



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 13-Jan-2020 | Report No: PIDA26741

**BASIC INFORMATION****A. Basic Project Data**

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| Country Benin | Project ID P168132 | Project Name AGRICULTURAL COMPETITIVENESS AND EXPORT DIVERSIFICATION PROJECT | Parent Project ID (if any) |
| Region AFRICA | Estimated Appraisal Date 13-Jan-2020 | Estimated Board Date 24-Mar-2020 | Practice Area (Lead) Agriculture and Food |
| Financing Instrument Investment Project Financing | Borrower(s) Ministry of Economy and Finance | Implementing Agency Agence de Promotion des Investissements et des Exportations | |

Proposed Development Objective(s)

The project development objective (PDO) is to increase and diversify Benin's agri-food exports.

Components

- Component 1: Enabling environment for agribusiness and export development
- Component 2: Enhancing value chains competitiveness
- Component 3: Promoting private sector investment
- Component 4: Project management

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

| | |
|---------------------------|--------|
| Total Project Cost | 160.00 |
| Total Financing | 160.00 |
| of which IBRD/IDA | 160.00 |
| Financing Gap | 0.00 |

DETAILS**World Bank Group Financing**



| | |
|---|--------|
| International Development Association (IDA) | 160.00 |
| IDA Credit | 160.00 |

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

Benin is a low-income country of about 11.8 million (2017 estimate). The economy is driven by agriculture and services, particularly import/export activities through the Port of Cotonou. Agriculture accounts for 25 percent of Gross Domestic Product (GDP) and 47 percent of the country's employment. Cotton is the primary export commodity. The informal sector contributes up to 56 percent of GDP. Re-export trade with Nigeria, mostly informal, accounts for 20 percent of GDP and 25 percent of government revenue. Steady GDP growth of about 5 percent per year during the period (2012-2017) was partially offset by a rapid population growth averaging 3.5 percent per year, which led to a modest and unequal increase in household consumption.

Growth accelerated in 2018 supported by booming cotton production and port activity. Real GDP growth was at 6.8 percent in 2018, up from 5.8 percent in 2017, due to good performance in agriculture and services, especially record-levels of cotton production (+17 percent) and increased port activity (+8.5 percent). The services sector grew by 7.5 percent because of dynamism in post and telecommunications, banking, trade, and the food and catering industries. On the demand side, growth was driven mainly by final consumption (up by 3.6 percent). The external current account deficit (excluding grants) narrowed from 10.2 percent in 2017 to 8.5 percent of GDP in 2018 reflecting an increase in agricultural exports and reduced food imports following reforms in the agricultural sector. Export growth reached 20.2 percent in 2018 while imports only decreased by 4.3 percent. Economic growth prospects are good but remain vulnerable to global cotton and oil prices, weather shocks, as well as trade relationships with key trading partners such as Nigeria. Real GDP growth is projected to average 6.7 percent over 2019-2021.

Poverty reduction programs have been enshrined in successive strategies, but results have proven erratic and difficult to sustain. Benin had a per capita income of US\$929 in 2018, which is below the Sub-Saharan Africa (SSA) regional average of US\$ 1,454. Poverty levels remain high, but with a declining trend. World Bank estimates based on official consumption aggregates suggest that at the US\$1.90 a day poverty line (2011 purchasing power parity), poverty declined from 49.5 percent in 2015 to 46.4 percent in 2018. Non-monetary poverty indicators have improved over this period as well. However, Benin did not meet most of the Millennium Development Goals (MDGs) by 2015, including targets on universal primary education, gender equality, child mortality, maternal health and global partnership for development¹. Benin is considered a low human development country and is ranked 163rd out of 188 countries on the

¹ UNSD, MDG Indicators (indicator availability varies by year).



Human Development Index².

There are significant disparities in poverty rates between urban (36 percent) and rural areas (44 percent)³ and widening gaps between the two is hindering the achievement of shared prosperity and elimination of extreme poverty. At national level, inequality increased between 2011 and 2015, from 0.464 to 0.470 as measured by the Gini Coefficient. Inequality is higher in urban areas, where the Gini coefficient rose from 0.452 to 0.467 between 2011 and 2015, while it increased from 0.373 to 0.403 in rural areas.

In Benin, gender-based obstacles result in inequality of opportunity. Women systematically occupy jobs that earn on average half that of men. Overall economic growth and development is hampered by productivity losses due to gender disparities in access to productive assets and inputs, including access to finance, and in agriculture by lack of access to land, inputs, technology and equipment. Thus, women's economic empowerment through greater access to financial services, access to land and agricultural inputs, and equality in employment opportunities can contribute to more equitable development outcomes (Benin Country Partnership Framework -CPF FY19-FY23).

