, technologies, training materials, farmer organizations and disseminate the information through a web portal. This knowledge sharing process will be supported by a well-focused series of workshops and learning events. In addition, the Programme will use the Nigeria Country Programme Management Team (CPMT) as a mechanism for learning and exchanging knowledge among the IFAD-supported Programmes and between them and other in-country programmes.

110. **Regional Knowledge Networking.** The Programme will benefit from the FIDAfrique network and its associated knowledge management facilitation and capacity building events in the western and central African Region. Currently, the FIDAfrique website provides a space for collaborative work and exchange of information. It allows for posting of documents in all formats by all users. The site also features discussion fora that link project and IFAD staff and other experts working on agriculture-related projects in the region. The regional networking will be an important forum for the Programme to build and share approaches, tools, methodologies, technologies and best practices on value chains.

D. Financial Management, Procurement and Governance

Financial Management

111. The programme will adopt accounting systems consistent with international accounting standards and Government requirements. It will be responsible and accountable to Government and IFAD for proper use of funds in line with the legal agreement. The Programme will provide half yearly financial reports to the Government and IFAD as well as annual financial statements to all partners within six weeks of the end of each fiscal year.

112. Immediately after effectiveness, the Programme will procure a financial management information system (accounting software) that is capable of timely production of required financial statements and reports. The Programme will also go further to computerize the preparation of withdrawal applications from the same accounting software used in generating financial statements and reports.

113. The Programme will maintain the following accounts (see chart in Annex 7):

- **NPMU:** (i) Two (2) Designated Accounts (DAs) denominated in US dollars to receive the IFAD proceeds of the loan and grant, respectively, will be opened in a bank that is acceptable to IFAD. Relevant information regarding operations and signatures will be furnished to IFAD by the Federal Ministry of Finance at the beginning of Programme implementation; (ii) two (2) Federal Programme Account *A* and B in Naira to receive proceeds from the Designated Accounts will be opened at the federal level to meet eligible Programme expenditures; and (iii) A Federal Government Counterpart Funds Account or Federal Programme Account C in Naira to receive counterpart funds from the Federal Government will be opened. The National Programme Coordinator and the Financial Controller will operate these accounts by jointly signing every instrument on the accounts. The National Programme Coordinator and the Financial Controller of the Government Authorized body/organization will be alternative signatories.

- **SPMU:** (i) State Programme Accounts A and B in Naira to receive proceeds from the Designated Accounts will be opened to meet eligible Programme expenditures; and (ii) a State Government Counterpart Funds Account or State Programme Account C in Naira to receive counterpart funds from the State Government will be opened. The State Programme Coordinator and the State Accountant will operate these accounts by jointly signing every instrument on the accounts.

114. ***Flow of Funds*** The Designated Accounts shall receive an authorised allocation (initial deposit). The amount shall be defined in the Letter to the Borrower. The Designated Accounts shall replenish NPMU Programme Account A and B, as well as each SPMU Programme Account A and B from time to time, in optimal frequencies and amount to ensure minimal exchange risk. Each SPMU shall regularly submit (i.e. monthly) withdrawal applications to NPMU, within the timeframe defined in the Programme Implementation Manual (i.e. within 15 days after the expenditure reporting period). NPMU shall regularly submit consolidated withdrawal applications to IFAD, within the timeframe defined in the Programme Implementation Manual (i.e. within 30 days after the expenditure reporting period or for the minimum amount defined in the Letter to the Borrower). IFAD shall evaluate the consolidated withdrawal applications and replenish the Designated Accounts for the same amount of the eligible expenditures. If taxes and other ineligible expenditures under IFAD financing are pre-financed using the loan proceeds, each relevant unit shall mobilize the respective Counterpart funds in the Programme Account C to refund the respective Programme Accounts A and B for the same amount of the ineligible expenditures. Withdrawal applications for reimbursement to the Counterpart (for the pre-financed expenditures using the Counterpart funds) and direct payment (ex. Direct payment from IFAD to suppliers/service providers) shall be submitted to IFAD through NPMU. NPMU and each SPMU shall apply the use of direct payment procedure defined in the Letter to the Borrower, whenever applicable.

