President’s report

Proposed loan and grant to the Federal Republic of Nigeria for the Rural Microenterprise Development Programme

For: Approval
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Abbreviations and acronyms

- **MSME**: micro-, small and medium enterprise
- **NEEDS**: National Economic Empowerment and Development Strategy
- **FMAWR**: Federal Ministry of Agriculture and Water Resources
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Federal Republic of Nigeria for the Rural Microenterprise Development Programme, as contained in paragraph 35.
**Map of the programme area**

Rural Micro-Enterprise Development Programme (RUMEDP)

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.

Map compiled by IFAD
Federal Republic of Nigeria

Rural Microenterprise Development Programme

Financing summary

Initiating institution: IFAD
Borrower: Federal Republic of Nigeria
Executing agency: Federal Ministry of Agriculture and Water Resources
Total programme cost: US$57.9 million
Amount of IFAD loan: SDR 26.9 million (equivalent to approximately US$42.76 million)
Amount of IFAD grant: SDR 260,000 (equivalent to approximately US$0.4 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
State and local governments: US$8.4 million
Contribution of beneficiaries: US$0.3 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Proposed loan and grant to the Federal Republic of Nigeria for the Rural Microenterprise Development Programme

I. The programme
A. Main development opportunity addressed by the programme
1. The Federal Government of Nigeria in its National Economic Empowerment and Development Strategy (NEEDS) of 2005 identified the development of micro-, small and medium enterprise (MSME) as a key instrument for addressing poverty and economic growth. In July 2007, a National Policy for Micro-, Small and Medium Enterprises was launched to promote the growth of these institutions. The proposed Rural Microenterprise Development Programme will assist in strengthening the above policy and institutional frameworks and support the country in its pursuit of rural poverty alleviation by orienting the national microenterprise development strategy towards rural areas. The programme seeks to take advantage of opportunities available to boost rural microenterprises to improve off-farm incomes and livelihoods of poor households, particularly those with limited or no access to agricultural land.

B. Proposed financing
   Terms and conditions
2. It is proposed that IFAD provide to the Federal Republic of Nigeria a loan in the amount of SDR 26.9 million (equivalent to approximately US$42.76 million), on highly concessional terms, and a grant in the amount of SDR 260,000 (equivalent to approximately US$0.4 million) to help finance the Rural Microenterprise Development Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

   Relationship to the IFAD performance-based allocation system (PBAS)
3. The allocation defined for Nigeria under the PBAS is US$42.76 million over the 2005-2007 allocation cycle.

   Country debt burden and absorptive capacity of the State
4. The Paris Club agreed to restructure Nigeria’s debt in October 2005. As a consequence, the Government benefited from the writing-off of US$18 billion in debt, bringing national debt from US$35.9 billion down to US$6.1 billion.¹ The country has put in place necessary macro-economic policies, undertaken a reform of the financial sector and improved its debt management. These measures should restore macro-economic stability, and promote sustainable growth and poverty reduction. Moreover, the country has recently called upon IFAD to increase its funding of the rural sector in Nigeria in order to assist the Government in tackling rural poverty.²

   Flow of funds
5. The lead implementing agency – the Federal Ministry of Agriculture and Water Resources (FMAWR) – will open a special account in a commercial bank satisfactory to IFAD. IFAD will disburse its authorized allocation in foreign currency and upon request from an authorized representative of the borrower. FMAWR will open a programme account to receive funds from the special account in local currency every six months to meet programme costs. Funds will be made available to implementing agencies, based on approved annual workplans and budgets, from the

¹ Source: Nigeria Country Profile 2007, Economics Intelligence Unit.
² Meeting of IFAD President with the Federal Minister for Finance of Nigeria in Washington, D.C., on 22 October 2007.
programme account. The special account will be replenished based on IFAD’s procedures for operating special accounts.

Supervision arrangements
6. The programme will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies
7. No exceptions are foreseen.