Sectoral and Institutional Context

In Benin, the agriculture sector accounts for nearly 25 percent of GDP. From 2012 to 2017 the sector grew at around 4 percent annually to reach a total value of nearly US\$2.13 billion. However, it will need to grow considerably faster than the population growth as nearly half of the population is employed in agriculture, and the sector's growth will be essential to the country's economic development and poverty reduction targets.

Productivity of agriculture in Benin is affected by many constraints ranging from land tenure, lack of access to inputs and reliance on traditional means of production. The production system is highly fragmented and essentially smallholder-based. Farm sizes are small, below 2 hectares on average. In southern Benin, the land pressure is even higher, and agricultural production typically occurs on extremely small plots (averaging only 0.26 ha)⁴. Recent increases in farm production have relied more on expansion of cropped areas than increased productivity (IFC, 2016). Continuing constraints to the registration of property and the leasing of land, especially in the southern part of the country, are prohibiting the functioning of land markets. While the Government of Benin (GoB) has already enacted land reforms, the key constraint is the capacity for enforcement of legislation by the *Agence Nationale du Domaine et du Foncier* (ANDF), the government agency in charge of land management.

Agricultural production is dominated by small number of crops. Nearly two thirds of Benin's food crop output (in tons) is concentrated in low-value roots and tubers. Other staples, such as maize, oil palm, and rice comprise another twenty percent of production output. Moreover, in terms of *cropped area*, production is dominated by maize (31 percent of harvested area), cashew (14 percent), cotton (12 percent), cassava (8 percent) and yams (6 percent). A limited number of producers engage in the production of higher value fruits and vegetables and those that do have limited access to improved inputs, production methods, and farm equipment.

The agri-food sector in Benin is vulnerable to the impact of climate change manifested by rising temperatures, especially in the northern part of the country. Climate projections show that maximum daily temperatures, number of hot and very hot days, as well as the likelihood of annual severe droughts are expected to increase throughout the coming century.⁵ The negative consequences of intense and successive periods of drought and floods could reduce

² UNDP, Human development index report, 2018.

³ INSAE, *Evaluation de la pauvreté au Bénin*, 2014.

⁴ Global benchmarks suggest that to be competitive in exports, farms may have to be larger and more professionalized. Yet, only a few medium and large agricultural firms exist in the country.

⁵ World Bank Group Climate Change Knowledge Portal, February 2019.



agricultural production by 3 to 18 percent by 2025 if no adaptive measures are taken.⁶

In terms of gender dimensions, women’s contribution to agriculture in Benin is substantial. Women make up to 35 percent of employment in agriculture and 14 percent of agricultural households are led by women. They are prominent in the activities that shape agricultural production, processing, distribution and marketing, and consumption. Despite their contributions to the sector, women have weaker bargaining power because of limited business skills and voice. They also face disadvantages accessing land use rights because of cultural norms⁷. Moreover, women also face more obstacles than men in accessing improved agricultural production technology, extension services and notably finance. The lack of productive capital available to women poses additional and considerable barriers to female farmers and agribusiness entrepreneurs. Because of this constrained access to productive assets and extension services, women usually have a lower capacity to deal with adverse climate impacts and are more vulnerable to external shocks.

In terms of commercial activity, cotton production accounts for a quarter of the country’s agricultural GDP and it is the country’s single largest export. More modest contributions to GDP come from other export crops such as cashew and pineapple which contribute respectively to 7 percent and 4 percent of Benin’s agricultural GDP. Cotton, cashew and pineapple amount to about 36 percent of Benin’s agricultural GDP and almost 50 percent of the country’s export basket (including agricultural and non-agricultural products). While their contribution to sector growth will continue to be important for Benin for the foreseeable future, an overreliance on a limited number of export products has made the country vulnerable to volatility in these global commodity markets where farmers are price takers from large international buyers (Dia & Lapres, 2018).

A recent World Bank study has found that ‘fresh’ food crops – including many fruits and vegetables that are highly perishable – often tend to have higher value, albeit they require more intensive off-farm services (Dia & Lapres, 2018). The study found that producers in more advanced economies can engage in production of such perishable crops, while making significant profit margins. Typically, the development of fresh agricultural products also tends to allow small farmers – including women – to bargain better price. While Benin export opportunities exist in both traditional cash crops (such as cashew) and a newer set of horticultural crops (such as pineapple, mango, tomatoes, and other fresh fruits and vegetables), it will be essential for farmers to make decision based on market demand, while allowing the country’s comparative advantage to guide investments in specific agri-food products.