115. ***Audit:*** The Programme will appoint independent auditors, which will audit the accounts on an annual basis subject to IFAD prior review. The auditor shall be assessed every year to determine performance. An auditor, once appointed, can serve for a maximum of two (2) years after which another auditor shall be appointed, subject to IFAD's prior review. The audit will be performed in accordance with International Standards on Auditing complemented by terms of reference acceptable to IFAD and in line with IFAD Guidelines on Programme Audits. Terms of Reference (ToRs) for the audit will be prepared and submitted by the NPMU for IFAD's review and/or concurrence on an annual basis.

Procurement

116. Procurement for the proposed Programme will be carried out in accordance with national procedures, to the extent that they are compatible with the Procurement

Guidelines adopted by the IFAD Executive Board at its 100th Session in September 2010 which recognizes the use of national procurement system during programme implementation. A Procurement Officer will be recruited at NPMU to make sure that the procurement of goods and services is carried out in accordance with the established guidelines.

117. Each procurement plan will specify, among other things, the method for each contract, the threshold and applicable preferences. An 18-month procurement plan for the first year will be prepared by the Programme staff and submitted to IFAD for the non-objection. For each subsequent year, an 18-month procurement plan will be submitted along with the annual work plan and budget, which will be reviewed and approved by the different steering committees.

Governance

118. The Nigerian government has taken significant steps to improve governance. The government's governance agenda has been cast in chapter 4 of its NEEDS strategy and also in the former president's 7-Point agenda. The main thrust of the strategy is to create a more efficient and responsive public sector, an enabling environment for the private sector, as well as improve security and the administration of justice, tackle corruption, and promote transparency and accountability. Some progress has been made in these efforts to improve governance. Notable among these steps are the establishment in 2002 of the Economic and Financial Crimes Commission, the Nigerian 2004 Financial Intelligence Unit, the Budget Monitoring and Price Intelligence Unit, which eventually led to the enactment of the Procurement Reform Law in June 2008.

119. To address the concerns about the poor governance potential in the Programme, the design incorporates the following measures:

i. **Transparency of Information:** Enhanced disclosure provisions will be done through: (i) making all key documents public, (ii) informing all bidders promptly of contract awards and bid evaluation summaries; (iii) allowing representatives of end-users of the goods or works being procured to attend the public bid openings; (iv) making available the details of all contracts awarded; and (v) making available the date of request for all contract payments and the date of each payment, with an explanation of the reason for any delays.

ii. **Participation and Consultation:** Establishing a complaint handling mechanism (and the use of sanctions), whereby community members and the general public can channel complaints or inquiries e.g. through the use of mobile phone text messaging. Complaints and inquiries will be systematically recorded and answered. The Programme will also post complaints on the Programme's website so that case processing will be more transparent. Designated staff at the PMU and SPMU will handle complaints and respond in a timely manner.

iii. **Monitoring and Oversight**: The Programme will establish an operational M&E system from the community to the national level to proactively monitor and report on project activities and performance across the result chain (including financial and physical progress). For financial management, there will be an in-depth and intensive supervision in the initial years to ensure the successful implementation of the financial management arrangements and at least one on-site financial management visit during one of the semi-annual supervision mission. Alternatively, a separate mission/consultant complemented by desk-based review of financial and internal audit reports will be done every year. Annual meetings will be held to review the Programme performance as well as the country programme to share lessons learned and best practices among programme staff and government counterpart agencies. There will be annual assessments of service providers by farmer organizations and Commodity Interest Groups to feed into the annual project planning process. The

Programme will be subject to independent and external auditing in line with IFAD procedures and requirements.

E. Supervision

120. Programme supervision and IFAD loan and grant administration will be carried out by IFAD in close collaboration with the relevant national institutions. IFAD will organise and carry out formal supervision missions twice a year with the participation of representatives of the key Ministries and authorities, as well as other partners. The supervision missions will assess overall physical and financial performance, including compliance with all the fiduciary aspects of the financing agreement address poverty targeting and gender issues as well as specific thematic areas as required, identify implementation constraints and propose remedial measures. Special emphasis will be placed on ensuring that an effective monitoring and evaluation system is set up and operational as of PY1 to ensure that key indicators of performance and impact of the Programme can be regularly assessed Special attention will be placed on the key success factors of VCDP, i.e., the strengthening and professionalization of producers organisations and the performance of public and private implementation partners and service providers.

