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Investing in rural people

President's Memorandum

Proposed Additional Financing to the Federal Republic of Nigeria for the Value Chain Development Programme

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

CAF	Commodity Alliance Forum
ESMF	environmental and social management framework
HH	household
LGA	local government area
MTR	mid-term review
NPMU	National Programme Management Unit
VC	value chain
VCDP	Value Chain Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Federal Republic of Nigeria
Executing agency:	Federal Ministry of Agriculture and Rural Development
Total programme cost:	US$238.5 million
Amount of original IFAD loan:	SDR 47.9 million (equivalent to approximately US$74.4 million)
Amount of original IFAD grant:	SDR 0.3 million (equivalent to approximately US$0.5 million)
Terms of original IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of 1 per cent (0.75 per cent) per annum
Amount of financing, IFAD loan:	US$89.1 million
Terms of financing, IFAD loan:	Blend: 25 years, including a grace period of five years starting from the date of approval by the Executive Board, with a fixed interest rate equal to 1.25 per cent per annum and in addition a service charge of 0.75 per cent per annum.
Cofinancier(s):	Private-sector operators: Olam, Popular Farms, Mitsubishi Motors, financial institutions and Alliance for a Green Revolution in Africa
Amount of cofinancing:	US$21.8 million
Terms of cofinancing:	Parallel financing
Contribution of borrower:	US$43.4 million (original contribution of US$24.6 million and additional financing contribution of US$18.8 million)
Contribution of beneficiaries:	US$9.3 million (original contribution of US$2.1 million and additional financing contribution of US$7.2 million)
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing for the Value Chain Development Programme, as contained in paragraph 37.

Proposed Additional Financing to the Federal Republic of Nigeria for the Value Chain Development Programme

I. Background and programme description

A. Background

1. This memorandum seeks the approval of the IFAD Executive Board for additional financing (AF) to scale up the Value Chain Development Programme (VCDP), in the form of a loan in the amount of SDR 59.4 million (equivalent to US$89.1 million), on blend terms, with a maturity period of 25 years, including a grace period of five years and a fixed interest rate of 1.25 per cent per annum on the principal as well as a service charge of 0.75 per cent per annum, starting from the date of approval by the Executive Board. This AF responds to the request of the Federal Government of Nigeria to the Fund to support scaling up of the VCDP. The IFAD country strategic opportunities programme (2016-2021) for Nigeria explicitly provided for this expansion.

2. The AF will be allocated from the Tenth Replenishment of IFAD Resources (IFAD10) funding cycle. VCDP is scheduled over a six-year period. Scaling up of the VCDP will require an extension of the implementation period by three years, bringing its completion date from 31 December 2019 to 31 December 2022 and the loan closing date from 30 June 2020 to 30 June 2023.

II. Justification for the additional financing

A. Rationale and justification for the additional financing

3. Nigeria is the largest economy and the most populous country in Africa. It has the largest number of extremely poor people in the world, representing a huge challenge in terms of rural poverty alleviation and income generation opportunities. As it is increasing its commitment to stronger agricultural performance for poverty reduction, the Federal Government of Nigeria has stressed the need for IFAD to scale up its in-country investments to achieve greater impact. The present VCDP covers 6 out of 16 states eligible for support from the programme.[1] The AF will expand its operations to three additional states: Enugu, Kogi and Nasarawa.[2] It will also support a measurable increase in the programme's outreach, from 45,000 to 100,000 farmers, including 6,000 processors and 3,000 traders. Finally, the AF will support the mainstreaming of issues that were not considered at design, consistent with national and IFAD policies: climate-smart agricultural practices; conflict mitigation as the conflict increases between farmers and herdsmen for land resources; nutrition; and financial inclusion.

[1] Namely Anambra, Benue, Ebonyi, Niger, Ogun and Taraba. Within these states, 34 local government areas (LGAs) are supported by the programme.

[2] The three new states were identified during the design mission, jointly with the lead agency (the state Ministry of Agriculture). They satisfy the agro-ecological conditions for the production of rice and cassava and the programme targeting criteria: (a) poverty level; (b) potential for commercialization; and (c) expression of interest from state government, including evidence of state government performance in counterpart funding for donor-assisted projects, especially in the agricultural sector.

III. Original programme description

4. The VCDP supports the Federal Government of Nigeria in its strategic vision to move away from years of neglect of the agricultural sector by building a performing agribusiness ecosystem addressing two major challenges:

   - Nigeria's inability to meet domestic food requirements. Nigeria has reached dramatic levels of food imports, with the Federal Government of Nigeria spending over US$6 billion on agricultural imports each year, threatening national food security; and
   - The productivity crisis driven by an input system and farming model that are quite inefficient.