Global demand in the market for fruits and vegetables is expected to double by 2030, demonstrating a considerable future demand for Benin’s potential exporters. One report suggests that worldwide demand for fruits and vegetables is expected to stand at \$5.28 trillion by 2030 (Oliver Wyman 2018). Meanwhile in 2014, global trade in fruits and vegetables neared \$350 billion⁸. Most of the highest value produce, will be demanded in Europe and North America where approximately 17 percent of the current world population accounts for 32% of the value of global demand. These markets often pay a premium for fresh fruits and vegetables given their relative scarcity and the higher purchasing power of these economies⁹. The growing demand and scarcity of products suggests there would be space for Benin’s

⁶ Climate Change Profile: Benin; Report from Government of Netherlands, February 2019.

⁷ A gender gap analysis has been undertaken during project preparation within the selected value chains to inform the selection of specific issues which the project can address (like access to productive assets, increasing opportunities for female-led agribusiness SMEs).

⁸ Increasingly, such trade has even been occurring between some countries in West Africa and Europe. For instance, Benin’s formal exports of fruits and vegetable products in 2014 totaled \$203 million.

⁹ The highest income countries of Europe, such as Denmark spend 145% more than the EU average, while relatively poorer countries in the EU like Poland spend just 63% of the EU average (Eurostat 2015). This is largely due to the consumption basket, which is more geared towards perishable foods in Western and Northern Europe.



producers to enter these markets, if it could resolve some supply side market failures.

To enable the diversification of production into more profitable crops and cropping systems, farmers and firms will need access to finance and insurance products in order to make the necessary investments. Benin's private sector (including farmers and firms) typically lack access to financial services outside the cotton sub sector. Commercial banks, including micro-finance institutions, are reluctant to lend to agricultural farms/firms given the high level of commercial risk involved in the sector. As a result, Benin's small farms and agri-food SMEs have limited access to the banking system. Yet, without access to finance, they cannot invest in improvements that would allow them to respond to demand and compete on export markets. The government's *National Guarantee and Small and Medium Enterprise Assistance Fund* (FONAGA) is one response to this market failure, but it remains under-funded and lacks the capacity to effectively target farmers. However, even with financing available, Benin's farmers and agri-food SMEs are constrained by the risks associated with diversified production of higher value fruits, vegetables and livestock. High post-harvest losses – often in the range 40 percent in Benin¹⁰ – create a significant amount of risk that hinders most farmers from engaging in the segment of fresh produces. Small-scale farmers, which are typically averse to risk, do not have the ability to weather experimentation in such new crops on their own; and there are few insurance products available on the market that would cover such risk.

High post-harvest losses result from poor transport connectivity and the lack of access to markets. For example, poor rural road connectivity constrains producers (especially in the north) from transporting product in good condition to hubs in the south and then on to markets abroad. Moreover, the airport facilities in Cotonou lack the cold chain infrastructure needed to accommodate highly perishable items while waiting for onward transport. As such, the poor connectivity infrastructure (including rural roads and cold chain concession facilities at airports) are critical constraints to the export of fresh agricultural produce. However, to reduce post-harvest losses there is not only a need for investment in public infrastructure, there is also a need for improvements in cold-chain logistics services, which would prevent the loss of product on the way to market.

Benin's farmers need access to private sector logistic firms that can provide quick and efficient cold chain services. Currently, Benin underperforms in several indicators on logistics related to perishable fruit and vegetable produces. For instance, Benin's 2016 Logistics Performance Index (LPI) ranking was 115 out of 160 economies with an overall DTF score of 2.43 out of 5. Most notably, the indicator for timeliness of logistics has fallen drastically since 2012, suggesting that logistic services would be less able to handle increase in perishable produce that have high time pressure on delivery. As a result, the country has very few exports of fresh products or of high value fruits and vegetables. Improving privately-provided, cold chain logistic services will enhance the ability of farmers to participate in high value markets for fresh fruits and vegetables. Given the development context of Benin and the production patterns of its producers, qualified logistic providers are reluctant to make investments in cold chain services¹¹.

While there are many market failures to address in Benin's agriculture sector, it is urgent to fix the most binding set of on-farm and off-farm constraints to export. Experiences from other countries suggest that implementation of an effective and coordinated public response would need an agency with an understanding of market constraints and potential as well as a strong mandate that can align the actions of relevant line ministries.