121. Close proactive and regular implementation support will be made possible through the IFAD Country Office based in Abuja. In 2012 , the IFAD team will consist of the Country Programme Manager (CPM), an Associate CPM, a Country Programme Officer, a financial specialist and a Country Programme Assistant. They will work closely with the in-country and Rome-based Country Programme Management Team.

122. During the first year, a start-up workshop involving the major private, civil society and public stakeholders will be held to get them acquainted with the programme objectives and activities, as well as monitoring and evaluation. This workshop and associated one week training will be used to assist the programme stakeholders to develop a good understanding of the programme itself and of the key documents governing its execution (Letter to the Borrower and the Financing Agreement).

F. Risk Identification and Mitigation

123. The main risks identified in the COSOP that may jeopardize effective programme implementation and achieving the expected results include: (a*) poor governance* which could increase programme costs and compromise attainment of the expected impact. This risk will be mitigated by supporting enhanced participation in local governance and improved local resource management and accountability, as well as involving stakeholders in the procurement process of good and services; in addition the oversight function of the Federal and State levels ATIC will further contribute to mitigating poor governance risk; (b) *heighten insecurity* in the country which could disrupt national economic and social life and thus prevent smooth implementation of programme activities in the field as well as Government/IFAD technical assistance and supervision. The Programme management unit will monitor closely the situation in the field and (c) *environmental degradation*, natural disasters and other manifestations of climate change could hamper smallholder agricultural development. The Programme will address these risks by promoting sustainable land and water management practices as well as other activities for enhancing climate change resilience in partnership with Nigerian Agriculture and Insurance Corporation (NAIC) and Nigeria Metrological Agency (NIMAT) as well as USAID funded Famine Early Warning System Network (FEWSNET); (d) *elite/men capture of economic* activities that are traditionally controlled by women, as these activities become more profitable. The Programme will mitigate these risks by strengthening women's organizations and monitoring the Programme outcomes on women and men.

IV. PROGRAMME COSTS, FINANCING AND BENEFITS

A. Programme Costs

124. **Programme Costs**. The indicative programme cost, including physical and price contingencies, is estimated at USD 104.4 million (NGN 19.0 billion). The foreign exchange content is estimated at USD 17.3 million (17% of total programme costs). The local content of the costs is estimated at USD 87.0 million. Programme costs are summarised in Table 1 (see also Annex 9).

125. **Assumptions**. The initial exchange rate for the cost estimate has been set at USD 1.00:NGN 157, the commercial rate prevailing in November 2011. Constant purchasing power parity is not assumed given the active monetary and exchange policy pursued by the Central Bank of Nigeria to stabilise the value of the Nigerian Naira. It is therefore unlikely that the NGN is devalued beyond USD$ 1.00: NGN 202. Nigerian value added tax (VAT) of 15% has been applied across all expenditures, except for technical assistance, and import duties of 5 or 10% have been included according to the type of good imported. Withholding tax has not been taken into account. Personal income tax on Programme staff is assumed to be the responsibility of individuals. Physical contingencies have been estimated at 10% for the civil works category and 5% for vehicles, equipment and machinery. Price contingencies have been calculated using the Costab software based on local and foreign inflation. Local inflation is assumed at 10% per annum and international inflation at 0.5% per annum following the G5 MUV index projections.