5. The VCDP's specific development objective is to help the Federal Government of Nigeria sustainably enhance the incomes and food security of poor rural households engaged in the rice and cassava value chains (VCs). The focus is on rice and cassava since the government seeks to reduce its rice import bill (estimated at US$2 billion), and create market opportunities for cassava to capitalize on cyclical surpluses, while taking advantage of their potential for job creation for women and youth.

6. The VCDP's primary target groups are poor rural households (HHs), in particular: (i) 45,000 smallholder farmers cultivating up to five hectares of land; (ii) 7,680 small-scale processors; and (iii) 800 traders. Thirty-five per cent of the VCDP matching grants are earmarked to women to upgrade their production and processing capacities, and 25 per cent to youth to promote entrepreneurial activities.

7. Programme components: To achieve these objectives, the programme is delivered through two technical components:

   (i) Agricultural market development: The objective is to improve smallholder farmers' access to markets and enhance their capacity to add value to their produce. This is achieved by (a) linking farmer organizations and VC operators to markets for their products and (b) easing infrastructure constraints to the production and marketing of farm produce and processed products;

   (ii) Smallholder productivity enhancement: The objective is to enhance smallholder farmers' productivity on an economically and environmentally sustainable basis.

8. The key outcome indicators of success for VCDP are that: (a) at least 30 per cent of the targeted smallholder farmers and VC operators (by gender and age) increase their real agricultural income by at least 20 per cent; (ii) the household asset index in the programme area increases by at least 10 per cent; (iii) the prevalence of child malnutrition in the programme local government areas (LGAs) is reduced by at least 20 per cent; and (iv) HHs' food security increases by 10 per cent.

IV. Description of activities and expected benefits

9. In scaling up programme outreach, the AF will maintain the original components of the VCDP:

10. Component 1: will continue to support smallholders in value addition and market linkages to ensure that at least 80 per cent of farmers' produce is marketed. The AF will help the programme to: (i) scale up the Commodity Alliance Forum (CAF), which has triggered tangible engagement with stakeholders in VC development; (ii) further support for youth in agriculture and agribusiness, especially enterprises marketing seeds and planting material, in partnership with AfricaRice, the International Institute of Tropical Agriculture and the National Root Crops Research

Institute; (iii) scale up the use of standard weights and measures so as to sustainably resolve conflict during sales transactions; (iv) facilitate the provision of market infrastructure to rural farmers; and (v) improve private-sector participation in the system for the provision of market information.

11. Component 2: will remain focused on smallholder productivity enhancement: (i) strengthening the capacity of smallholder farmers in market-led agriculture and agribusiness, including their ability to engage with key stakeholders, with a focus on women and youth; (ii) making VCDP interventions nutrition-responsive; and (iii) consolidating the ongoing partnership with financial service providers for financial literacy and access to credit. Under the heading of support to smallholder production, the AF will build on VCDP successes by further emphasizing: (i) land development to improve access to agricultural land for landless youth and women; (ii) youth-friendly mechanization equipment; and (iii) simple irrigation to enhance farmers' engagement in all-season production.

12. Lastly, policy support will continue as a key area of work of the VCDP. In addition, the AF will support pursuit of the mid-term review (MTR) recommendations, as follows:

- Embed financial inclusion in the programme strategy. At design, the VCDP did not include a strategy for financial access by rural poor farmers. The extended programme period will provide an opportunity to mainstream financial inclusion within it. Through partnerships with financial institutions, the VCDP will seek to: (i) strengthen the capacity of farmers in financial literacy; (ii) develop farmers' capacity in savings mobilization to leverage financial credit; and (iii) work with financial institutions to develop products favourable to farmers.

- Mainstream nutrition and climate change adaptation measures within programme support. These include change communication campaigns: on the nutritional value of different crops; at the production stage, the promotion of bio-fortified varieties with higher nutritional value; capacity-building on aflatoxin control for the production of safe foods; post-harvest, raising farmers' awareness on the safe use of chemicals during storage; promotion of labour-saving processing technologies that free up women's time and reduce drudgery; and in consumption, support behavioural changes in appropriate cooking methods, food combinations and recipes, good nutrition practices and nutrient requirements of different household members. On the climate front, the programme will partner with the crop index insurance companies and the national meteorological agency to hedge against crop failure arising from weather uncertainty/climate change. It will ensure that market infrastructure is climate-smart. The use of climate-resilient planting materials and environmentally sustainable initiatives will be promoted.

