

AFRICAN DEVELOPMENT FUND



BURKINA FASO

SUPPORT PROJECT FOR ESTABLISHING AN AGRIBUSINESS BANK (PACBA)

PROJECT APPRAISAL REPORT

RDGW/PIFD/PGCL

November 2018

Translated Version

TABLE OF CONTENTS

Project Information Sheet.....	ii
Project Summary	iii
PROVISIONAL PROJECT IMPLEMENTATION SCHEDULE	iv
RESULTS-BASED LOGICAL FRAMEWORK.....	iv
I. Strategic Thrust and Rationale.....	1
1.1. Project Linkages with Country Strategy and Objectives.....	1
1.2. Context of the Bank’s Intervention	2
1.3. Rationale for Bank Intervention	2
1.4 Aid Coordination.....	4
II. Project Description	5
2.1 Project Objectives and Components.....	5
2.2 Technical Solutions Adopted and Alternatives Explored.....	13
2.3 Project Type	14
2.4 Project Costs and Financing Arrangements.....	14
2.5 Project Area and Beneficiaries	16
2.6 Participatory Approach to Project Identification, Design and Implementation	16
2.7 Bank Group Experience and Lessons Reflected in Project Design.....	16
2.8 Key Performance Indicators	16
III. Project Feasibility.....	17
3.1 Economic and Financial Performance.....	17
3.2 Environmental and Social Impact.....	17
IV. Implementation.....	19
4.1 Implementation Arrangements.....	19
4.2 Monitoring and Evaluation.....	21
4.3 Governance.....	21
4.4 Sustainability.....	21
4.5 Risk Management.....	22
4.6 Knowledge Building.....	22
V. Legal Framework.....	23
5.1 Legal Instrument.....	23
5.2 Conditions for Intervention by the African Development Fund.....	23
5.3 Compliance with Bank Policies.....	24
VI. Recommendation.....	24

LIST OF ANNEXES

Annex 1: Comparative Socio-economic Indicators.....	I
Annex 2: Table of AfDB Active Portfolio as at 30 September 2018.....	II
Annex 3: Summary Table of Donor Interventions	III
Annex 4: Map of the Project Area.....	IV

LIST OF TABLES

Table 2.1-1: Project Components and Cost Estimates in UA Thousand.....	13
Table 2.4-1: Project Cost Estimate by Component	14
Table 2.4-2: Project Cost Estimate by Source of Financing (in UA Thousand)	15
Table 2.4-3: Project Cost by Expenditure Category (in UA Thousand).....	15
Table 2.4-4: Expenditure Schedule by Component (in UA Thousand)	15

TECHNICAL ANNEXES

Technical Annex A1: Country Development Programme	
Technical Annex A2: Note on the Financial Sector in Burkina Faso	
Technical Annex A3: Note on the Agricultural Sector in Burkina Faso	
Technical Annex A4: Note on Fragility	
Technical Annex A5: Note on Gender	
Technical Annex A6: Donor Support	
Technical Annex B1: Main Lessons	
Technical Annex B2: Detailed Project Costs	
Technical Annex B3: Implementation Arrangements	
Technical Annex B4: Financial Management and Disbursement Arrangements	
Technical Annex B5: Procurement Arrangements	
Technical Annex B6: Environmental and Social Analysis	
Technical Annex B7: Project Preparation and Supervision	
Technical Annex C1: Detailed Project Description	
Technical Annex C2: Note on <i>Banque Agricole et Commerciale du Burkina</i> (BACB)	
Technical Annex C3: Detailed Analysis of <i>Banque Agricole du Faso</i> (BADF)	
Technical Annex C4: Cotton Sector: Organisation, Financing and Protection Mechanism	
Technical Annex C5: Organisation and Structures in Rural Areas in Burkina Faso	
Technical Annex C6: Note on the Burkina Faso Economic and Social Development Fund	
Technical Annex C7: Note on BNDA of Mali and CNAS of Senegal	