Table 1: Total Programme Cost by Component

Nigeria
Value Chain Development Programme (VCDP)
Component Project Cost Summary

	(NGN Billion)					(US$ Million)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Agricultural Market Development										
Support to Value Addition and Market Linkages	1.8	0.7	2.4	27	17	11.3	4.3	15.6	27	17
Support to Market Infrastructures	4.5	0.7	5.2	13	36	29.1	4.4	33.5	13	36
Subtotal	6.3	1.4	7.6	18	53	40.4	8.7	49.1	18	53
B. Smallholder Productivity Enhancement										
Support to Farmer Organizations	0.4	0.2	0.6	27	4	2.9	1.1	3.9	27	4
Support to Smallholder Production	3.4	0.8	4.2	18	29	21.9	4.9	26.8	18	29
Subtotal	3.8	0.9	4.8	19	33	24.8	6.0	30.7	19	33
C. Programme Management and Coordination	1.7	0.3	2.0	15	14	10.7	1.9	12.6	15	14
Total BASELINE COSTS	11.8	2.6	14.3	18	100	75.9	16.6	92.5	18	100
Physical Contingencies	0.3	0.1	0.4	23	3	2.0	0.6	2.6	23	3
Price Contingencies	3.7	0.5	4.2	12	29	9.2	0.2	9.3	2	10
Total PROJECT COSTS	15.8	3.2	19.0	17	132	87.0	17.3	104.4	17	113

B. Programme Financing

126. The summary disbursement accounts by financier are presented below.

Table 2: Components by Financiers (USD Million)

	IFAD Loan		IFAD Grant		Federal Government (FGN)		State Governments		Local Governments		Beneficiaries		Complementary Financing		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Agricultural Market Development																
Support to Value Addition and Market Linkages	14.6	85.9	-	-	0.3	1.7	1.0	6.1	0.6	3.3	0.4	2.1	0.1	0.8	17.0	16.3
Support to Market Infrastructures	27.7	73.4	-	-	3.1	8.3	1.9	5.0	2.9	7.6	0.8	2.2	1.3	3.5	37.8	36.2
Subtotal	42.3	77.3	-	-	3.4	6.2	2.9	5.3	3.4	6.3	1.2	2.2	1.5	2.7	54.7	52.4
B. Smallholder Productivity Enhancement																
Support to Farmer Organizations	2.6	60.1	0.4	9.4	0.0	-	1.0	24.3	-	-	-	-	0.3	6.2	4.3	4.1
Support to Smallholder Production	23.9	78.1	-	-	3.1	10.1	1.0	3.4	0.6	1.9	0.9	3.0	1.1	3.5	30.6	29.3
Subtotal	26.5	75.9	0.4	1.2	3.1	8.9	2.1	6.0	0.6	1.6	0.9	2.6	1.3	3.8	34.9	33.4
C. Programme Management and Coordination	5.6	38.1	0.1	0.6	3.4	22.9	5.4	36.8	0.2	1.6	-	-	0.0	0.1	14.8	14.2
Total PROJECT COSTS	74.4	71.3	0.5	0.5	9.9	9.5	10.4	10.0	4.3	4.1	2.1	2.0	2.8	2.7	104.4	100.0

Table 3: Disbursement Accounts by Financiers (USD Million)

	IFAD Loan		IFAD Grant		Federal Government (FGN)		State Governments		Local Governments		Beneficiaries		Complementary Financing		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Civil Works	23.8	85.1	-	-	4.2	14.9	-	-	-	-	-	-	-	-	28.0	26.8
2. Vehicles, equipment, materials and agricultural inputs	10.5	79.6	-	-	2.0	15.0	-	-	-	-	-	-	0.7	5.4	13.2	12.7
3. Training, technical assistance, service providers, studies and workshops	23.9	95.6	0.5	1.9	0.0	-	-	-	-	-	-	-	0.6	2.4	25.0	24.0
4. Matching Grants	12.6	86.3	-	-	-0.0	-	-	-	-	-	0.5	3.4	1.5	10.3	14.6	14.0
5. Salaries and Allowances	1.4	7.9	-	-	3.0	16.5	10.0	55.8	3.5	19.7	-	-	-	-	17.9	17.2
6. Office Equipment and maintenance expenses	2.1	36.9	-	-	0.8	13.8	0.4	7.9	0.7	12.8	1.6	28.4	0.0	0.2	5.6	5.4
Total PROJECT COSTS	74.4	71.3	0.5	0.5	9.9	9.5	10.4	10.0	4.3	4.1	2.1	2.0	2.8	2.7	104.4	100.0

127. The IFAD loan will total USD 74.4 million (or 71% of programme costs). The IFAD loan will be used to finance civil works, vehicles, equipment and materials, technical assistance, training, studies and workshops and part of operating costs. The loan will co-finance processing equipment and production inputs with beneficiaries in the form of a matching grant arrangement as summarised in Table 4. The IFAD loan will not finance taxes and duties.