Governance
8. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) a national steering committee comprising representatives from the public and the private sector will be responsible for programme oversight, which will include the review and approval of the annual work plans and budgets, and the preparation of progress reports, monitoring reports, and annual audit reports; (ii) procurement of goods and services will be carried out on a competitive basis; (iii) major expenditures will go through internal audit procedures; (iv) programme accounts will be audited by independent auditors; and (v) beneficiaries will be fully involved in decision-making processes including budget preparation and approval, annual implementation review, policy discussions and reviews, and monitoring and evaluation.

C. Target group and participation
Target group
9. The target group will be made up of vulnerable poor people living below the poverty line, consisting mainly of woman-headed households, unemployed young people from vulnerable families, and the physically challenged. Direct beneficiaries are estimated at 67,000 households (or 403,000 people). Over the eight-year implementation period, it is expected that about 28,000 new and existing enterprises will be supported. Overall, an estimated total of 123,000 households or 740,000 people will directly and indirectly benefit from the programme.

Targeting approach
10. In accordance with the IFAD Policy on Targeting, a two-pronged targeting approach will be adopted: area targeting and intra-community targeting. The programme area selection criteria give priority to states with a high incidence of poverty. Within those states, the poorest groupings of local government areas are selected, and, in turn, the poorest communities that inhabit them. Participatory intra-community targeting will then allow the communities themselves to identify their neediest members.

Participation
11. Participation will be built into the programme at all levels. The development of business development service centres will be a responsibility shared by the federal government, state and local governments and private sector institutions. Target communities, NGOs and members of business organizations will collaborate with FMAWR to benefit from and develop community-based business information centres. The target group will be closely involved in generating suitable technology for rural microenterprises.

D. Development objectives
Key programme objectives
12. The overall objective is to improve the incomes, food security and livelihoods of rural poor households particularly those with limited or no access to agricultural land. The programme seeks to reach this objective through the development of sustainable off-farm rural microenterprises.
Policy and institutional objectives
13. The programme will strengthen the policy and institutional framework for the development of MSMEs, and orient it towards serving the rural microenterprise sector more effectively. It will promote public-private partnership, enhance access to finance, and generate and disseminate suitable technologies for the development of rural microenterprises.

IFAD policy and strategy alignment
14. The programme is in line with the IFAD Strategic Framework 2007–2010, in particular, with the strategic objectives aimed at empowering the rural poor to take advantage of a broad range of financial services and opportunities for rural enterprise development. The programme is also in line with the country strategic opportunities paper for Nigeria approved in 2001.

E. Harmonization and alignment
Alignment with national priorities
15. The programme is consistent with the national development priorities of promoting the development of micro-, small and medium enterprises, raising agricultural productivity and enhancing employment opportunities. Similarly, it supports the Government’s policy of privatization and fostering public–private partnership (as embodied in the NEEDS I and NEEDS II strategies) and the National Policy for Micro-, Small and Medium Enterprises.

Harmonization with development partners
16. The programme provides the opportunity to collaborate with a variety of development partners and share experiences in rural microenterprise development. The programme builds on the experience gained under the Performance-Based Contract for Maximizing Agricultural Revenue and Key Enterprises in Targeted Sites (MARKETS) financed by the United States Agency for International Development (USAID), and the Promoting Pro-Poor Opportunities through Commodity and Service Markets funded by the United Kingdom’s Department for International Development (DFID) in value chain development. Experience has also been built up in the use of development funds (by USAID through the special activity fund and DFID through the stakeholders innovation fund) to promote innovative development efforts with potential for wide applicability. The experience gained by the German Agency for Technical Cooperation (GTZ) in the development of service providers in the rural areas will also be useful to the proposed programme. In addition, the programme will take advantage of the presence of the United Nations Industrial Development Organization (UNIDO) and its programmes in the country.