- Support conflict resolution: The increasing conflict between farmers and herders for land resources was not envisaged during the design of VCDP in 2012. The AF will provide resources to study and analyse the features of the conflict so as to provide solutions. It will facilitate government engagement with key partners, including the farmers, herders and other actors, among other things to encourage farmers to fence their farms and to discourage planting along cattle routes.

- Enhance youth in agriculture: The AF will help scale up the VCDP youth-in-agriculture model. The programme will continue to earmark a percentage of the matching grants to stimulate the interest of youth (both female and male) in entrepreneurial activities. The programme will work with AfricaRice to scale up and train youth in seed production, processing and marketing businesses. VCDP will also partner with Hello Tractor services to promote the leasing business for youth and will work with credible input dealers to promote youth involvement in 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.

13. Geographic area: The AF will support the expansion of VCDP support from six to nine states and from 34 to 57 LGAs. In each of the six original states, the VCDP will increase its outreach from eight to 10 LGAs. In Niger State, through US$2 million parallel cofinancing from the Alliance for a Green Revolution in Africa, this support will be expanded to three additional LGAs. In each of the three new states, the VCDP will support five LGAs.

14. The target groups remain unchanged, but the VCDP will now aim to reach a total of 100,000 HHs, comprising at least 91,000 farmers, plus 6,000 processors and 3,000 traders, mostly youth.

V. Expected benefits

15. Summary of benefits and economic analysis: Original and additional financing. The main benefit expected from the VCDP is an increase in agricultural incomes for the rural HHs engaged in the target VCs. This will result mainly from increased production and productivity, enhanced value addition and improved market opportunities. The estimated economic returns for the AF are higher than the original design estimates for VCDP, following: the adoption of better technologies introduced over time in the original states; the skills acquired from processors and producers; the increased number of producers, processors and marketers in the new LGAs; and the increase in income across beneficiary states. The estimated overall economic internal rate of return for both the original and additional financing VCDP programme is 15 per cent, with an net present value of US$4,233,670 and an incremental net benefit of US$9,115,380, assuming an opportunity cost of capital of 12 per cent. The overall financial internal rate of return is positive at 19 per cent, while the overall economic internal rate of return is 15 per cent (compared with 11.3 per cent at design). The overall financial internal rate of return for both the original VCDP and the VCDP additional financing programme is estimated at 19 per cent, with an incremental net benefit of US$9,064,230, assuming an opportunity cost of capital of 12 per cent.

VI. Programme implementation performance

16. Through the programme MTR, the Government and IFAD jointly assessed that by promoting a longer-term perspective, the VCDP is contributing to the engagement of smallholders in the cassava and rice VCs on a sustainable basis. The empirical evidence shows that:

17. Smallholders are increasing their productivity and incomes while contributing to national priorities on import substitution and food security. The programme has reached over 58,500 smallholders, helping them increase their yields in the 2016 and 2017 production seasons from less than 2 tons/ha to an average of 4.5 tons/ha for rice and 15 to 25 tons/ha for cassava. VCDP-supported farmers contributed 162,033 tons of rice and 352,229 tons of cassava to the national food basket, representing incremental sales of US$89.5 million for smallholder farmers, injected into the local economy. Out of this production, 85 per cent of the rice paddy and 80 per cent of the cassava tubers were marketed, demonstrating the success of the market-led model. In addition, over 3,300 processors have been supported to improve their processing equipment, through matching grants and training in product quality enhancement. About 6,000 traders were trained in market information access and the use of standard weights and measures. The introduction of standard weights and measures has eliminated conflict during transactions between producers and buyers. As a result,

the data show an increase in the availability of local rice on the Nigerian market. The increased consumption of local rice and cassava products has also stimulated jobs for rural youth and women, who are engaged in processing and marketing activities.

18. *Smallholders have improved their engagement with key private-sector operators.* Targeted farmers developed a CAF. This CAF model won recognition for IFAD Nigeria on the part of United Nations Economic and Social Council (ECOSOC), and the award for Development Partner of the Year in Nigeria for 2018. The CAF is an innovative public-private-producer partnership that serves as an platform for engagement between producers, input dealers, credit suppliers and processors. Through the CAF, value-chain stakeholders meet periodically to exchange information on market demand and rules of their engagement. Farmers' production is now driven by business plans that they prepare to respond to the market demand identified through the CAF.

19. *The VCDP-supported land development initiative is leading to improved access to land by youth and women*, so as to engage in food production and create jobs. In collaboration with participating rural communities, the VCDP invested in land development to provide agricultural land for landless youth and women. The combination of developing land for production and the use of improved technologies led to a doubling of output by young and female farmers.