128. An IFAD grant of USD 0.5 million will be used to launch some activities with smallholder farmers under Component 2.1 and provide support to the existing national monitoring and evaluation system.

129. A complementary financing of USD 2.8 million will be needed to carry out activities.

130. The Government financing is divided as follows: the *Federal Government* will finance all taxes and duties, the salaries of the NPMU staff, office space and maintenance for the NPMU, as well as the performance allowances of the NPMU and SPMU staff. *State Governments* will finance the salaries of the SPMU staff and office space and maintenance for the SPMU. Meanwhile, *Local Governments* will bear the salaries of the Liaison Officers and the costs of office space and maintenance at the LGA level.

131. Beneficiaries will contribute in kind/cash towards construction and O&M of infrastructures such as roads and water supply systems. They will also provide their contribution through the matching grant fund.

C. Summary Benefit and Economic Analysis

132. Economic and financial analyses were carried out on the Programme to assess the benefits expected from the Programme and to analyse whether the costs to deliver those benefits are justified. Economic viability of the Programme as a whole is analysed as well as the financial incentives for beneficiary participation in the production and processing activities promoted by the Programme.

133. Key potential benefits from the Programme are an increase in agricultural incomes of the rural households engaged in the target value chains. This will primarily result from increased productivity, enhanced value addition and improved market opportunities. Expected *direct economic benefits* for targeted smallholder farmers and small-scale processors at the various levels of the value chain include: (i) *input supply:* improved access to better and more affordable seed, planting materials and other inputs; (ii) *production:* increased producer farm gate prices, production volumes and on-farm profitability, as well as increased youth employment; (iii) *processing and post-harvest handling:* reduced post-harvest losses; improved product quality; increased product prices; (iv) *transportation and marketing:* reduced transportation and transaction costs; improved linkages and contracts between producers and processors resulting in enhanced market opportunities.

134. The key direct beneficiaries are smallholder farmers and processors. Although Apex organisations and government institutions will also benefit from programme activities, their roles are as enablers, providing services and the right set of incentives to the ultimate beneficiaries. There will be approximately 15,000 smallholder households, 1,680 processors and 800 traders benefiting directly from the Programme and 22,000 indirect beneficiaries. The indirect beneficiaries, who are not directly targeted by the Programme, are those residents of the LGAs who will benefit from the infrastructure improvements, in terms of reduced travel time, transport costs and improved access to goods and services. Details of the estimation of beneficiaries can be found in Annex 10.

135. The Programme is also expected to bring non-quantifiable *institutional* benefits such as (i) effectively functioning farmers' organisations and Apex organisations; (ii) enhanced effectiveness of LGA and State-level agencies to deliver public sector support to value chain

development; (iii) increased capacity of public-private dialogue leading to a more favourable policy and regulatory environment for smallholder agriculture; (iv) more effective market information systems; (v) strengthened capacity of LGAs and local communities to sustainably manage their marketing infrastructures; and (vi) strengthened capacity of private sector operators to provide services demanded by smallholder farmers and processors. It will also impact on governance by enabling women and youth to have voice in the developmental process. *Environmental and social benefits* are also expected from the Programme because of its focus on rural poverty reduction and the inclusive targeting mechanisms proposed. Promoting sustainable agro-based enterprises is expected to deliver positive environmental outcomes, e.g. in terms of energy-efficient production, environmentally friendly agronomic practices and safe disposal of agro-industrial waste products.

136. **Employment effects.** The Programme is expected to have short term and longer term effects on local employment of local communities. During implementation, it is expected that around 145,400 unskilled and semi-skilled workers (including women and youth) will work on the construction and rehabilitation of infrastructure. In addition, the expansion in production and processing is expected to bring about more sustainable and higher demand for labour, especially of women involved in processing.

