

## Value Chain Development Programme (VCDP) Partnership with Olam

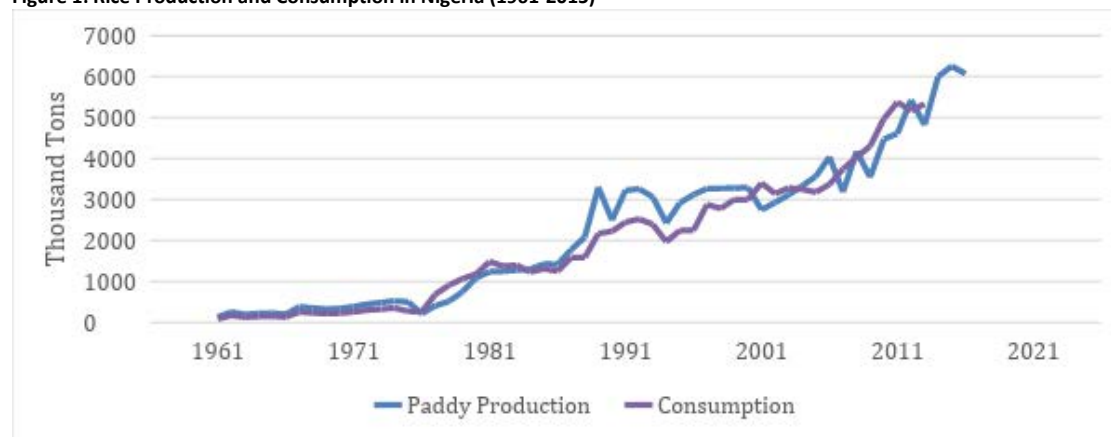
### Project Summary

The Value Chain Development Programme (VCDP) is a development initiative of the Federal Government of Nigeria along with IFAD and the private firm Olam. The Programme aims to utilize private investment in the agricultural sector in order to increase efficiency and alleviate poverty. Olam, a large multinational agricultural firm, made key productive capacity investments and agreed to purchase rice produced by farmers at the prevailing market prices. Olam benefitted from the partnership by gaining access to a consistent and high-quality source of rice. Local farmers benefited from the infrastructure investments made by the public sector, multilateral partners, and the private sector. Due to the substantial success of the project, there are currently ongoing talks to expand the scale and scope of the programme to other regions of Nigeria to include additional agricultural products.

### Rice Production in Nigeria

Rice consumption in Nigeria has been increasing over time and much of the increase is supplied by imports. Between 2012 and 2015, the country imported 2.41 billion USD worth of rice in order to meet expanding consumption. Despite increasing imports, Nigeria has the capacity to be a net exporter of rice. However, rice is not a traditional crop in most of the country and so production often fails to even meet domestic demand which is expanding rapidly (see Figure 1). The Nigerian Government has sought ways to improve productive capacity in rice production in order to become a net exporter in the future.

Figure 1: Rice Production and Consumption in Nigeria (1961-2015)<sup>1</sup>



Source: CGIAR Research Program on Rice<sup>2</sup>

With this in mind, the Federal Government of Nigeria and IFAD established the Value Chain Development Programme (VCDP) in 2015. The goal of the 6-year program is to improve cassava and rice value chains for small farmers in the states of Anambra, Benue, Ebonyi, Niger, Ogun and Taraba in Nigeria. In doing this, the programme hopes to reduce rural poverty, increase food security and accelerate economic growth on a sustainable basis.<sup>3</sup> The programme utilizes a market-led approach that hinges on private sector participation to leverage investment and knowledge to drive improved productivity in rice and cassava cultivation while continuing to promote commercially oriented smallholder farming practices.<sup>4</sup>

<sup>1</sup> Data on consumption is only available through 2013.

<sup>2</sup> Consultative Group for International Agricultural Research (n.d.). Nigeria Basic Statistics. Obtained on 18-04-2018 from <http://ricepedia.org/nigeria>

<sup>3</sup> Value Chain Development Program (2015). Who we are. Obtained on 18-04-2018 from [http://vcdpnigeria.org/?page\\_id=9](http://vcdpnigeria.org/?page_id=9)

<sup>4</sup> IFAD (n.d.) Performance of VCDP/Olam Partnership in Nigeria in 2017 Cropping Season.

Olam is a private partner of the VCDP programme, a leading agri-business that operates in 70 countries,<sup>5</sup> and has a track record of establishing commercial relationships with smallholder farmers.<sup>6</sup> Furthermore, Olam also has long history of investing in Nigerian agriculture and estimates that it has invested over 1 billion USD.<sup>7</sup>

The partnership agreement between VCDP and Olam provides smallholder rice farmers with access to a reliable and profitable market for their produce, and in turn stimulates productive investments at the farm level. The partnership involves commitments from Olam, IFAD, the Nigerian government and the farmers (individually and as a collective).