Currency Equivalents

August 2018

Currency Unit	=	CFA Franc (XOF)
UA 1	=	XOF 785.220
UA 1	=	EUR 1.19706
UA 1	=	USD 1.40487 EU

Fiscal Year

1 January – 31 December

Acronyms and Abbreviations

EA	Executing Agency	PMP	Procurement Methods and Procedures
AFAWA	Affirmative Finance Action for Women in Africa	UAM	UA Million
AFD	French Development Agency	WMO	World Meteorology Organisation
AGRA	Alliance for Green Revolution in Africa	P2RS	Resilience Strengthening Programme
ANM	National Meteorology Agency	PACBA	Support Project for Establishing an Agribusiness Bank
BACB	<i>Banque Agricole et Commerciale du Burkina</i> (Burkina Agricultural and Commercial Bank)	PADA	Cashew Nut Development Support Project
AfDB	African Development Bank	PATECE	Economic Transformation Support Project
BADF	Banque Agricole du Faso (Faso Agricultural Bank)	PGFC	Classified Forests Participatory Management Project
BCEAO	Central Bank of West African States	GDP	Gross Domestic Product
BNDA	Banque Nationale de Développement Agricole du Mali (National Agricultural Development Bank of Mali)	SME	Small- and Medium-sized Enterprise
BPM	Bank Procurement Methods and Procedures	SMI	Small- and Medium-sized Industry
BRVM	West African Regional Stock Exchange	RMC	Regional Member Country
CARFO	Retired Civil Servants Autonomous Fund	NBI	Net Banking Income
CBI	Coris Bank International	PNDES	National Economic and Social Development Plan
PIU	Project Implementation Unit	PPF	Project Preparation Facility
CNCA	National Agricultural Credit Fund	TFP	Technical and Financial Partner
CNCAS	National Agricultural Credit Fund of Senegal	RCPB	Credit Union Network of Burkina Faso
COBF	Bank's Country Office in Burkina Faso	REDD	Reducing Emissions from Deforestation and Forest Degradation
DBN	Development Bank of Nigeria	PAR	Project Appraisal Report
DEG	German Development Finance Agency	ESMS	Environmental and Social Management System
SNBD	Standard National Bidding Documents	SONAR-IARD	National Insurance and Reinsurance Company
SBD	Standard Bidding Documents	BPS	Borrower's Procurement System
CSP	Country Strategy Paper	UA	Unit of Account
KFW	Kreditanstalt für Wiederaufbau – German Development Bank	WAMU	West African Monetary Union
MAAH	Ministry of Agriculture and Water Management	WAEMU	West African Economic and Monetary Union
MAMDA	Mutuelle Agricole Marocaine d'Assurance (Moroccan Agricultural Insurance Company)	UNPCB	National Union of Cotton Producers of Burkina Faso
MINEFID	Ministry of Economy, Finance and Development	UNPSB	National Union of Seed Producers of Burkina Faso

Project Information Sheet

Customer Information

BORROWER : Burkina Faso

EXECUTING AGENCIES: Ministry of Economy, Finance and Development (MINEFID) and Ministry of Agriculture and Water Management (MAAH)

Financing Plan

Source	Amount (UA million)	Instrument
ADF	7.500	Loan
Government of Burkina Faso	0.126	Counterpart Contribution
TOTAL COST	7.626	

Key Financial Information on the Loan

	ADF Loan
Interest Type*	NA
Interest Rate Margin*	NA
Service Commission*	0.75%
Other costs (Commitment Fee)	0.50%
Tenor	40 years
Timeframe	2058
Grace Period	5 years
FRR, NPV (Baseline scenario)	NA
ERR (Baseline scenario)	NA

**Where applicable*

Duration – Key Milestones (expected)