20. *The VCDP is brokering cofinancing agreements with private-sector and development partners.* The programme brokered a partnership between participating farmers and Olam International, a leading market operator. Olam set up competitive terms of engagement for participating farmers, consisting of cashless credit, cofinancing for extension services and provision of nearby collection/aggregation centres. Olam's willingness to set up a flexible pricing mechanism that guarantees a fair minimum price was part of what made them very competitive for the VCDP farmers over other off-takers. As a result of this partnership, the VCDP secured parallel cofinancing of US$0.3 million from Mitsubishi Motors to provide community infrastructure for participating communities. It has leveraged cashless credit of US$2.0 million from off-takers to support smallholder farmers to acquire production inputs.

21. *The VCDP has provided policy support to the Ministry of Agriculture to develop*: (a) its new extension policy; (b) a monitoring and evaluation (M&E) framework to track development project interventions; and (c) executive orders for the adoption of standard weights and measures in the marketing of produce.

22. *Latest supervision/MTR and Operational Results Management System (ORMS) status reporting.* The evidence from these instruments indicates that smallholder households, women and youth are being empowered to graduate to agribusinesses; consequently, VCDP performance in targeting and outreach is 5 out of 6. IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) concluded that the VCDP is impacting positively on smallholders, while building their climate resilience. As of 30 July 2018, the overall VCDP disbursement rate stands at 77.4 per cent of the loan amount. The quality of financial management has been consistent throughout programme implementation, with a rating of 4 out of 6. VCDP audits are received on time and have no qualifications. To date, about 3 per cent of IFAD loan resources have been used for recurrent costs (salaries/allowances and operating costs), demonstrating an outstanding efficiency rate.

VII. Social, environmental and climate change assessment procedures

23. In line with SECAP, VCDP remains classified as a category B programme, implying that it is likely to cause minimal adverse environmental effects. Two risks for environmental and social management were identified: (i) poor governance, which will be mitigated through the capacity-building of stakeholders and strengthening of farmers' organizations; and (ii) heightened conflicts over land resources, to be mitigated through promotion of sustainable land and water management practices. In addition, the VCDP will not invest in high-risk infrastructure such as dams above 15 metres in height, in areas that are prone to attack by pastoralists, in the opening up of land areas above 100 ha and in wetlands, and in roads with a contiguous length of more than 10 km. Activities proposed under the AF are fully aligned with IFAD land policy. The programme promotes access to land and land management, with a focus on women and youth, soil fertility, and pests and disease.

24. The VCDP is rated "high" in IFAD's climate risk categorization. The areas where the VCDP intervenes display lower climate-related risks. However, they are not completely without risks of climate-related disasters. Accordingly, the AF will support smallholder farmers in the implementation of climate-smart activities. In addition, a basic climate risk analysis and an environmental and social management framework (ESMF) have been conducted, in line with IFAD guidelines, to ensure that programme activities mitigate/alleviate any negative environmental impacts within the programme's area and produce positive impacts. The ESMF includes environmental management and monitoring plans. For each potential environmental and climate impact identified, the ESMF presents a significance rating, mitigation measures (and responsibilities for their implementation), performance indicators and budget requirements. In addition, the support brought by the programme will facilitate and optimize the use of agrochemicals, ensuring a limited increase in greenhouse gas emissions.

VIII. Monitoring and evaluation

25. Following the good performance of the programme, and the successful brokering of public-private partnerships, VCDP outreach targets were revised from year two, from 15,000 to 45,000 smallholder producers and from 1,600 to 7,689 small-scale processors. Following the introduction of ORMS and the IFAD core indicators, the following were introduced into the VCDP logical framework in 2017:

	IFAD core indicator	VCDP adjusted M&E indicators/targets
1	Market development: roads constructed or rehabilitated by PY3	300 km of market road built or rehabilitated by PY6
2	Drinking water systems built or rehabilitated	108 drinking water systems built or rehabilitated
3	Processing facilities built or rehabilitated by PY3	108 processing facilities built or rehabilitated by PY3
4	Farmer organization's commodity stores/village bulking centres built by PY3	450 market/commodity stores/village bulking centres built by PY3
5	Number of processing groups managing or benefiting from the processing facilities	30 processing groups managing or benefiting from the processing facilities
6	Irrigated land developed and cultivated during the dry season (hectares)	3,000 ha of irrigated land cultivated during the dry season
7	People trained in production practices and technologies	45,000 people trained in crop production practices and technologies

IX. Programme costs and financing

26. The combined programme cost is US$238.5 million, including all leveraged parallel financing. Component 1 (Agricultural market development) has the largest share at US$122.1 million, 51 per cent of total costs. This component also had the largest share in the original VCDP (53 per cent). Component 2 (Smallholder productivity enhancement) followed with 36 per cent of total costs, amounting to US$85.7 million, slightly higher than the 33 per cent allocation in the original

VCDP. The US$30.6 million for component 3 (programme management and coordination) accounts for 13 per cent of total costs.