¹⁰ Some studies have shown that over 90% of farmers report production losses every year with 75% reporting that the level of losses reached half of the expected production. However, only 1% of surveyed farmers subscribed to any agricultural insurance policy.

¹¹ Moreover, such firms lack access to a labor force trained in perishable logistics. For the public sector's part, investment in both vocational and advanced training in Logistics Management – and perishable logistics – could help improve value chain performance and quality of delivery through the professionalization of such service providers in the country (McKinnon, et al. n.d.).



The National Agency for Investment and Export Promotion (APIEx) – a centralized agency under the Presidency – is well placed to coordinate support for the development of export-oriented agricultural value chains. The recent reorganization of export promotion functions under APIEx provides the mandate for an integrated approach to both on-farm and off-farm value chains development. However, the agency was formed only recently after the poor performance of its predecessors. To better enable APIEx to succeed in its mandate, it will be important to learn from past failures. Specifically, the preceding agencies faced challenges in defining the scope of their support as a facilitator of export promotion and private investments in the agricultural sector. One of the key challenges related to their insufficient understanding of global markets without which, it would be difficult to develop appropriate public service responses. To perform effectively, APIEx staff would have to be trained in strategic market analysis and equipped with the technical knowledge on how to inform the government on the type of policy actions that would be needed to increase the competitiveness of Benin agriculture products on international markets.

Country Context

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The project development objective (PDO) is to increase and diversify Benin's agri-food exports.

The following key performance indicators (KPIs) are proposed to measure outcomes at the PDO level:

- (i) Increase in volume of annual formal export sales (%) for targeted agricultural value chains
- (ii) Number of new agri-food products formally exported

The project will disaggregate relevant indicators for gender.

In addition, the project M&E system will track the following three Corporate Results Indicators (CRIs):

- a) Number of farmers reached with project agricultural assets or services (including women and youth targeted at 30 percent);
- b) Beneficiary satisfaction rate with the quality of project-supported services (disaggregated by gender); and
- c) Number of km of rural roads rehabilitated.



D. Project Description

Project activities will be funded by a loan of US\$ 160 million over six years under the Scale Up Facility (SUF), with four interrelated components: (i) creating an enabling environment for agribusiness and export development; (ii) enhancing value chain (V/C) competitiveness; (iii) promoting private sector investments; and (iv) project management. The initial focus will be placed on value chains with known exports potential, including cashew, pineapple and selected horticultural crops.

Component 1. Enabling environment for agribusiness and export development (US\$ 60 million)

Component 1 will support the Government’s ability to provide an enabling environment for competitiveness enhancement. This component seeks to: (i) strengthen the policy, regulatory and administrative framework for agribusiness, including institutional support for several public bodies responsible for agribusiness development; (ii) support public agencies that will guide strategic competitiveness reinforcement engagements along the value chains; and (iii) invest in critical public infrastructure for the agri-food sector.

Sub-Component 1.1: Enhancement of the policy and regulatory framework (US\$ 10 million). SC1.1’s objective is to help the government make informed decisions regarding the policy and regulatory framework related to the possible competitiveness enhancements and export diversification options in the agribusiness sector. The sub-component will support the design and implementation of proposed reforms and regulatory enhancements that will improve the competitiveness of the agriculture sector. The reform agenda will be identified in a participatory way through public-private consultation to be conducted as part of the Competitiveness Reinforcement Engagements (CREs) (see SC1.2). Based on areas of project support to improve the delivery of public good services, the public agencies to be supported include: *Ministry of Agriculture, Livestock and Fisheries (MAEP), Agence Béninoise de la Sécurité Sanitaire des Aliments (ABSSA), Agence Nationale du Domaine et du Foncier (ANDF), Direction des Assurances du Bénin, Agence Nationale de l’Aviation Civile (ANAC).*

Box 1: Competitive Reinforcement Engagement (CRE)

The objective of a CRE is to reinforce the competitiveness of farmers and firms in a cluster or “geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated organizations in a particular field linked by commonalities and complementarities.” The CRE methodology combines strategic analysis with change management tools, implemented for an identified cluster of producers through field projects. It is comprised of three phases, which include: (1) Identification of industry challenges; (2) Development of strategic options; and (3) launch of business plans for value chain actors to become more competitive.

