

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC3519

Project Name	Nigeria Staple Crop Processing Zones Support Project (P148616)
Region	AFRICA
Country	Nigeria
Sector(s)	Crops (35%), Agro-industry, marketing, and trade (25%), Transmission and Distribution of Electricity (15%), Rural and Inter-Urban Roads and Highways (15%), Public administration- Agriculture, fishing and forestry (10%)
Theme(s)	Rural services and infrastructure (40%), Rural markets (35%), Rural policies and institutions (25%)
Lending Instrument	Investment Project Financing
Project ID	P148616
Borrower(s)	Federal Republic of Nigeria
Implementing Agency	Federal Ministry of Agriculture and Rural Development
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	12-Jul-2014
Date PID Approved/ Disclosed	14-Jul-2014
Estimated Date of Appraisal Completion	08-Oct-2014
Estimated Date of Board Approval	18-Dec-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Since 2003, Nigeria has continued to record high, sustained economic growth driven by non-oil sector, whereas the performance of the oil sector has slowed down. Over the last decade, reported GDP growth rate has consistently remained between 6 to 8 percent. Key drivers of this strong growth are trade (retail and wholesale), agriculture, and telecommunications sectors. These three sectors alone accounted for about 80 percent of GDP growth during 2009-2012. However, annual GDP growth rate declined from 7 percent in 2011 to 6.6 and 6.4 percent in 2012 and in the first half of 2013 respectively. Growth has slowed in oil and gas, agriculture and trade but growth in the oil sector is slower than in agriculture. The slowdown in agriculture and trade is related to the impact of 2012 flooding which disrupted crop production calendar and growing security problems in some

parts of the country that continues to restrict flows of trade. Oil production has stagnated or declined since 2010 due to increasing oil theft in the Niger Delta, and destruction of pipeline infrastructure. As a result, oil output in the first half of 2013 was about 10% lower than during the same period of 2012.

Rising oil prices ushered in surplus Balance of Payments (BoP) since 2011. Reserves declined however to US\$45 billion between April and early October, 2013, reflecting lower oil output, weaker oil prices, and more cautious attitudes of investors. While these inflows have strengthened Nigeria's balance of payment and reserve position, they also pose major risk because of its vulnerability to shocks or swings in oil prices. Therefore, diversification of the economy is critical if Nigeria is to sustain a strong balance of payment position. The Nigerian Government has achieved significant budget consolidation since 2011, but dwindling oil production outlook presents fiscal uncertainties. Government fiscal consolidation program is yielding results. Government deficit reduced from an estimated 5.7 percent of GDP in 2010 to 1.9 percent in 2012. While oil output appears poised to recover somewhat in the second half of 2013, Nigeria faces an important challenge in that oil revenues are not expected to increase in the medium term at the nearly the pace of GDP or the population of the country, reinforcing the need to deepen significantly other sources of Government revenues.

Nigeria needs effective institutions and good governance to achieve sustainable and inclusive growth. Good governance is critical for improving the effectiveness and efficiency of public expenditures and services. Although, some pockets of effectiveness and capability in actually implementing reform have emerged, as reflected, for example, in the macroeconomic consolidation, consolidation of the banking sector after 2009 crisis, progress in implementing the power sector and the agricultural reforms. Important weaknesses and risks that still need to be addressed include the enforcement of regulations, inter-agency coordination and supervisory capacity.

Sectoral and Institutional Context

The competitiveness of the agriculture value chains and diversification of the productive base of the economy away from oil is a key pillar of the Federal Government's Agricultural Transformation Agenda (ATA). The ATA represents the Government's renewed focus on value addition to targeted commodities for enhanced food security, employment creation and sourcing of raw materials for industries and generally for agriculture to serve as engine for a broad-based economic development in Nigeria. The ATA is designed to focus on self-sufficiency via import substitution, lowering of food costs, increasing real wages and driving down inflation, engendering a rapid transition to an export-oriented agricultural economy. It is also to diversify the economy thereby increasing foreign exchange reserves, stabilizing the exchange rate and significantly increase the level of foreign direct investment (FDI). Key policies and institutional reforms are aimed at: (a) broadening the reach of the fertilizer subsidy program and making it more efficient and business oriented; (b) improving the investment framework through the development of Staple Crop Processing Zones (SCPZs); (c) improving the marketing of agricultural products; (d) promoting investment in productivity-enhancing technologies. In parallel, the Government seeks to expand and improve large-scale dam and irrigation infrastructure which has significant deficiencies that negatively impact agricultural productivity, notably in the North where the bulk of Nigeria's dam and irrigation infrastructure is located.