27. Programme financing/cofinancing strategy and plan: In the original design, out of a total cost of US$101.6 million, IFAD agreed to finance US$74.4 million through a loan and with a grant of US$0.5 million. The original financing is presented in the tables below. In addition, IFAD will provide a loan of US$89.1 million as AF. Cofinancing of the AF will include: (i) counterpart funding by the Federal Government of Nigeria in the form of foregone duties and taxes (US$5.8 million), by the participating states (US$12.3 million) and by LGAs (US$0.6 million); (ii) private sector cashless input financing by off-takers (US$15 million) and support from business organizations (US$2.3 million); (iii) loans from financial institutions (US$2.0 million), savings mobilized by enterprise groups (US$2.5 million); and (iv) beneficiary contributions in-kind/cash (US$7.2 million). The expected cumulative cofinancing of US$43.6 million makes up 60 per cent of the IFAD AF. The AF financing plan, combined with original financing, are summarized in table 2.

Table 1
Programme costs by component and financier
(Thousands of United States dollars)

	*IFAD original loan**		*IFAD original grant*		*Government original contribution**[a]		*Beneficiaries original contribution**		*IFAD additional loan*		*Government additional contribution*[b]		*Beneficiaries additional contribution*		*Cofinanciers additional contribution*[c]		*Total*	
Components	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
A. Agricultural market development																		
Support to VC and market linkages	14 600	32	-	-	2 000	4	400	1	3 823	8	201	0.44	7 200	15.92	17 000	37.59	45 224	19
Support to market infrastructure	27 700	36	-	-	7 900	10	800	1	37 260	48	3 262	4	-	-	-	-	76 922	32
Subtotal	42 300	35	-	-	9 900	8	1 200	1	41 083	34	3 463	3	7 200	6	17 000	14	122 146	51
B. Smallholder productivity enhancement																		
Support to farmer organizations	2 600	9	400	1	1 000	3	-	-	13 390	44	10 324	34	-	-	2 500	8	30 215	13
Support to smallholder productivity	23 900	43	-	-	4 700	8	900	2	22 523	41	1 185	2	-	-	2 300	4	55 508	23
Subtotal	26 500	31	400	0.47	5 700	7	900	1	35 913	42	11 510	13	-	-	4 800	6	85 723	36
C. Programme management and coordination	5 600	18	100	0.33	9 000	29.38	-	-	12 100	39.5	3 832	12.51	-	-	-	-	30 632	13
Total	**74 400**	**31**	**500**	**0.21**	**24 600**	**10.3**	**2 100**	**0.9**	**89 097**	**37.4**	**18 804**	**7.9**	**7 200**	**3**	**21 800**	**9.1**	**238 501**	**100**

*As adjusted for exchange rate movements since the time of the original approval.

[a] Federal Government of Nigeria (US$9.9 million), participating states (US$10.4 million) and participating LGAs (US$4.3 million).
[b] Federal Government of Nigeria (US$5.8 million), participating states (US$12.4 million) and participating LGAs (US$0.6 million).
[c] Private sector off-takers (US$15 million), corporate institutions (US$2.3 million), financial institutions (US$2 million) and savings mobilized (US$2.5 million).

Table 2
Programme costs by expenditure category and financier
(Thousands of United States dollars)

	*IFAD original loan**		*IFAD original grant*		*Government original contribution**[a]		*Beneficiaries original contribution**		*IFAD additional loan*		*Government additional contribution*[b]		*Beneficiaries additional contribution*		*Cofinanciers additional contribution*[c]		*Total*	
Components	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs																		
A. Civil works	23 800	34.2	-	-	4 100	5.9	-	-	39 975	57.4	1 713	2.5	-	-	-	-	69 587	29.2
B. Vehicles, equipment, materials and agricultural inputs	10 500	48.4	-	-	2 000	9.2	-	-	4 925	22.7	1 951	9.0	-	-	2 300	10.6	21 676	9.1
C. Training, technical assistance, service providers, studies and workshops	24 000	35.2	500	0.7	-	-	-	-	30 057	44.1	11 165	16.4	-	-	2 500	3.7	68 221	28.6
D. Matching grant fund	12 600	25.7	-	-	-	-	500	1.0	11 049	22.6	616	1.3	7 200	14.7	17 000	34.7	48 965	20.5
Total investment costs	70 900	34.0	500	0.2	6 100	2.9	500	0.2	86 005	41.3	15 445	7.4	7 200	3.5	21 800	10.5	208 450	87.4
II. Recurrent costs																		
A. Salaries and allowances	1 400	6.3	-	-	16 600	74.3	-	-	1 785	8.0	2 550	11.4	-	-	-	-	22 335	9.4
B. Office equipment and maintenance expenses	2 100	27.2	-	-	1 900	24.6	1 600	20.7	1 306	16.9	810	10.5	-	-	-	-	7 716	3.2
Total recurrent costs	3 500	11.6	-	-	18 500	61.6	1 600	5.3	3 092	10.3	3 360	11.2	-	-	-	-	30 051	12.6
Total	**74 400**	**31**	**500**	**0.21**	**24 600**	**10.3**	**2 100**	**0.9**	**89 097**	**37.4**	**18 804**	**7.9**	**7 200**	**3**	**21 800**	**9.1**	**238 501**	**100**