Sub-Component 1.2: Competitive Reinforcement Engagements (CREs) and attendant support to institutions responsible for export promotion and value chain development (US\$ 5 million). SC1.2 has a twin objective: (i) support to the implementation of CREs (Box 1¹²); and (ii) improve the service delivery by government agencies responsible for delivering public goods in related to key areas such as food quality and safety for export compliance, climate change and weather data collection, and agricultural insurance. The CREs will be implemented for individual or cluster of value chains (V/Cs) with the following project support: (i) technical assistance and training in strategic market analysis and cluster change management tools; and (ii) resources to carry out at least four CREs per year for two years in selected regional poles. The first set of CREs will focus on value chains that are more export-ready, as such, likely to include pineapple, cashew and two other fresh product value chains. Recommendations and actions coming out of the CRE process will provide feedback for government policy making and program implementation through provision of technical inputs to SC 1.1. Similarly, following each CRE, any infrastructure required to enhance the competitiveness of a selected value chain or cluster of value chains will be identified and considered for financing under SC1.3 (critical Infrastructure). To support the foregoing activities, the project will focus primarily on building the capacity of two public



agencies – APIEx and ATDA. The nature and extent of support to these agencies will be specified in MoUs signed between each of these agencies and the Project Management Unit (PMU).

Sub-Component 1.3: Development of critical infrastructure (US\$ 45 million). Sub-Component 1.3 will finance public infrastructure, namely rehabilitation of rural roads, construction of a cold storage freight terminal and related trade infrastructure at the new airport¹³, and other public infrastructure to be identified through the CREs process. To maximize the strategic nature of these investments, to the extent possible, the infrastructure investments will be connected to investment plans to be developed by APIEX in the context of the CREs, which would have identified the critical, missing infrastructure needed to enhance the competitiveness of selected value chains. Particularly, the project will finance: (i) the technical feasibility studies and environmental and social impact assessments for the proposed infrastructure; (ii) the rehabilitation of 1,200 km and the maintenance of 4,200 km of existing rural road networks in a period of six years, to enable market connectivity for project regions (see targeted regions for road rehabilitation in Annex 2 Table 2.1). This will complement the 600 km that will be rehabilitated and the 2,400 km to be maintained under the Benin Rural Digital Transformation Project¹⁴; (iii) a cold storage freight terminal and related trade infrastructure – including equipment – at the new airport¹⁵ to be managed as a public concession by a private service operator; and (iv) other public infrastructure to be identified through the CREs under SC1.2. The sub-component will also provide support to the Ministry of Transport and the Ministry of Agriculture (*Direction du Génie Rural*) to guide and monitor the rehabilitation of rural roads as well as the mechanism to support the maintenance of these roads after the project closing. The rehabilitation and maintenance of rural roads in agriculture production zones in project intervention areas will complement the national rural road network rehabilitation program launched by the Government to improve connectivity and access to main agricultural production areas in a balanced way throughout the whole country. To enhance resilience of the project’s investments to climate change and natural disasters, the road rehabilitation works will include improvements in the drainage structures to ensure all-weather/season access. The materials and design standards for road rehabilitation will emphasize reducing the risk of flooding and associated destruction of housing and facilities.

Component 2. Enhancing Value Chains Competitiveness (US\$ 43 million)

Component 2 will support actions to promote export of agri-food products identified through the earlier described CRE process under SC1.2, starting with pineapple and cashew nuts and proceeding with other priority value chains identified.

¹² For a more elaborate definition of CREs, see “Improving firms’ innovation to foster productivity and diversification: Competitive reinforcement of value chains in Ecuador”, Report No: ACS22413, July 24, 2017, Maria Deborah Kim and Gloria Ferrer Morera.

¹³ The project has identified the need for new infrastructure and equipment at the airport – including cold chain warehouses, scanners and customs offices – in order to provide seamless border processing and an uninterrupted cold chain. Investments in infrastructure will be financed at the *Glo Djigbé* airport. Temporary cold storage solutions – such as reefer containers and other movable equipment – will be financed at the existing *Cadjehoun* airport upon presentation of a feasibility study and transition plan for when the new airport opens.

¹⁴ Financing for rural roads will include the rehabilitation of all-weather rural roads to ensure access throughout the year to the project-targeted regions. Given limits in the financing envelop rural roads will be targeted to regions producing perishable and sensitive crops that require quick and networked access to markets.

¹⁵ The project has identified the need for new infrastructure and equipment at the airport – including cold chain warehouses, scanners and customs offices – in order to provide seamless border processing and an uninterrupted cold chain. Investments in infrastructure will be financed at the *Glo Djigbé* airport. Temporary cold storage solutions – such as reefer containers and other movable equipment – will be financed at the existing *Cadjehoun* airport upon presentation of a feasibility study and transition plan for when the new airport opens.