The agricultural sector is considered an engine of growth capable of generating broad-based development outcomes needed for rapid economic transformation. The sector has been central to Nigeria's poverty reduction and employment generation efforts, and retained this importance in recent times as the largest contributor to non-oil growth (40.2% and 34.5% of GDP in 2011 and in the first quarter of 2012 respectively) and important in overall economic growth as well. Self-

sufficiency and import substitution are explicit policy goals of agricultural development strategies in Nigeria, resulting from the growing and substantial food import bills (US\$ 2 billion) and policy responses (export bans) from a number of exporting countries witnessed during the recent global financial and food price crisis.

The agriculture sector has been growing over the last decade, but not fast enough to meet the food security, employment and poverty challenges. Indeed, in recent years, food imports have been growing at a faster pace than the population growth (about 11% against, 2.8%), and though the country has met the MDG1 on hunger, still 8.5% of total population were leaving below the minimum level of dietary energy consumption in 2011. Low productivity of major staple crops – measured as average yield per hectare – as a result of very low use of improved inputs, limited access to extension services by farmers) and limited investment by the private sector confine the sector well below its potential for growth. Power and road infrastructure, low-cost and long term financing, access to competitive inputs and supplies, as well as inconsistent policy environment are consistently identified by the private sector as major challenges to their engagement in the sector. Rather than trying to drive the entire agricultural sector forward at the same time as in many past strategy documents, the ATA focuses on a few key first moves – priority food staples and traditional export crops, and intends to develop these for growth and employment creation, with the expectation that the rest of the sector will subsequently follow. Within agriculture, a major driver of growth is staple food crops, which contributed 35.8 percent to the agricultural GDP in 2011. Although in Asia irrigated agriculture was more prominent than in Nigeria, the ATA approach is similar to the Asian Green Revolution (GR) strategy, where an initial focus on import substitution for wheat and rice in high potential irrigated areas led the successful rural transformation that followed. Like the Asian model, the ATA assigns a lead role to the state in driving and orchestrating the strategy within each of the selected value chains, and in using financial incentives and import charges to encourage this growth. Unlike Asia, however, the ATA aggressively promotes private sector-led growth and is relying on public-private partnerships rather than state run marketing and financial institutions.

Relationship to CAS

The proposed SCPZ Support Project is fully aligned with the World Bank group Agricultural Action Plan 2013-2014, and features in the mix of instruments proposed under the New CPS (2014-FY2017). Indeed the WBG new Agricultural Action identifies agricultural productivity, linking farmers to markets, and increasing non-farm income as key areas to put emphasis in order to help countries meet the MDG1, in one hand. In the other hand, the overarching objective of the Bank new CPS is to support the Government's Vision 20:2020 and Transformation Agenda for inclusive economic growth, through a strategic focus on energy and agriculture sectors as cornerstone to help the country reduce poverty and increase shared prosperity. More specifically, and under the first pillar (Federally led structural reforms for growth and jobs), the new CPS aims inter alia at boosting agricultural productivity, improving farmers' linkages with agro-processors, and scaling up Nigeria's resilience to current and future climate variability.

The proposed SCPZ support project would contribute to the achievement of Pillar I of the new Country Partnership Strategy on growth and competitiveness. The CPS recognized that diversified growth and increased productivity is a prerequisite for accelerated poverty reduction and shared prosperity. With the dwindling fortune of the oil sector in Nigeria, agriculture offers a sure pathway to a diversified and sustained economic growth. However, low productivity and lack of competitiveness of the agriculture sector is inextricably linked to poor infrastructure and limited access to the market that increases transaction cost and limit margin to the farmers. This project would therefore contribute to laying foundation for diversified growth by providing critical public

infrastructure necessary for improved market access and to attract private sector investment in agribusiness; a subsector that can offer inclusive and broad development impact.

