

GOOD PRACTICES IN PLANNING, DEVELOPMENT AND  
OPERATION OF RICE PRODUCTION INFRASTRUCTURES

- A CASE OF PUBLIC PRIVATE PARTNERSHIP IN NIGERIA -

# Introduction

- Infrastructural development is key to increase rice production and productivity
  - Stable water supply and drainage that make farmers confident in investing on improved technologies (this often enables surplus production and thus market oriented farming)
- There exists large potential for irrigation development in Nigeria (abundant land and water resources)
- However, the country faced several challenges:
  - The Government had insufficient financial resources (or simply not invested) for rice production infrastructures: very few new development and even the deterioration of existing schemes over the past 2 decades
  - Heavy investment to develop farm and factory (e.g. land, road, electricity, channels and drainages): Government only develop the river basins which cut across several states, therefore individual investors have to develop infrastructures to manageable sizes – Almost no local investors can afford to develop decent size infrastructure
  - Cumbersome landholding system in Nigeria: Land is owned by the community/families hence always fragmented because of different interests of concerned parties, it is therefore difficult to get large piece of land
  - Incredulity of the locals on investment by outsiders

# Introduction

As a result,

- Despite the great opportunities for private infrastructural development, very few private entities had keyed into it

In this circumstance,

- The financial constraints and their inadequate capacity to tackle such a situation drove the Government to adopt an alternative approach, Public-Private Partnership
  - ➔ Private infrastructural development being encouraged through favorable policies

# The Case of PPP Infrastructure Dev't in Nigeria

## - Description of the Scheme -

- Partner Investor: OLAM- a pioneer in PPP infrastructure development in Nigeria
  - One of the leading multi-national agribusiness corporations working in 65 countries worldwide and 27 countries in Africa
  - Has operated in Nigeria since 1989, and currently working from local production and off-taking of food and industrial raw products to branding and supply to global markets through 16 product platforms in Nigeria
  - Prominent player across value chains, especially that of rice in Nigeria
- Location: Rukubi village, 265km south east of Abuja on the banks of river Benue
- Beneficiary: 1,000 farmers employed directly as out-growers, depending on seasonality. Plus rough estimate of 1,000 farmers who grow cash crops using irrigation scheme. And some direct employment for the operation of farm.

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## - Description of the Scheme -

- Size of the scheme: 10,000 ha in Total
  - 3,000 hectares already developed and under cultivation
  - 3,000 hectares to be further developed in near future, to be followed eventually with remaining 4,000 ha.
- Operation:
  - Production: Fully-mechanized irrigated rice production with 2 cropping seasons
  - Processing: Integrated processing for value addition (mechanized milling facility with the capacity of 36,000 MT of milled rice per annum)
  - Marketing: Supply to domestic market, together with produce supplied by out-growers

# The Case of PPP Infrastructure Dev't in Nigeria

## - Process of the Development -

- The Federal Government of Nigeria developed the river basins several years ago across the country as a part of policy to promote irrigation agriculture – however, the infrastructure is deteriorated and its rehabilitation is necessary to support Government Agriculture Transformation Agenda that focuses on rice self-sufficiency
- Favorable Policies in place: The Government invited the private sector for the development of infrastructure with favorable policies that support their development and operation attracting their investment (e.g. Tax holidays, guaranteeing land lease, intermediation between investors and the locals)
- Support for land acquisition: OLAM leveraged on the opportunity of the availability of a contiguous land of about 10,000ha
  - Government supported OLAM to acquire large expanse of contiguous land by being as a guarantor to OLAM for trust building between OLAM and the locals
- Ensuring investment security: With the mediation of the Federal government, the rights to use farm and factory land are guaranteed by the local government with occupancy certificates for a period of 99 years.
- Establishment of Benue River Development Authority (covering more than 5 states): The authority was developed by the federal government for the coordination and management of irrigation facilities (main ones) 20 years ago. New (additional) irrigation infrastructure (375.9km of canals and 372.5km of drainage) was developed by OLAM for their operation.

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## - Process of the Development -

- Many more favorable policies
  - Preferential treatment for value chain development: Backward integration that qualifies OLAM for special windows (e.g. Permission to import brown rice for processing during scarcity of paddy across the country in 2015)
  - Partnership with government in rural road development: Local Governments grade rural roads, OLAM developed new rural roads and the aggregators supplying paddy are exempted from local produce tax collection on the road
- Trust building with the Locals
  - Supply irrigation water to local farmers and out-growers arrangement: With the Government assurance on the OLAM investment NOT land grabbing, the locals agreed the investment because they will use the irrigation facilities for their own farms and OLAM uses the local farmers as out-growers with provision of necessary inputs such as fertilizer and seeds
  - OLAM ensured that the locals are given most of the unskilled jobs in OLAM operations at the locality: the locals are given priority over outsiders
  - Farmers saw opportunity of employment and the eventual use of irrigation facility hence their cooperation with the project

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## - Process of the Development -

Additional: Corporate Social Responsibility

- Due to the enormity of investment, there should be a mechanism to guarantee the sustainability of the business after the investment. One of the effective measures to ensure the business sustainability is to satisfy concerned stakeholders through taking Corporate Social Responsibility. OLAM is keeping this in focus through commitment to the next generation by:
- Providing new schools and renovating existing dilapidated ones
  - Providing learning materials and scholarships to indigent students
  - Connecting communities through the development of 54km of roads between surrounding villages
  - Ensuring access to clean water and electricity through provisions of bore wells and solar lamps.