137. **Financial analysis** was carried out to confirm the financial sustainability of the operations promoted by the Programme. As the value chain approach is the backbone of this Programme, the analysis was carried out on two levels: (i) At the chain level, looking at the cost and price margins from production to retail, and (ii) on individual production and processing activities. The first analysis confirms that, in the without programme situation, the smallholder farmer only benefits very little from the value chain. Her/his margin is between 5 to 7 % of the retail price of milled rice and it is even lower (1 % and less) of the retail price of processed cassava. Based on the future without programme and future with programme scenarios, crop and enterprise budgets were studied to check the financial incentive for smallholders and groups of processors to undertake the production value addition activities of the Programme. Results show that, once the beneficiaries are assisted through matching grants and the voucher scheme for inputs in the early years of operation or start-up phase, the operations are financially sustainable without such support.

138. **Economic analysis** for the whole Programme yields an economic internal rate of return (EIRR) of 11.3% (20 years). Sensitivity tests show that the Programme is viable even with a decrease in overall benefits of 20% (EIRR drops to 7.5%), or an increase in cost of 20% (EIRR reduced to 8.2%). A decrease in output prices by 20% yields an EIRR of 7.4%. A 20% increase in input costs would result in an EIRR of 9.4%. Based on the conservative assumption that 70% of beneficiary farmers/processors will adopt the technologies and realize the expected benefits, and taking into account a gradual build-up of benefits over three years, it can be conclude that the Programme is economically viable (see Details in Annex 10).

Table 5: Economic internal Rate of Return (EIRR) and Sensitivity Analysis

Base Case	Change of Benefits						Change of Overall Costs		Delay of Benefits	
	-30%	-20%	-10%	+10%	+20%	+30%	+10%	+20%	1 year	2 years
11.3%	5.4%	7.5%	9.5%	13.1%	14.9%	16.6%	9.6%	8.2%	9.3%	7.7%
							Total Costs		Total Benefits	
Switching Values /a							+ 8.0%		- 7.0%	
	Change of Output Prices						Change of Variable Input Costs /b			
	-30%	-20%	-10%	+10%	+20%	+30%	+10%	+20%	+30%	
	5.2%	7.4%	9.4%	13.2%	15.0%	16.7%	10.4%	9.4%	8.3%	
	Change of Yields in WP situation									
	-30%	-20%	-10%	+10%	+20%	+30%				
	0.0%	1.3%	6.8%	15.5%	19.4%	23.2%				

/a The percentage change at which the net present value (NPV) would become zero at a discount rate of 10%, i.e. at which the ERR would become less than 10%.
/b does not include any changes in fixed costs.

D. Sustainability

- Sustainability of programme benefits is facilitated by:
- Anchoring programme activities from the beginning through existing permanent institutions of the Government of Nigeria, farmers' organisations, as well as the participation of credible private sector market operators in the implementing process.
- Supporting the establishment of strong linkages among value chain participants (producers, processors, traders, etc.) leading to increased value addition and thus income.
- Upgrading the target value chains to higher levels of productivity and profitability, with attendant improvements in income and employment for smallholders and processors, the Programme has built an economic sustainability framework in its design. A post-programme decline from the improved levels achieved during implementation is considered unlikely as the upgrade will be achieved through the mobilization of farmer and value chain organisations and will employ appropriate and widely available technology that will enable beneficiaries to carry on after programme completion.
- Building the capacity of value chain organisations, MSMEs and individual operators to enhance value chain integration (both backward and forward linkages).
- Improving the internal governance and capacities of organizations to better serve the needs of their members in a sustainable manner.
- Building the capacity and representativeness of value chains stakeholders to better defend their common interest in a meaningful policy dialogue with Government to create a more conducive policy environment.

- Increased agricultural productivity, combined with the use of environmentally friendly good agronomic practices, will limit expansion of land area and halt deterioration of the physical agricultural landscape (structure and texture of the soil).
- The setting up and capacity building of O&M committees for each rehabilitated/constructed infrastructure with a self-financed O&M fund will ensure the sustainability of the investment.
- The Programme implementation strategy will prepare value chain stakeholders to progressively take over the responsibility of activities undertaken by the Programme. The capacity of service providers will be strengthened to provide more efficient services to meet the demand of their clients. Effective O&M mechanisms for equipment and infrastructure will be put in place.