The Proposed SCPZ support project will be complemented by ongoing and upcoming operations in the World Bank portfolio such as Fadama III/Additional Financing, CADP, WAAPP, RAMP, the irrigation project (TRMING), the Development Financing support project, as well as non-Bank-funded projects supporting ATA (AfDB-ATASP2, IFAD- Cassava and Value chains support project). Those operations are mostly oriented toward improving productivity and ramping up production in the SCPZ catchment areas, critical to improving competitiveness of the processing segment of the value chains, recognizing that addressing the challenge of low productivity in the agriculture sector requires targeted investments in technology, irrigation, rural roads, market information, and increasing access to finance. It will also take advantage of sector reforms initiated under the series of DPOs; with the second operation focusing inter alia on improving the institutional framework and business environment for SCPZ through the preparation of SCZP Policy, legal and Institutional framework to foster a predictable business environment for the private sector.

An effective institution is necessary for managing sustainable and inclusive growth and competitiveness. Governance represented by deficient institutions can explain the under-performance of agriculture sector, and its lack of competitiveness. Governance represents the foundation for the two pillar of the CPS. The CPS emphasized the fact that the ways in which public functions are carried out, public resources are managed and regulatory powers are exercised strongly influence the performance of the main sector actors, the focus of sector policies and their concrete outcomes. The SCPZ project would support an aspect of this by providing institutional development as part of the project design.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project development objective (PDO) is to increase market linkages for farmers and strengthen the institutional framework for inclusive public and private investment in selected agribusiness clusters.

The Project will contribute to the broader objectives of the FGN's SCPZ Program consisting of 'increasing food production and reducing the demand for imports, adding value through processing, reducing cost of doing business for processors, and attracting new investment to create jobs, especially in rural areas, and to drive the economy'. The expansion of the agribusiness- farmer linkage models under the SCPZ program through the right mix of public and private investments will ultimately, improve agricultural productivity, generate shared growth and substantially reduce poverty in rural areas.

Key Results (From PCN)

The mandatory corporate indicator on beneficiaries is as follow: Number of direct beneficiaries (directs: benefiting farmers, workers in the SCPZ processing area, and holders of small and medium businesses along value chains in the SCPZ; disaggregated by gender). Indirect beneficiaries include family members of and beneficiaries from ancillary activities, estimated as the total population in hosting communities.

PDO level results and indicators

- i. Total amount of investment financing brought by private sector into the SCPZ (NGN, \$);
- ii. Increase in sales of agricultural products by project supported farmers within the SCPZ area

(disaggregated by gender).

Intermediate results and indicators (disaggregated by gender as relevant)

- i. Units measurement of infrastructure (power generated, roads constructed, water supplied) constructed or rehabilitated in the SCPZ area;
- ii. Number of agricultural businesses established and operating in with project support ;
- iii. Number of farmers groups with off-take agreement in project intervention areas;
- iv. Number of businesses successfully implemented in the SCPZ with Project support (with the aim at strengthening agribusiness-farmers linkages and creating economic opportunities for the communities along the value chains, disaggregated by gender).

III. Preliminary Description

Concept Description

The concept of the Staple Crop Processing Zones under ATA as proposed by the Federal Government of Nigeria is based on the following three guiding principles: (i) take an integrated approach to the value chain by addressing critical upstream and downstream bottlenecks and facilitating market linkages; (ii) offer a superior operating environment that reduces the cost of doing business, and iii) take a private sector-led approach. The Operating Principles are the following; (i) investment-driven strategic partnerships with the private sector; (ii) integrated value chain approach; (iii) Self-sustaining, government-support and private sector managed.

The SCPZ program aims to channel infrastructure investments to facilitate efficient value chain linkages and reduce the cost of doing business, and improve the competitiveness of Nigeria's agro-industrial production. By creating an enabling business environment around selected value chains clusters, the FGN and State Governments seek to attract private sector investors to set up processing plants in high food production areas, in order to boost import substitution, create wealth opportunities for farming communities, reduce post-harvest losses, create sustainable employment in agro-production, processing and related activities, and drive rapid rural development.