*As adjusted for exchange rate movements since the time of the original approval.

[a] Federal Government of Nigeria (US$9.9 million), participating states (US$10.4 million) and participating LGAs (US$4.3 million).
[b] Federal Government of Nigeria (US$5.8 million), participating states (US$12.4 million) and participating LGAs (US$0.6 million).
[c] Private sector off-takers (US$15 million), corporate institutions (US$2.3 million), financial institutions (US$2 million) and savings mobilized (US$2.5 million).

X. Financial management, procurement and governance

28. The programme has adequate FM arrangements in place. The FM risk is assessed as medium. Funds will only be disbursed to the new participating states when IFAD receives assurances that they have adopted the same FM arrangements – including dedicated FM staff, segregated accounts for IFAD and counterpart funding, and a financial procedures manual. Moreover, all transactions will be recorded in an accounting software package in accordance with the International Public Sector Accounting Standards cash basis of accounting. The AF will be audited annually by independent auditors as part of the overall programme funding, in accordance with international audit standards and IFAD audit guidelines.

29. Efficiency: To date only 4 per cent of the disbursed funds under the IFAD original financing have been used for the recurrent costs, resulting in a low ratio of recurrent to investment costs and an efficient implementation.

30. Procurement: Corruption in procurement may manifest in the form of non-adherence to IFAD procurement guidelines and a capacity gap in new states' officers. These risks will be mitigated by emphasizing: (i) capacity-building for procurement staff; and (ii) regular monitoring, oversight, supervision, training and sanctions. The national anti-corruption agency (Economic and Financial Crimes Commission – EFCC) stands ready to assist.

31. Governance: The programme will maintain its National Programme Management Unit (NPMU) at the federal level and a State Programme Management Unit in each participating state. In line with the recommendations of the Nigeria country strategic opportunities programme and the VCDP MTR, a financial inclusion expert and two nutrition specialists will be added to the NPMU, and one nutrition officer will be engaged in each state. The NPMU nutrition team will also be responsible for facilitating the integration of nutrition into other IFAD investments in Nigeria, i.e. the Climate Change Adaptation and Agribusiness Support Programme and the Livelihood Improvement Family Enterprises Project.

32. Implementation readiness: The NPMU has taken steps to ensure readiness for expansion of the programme. In each state: (i) the local governments have provided the financial commitment to the Federal Government of Nigeria and the Fund to provide counterpart fund for implementation of the programme; (ii) a committee has been established to oversee recruitment of programme staff, office facilities have been secured and programme accounts opened; (iii) participating LGAs have been identified and farmers are being enlisted. At the technical level, the groundwork has been undertaken to facilitate the mainstreaming of financial inclusion and nutrition within the programme strategy. A technical assessment of the level of financial inclusion in VCDP target areas has helped the NPMU to come up with strategies for financial inclusion. A nutrition-sensitive VC analysis has been undertaken for rice and cassava and has provided a set of options that the programme can promote to mainstream nutrition.

XI. Proposed amendments to the programme financing agreement

33. Subject to approval of the AF by the Executive Board, the VCDP financing agreement will be amended to: (i) revise the allocation of IFAD financing to include the additional resources; (ii) reflect the inclusion of three new states and 33 new LGAs in the programme area; and (iii) extend the programme completion and loan closing dates by three years. No new expenditure category will be created.

XII. Legal instruments and authority

34. An amendment to the current financing agreement between the Federal Republic of Nigeria and IFAD will constitute the legal instrument for extending the proposed additional financing to the borrower, once it is signed between the two parties.