C2 will finance: (i) access to quality inputs, including improved seeds and planting materials which can help producers enhance productivity in combination with other inputs; and (ii) delivery of extension and other services, through public and private institutions, as needed to ensure adequate level of production with quality standards required on targeted export markets. All activities and investments supported under the component will include risk reduction and resilience enhancements, as well as climate-smart and good environmental management practices. The focus will be on increased productivity combined with adaptation measures (resulting in lower emission intensities per unit of targeted commodities). Support to private investments will also include specific mandatory mitigation options. C2 activities will be led by the Ministry of Agriculture Livestock and Fisheries (MAEP) in close collaboration with APIEx and other line ministries as relevant.

Sub-Component 2.1: Improving farm technology and availability of quality inputs (US\$ 13 million). SC2.1's objective is to support the provision and delivery of inputs to targeted farmers so that they increase their productivity. The sub-component will include: (i) support the *Institut National de Recherches Agricoles du Bénin* (INRAB) (MAEP's R&D agency) to invest in the development of new high yielding climate-resilient varieties of existing crops and testing of new crops¹⁶ with high-value market potential, and develop crop-specific fertilizer recommendations under various farming systems; (ii) improve seed availability by enhancing the production of breeder and foundation seeds for onward multiplication by private seed producers; (iii) support the production of new germplasms that are resilient to climate change and upgrade existing laboratories for *in-vitro* production of improved planting materials; (iv) strengthen human resources in agricultural research by funding specialized training as needed, especially in plant genetics, plant pathology, and plant protection; and (v) promote technology testing, technology transfer and dissemination of research results, including exchange seminars and demonstration trials. The project will also support the Plant Protection Directorate (*Direction de la Production Végétale - DPV*) and the Agriculture Directorate (*Direction de l'Agriculture - DAGRI*) for seed quality enhancement through an improved performance of the certification system and enhancement of voluntary inspections at private seed nursery levels. In addition, the sub-component will finance technical assistance to seed producers and nurseries that distribute planting materials to farmers, including support to *in vitro* multiplication of purified planting materials, training in handling, storage, packaging, and seed distribution. Support will be provided to private seed producers and nurseries through the matching grant scheme described under SC3.1. Eligible activities will include the provision of equipment, inputs and facilities for the establishment of new operators and expansion of existing nurseries.

Sub-Component 2.2: Enhancing farmers' technical knowledge and access to Good Agriculture Practices (GAPs) (US\$ 30 million). SC2.2's goal is boosting farm productivity and incomes within targeted value chains (starting with pineapple and cashew and expanding to other crops based on results of the CREs) through the dissemination of improved high productivity and climate smart production techniques readily available. The sub-component will specifically: (i) provide improved access to subsidized planting materials starting with cashew and pineapple thereby contributing to the establishment of new cashew plantations as well as the gradual replacement of cultivars in pineapple plantations;¹⁷ (ii) support the rehabilitation of existing cashew plantations: SC2.2 will come in direct support of ongoing government

¹⁶ The component will also finance a market-based study on new crops that Benin should consider for crop testing. The study to be commissioned, will narrow its scope to those crops which have high value on international markets (typically more perishable crops have higher value), and which could feasibly be grown in one of Benin's agro-ecological zones.

¹⁷ Average production cost of cashew planting material is currently estimated at around US\$ 1.00. SC2.2 is expected to facilitate the acquisition of improved materials by farmers through subsidized planting materials at US\$ 0.20 to promote their adoption with a target to establish up to 35,000 hectares of new plantations by end of the project for an approximative cost of US\$3.0 million. Regarding access to improved pineapple cultivars distribution, the subsidy program will cover the replacement of up to 5,000 hectares and the establishment of 5,000 new hectares. Pineapple cultivars will be made available to farmers at a subsidized cost of FCFA 5 (compared to an estimated production cost of FCFA 20) for a total program cost of about US\$ 14 million.



interventions in orchard rehabilitation which are currently being carried out at a rate of 20,000 hectares rehabilitated annually; this comprises promoting the adoption of good agricultural practices including maintenance and improvement of cashew orchards, pruning, harvesting, pest and disease management and grafting of aged low-producing trees;¹⁸ and (iii) SC2.2 will support contractual arrangements with NGOs and other private service providers to provide technical assistance to producers and agro-processors to help them comply with quality standards and food safety norms; it will also support the delivery of agricultural advisory services to producers through on-demand training activities regarding sustainable agricultural practices. In doing the foregoing, the project is expected to enable a wider adoption of good agricultural practices. Support to farmers under component 2 will follow clear and transparent processes and eligibility criteria. One of the thematic focus of the capacity building efforts will be to increase knowledge and understanding of the risks and impacts of climate change on production and yields of the targeted value chains and reduce post-harvest losses.

