FEDERAL MINISTRY OF FINANCE

Office of the Co-ordinating Minister for the Economy / Hon. Minister

Ahmadu Bello Way,
Central Business District,
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Nigeria.

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06 May 2013

The Country Director
The World Bank Country Office
Yakubu Gowon Crescent, Asokoro
Abuja

Re: WORLD BANK ASSISTED AGRICULTURAL TRANSFORMATION DEVELOPMENT POLICY OPERATION FORWARDING OF LETTER OF DEVELOPMENT POLICY

I wish to refer to the above subject and to forward the attached Letter of Development Policy from the Minister of Agriculture for the World Bank Development Policy Operation in support of the Agricultural Transformation Agenda. Agriculture represents a central reform and development priority of the Nigerian Government. We are therefore very pleased to have the assistance of the World Bank. The Minister of Agriculture has outlined in his letter our specific priorities and policies associated with the Agricultural Transformation Agenda.

I would also like to inform you that we have made tremendous progress in macroeconomic management and fiscal consolidation, which has led to economic stability and improved the prospects of investment in our country. We have decreased the federal deficit to under 3% of GDP since 2011, while at the same time increasing the share of capital spending in the federal budget. Monetary policy has also tightened following the recovery and recapitalization of our banking sector. Our balance of payments position has moved into surplus, allowing our gross foreign reserve position to increase steadily from US$ 32 billion in September 2011 to US$ 49 billion in April 2013. Given the high dependence of Nigeria on oil and conscious of the vulnerability of our economy to oil price shocks, we have accordingly continued to build our Excess Crude Account, which reached US$ 8.6 billion at the end of 2012. This will continue to serve as a buffer against future oil price shocks. Our sovereign debt position still
remains strong, with foreign debt accounting for less than 3% of GDP and domestic debt standing at 16% of GDP.

I wish to confirm that the policy monitoring framework that will be supported by this operation will involve a number of MDAs including the National Planning Commission, the Federal Ministry of Finance, the Federal Ministry of Agriculture and the National Bureau of Statistics.

With my best personal regards

Dr. Ngozi Okonjo-Iweala
Coordinating Minister of the Economy and Honourable Minister of Finance
FMARD/DRD/1033/I/48

3rd May, 2013

Dr. (Mrs.) Ngozi Okonjo-Iweala,
The Honourable Minister of Finance & Coordinating Minister for the Economy, Federal Ministry of Finance, Central Business Area, Abuja.

Dear C'FME and Hon. Minister of Finance,

RE: AGRICULTURAL TRANSFORMATION DEVELOPMENT POLICY OPERATION (AgDPO) - LETTER OF DEVELOPMENT POLICY

The purpose of this letter is to transmit to the Honourable Minister of Finance and Coordinating Minister for the Economy the Agricultural Development Policy Operation (AgDPO) of H.E. Mr. President’s Agricultural Transformation Agenda (ATA). The document has been prepared as part of the requirements for earning the approval of the World Bank’s financial support for the Agenda. The first section highlights the importance of Agriculture in Nigeria’s economy and the role the sector is expected to play in the Government’s economic transformation blueprint. This section also explains how the government plans to fund the reforms mainly through private sector participation. The second section explains the Agricultural Transformation Agenda (ATA) and how it is transformational. The third details the actual reforms along thematic areas. The document ends with an appeal for the World Bank’s support.

Importance of the Agricultural Sector to the Economy

Agriculture has continued to dominate Nigeria’s economy employing 70% of the working population, contributing about 41% of the GDP and accounting for about 30% of the growth in non-oil output. In the context of the nation’s vision of becoming one of the 20 largest economies of the world by the year 2020, a vibrant and technology-propelled agricultural sector will promote growth in national output necessary to support expansion in the industrial sector, enhance foreign exchange earnings, ensure food security, provide gainful employment, create wealth and reduce poverty on a sustainable basis. The agricultural sector is critical for the attainment of a key pillar in the nation’s economic transformation blueprint; optimising the key sources of economic growth to increase productivity and competitiveness, in terms of growth in national output, and Total Factor Productivity (TFP).
Concept and objective of the Agricultural Transformation Agenda (ATA)

The Agricultural Transformation Agenda (ATA) was introduced in 2011 and focuses on how to assure food security, reduce expenditure of foreign exchange on food imports, diversify the economy, generate foreign exchange and create jobs. The Agenda departs from past approaches by, now, treating agriculture as a business rather than a development programme.

In this regard, the present administration has instituted major policy reform that commits irrevocably to the elimination of corruption in the fertilizer and seed sectors, improving the functioning of market institutions, establishment of Staple Crop Processing Zones (SCPZs) to attract private sector into areas of high production, add value to locally produced crops and other agricultural produce, and foster rural economic growth. Very importantly, the Agenda promotes rural infrastructure improvement and farmers access to financial services and markets.

In quantitative terms, the Agenda has set out to create over 3.5 million jobs in the Agricultural sector from rice, cassava, sorghum, cocoa, and cotton value chains, with many more jobs to come from other value chains under implementation. The Agenda aims to provide over N300 billion (US$ 2 billion) of additional income in the hands of Nigerian farmers while over N60 billion (US$ 300 million) is to be injected into the economy from the substitution of 20% of bread wheat flour with cassava flour. Overall, the ATA will add 20 million metric tons to domestic food supply by 2015.

Resources for Implementing Policy Reform

The human and financial resources for implementing the Agenda will come from both within and outside Nigeria. By creating a favourable business environment, it is expected that foreign direct investment (FDI), Diaspora fund repatriation, local entrepreneurship, government budgetary allocations and donor agencies’ support will provide the needed resources for implementing the policy reform.