35. The Federal Republic of Nigeria is empowered under its laws to borrow from IFAD.

36. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

XIII. Recommendation

37. I recommend that the Executive Board approve the proposed additional financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan under blend terms to the Federal Republic of Nigeria in an amount equivalent to eighty-nine million, one hundred thousand United States dollars (US$89,100,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Appendix I Updated Logical Framework Incorporating Additional Financing

Results Hierarchy	*Indicators Name*	*Baseline*	*Design Target*	*End Target (Current)*	*End Target with AF*	*Status of Performance as at MTR*	*Means of Verification*			*Assumptions*
							Source	*Frequency*	*Responsi-ble*	
Outreach	Individuals receiving programme services (men/women)	0	17 489[3]	53 480[4]	100 000[5]	34 957[6]	Progress Reports SM Reports MTR PCR Baseline	Periodic Annual	PMU	Farmer Organizations are functional
	Estimated number of household members ***- CORE 1.b***	0	108 800	320 880	600 000	351 636	Progress Reports SM Reports MTR PCR Baseline	Periodic Annual	PMU	Farmer Organizations are functional
<u>Project Goal:</u> Rural poverty reduced food security increased and accelerated economic growth achieved on a sustainable basis	HH below the poverty line in target LGA (below US$ 2.00/day)	100%	15%	15%	20%	NA – until impact study is conducted	Progress Reports SM Reports MTR PCR Baseline	Twice per programme life	PMU	Government continue to support the import substitution policy on cassava and rice value chains
<u>Programme Development Objective</u>: Incomes and food security of poor rural HH engaged in production processing and marketing of rice and cassava in the targeted LGAs of the 6 targeted states enhanced on a sustainable basis	% of VCDP supported beneficiaries (smallholder farmers processors and marketers) have increased their real agricultural income (by average 25%)	0%	50% of 104 880	50% of 320880	50% of 600 000	53% beneficiaries increased their income by 74%	Baseline Supervision mission report Impact Survey. PCR.	Periodic Annual	PMU	Government continue to support the import substitution policy on cassava and rice value chains
	% increase in number of HH asset index	0%	10%	10%	10%	NA – until impact is conducted	Baseline Supervision mission report Impact Survey. CR.	Periodic Annual	PMU	Government continue to support the import substitution policy on cassava and rice value chains
	% reduction in prevalence of child malnutrition	NA	25%	25%	30%	NA – until impact study is conducted	Baseline Supervision mission report Impact Survey. PCR.	Periodic Annual	PMU	There is policy support for HH use of fortified cassava variety and consumption of micro-nutrients

[3] 15,000 Producers, 1680 processors, 800 traders, which is 17480 direct HH beneficiaries or 108,880 persons at 6 persons/HH
[4] 45,000 Producers, 7680 processors and 800 traders, which is 53,480,000 direct HH beneficiaries or 320880 at 6 persons/HH
[5] 91,000 producers, 8000 processors, 1,000 traders, which is 100,000 direct HHs beneficiaries or 600,000 persons at 6 persons/HH
[6] 34,957 comprising 24,000 farmers and 3,710 processors and 7,247youth in agri-enterprise

Results Hierarchy	*Indicators Name*	*Baseline*	*Design Target*	*End Target (Current)*	*End Target with AF*	*Status of Performance as at MTR*	*Means of Verification*			*Assumptions*
Outcome 1.1: **Increased value addition and access to markets realized by beneficiary smallholder farmers as well as small and medium-scale processors**	No of supported rural enterprises or smallholders reporting an increase in profit – ***Core 2.2.2***	0	10 000	40 000	70 000	32 000	Off-takers VCDP Report	Periodic Annual	PMU	Government continue to support the import substitution policy on cassava and rice value chains; Offtakes are available
	% of cassava and rice produced by smallholder farmers sold to markets	0	75%	75%	80%	70% produce is marketed for rice and 40% for cassava	Off-takers VCDP Report	Periodic Annual	PMU	Government continue to support the import substitution policy on cassava and rice value chains
	% of farmers and processors accessing value-chain financing	0%	NA	NA	60 % of 99 000 (59 400)	New indicator to mainstream financial inclusion	Off-takers VCDP Report	Periodic Annual	PMU	Financial products adapted to target groups; and Favourable policy climate exit for the Value chain actors to invest
Output 1.1.1 **Improved market linkage and increased market information**	No of smallholders using market information	25	32 080	32 080	50 000	5 994	VCDP Reports		PMU	Private sector and Government continue to support MIS
Outcome 1.2: Demand-driven infrastructure investments for improved access to markets realized and sustainably managed by the beneficiary organizations	No or market processing or storage facilities constructed or rehabilitated – ***CORE 2.1.6***	0	108	108	148	20	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Service providers (constructors) are available in the programme area.
	% of smallholders adopt improved processing & storage technique	0%	50	50%	60%	70%	Baseline Supervision mission reports Impact Survey. CR.	Periodic Annual	PMU	Improved processing technologies are continue to be available and affordable
	No of processing groups reporting improved processing facilities – ***CORE 2.2.6***	0	450	450	515	129 (27 market facility and 102 commodity stores)	VCDP Reports SM mission reports Impact Survey. CR.	Periodic Annual	PMU	Service providers (constructors) are available in the programme area.
Output 1.2.1 Enhanced and sustainable access to rural infrastructure	Km of market road constructed or rehabilitated	0km	120	300	420	135 KM	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Service providers (constructors) are available in the programme area.
	No of Drinking water systems constructed or rehabilitated	0%	108	108	158	32 Drinking water points	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Water table allows for the sinking of boreholes