Component 3. Promoting Private Investment (US\$ 45 million)

The component will promote private sector investment all along the selected value chains, through: (i) a mechanism to support investments through the provision of matching grants for producers, processors and other value chain actors, including support to attendant business development services; and (ii) a risk sharing mechanism.

Sub-Component 3.1: Investment support (US\$ 15 million). SC3.1 will support the creation of a matching grant mechanism for business development by farms and agri-food SMEs at both production, processing and ancillary activities including Business Development Services (BDSs). Targeted beneficiaries include two categories; (i) production activities: individual farms, production groups and cooperatives, including nurseries and production of planting material; and (ii) processing and ancillary activities: agro-processing SMEs, transport and storage enterprises, and miscellaneous agricultural services providers. Eligibility criteria will be specified in the project implementation manual. The Matching Grants (MGs) will be disbursed through two windows: (i) *Window A*: MGs for farms, cooperatives and nurseries sub-projects to finance up to 80 percent of eligible costs (700 sub-projects of average unit cost of US\$ 10,000) for investments such as acquisition of agricultural production equipment and machinery, post-harvest technologies and storage facilities; and (ii) *Window B*: MGs for small and medium agro-processing operators and agriculture service providers to finance the expansion and/or upgrade of their existing activities up to 50 percent of eligible costs (300 sub-projects of average unit cost of US\$ 25,000). The MGs will be passed on directly to the beneficiaries to finance eligible investments. The beneficiaries will be required to provide evidence of a secured bank loan or own equity in an account at a local financing institution covering the remaining portion of the sub-project costs. The implementation of the matching grant mechanism will be outsourced to a private management firm under the supervision of the Project Management Unit (PMU). The project will provide free of charge technical assistance to eligible beneficiaries for advisory support throughout the investment cycle. This will include the preparation of sound business plans, appropriate choice of technology, support for procurement and corresponding preparation for loan application if any.

Sub-Component 3.2: Risk Sharing Mechanisms (US\$ 30 million). The sub-component's objective is to provide increased incentives for financial institutions to lend to private sector firms and critical service providers in the agri-food sector by sharing the burden of risk associated with private agri-food initiatives.

To that end, SC3.2 will finance the following twin interventions:

- a) *A risk sharing instrument* to alleviate capital constraints through guarantees that provide a first loss cover. Implementation of the guarantee mechanism will be split between two instruments – the IFC's Risk Sharing Facility, and the National Guarantee and Small and Medium Enterprise Assistance Fund (FONAGA) – in order to target both SMEs and farmers. More specifically this sub-component will finance: (i) the scaling-up of the

¹⁸ A target of 100,000 hectares will be rehabilitated over the project life for an estimated cost of US\$ 10 million.



existing joint IDA-IFC Risk-Sharing Facility (RSF) under the Benin Cross-Border Tourism and Competitiveness project¹⁹, (ii) the establishment of a guarantee line through the FONAGA existing Risk Sharing Facility and provision of technical assistance to reinforce FONAGA’s capacity. Targeted beneficiaries for this instrument will be the same as those targeted by the matching grant facility, i.e., farmers, cooperatives, private nurseries, agro-processing SMEs, agricultural input/ equipment suppliers, agricultural insurance institutions and SME trucking companies (especially those providing cold chain transport), etc. To ensure effective use, this sub-component will also finance technical assistance to participating financial institutions in order to promote the utilization of the guarantee with project beneficiaries; and

- b) *A guarantee mechanism* (such as a defined minimum revenue or advanced payment guarantee): The objective of this instrument is to attract investment in critical services by mitigating commercial risk to expanded service provision²⁰. Potential recipients include: specialized logistics companies such as Third-Party Logistics (3PLs) or Fourth-Party Logistics (4PLs), and other service companies. Guarantees will be issued to the selected providers based on a competitive tender that lists the investment requirements and the indicators for the quality of service expected.

Component 4. Project Management (US\$ 12 million)

The objective of this component is to support project management. The project will fund the operation of the Project Management Unit (PMU) during the entire implementation period, so that it can carry out its project management and coordination functions, including fiduciary aspects, the implementation of the project’s safeguards policies, project monitoring and evaluation (M&E), reporting and communication activities. This will include consultant services, provision of goods and equipment, training and incremental operating costs.