F. Components and expenditure categories
Main components
17. The programme has four components: (i) capacity-building, policy dialogue, and monitoring and evaluation; (ii) rural microenterprise business development services; (iii) upgrading of rural microenterprise value chain technology; and (iv) establishment of a rural microenterprise development fund.

Expenditure categories
18. There are six expenditure categories: (i) vehicles, equipment and materials (US$3.3 million); (ii) technical assistance, surveys, studies and contracted support providers (US$4.0 million); (iii) training and workshops (US$5.8 million); (iv) development fund (US$15.1 million); (v) salaries and operating costs: (a) salaries (US$7.8 million) and (b) operating costs (US$2.4 million); and (vi) unallocated (US$4.3 million).
**G. Management, implementation responsibilities and partnerships**

**Key implementing partners**

19. The programme lead agency will be FMAWR. The key partner is the Federal Ministry of Trade and Industry.

**Implementation responsibilities**

20. FMAWR will coordinate programme implementation including financial management and control. The oversight functions at the national and state levels will be carried out by a national steering committee and state coordinating committees respectively. Service providers, including NGOs, will provide training and business development services. The relevant research institutes, manufacturers of machinery and equipment and the beneficiaries will collaborate to disseminate suitable technologies for rural microenterprises. The Federal Ministry of Agriculture and Water Resources will contribute to linking the programme with ongoing agriculture and rural development programmes/projects to create synergy and forward and backward linkages with the agricultural sector.

**Role of technical assistance**

21. An internationally recruited chief technical adviser will assist FMAWR for 15 months with overall planning; development of training materials; recruitment of local service providers and short-term consultants for business development services; expediting programme start up; and the design of monitoring and evaluation systems.

**Status of key implementation agreements**

22. Apart from the programme financing agreement between IFAD and Federal Republic of Nigeria, the borrower will enter into a lead subsidiary loan agreement(s) and will sign separate agreements with participating state governments, participating local government councils, and communities to establish modalities of operation and affirm their financial commitments. It will also procure the service providers that will provide business development services and training. FMAWR will sign an agreement with the Central Bank of Nigeria for the management of the credit guarantee fund.

**Key financing partners and amounts committed**

23. The principal financier is IFAD, with a contribution US$43.2 million comprising a loan of US$42.76 million and a grant of US$0.4 million (74.6 per cent); the Federal Government will provide US$6.0 million (10.4 per cent); the participating states and local government councils will contribute US$8.4 million (14.5 per cent) and beneficiaries will contribute US$0.3 million (0.5 per cent).

**H. Benefits and economic and financial justification**

**Main categories of benefits generated**

24. The programme benefits will include: (i) expansion of rural microenterprises; (ii) rural employment generation; (iii) capacity-building of public and private sector institutions to provide business development services; (iv) improved technologies for rural microenterprise development; and (v) better access to finance.

**Economic and financial viability**

25. The financial analysis of 16 typical rural microenterprises has established that beneficiaries will have on average a return to labour of at least five times the opportunity cost of labour in rural areas. The economic internal rate of return has been estimated at 15.5 per cent.
I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. Key features of knowledge management arrangements are: (i) collection and dissemination of a wide variety of information (on production, market, technology and policy) through community-based business information centres, and rural information and communication technology networks; (ii) annual implementation review workshops to examine progress and share implementation experience; (iii) exchange visits within and outside the country; and (iv) annual policy review workshops involving development partners to share knowledge.

Development innovations that the programme will promote

27. The following key innovations will be promoted: (i) access to local and international information on business, markets, and technology through rural information and communication technology networks; (ii) adaptation of technologies to suit rural microenterprise needs and ensure viability; (iii) rural-urban-international market linkages and rural market infrastructural development through public-private investments; and (iv) promotion of access to credit through risk-sharing on technical and credit aspects.

Scaling-up approach

28. Scaling up will be enhanced by: (i) improving the capacity of private and public institutions to provide business development services; (ii) sharing of experience among private and public agencies, and development partners to promote replication; and (iii) promotion of viable rural microenterprises with diversification of products to meet market demand.