Results Hierarchy	Indicators Name	Baseline	Design Target	End Target (Current)	End Target with AF	Status of Performance as at MTR	Means of Verification			Assumptions
	% of targeted processors (18cluaters/state) have been supported with at least one piece of equipment	0%	60% of 108 clusters (65)	60% of 108 (70)	65% of 162 (105)	54% (58)	Baseline Supervision mission reports Impact Survey. CR.	Periodic Annual	PMU	Improved processing technologies are continue to be available and affordable
	No of market processing or storage facilities constructed or rehabilitated	0	450	450	515	129 (27 market facility and 102 commodity stores)	VCDP Reports SM mission reports Impact Survey. CR.	Periodic Annual	PMU	Service providers (constructors) are available in the programme area.
	No of processors trained in recommended technologies	255	1680	7 680	8000	3 710 processors trained	VCDP Reports SM mission reports Impact Survey. CR.	Periodic Annual	PMU	Service providers (constructors) are available in the programme area.
Outcome 2.1: Farmers' organizations (FOs) in programme areas effectively serve their members	No of Target FO legally registered with the Department of Cooperatives	558	750	2 250	4 550 (20 farmers/ group)	3036 cooperatives registered	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Enabling policy environment that supports farmers registration
	No of Supported FOs strengthened and keep good record strong business plans generating profit linked to finance etc.	0	750	2250	4550	NA- until PY5	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Availability of skilled service providers
Output 2.1.1: Capacity of FOs strengthened	No of supported rural producers' organizations members reporting new or improved services provided by their organization[7] ***CORE 2.2.4***	0	750	2 250	4550	1748 FOs	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Presence of credible input dealers to provide the service
	No of rural producers' organizations supported ***CORE 2.1.3***	558	750	2 250	4450	1748 FOs	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Availability of skilled service providers
	No of farmers trained in crop production practices and technologies	996	15 000	45 000	63 700 (70% of 91000 farmers)	24 000 farmers	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Experienced service providers are exist

[7] The services include, good governance training for group leaders, business planning, good agronomic practices, etc.

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	(RIDE for ORMS: 1.1.4)									
Outcome 2.2: Production and productivity of smallholder rice and cassava farmers in the programme areas increased (MT)	Irrigated land developed and cultivated during the dry season (Ha)	362ha	3 000	3 000	4 400	1562 hectares	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Experienced service provider are available; and government policy continue to support import substitution for rice
	% Increase in yields for irrigated rice per ha FROM 2mt/ha baseline	2MT/ha (Rice) 10mt.ha (cassava)	4MT (100%)	4 MT (100%)	5MT (150%)	4.5mt (80%)	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Yield enhancing varieties are available
	% increase in rice and cassava produced by target smallholder farmers (separated by male female and youth)	NA	20mt (50%)	20mt (50%)	20mt (60%)	25mt (52%)	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Yield enhancing varieties are available
	NO of Target FOs have adopted at least one technology promoted by the programme	558	525 (70% of 750)	1575 (70% of 2250)	3185 (70% of 3185	888 FOs (17 750 farmers)	VCDP Reports SM mission report Impact Survey. CR.	Periodic Annual	PMU	Improved processing technologies are available and affordable
	% of beneficiaries are provided with targeted support to improve their nutrition	0%	NA	NA	50%	New indicator to mainstream nutrition	VCDP Reports SM mission report Impact Survey. CR.	Annual		Available of nutrition fortified varieties; Stable political/ macroeconomic environment
	% of poor smallholder farmers are supported in coping with the effects of climate change	0%	NA	NA	70% of 91 000 (70 000)	New indicator to mainstream climate change	VCDP Reports SM mission report Impact Survey. CR	Annual		There is policy support to climate change adaptation; Agricultural insurance schemes are available; Successful public – private - partnership