Concept Note Approval	March 2018
Appraisal	July 2018
Country Team	October 2018
Project Approval	November 2018
ADF Loan Effectiveness	February 2019
First Disbursement	March 2019
Last Disbursement	March 2021
Completion	September 2021

Project Summary

Project Overview	<p>Project Name: Support Project for Establishing an Agribusiness Bank (PACBA)</p> <p>Geographical Context: Nationwide</p> <p>Implementation Timeframe: March 2019 - March 2021</p> <p>Project Cost: UA 7.625 million</p>
Project Objectives	<p>The project goal is to help increase the growth rate of the agricultural sector and improve its productivity in order to reduce poverty and strengthen the resilience of Burkina Faso's rural environment. The specific objectives of the project are to: (i) improve access to agricultural financing by establishing an agribusiness bank known as <i>Banque Agricole du Faso</i> (Agricultural Bank of Burkina Faso) (BADF); (ii) support the country's economic transformation by creating an agro-industrial value chain that provides local employment; and (iii) help improve the attractiveness of the agricultural sector for bank financing by promoting the establishment of an ecosystem that mitigates risks in the agricultural sector, in particular agricultural insurance and warrantage.</p> <p>Given the importance of the agricultural sector, the structural transformation of Burkina Faso's economy will be based on the development of this sector with respect to production and processing, hence the need to address the high marginalisation of this sector as regards financing (only 3.5% of bank loans in 2017). Accordingly, in addition to establishing this bank, which receives support from the project, the authorities intend, in the medium term, to strengthen the agricultural financing mechanism through the Shared Risk Facility, following the example of countries such as Nigeria, Togo, Ghana, etc.</p>
Needs Assessment	<p>Agriculture is the mainstay of Burkina Faso's economy. However, its contribution to the creation of national wealth remains below its potential. While it employs more than 80% of the working population, it contributes only slightly more than 30% to the gross domestic product. The sector continues to face constraints on its full contribution to the national economy, particularly production, difficulties in accessing financing, and transportation of agricultural products to markets. The proportion of financing devoted to the sector accounts for barely 3.5% of bank financing, despite the existence of thirteen (13) banks and four (4) financial institutions.</p> <p>In addition, the unavailability of agricultural insurance, which would even out farmers' income and thereby encourage them to repay their loans to financial institutions, is a handicap to agricultural financing.</p>
Project Beneficiaries	<p>The main beneficiaries are farmers and economic operators engaged in processing activities in the agricultural sector. The banking sector, in particular BADF, will witness an improvement in its loans to the sector following establishment of the agricultural insurance mechanism.</p>
Outcomes and Impact	<p>The project will help to create enabling conditions for more sustained and inclusive growth through better financing of the agricultural sector, which is a pillar of Burkina Faso's economy. It will improve farmers' access to credit and promote the financial inclusion of the farming population. Similarly, the project will help to reduce the proportion of non-resilient households.</p>
Value Added for the Bank	<p>The Bank's value added resides in the fact that by improving access to agricultural financing and ecosystem security through agricultural insurance and warrantage, it will increase and consolidate the impact of projects by the Bank and other donors in the sector. Similarly, everyone will benefit from agricultural insurance and use of the warrantage mechanism. Agrihub projects supported by some donors will also be open to another financing window with BADF.</p>
Knowledge Building	<p>PACBA implementation will help to build several types of knowledge, particularly: (i) best practice in agribusiness investment financing; (iii) the creation of agribusiness project databases to promote the emergence of agricultural processing units; and (iv) studies to be conducted on agricultural insurance and warrantage. The practices will be disseminated within the administration and to non-State actors through the documents produced, procedures manuals, and training sessions that will be organised under the project.</p>