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## - Ripple Effects -

- Other stakeholders are Leveraging on OLAM success in out-grower schemes to organize farmers for better and increased production → Out-grower model following OLAM model established by most DPs for various projects
- Scalability of the nucleus model\* by other stakeholders (e.g. DPs, Farmers' Organizations)
- Joint Capacity Building efforts between development partners with similar focus (e.g. training for GAP - Good Agronomic Practice)
- Input supply to the farmers in some instances

\* Nucleus Model: Formation of a group of farmers and practice contract-based farming such as out-grower scheme. This model often includes price agreement, provision of necessary inputs to producers, compulsory supply of produce to off-takers and financial settlement at the purchase of produce. This model helps ensuring off-takers to have stable supply, and producers to gain bargaining power and stable market for their products.

# The Case of PPP Infrastructure Dev't in Nigeria

## - Impacts -

A win-win-win situation guaranteed: Government – Investor (OLAM) – farmers

- Government - enabling environment- policy of developing all year round operations around the river basins, Steady decrease in imported rice,
- OLAM - enough good quality paddy all year round (Stable processing of 12 tons of paddy per day, 6 days a week throughout the year)
- Farmers - improved economic status, increased knowledge due to GAP, ready market assured (There are some qualitative evidences such as purchase of assets such as motorcycle, being able to send their kids to school, and expansion of cultivating land)
- Improved living environment: better access to clean water, energy and roads, better social services such as education and

# The Case of PPP Infrastructure Dev't in Nigeria

## - Challenges (Solved and Remaining Ones)-

- **Experienced challenges common to all pioneering private investments include the followings:**
  - Cumbersome landholding system in Nigeria and difficulty in land acquisition. → Solved by Government mediation
  - Heavy investment in infrastructure development → Solved by PPP arrangement with favorable policies
  - Dealing with Youth restiveness: Rural population is increasing more than urban one and the youths must be catered for with job opportunities. However, local governments don't have capacity, therefore vices are prevalent in rural community → Addressed by creation of employment and out-grower scheme
  - Low capacity of farmers in the area: Farmers have low education, large families and small average landholding that results in small production and thus that is only for family consumption → Partially addressed by capacity building programs
- **Unsolved Challenges...**
  - Unwillingness of out-grower farmers to adopt GAP, due to low capacities and lack of awareness
  - Difficulty in getting farmers to comply with terms and agreements in the contract (e.g. Side selling by out-growers in response to better market prices)
  - Lack of set down punishment to defaulting farmers
  - Limited storage capacity that prevents year-round operation by millers

# The Case of PPP Infrastructure Dev't in Nigeria

## - Lessons Learned (Non-exhaustive) -

- A number of lessons are derived from the OLAM pioneering case of infrastructural development in Nigeria
  - Success of private business contributing to the government goals
    - A right set of policies can realize successful PPP (Win-Win situation)
    - Government can overcome financial constraints in infrastructure dev't through partnership with private investors
    - Government authority and policies can help business security for investors, thus sustainability of investment
  - Importance of trust-building between investors and producers/locals
    - Benefits and satisfaction of producers/ locals are critical element that lead to sustainability
    - Government mediation can help trust building, particularly in the initial negotiation process
    - Fulfillment of agreement is necessary for mutual-trust. Contract farming, for instance, is slowly gaining ground among farmers, but its full enforcement might take time and good enforcement mechanism. However, it takes time and good mechanism to ensure it Lessons in
  - Impacts
    - Partnership between farmers and investors in a good manner (e.g. Out-grower scheme) can benefit all parties: Investors with stable supply of good amount of paddy; Producers with pre-finance, agro-inputs and training, thus eventual production and income increase.
    - Improved competitiveness of domestic rice against imported rice in Nigerian markets (Better quality due to high capacity mills by investor, and lower price due to the economy of scale) → Consumer preference!

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## - Solutions for Remaining Challenges and Way Forward -

- Government continuous persuasions of the locals through advocacy on private investment and fulfillment of agreed contract (e.g. to prevent side-selling).
- Further Capacity Development Programs such as training on GAP to increase farmers ability and on out-grower scheme, together with introduction of good enforcement mechanism (policy and possible legislation of contract farming) to increase confidence among stakeholders
- Bulk purchase from the open market during harvest when farm gate prices are low
- Government support in increasing storage capacity to assist millers for their year-round milling operation
- Partnerships with the local government to provide basic infrastructures such as grading of rural roads
- Scaling out the success: Making more integrated rice mills operational in the PPP arrangement
- Promotion of the out-grower model for quality paddy supply among rice producing/processing companies (e.g WACOT, UMZA and Stallion)
- Enhancement of quality of small scale millers through the introduction of de-stoners