ATA POLICY REFORMS

The Federal Government of Nigeria is committed to implementing the ATA, and has identified the following policy and institutional reform priorities:

Seed and Fertilizer

Through a series of policy, program, and legislative changes, the responsibility for the production and distribution of agricultural inputs is being transferred to the private sector, while Government withdraws from physical procurement, distribution and market participation, and establishes its planning and regulatory capacity. This policy change has been reflected in the implementation of the 2012 Growth Enhancement Support Program, which will continue in 2013.
The National Agricultural Seeds Council (NASC), established under the National Agricultural Seeds Act of 1992, regulates the seed sector. An amendment bill was passed by Parliament in 2011 with the purpose of regulating seed production, quality and marketing, while encouraging private investment in seed technology development (breeding), multiplication, and distribution. A new seed policy that underpins the reforms in the seed sector has been approved by the National Council on Agriculture (NCA) in April 2012. The policy is in line with the ECOWAS seed harmonization regulation that will encourage intra-regional technology transfer, and provides an enabling environment for the private sector in technology development, seed multiplication and marketing, while clarifying the regulatory functions of registration, inspection, certification, and variety release, by the public sector. As a next step, a seed sector regulatory implementation plan will be prepared, funded, and reflected in the institutional structure.

The state monopoly on fertilizer production and marketing was removed (National Fertilizer Board) and FMARD became responsible for regulating the sector. A new fertilizer law is being approved that will liberalize the fertilizer sector, facilitating private sector involvement and investment, and providing for regulatory oversight. The new law (the Fertilizer Quality (Control) Bill) repeals the National Fertilizer Board Act and the Fertilizer (Control) Act and will provide for a capacity to monitor the importation, manufacture and distribution of fertilizer and related products, and quality control and assurance for fertilizer products. The existing Federal Department of Fertilizer (under FMARD) will be the implementing agency.

Research and Extension

The Federal Government has developed a strategy to transform rural extension services, using a value chain approach, including partnerships with private actors. FMARD has established an Agricultural Extension Department that will coordinate and support State level extension services. An extension services capacity building program will be developed and implementation arrangements agreed between the department and its State-level counterparts.

A committee has been formed by the Executive Secretary of Agriculture Research Council of Nigeria (ARCN) and the Permanent Secretary of FMARD to develop a strategy document for the restructuring of ARCN, which will likely become a managing council with specialized institutes, and which will include climate smart agriculture development as one of the research programs.

Sustainable development of Nigeria’s irrigation potential will be supported by a new irrigation policy and a water resources policy and law.

Market Development

To support the ATA, the Federal Government will introduce a framework for monitoring of the progress on competitiveness gains in the value chains and of the impacts of the suite of policy interventions on consumers. FMARD is making
in institutional arrangements to strengthen its agriculture policy analysis capacity for this purpose.

The establishment of Staple Food Processing Zones (SFPZs) is an important delivery mechanism for ATA support. SFPZs will provide an incentive structure for private sector value chains investments in the form of infrastructure, tax incentives, and PPP opportunities. This incentive structure will be clarified and formalized, and an institutional and legal framework will be developed.

**Business Investment Climate**

To increase the provision of agricultural credit, the Nigeria Incentive Based Risk Sharing System for Agricultural Lending (NIRSAL) was established. NIRSAL provides risk sharing instruments in the form of commercially priced loan guarantees to commercial banks. In order to ensure sustainability of this mechanism, the Government registered NIRSAL as a public limited company in February 2013. NIRSAL has been capitalized and its business plan and implementation plan will be approved in the near future, reflecting its role as financial facilitator in key value chains, leveraging a significant proportion of private investment needs, while minimizing distortions.

The Government is committed to removing the existing monopoly on agricultural insurance by the National Agricultural Insurance Company, which will allow entrance of private sector insurance companies, improving the quality and variety of products on offer, tailoring them to agro-ecological realities and to specific customer demands.

**Agriculture Sector Management**

The Government is committed to enhancing the capacity for Public Financial Management (PFM) in FMARD through the implementation of a range of Federal Government PFM reforms, led by the Ministry of Finance. An agriculture sector Public Expenditure Review is underway, and the Federal Government is committed to enhance its financial management capacity in the sector.

The Agricultural Transformation Implementation Council has been established, ensuring that appropriate ATA implementation and coordination arrangements are developed. The Council’s establishment was approved in October 2012, and will enable the formation and operationalization of ATA Implementation Committees at the State and Local Government levels. Furthermore, FMARD is establishing a de-concentrated staffing presence in Regions and States to facilitate coordination of ATA activities at the sub-Federal level.

The National Policy on Climate Change and Response Strategy (NPCC-RS) was adopted as the national document for implementing climate activities in September 2012.
Request for World Bank Support

The Agricultural Transformation Agenda has so far recorded successes that need to be replicated and magnified. Actualizing this aspiration is largely constrained by funding. To overcome this constraint the Federal Ministry of Agriculture and Rural Development is seeking the consent of the Federal Minister of Finance and the Coordinating Minister for the Economy on the Agricultural Transformation Development Policy Operation and recommending World Bank’s approval of $200 million (Two Hundred Million Dollars only) credit facility in support of the Agricultural Transformation Agenda (ATA).

Please accept, Honourable Minister, the assurances of my consideration and esteem.

Dr. Akinwumi Ayodeji Adesina, CON
Honourable Minister