PROVISIONAL PROJECT IMPLEMENTATION SCHEDULE

Components / Sub-Components	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Support for improving access to agricultural financing												
1.1 Financing of Govt's participation in the share capital	■	■	■									
2. Support for security of agricultural financing ecosystem												
2.1 Establishment of an agricultural insurance mechanism												
2.1.1 Definition of insurance indices and products and preparation of insurance policies		■	■	■	■	■	■	■				
2.1.2 Procurement and operation of automatic weather stations that meet WMO standards		■	■	■	■	■	■	■				
2.2 Development of community warrantage and third-party holder activities UA 410,710		■	■	■								
2.2.1 Preparation of regulatory texts		■	■	■								
2.2.2 Validation of the proposed texts		■	■	■	■	■	■	■				
2.2.3 Workshop for ownership/dissemination of adopted texts					■	■	■	■				
2.2.4 Creation of warrantage database for networking						■	■	■				
2.2.5 Standards dissemination workshop							■	■	■	■	■	■
2.2.6 Sensitization on the establishment of warrantage cooperatives							■	■	■	■	■	■
2.2.7 Support for constituent general meetings of warrantage cooperatives								■	■	■	■	■

RESULTS-BASED LOGICAL FRAMEWORK

Project Goal: Help increase the growth rate of the agricultural sector and improve its productivity in order to reduce poverty and fragility						
	RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (Including CSI)	Baseline Situation	Target		
IMPACT	Increase in the growth rate of the agricultural sector and improvement in its productivity	Annual growth rate of the agricultural sector	5. % in 2016	6.5% in 2020	PNDES monitoring reports BADF activity reports	
		Primary sector productivity	EUR 544 /share in 2016	EUR 816/share in 2020		
OUTCOMES	Outcome 1.1: Improved access to financing for the agricultural sector.	Share of bank credit to the agricultural sector	3.5% in 2017	4.5% in 2019 and 5% in 2020	PNDES monitoring reports BADF activity reports	Risks and Mitigation Measures (i) Rising socio-political tensions <i>Government commitment to continue negotiations to ensure that socio-economic and political demands are coherently and reasonably taken into account.</i>
	Outcome 1.2: Increased agricultural processing rate	Increase in the agricultural product processing rate	16% in 2016	25% in 2020		(ii) Increased security risk
	Outcome 2: Enhanced resilience of agro-sylvo-pastoral households, wildlife and fisheries to risks.	Proportion of non-resilient agricultural households	42.68% in 2017	35% in 2019 and 25% in 2020		<i>The Government has redoubled its efforts to provide strong and sustainable responses, and has resolutely embraced a regional counterterrorism framework (G5 Sahel) to address the various threats.</i>
OUTPUTS	Component 1: Support for improving access to agricultural financing					(iii) BADF’s weak human and institutional capacity to properly manage the bank <i>BADF's management has extensive experience in banking and, particularly, in agricultural financing. In addition, the technical assistance contract with CNCA of Senegal will provide support to BADF in various areas, particularly in information systems management and risk management systems and procedures.</i> (iv) Governance: Strong Government participation in the bank’s capital following the Central Bank's request to pull out shareholders deemed financially weak.
	Output 1.1: BADF's capital is 100% subscribed	Government pays its share in BADF capital	Not done	100% subscribed capital in 2019	MINEFID and BADF Annual Reports	
	Output 1.2: BADF is established	BADF is established	Nil	WAEMU Banking Commission grants accreditation to BADF	BCEAO	
	Output 1.3: BADF is operational	BADF grants loans	Nil	XOF 34 billion of loans to the agricultural sector in 2020 and 88 jobs	MINEFID and BADF Annual Reports	