J. Main risks

Main risks and mitigation measures

29. The main risk is that the outputs of rural microenterprises will be in little demand as a result of poor product quality and limited market access. To mitigate this, enterprises will be market-driven; the quality of products will be enhanced through technical training, the updating of production technologies and development of quality assurance and certification processes; and market linkages will be improved. This risk will be further mitigated by active support to the linkage between financial and non-financial services in rural areas, the sharing of credit risks through a credit guarantee scheme under the programme, and enhancing enterprise productivity through adoption of suitable technology. Other features of the programme are intensive capacity-building of private and public institutions, use of experienced private-sector service providers; and the limiting of public institution support to areas where they have demonstrated good capacity.

Environmental classification

30. Pursuant to IFAD’s environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. Sustainability will be assured through the following measures: (i) ensuring full participation of the key stakeholders in planning, implementation, monitoring and evaluation; (ii) building the capacity of private/public institutions to provide business development services and technical support; (iii) fully integrating the programme within the existing national institutional and policy framework and promoting the collaboration of key institutions with a mandate and capacity for the development of rural microenterprises; and (iv) supporting viable enterprises that will enhance the income of poor people and their ability to pay for services.
II. Legal instruments and authority

32. A programme financing agreement between the Federal Republic of Nigeria and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. Important assurances expected to be achieved during the programme financing agreement negotiations are attached as an annex.

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

34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the Federal Republic of Nigeria in various currencies in an amount equivalent to twenty six million nine hundred thousand special drawing rights (SDR 26,900,000) to mature on or prior to 1 September 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Federal Republic of Nigeria in various currencies in an amount equivalent to two hundred and sixty thousand special drawing rights (SDR 260,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President
Important assurances included in the initialled programme financing agreement

(Negotiations were concluded on 3 September 2009)

**Gender**
1. The Government of the Federal Republic of Nigeria (the Government) will ensure that gender concerns are integrated into all programme activities during programme implementation.

**Pest management**
2. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

**Contribution of participating States and local government councils (LGCs)**
3. The Government will ensure that participating States and LGCs provide necessary financial support to strengthen the delivery of services for MSMEs development particularly rural micro enterprises and other agroenterprises.

**Technology assembly**
4. The Government will set up in the National Centre for Agricultural Mechanisation (NCAM) a technology assembly with membership inclusive of representatives of the Federal Ministry of Science and Technology, relevant research institutions, government agencies, business member organizations and industries. The assembly will be responsible for technology, standardization and certification, the establishment of necessary regulatory services and the monitoring process, and will put in place the policy and legal framework for the functioning of the system before programme year 4.

**Monitoring and evaluation**
5. The Government will ensure that a strong monitoring and evaluation arrangement be established to measure efficiency of implementation and the impact of the programme on poverty alleviation.

**Linkages with development programmes**
6. The Government will ensure linkage of programme implementation with other development programmes.

**Baseline study**
7. The Government will ensure that a baseline study is conducted and results made available to IFAD by or before the first programme year.

**Accounts**
8. The Government will ensure that each implementing institution keep an independent account to record all transactions under the programme. The format of accounts will be standardized and agreed by the Government and IFAD.

**Tax exemption**
9. The Government will exempt from taxes all imported items and services financed by the loan and grant. To this end, the Government will make budgetary provisions or will provide exemptions from payment of taxes. The Government will ensure that invoices in relation to expenditures clearly show the amount net of taxes to be paid from the loan and grant.
Insurance of programme personnel
10. The Government will insure key programme personnel against health and accident risks to the extent consistent with sound commercial practice.

Use of programme vehicles and other equipment
11. The Government will ensure that:
   (a) All vehicles and other equipment procured under the programme are allocated for programme implementation;
   (b) The types of vehicles and other equipment procured under the programme are appropriate to the needs of the programme; and
   (c) All vehicles and other equipment transferred to or procured under the programme are dedicated solely to programme use.

