

Promoting Pro-Poor Opportunities in Commodity and Service Markets in Nigeria (PrOpCom)

Purpose:

Making agricultural markets work better for the poor in Nigeria.

Dates:

Designed in mid 2003, implementation did not commence till January 2005. The long delay in approval was caused by the programme budget exceeding the authority limit of the head of office. At higher levels, there was concern over the high risk of implementing the MMW4P approach in a country with as challenging an environment as Nigeria.

Funding:

DFID has contributed £15 million and is the sole funder.

History/Environment:

The resource curse that followed the discovery of oil resulted in the decline of Nigerian agriculture, transforming a major agricultural exporter into a country with food insecurity. Poverty incidence increased to 70% in the rural areas. Achieving MDG 1 in Africa requires rural poverty to fall in its most populous country. Government is attempting to revive agriculture and its declared policy is for the private sector to lead growth. However, in practice, it continues to intervene in agricultural input and output markets. It is not convinced that agricultural markets can be made to work for the poor. To compensate for the risks associated with poor governance and an inadequate investment climate, the private sector seeks to earn rents through lobbying Government to provide high levels of trade protection and subsidies for agriculture. Thus both the public and private sectors believe in state intervention. In recent years, because of growing demand from the rapidly increasing urban population and high trade protection, agriculture has been growing rapidly. However, there are doubts whether the present pattern will be able to sustain growth. Output has grown because farmers have increased cropped area by reducing fallow. With low nutrient use, this is likely to cause soil fertility to decline and, with it, bring growth to a halt. In addition, high trade protection is causing food prices to increase sharply limiting the growth of demand. And, pervasive market failures have meant that farmers have not benefited in proportion to the

increase in food prices undermining the incentive to increase output further. Sustainable growth of agriculture requires agricultural productivity to increase so that output can increase without reducing fallow and Nigeria can close the competitiveness gap with international competitors thereby reducing the need for protection. PrOpCom is therefore attempting to demonstrate how markets can be made to work better for the poor and address the competitiveness gap that has developed between Nigerian agriculture and its international rivals.

Driver of programme, positioning & timing:

The programme was driven by DFID's objective of reducing rural poverty in Nigeria thus contributing to the achievement of MDG1 in Africa. It wished also to demonstrate to Government that a private sector led, market based approach was more likely to deliver large and sustained improvements in rural livelihoods than the traditional model of state intervention. Whilst remaining sceptical, the public and private sectors were willing to go along with the piloting of a new approach. However, they were not in a position to provide leadership. The programme is therefore positioned independently of both, attempting to influence Government policies and private sector behaviour. By the time the programme commenced, Nigerian agriculture had started to grow rapidly. This has made it more difficult to convince policy makers of the need to change policy. Nevertheless, agriculture and rural poverty remain high on the Government agenda and the private sector is becoming more interested in investing in agriculture and agribusiness.

Governance:

PrOpCom is a donor programme with strategic oversight and operational governance exercised by the DFID Project Officer. There is a Programme Advisory Committee (PAC) that brings together stakeholders from the public and private sectors and civil society. The PAC provides strategic guidance and helps to influence Government and the private sector. However, ownership remains with DFID because it was the initiator of the programme and the public and private sectors are yet to be convinced that the MMW4P approach will work. There is a Stakeholder Initiative Fund (SIF) to

respond to the ambitions of stakeholders. The SIF has a panel for approving grants drawn from the three parts of society.

Management:

Let by tender to a consortium of consulting firms, international and local. Unusually, the tender was for a design and implement contract with the hope of minimising the delay and transaction costs involved in letting the two phases separately. In practice, the arrangement did not save much time or reduce the call on adviser time as the approval process was lengthy. The design and implement contract limited flexibility in designing appropriate implementation mechanisms and, as is likely with all such arrangements, risked moral hazard in the form of providing incentives for the design team to make recommendations that would serve its own interests. To safeguard against this moral hazard, the management contract has sought to minimise management costs, ensure that a sizeable proportion of programme resources was spent on local facilitators and that funds are set aside to back local stakeholder initiative through the SIF. There is a small team of expatriates and locals involved in the core management function with much of the implementation contracted out.

Approaches:

Having considered a number of agricultural commodities with the potential to deliver large, pro-poor impacts, in its first phase, the programme is working on rice and soya beans to demonstrate the MMW4P approach. Its aim is bring about systemic change in each market through four types of output: i) policy and institutional change; ii) addressing the market failures that are constraining growth and competitiveness; iii) demonstrating practices that will help the poor increase the benefits they receive from participating in the market and promote sustainable development and; iv) dissemination and communication to promote pro-poor change.