Legal Operational Policies

| | Triggered? |
|---|------------|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Areas OP 7.60 | No |

Summary of Assessment of Environmental and Social Risks and Impacts

The expected environmental and social impacts of the project will be overall positive. The project will finance the construction of critical public good and club good infrastructure, rural road networks, club-good facilities, irrigation infrastructure, etc. It is also expected that the project builds or rehabilitates cold chain infrastructures such as cooling rooms at the airport. Some of the mentioned activities would lead to the loss or the disruption of income or livelihood activities for individuals or groups of people, restriction of resources access. Based on activities nature and their magnitude, potential adverse impacts on environment and communities are expected to be site specific, manageable

¹⁹ Project evaluation is yet to be conducted. However, uptake so far has been very good. Agreement with IFC to scale up the facility will be explicit on the need to ensure additivity.

²⁰ For instance, such a guarantee for logistic providers could allow Market Failures on production side to resolve themselves over the course of a few years while the distribution channels are opened up and provide the commercial pull mechanism.



on an acceptable level and reversible.

E. Implementation

Implementation arrangements feature several players whose roles will be further detailed in the Project Implementation Manual. These arrangements build on similar successful projects in Benin.

Project Steering Committee (PSC). Project implementation arrangements include the following two-level project steering committee: (1) **Strategic committee.** This committee will be established to provide overall strategic, oversight and guidance on project implementation and will review and approve annual work plans and budgets and serve as the ultimate authority to solve potential impasses that may arise with respect to specific reforms and strategic decisions. The Strategic Committee will be chaired by the Minister of Agriculture and will include (a) the Minister of Finance, the Minister in charge of Infrastructure, the Minister of Industry and Commerce, the Chairman of the board of APIEX and two heads of private sector umbrella organizations. The Steering Committee will meet every six months; (2) **Technical committee.** A committee will be established under the Strategic Committee to supervise project implementation (for example, ensuring that implementation is in line with the objectives and scope of the project; ensuring that the annual work plan to achieve the project objectives is within the agreed time frame and budget; and managing risks and issues that arise during project implementation). The committee will be chaired by the CEO of APIEX and will comprise representatives of the ministries in the PSC. The Technical Committee will meet on a quarterly basis and ad hoc, as needed.

Project Management Unit. Considering the multisectoral nature of the project interventions and the focus on export diversification, the Agency for the Promotion of Investment and Export (APIEx) which is under the oversight of the Presidency to have overall responsibility for the coordination of project implementation. It will liaise closely with the Ministry of Agriculture, Ministry of Infrastructure, Ministry of Trade and Industry and other line Ministries as necessary for the smooth implementation of project activities. The project implementation structure will include a Project Management Unit (PMU) housed at APIEx. The Project Management Unit, which will report to the CEO of APIEx, will be headed by a Project Coordinator and consist of dedicated and competitively staff, including a procurement specialist, a financial management (FM) specialist, a chief accountant, an M&E specialist, an agricultural value chain specialist, a private sector development specialist, an infrastructure specialist, an environmental safeguards specialist, a social development and gender specialist, and support staff. The PMU will be responsible for all procurement, disbursement, accounting and FM, M&E, and reporting of project progress and for ensuring the auditing of project accounts. The Project Coordinator will report to the Project Technical Committee at least once every quarter on the progress achieved, highlight implementation issues and challenges, and seek guidance and direction on project implementation. The CEO of APIEx will report to the PSC on a six-monthly basis (with the Project Coordinator reporting to him).

Implementation Arrangements for Project Components. The PMU will work in close collaboration with the different ministries and agencies involved in the project, as well as with private sector representative bodies and other stakeholders, through designated focal points. These agencies or ministries and beneficiaries include the Ministry of Agriculture; the Ministry Commerce and Industry; the Ministry in charge of Infrastructure; the Territorial Agency for Agricultural Development (ATDA) under the Ministry of Agriculture; the *Agence Beninoise pour la Securite Sanitaire des Aliments* (ABSSA); the National Metrology Agency (ANM); and the National Institute of Agricultural Research of Benin (INRAB). The PIM will compile all procedures for project operational implementation, encompassing the administrative,



fiduciary, M&E, procurement and social and environmental safeguards procedures. It will include detailed TORs for all PMU staff and the detailed procedures related to the financial instruments established under the project. The PIM will be prepared by [negotiations] [effectiveness].



Institutional and Implementation Arrangements

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