Fraud and corruption
12. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the programme of which it has knowledge or becomes aware.

Suspension
13. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and grant account if:
   (i) Cooperation among the lead programme agency, other programme parties and implementing partners required to ensure achievement of the programme objectives has not been or is not being facilitated to the reasonable satisfaction of IFAD and the Government.
   (ii) The programme coordinator has been removed from the programme without the prior concurrence of IFAD.
   (iii) IFAD, after consultation with the Government, has determined that the material benefits of the programme are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.
   (iv) The subsidiary loan agreement(s), or any provision thereof, has(ve) been violated or waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the programme.
   (v) The microenterprise development fund memorandum of understanding (MEDF MOU), or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the implementation of the programme.
   (vi) Any microfinance bank/microfinance institution memorandum of understanding (MFB MOU/MFI MOU), or any provision thereof, has been violated or has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the programme.
   (vii) The programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver,
suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.

(viii) Any competent authority has taken any action for the dissolution of the lead programme agency or the suspension of its operations.

(ix) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD.

(x) Procurement has not been or is not being carried out in accordance with the programme financing agreement.

(b) Notwithstanding the above, if the audit required by the programme financing agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the loan and grant account.

Conditions precedent to withdrawal

14. (a) Following the initial withdrawal of US$400,000 referred to in the programme financing agreement, no withdrawals will be made from the loan account and the grant account until (i) the programme implementation manual and the financial administration and accounting manual for the lead programme agency have been approved by IFAD and adopted by the national steering committee substantially in the form approved by IFAD; (ii) the first draft annual workplan and budget including the first procurement plan has been submitted to IFAD; (iii) the Government has made the initial deposit of counterpart funds into programme account B in accordance with the programme financing agreement; (iv) the subsidiary loan agreements with no less than two participating states and the LGC MOUs with the respective six LGCs have been approved by the Fund in draft and a signed copy of such agreements has been delivered to IFAD, and all conditions precedent to the effectiveness thereof have been fulfilled; and (v) a computerized accounting system has been set up for the operations of the programme support unit (PSU).

(b) No withdrawals will be made under category IV (Development Fund) of the allocation table set forth in the programme financing agreement until the MEDF MOU and at least one MFB/MFI MOU have been approved by IFAD in draft; and a signed copy of such agreement has been delivered to IFAD; and all conditions precedent to the effectiveness thereof have been fulfilled.

Conditions precedent to effectiveness

15. The programme financing agreement will become effective subject to the fulfilment of the following conditions precedent:

(a) The national steering committee has been duly established in accordance with the programme financing agreement;

(b) The PSU has been duly established in accordance with the programme financing agreement;

(c) The programme coordinator and financial controller have been selected in accordance with the programme financing agreement and the selections have been approved by IFAD;

(d) The special account, the grant bank account and the programme accounts have been duly opened in accordance with the programme financing agreement;
(e) The programme financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;

(f) The Government has delivered to IFAD a legal opinion issued by the Federal Ministry of Justice in form and substance acceptable to IFAD.
Key reference documents

Country reference documents
National Economic Empowerment Development Strategy (NEEDS), National Planning Commission, March 2005

IFAD reference documents
Country Strategic Opportunity Paper (COSOP), October 2001
Appraisal report & Working documents – Rural Finance Institution-Building Programme (RUFIN), September 2006
Appraisal Report & Working Documents– Community-Based Natural Resources Management Programme, 2003
Appraisal Report & Working Documents – Community-Based Agricultural Development Programme, 2000
IFAD PT Learning Notes
IFAD Manual – Loan and Grants

Other miscellaneous reference documents
WB Country Assistance Strategy for Nigeria, 2005
Assistance project/programme documents from DFID, USAID, FAO, WB, UNDP
UNIDO policy papers on MSMEs Development