The proposed Project will support the FGN to implement the first model SCPZ and assist in building blocks for its sustainable expansion. The project approach to the Government's SCPZs Program consists of test running the concept gradually in limited number of sites, as an integrated agribusiness supply chain project, with strong farmers –agribusiness linkages aim to overcome the multiple, interlocking constraints in infrastructure provision and productivity growth along agricultural supply chains. Project will focus its support on Cassava supply value chain in Kogi State (at least 70% of project funding), with an open window for limited support in the form of technical assistance for up to three other sites/States with strong business case, and based one following minimum criteria : alignment with Government priority value chains and located in one of the SCPZ sites, existing or ready-to-implement private investment project(s) with sizable financing, high potential for improving agricultural productivity and generating benefits for farmers, strong support of state Government and local communities, existence of other Bank assisted project or partnership with other Donors funded project, and possible IFC intervention.

Project activities will be clustered around the following areas of intervention :

- (a) Support to public infrastructure development for the model SCPZ in Kogi State (around 75% of project total cost) : consists of support to Government to develop off-site infrastructure and subsequently identify and attract private sector investors willing to invest in on-site development,

operations and maintenance of the zone. The Project is also considering to support part of the on-site infrastructure to guarantee minimum utility services (internal roads, water, gas, power) for up to 3 private investment projects (covering up to 40% of the 250 hectares of the core zones).

(b) Support to farmers-agribusiness linkage and to economic opportunities along the value chains (around 15% of total project cost). In coordination with FADAMA III Additional Financing (FADAMA III AF) and other relevant operations in the portfolio, the project will provide support to link farmers, SMEs and communities in the catchment areas with the processing units as follows: (i) Improving Farmers productivity: the project will work with agro-processors to develop off-take agreements with farmers , aimed at structuring their organizations, and facilitating their access to inputs and services, such as financing, extension, mechanization, land clearing, equipment and small scale production and marketing infrastructures, grading, quality and standards, as well as skills development. Project will partner with Fadama III Additional Financing which will provide on-farm support to assist farmers deliver on the contracts; (ii) Promotion of economic opportunities for the community: The Project will establish a matching grants scheme to support activities aim at strengthening agribusiness farmers linkages which could create jobs and increase income for the communities, thus contributing to reducing poverty in the project intervention areas. This will include support to women and youths and their groups, promoting development of mechanization services, transport, application of chemicals, business planning for SMEs, training , financial literacy, and ancillary activities of the value chains.

(c) Institutional development in SCPZ (around 10% of total project cost): (i) Structuring of PPP for zone development, operation and maintenance: project will provide support for the establishment of a Specific Purpose vehicle (SPV) with a Board inclusive of all relevant stakeholders (Federal Government, State Government, Local Government, Developer, and Tenants). It is envisioned that the PPP transactions will result in specific contracts between the SPV and private investors; (ii) Land and safeguards management: for appropriate management of farm land allocation to the nucleus farms and for coordinated implementation of the SCPZ Master Plan in the catchment areas, the project will assist the State Government in developing responsible land allocation and management procedures following World Bank and international guidelines and standards, as well as adequate instruments and M&E system for environmental and social safeguards; (iii) Technical assistance to FMARD: The proposed Project will provide institutional support to FMARD and the SCPZ-Authority being established to regulate the SCPZS, in terms of technical assistance (TA), training, and experience sharing of best practices from across the world, and for scaling up the program to other sites based on lessons learnt from the pilot SCPZ in Kogi State; (iv) Technical assistance selected States for development of agribusiness clusters: Specific TA might include market assessment, SCPZ detailed feasibility studies, attracting private investor and structuring PPP, promotion of the program within the country and abroad, etc. The project will also support FMARD to support selected States, and upon their request, in developing their SCPZ projects.

(d) Project coordination: dedicated project management and coordination structure will set up and early as before negotiations, to initiate the implementation of the project and until the SCPZ institutional framework is established and fully operational.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x
Forests OP/BP 4.36			x
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37	x		
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	300.00	Total Bank Financing:	100.00
Financing Gap:	165.00		
Financing Source			Amount
BORROWER/RECIPIENT			35.00
International Development Association (IDA)			100.00
Total			135.00

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