## Partner Obligations

Olam provides 15% of inputs to farmers on credit which is repaid with future sales, and is in charge of distributing inputs.<sup>8</sup> Olam commits to purchasing 75% of the rice paddy (leaving the remaining 25% for local consumption) and guarantees payment to farmers upon delivery within 48 hours through direct transfers to farmer bank accounts. Utilizing direct transfers incentivizes the use of the banking system among small-scale farmers. Olam also agreed to construct rice collection depots within a minimum of 25 km of farmers.

The Nigerian government acts as a facilitator and coordinator of various interventions funded by the project to facilitate farmers and provide farmer services, and also acts as a supervisor to ensure that funds are utilised for the intended purposes.<sup>9</sup> The Government also provides support through a 50% grant to farmers on all inputs for the first two years of the programme, and links farmers with the Nigeria Agric Insurance Company to provide insurance to farmers.

IFAD coordinates the commodity alliance forum, a platform for the farmers and Olam to discuss issues related to the partnership including pricing, services and financing.<sup>10</sup> IFAD also provides technical assistance and is responsible for the supervision and implementation of project and infrastructure funding.<sup>11</sup>

Farmers agree on a number of product tracking agreements as part of the partnership. Specifically, farmers must meet the quality and quantity standards of the off-taker (Olam). Furthermore, the farmer collective agrees to track the rice paddy movement of their members to prevent side-selling. Lastly, farmers agree to attend the farmer collective meetings and to be part of the pricing committee.

<sup>5</sup> Olam (2018). Home page of the Olam website. Obtained on 18-04-2018 from <http://olamgroup.com/>

<sup>6</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>7</sup> Vanguard (2018). Olam invests \$1b in Nigeria's agric sector. Obtained on 18-04-2018 from <https://www.farmlandgrab.org/post/view/27965-olam-invests-1b-in-nigerias-agric-sector>

<sup>8</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>9</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>10</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>11</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

## Project Financing

The breakdown of public and multilateral funding is presented in Table 1.<sup>12</sup>

Table 1: Breakdown of public and multilateral funding<sup>13</sup>

| Entity                      | Amount in millions of USD                 |
|-----------------------------|---|
| IFAD                        | \$74.85 (loan: \$74.38 and grant: \$0.47) |
| National Government         | \$15.60                                   |
| Domestic Beneficiaries      | \$8.07                                    |
| External Co-financing Total | \$6.21                                    |
| Total financing             | \$ 104.73                                 |

Olam's most important financial contribution to the partnership is to guarantee the prevailing market price for farmerz. In addition to this guarantee, Olam also committed to provide physical infrastructure investments.

Table 2: Breakdown of Private (Olam) Expenditure in USD million<sup>14</sup>

| Infrastructure                              | Amount in millions of USD |
|---|---------------------------|
| Olam Mill capex                             | \$ 31.00                  |
| Mill Capacity expansion (planned for 2019)  | \$ 25.00                  |
| Overheads                                   | \$ 0.37                   |
| Logistics (warehouses, transportation etc.) | \$ 0.43                   |
| Loans to farmers (input credits)            | \$ 0.21                   |
| Total private infrastructure Investment     | \$ 57.01                  |

## Outcomes and Key Takeaways

The VCDP has shown remarkable growth since its inception. The partnership began in 2015 with only 30 farmers on a pilot basis, and expanded to 1,349 participating farmers in 2016, and 4,976 participating farmers in 2017. Olam has purchased more than 25,200 MT of rice paddy from smallholder farmers and paid \$9.8 million USD in exchange. In total 25,000 people in remote villages benefited from selling their produce to Olam.<sup>15</sup> The partnership also created 3,795 jobs beyond farming, mainly for youth and women in value chain enterprises.

Due to the success of the project, there are currently discussions to expand the programme to additional regions of Nigeria and to different crops. This possible expansion highlights the success of the program, but also its scalability.

<sup>12</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>13</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>

<sup>14</sup> IFAD Personal communication in April, 2018.

<sup>15</sup> IFAD (2017). Value Chain Development Programme (VCDP) Supervision report. Main Report and appendices. West and Central Africa Division Programme Management Department, 28-08-2017. Obtained on 18-04-2018 from <https://operations.ifad.org/documents/654016/e186f287-8f12-4738-9499-9b89093e5f0a>