Because agricultural commodity markets such as rice are geographically dispersed, covering a variety of differing local contexts, PrOpCom is undertaking interventions in several areas. In rice, for instance, it is working in the Ofada and the Kano-Kura areas which present different challenges for bridging the competitiveness gap. These areas were selected because they promised: i) policy makers capable of being influenced; ii) sufficient numbers of committed stakeholders; iii) market conditions that were conducive to bridging the competitiveness gap. For example, demand for Ofada rice is growing rapidly and it fetches a premium over imported rice so that improvements in agricultural productivity and

processing are likely to translate readily into higher growth and incomes of the poor. By disseminating and communicating successes achieved in these areas, PrOpCom hopes to bring about systemic change in the Nigerian rice market as a whole.

Instruments/Tools

- **Research and analysis.** For each commodity, analysis has helped to identify the agricultural policies and institutions that will need to be changed to promote pro-poor growth. Drivers of change analysis has been undertaken to inform the process of bringing about change. Eminent academics are helping to provide evidence and promote dialogue between progressive parts of the private sector and policy makers on the changes needed. The use of value chain analysis has helped to identify the functions that are undermining international competitiveness.
- **BDS support.** The programme is using local facilitators to engage stakeholders in developing solutions to address the key market failures supported by BDS providers.
- **Grants to stimulate innovation.** The SIF provides grant funding to stakeholders with innovative ideas that will promote pro-poor sustainable development.
- **Facilitation.** The programme is commissioning research to identify new technologies and business models that will help to bridge the competitiveness gap.
- **Communication.** The core management team includes a communication specialist.

Major Challenges:

- **Ownership.** As it was not developed in response to a local stakeholder initiative, the programme remains donor owned. Management is attempting to develop local ownership through the PAC and at the local level in areas where the programme is intervening. Whether it will succeed remains to be seen.
- **Political Economy.** Attempting to influence policies and institutions is difficult given Nigeria's patrimonial system of government which causes much of the discussion between the public and private sector to centre around the extent and allocation of subsidy rather than market based development.
- **Interventionism.** With government revenues boosted by oil, there is a danger that the old models of state intervention and subsidy will resurface. In the rice chain, there are few large, private actors capable of influencing

market outcomes.

- **Timescales to demonstrate MMW4P.** Changing behaviour sufficiently to change market outcomes, therefore, takes time, involving working with a large number of small farmers, processors and marketing intermediaries.

Strengths:

- **Government embraced objective.** The Government has embraced the concept of reducing poverty through pro-poor growth. Despite booming oil prices, its new poverty reduction strategy focuses on jobs and agriculture.
- **Evidence base available.** There is also strong evidence to suggest that state intervention does not work. Government is therefore open to better ways of sustaining agricultural growth.
- **Conducive market demand.** Demand for food in Nigeria is booming establishing a favourable environment for investment in agribusiness and benefiting the poor as employees and farmers. Value chains such as rice are characterised by inappropriate policies and institutions, poor physical and market infrastructure and a host of market failures.
- **Potential impact is High.** Addressing any of these short comings is likely to benefit millions of farmers. So whilst the challenges are daunting, there is a favourable environment for intervention and the potential upside is high.

Key Lessons:

- There are strong advantages in starting small, keeping the approval process at the level of head of office, even in large countries. This will allow a more realistic assessment of risk. The programme can be scaled up later when it has demonstrated success;
- Clearly, the risks outweigh the advantages of design and implement contracts and these are no longer permitted by contracts branch;
- Where programmes are donor driven, and there are no stakeholders able to exercise leadership, it will be difficult to develop local ownership. It may be more appropriate in that event to develop ownership at the level of the intervention rather than the programme as a whole;
- Introducing a market based approach in a country where both the public and private sectors believe that markets cannot be made to work without state intervention is likely to prove a challenge. There is a need to focus on one or two markets that can provide the early

successes to establish the credibility of MMW4P;

- Bringing about pro-poor policy and institutional change in as contested a political space as Nigeria requires a thorough understanding of the political economy of change. Influential academics or former policy makers may play a useful role in brokering dialogue;
- It is easier to change behaviour sufficiently to alter market outcomes where there are large, capable actors in the private sector. Working with a large number of small actors is resource intensive and takes time to deliver results;
- In markets that cover a diversity of context, it may be preferable to demonstrate success in a few, well chosen areas first to gain credibility for MMW4P. Dissemination and communication may then be used to influence the market as a whole;
- Whilst countries such as Nigeria pose special challenges for implementing MMW4P, such programmes may still be worth undertaking in these countries. Making commodity markets that involve large numbers of poor households work better may provide huge pay backs in terms of achieving MDG1.

Case studies/papers available

- Various studies on the functioning of commodity chains, baseline studies and an Inception Review.

Reviews available:

Inception Review