			created, 30% of which were created by women		<i>The Burkina Faso Fund for Economic and Social Development (FBDES) holds the Government's participation and additional shares owned by organisations considered weak by the Central Bank; the Central Bank has requested the organisations to pull out of BADF capital. FBDES is requested to gradually transfer the shares, as well as the Government's participation, to stakeholders in line with its area of activity as soon as possible. In addition, the entry of a technical and financial partner is also being considered. Independent directors will also be co-opted to the Board of Directors to improve the quality of the management structure.</i> (v) Risk of strong pressure on management from farmers' cooperatives who consider BADF as a bank established on their initiative and dedicated to them. <i>Strong ownership of the project establishing BADF from the outset by farmer organisations, and therefore their willingness to ensure the bank's viability. In addition, the continued and strong sensitisation of farmer organisations on the need for the bank's sustainability. BADF will give priority to organised farmers' networks that will help collect customer information and, if necessary, collect unpaid debts.</i> (vi) Strong competition from existing banks <i>Given the strong ownership by farmer organisations, BADF will rely on farmer sectors to attract farmer customers. The bank's activities will be diversified by financing non-agricultural sectors.</i>
Output 1.4: Gender equity in BADF operations	BADF loans to women farmers	Nil	20% of total loans	Same as above	
Component 2: Support for security of the agricultural financing ecosystem					
Output 2.1: The agricultural insurance mechanism is established and operational	Definition of insurance indices and products, and preparation of insurance policies	Insurance indices and products not defined and insurance policies not prepared	Insurance indices and products defined and insurance policies prepared	MAAE	
	Procurement and operation of automatic weather stations that meet WMO standards	No automatic weather stations	Automatic weather stations that meet WMO standards procured and installed	MAAE	
Output 2.2: The warrantage system is in place and operational	Elaboration and adoption of regulatory texts	No texts	Regulatory texts elaboratd and adopted	MAAE	
	Creation of a warrantage database	Lack of a warrantage database	Warrantage database created		
	Sensitisation of stakeholders	Warrantage not known	Actors sensitised on warrantage		
ACTIVITIES	Components Component 1: Support for improving access to agricultural financing Component 2: Support for security of the agricultural financing ecosystem				Resources ADF : UA 7.5 million Government : UA 0.125 million

REPORT AND RECOMMENDATION BY MANAGEMENT OF THE AFRICAN DEVELOPMENT FUND TO THE BOARD OF DIRECTORS CONCERNING THE SUPPORT PROJECT FOR ESTABLISHING AN AGRIBUSINESS BANK (PACBA) IN BURKINA FASO

Management hereby submits this report and its recommendation concerning a proposal to grant an African Development Fund (ADF) loan of UA 7.5 million to Burkina Faso to finance the Support Project for Establishing an Agribusiness Bank (PACBA). This is an institutional support project that will be implemented over the 2018-2020 period to cover Government's participation in the capital of the new bank and establish an agricultural insurance system and a warrantage mechanism in Burkina Faso. Therefore, this project will not only strengthen access to agricultural financing but also improve the business environment of the agricultural sector and diversify agricultural financing mechanisms.

I. STRATEGIC THRUST AND RATIONALE

1.1. Project Linkages with Country Strategy and Objectives

1.1.1 The National Economic and Social Development Plan (PNDES) is the national reference framework for interventions by the Government and its partners over the 2016-2020 period for the structural economic and social transformation of Burkina Faso to achieve strong, sustainable, resilient, and inclusive growth that will create decent jobs for all and improve social well-being (TA A1). PNDES comprises three strategic pillars: (i) Pillar 1: reform institutions and modernize the administration, (ii) Pillar 2: develop human capital, and (iii) Pillar 3: boost growth-oriented sectors for the economy and jobs. *PACBA is aligned on Pillar 3, which aims to boost growth-oriented sectors for the economy, particularly by developing an agricultural, silvicultural, pastoral, wildlife and fisheries sector that is productive and resilient.*

1.1.2. The Bank's intervention strategy in Burkina Faso over the 2017-2021 period is based on the country's development framework (i.e. the PNDES), with particular emphasis on the structural transformation of the economy. Consequently, the CSP is structured around two pillars: (i) promote access to electricity, and (ii) develop the agricultural sector for inclusive growth. Under the second pillar, the Bank will focus on the following actions: (a) support reforms in the agricultural sector; (b) develop value chains and water management, relying mainly on support for the emergence of growth hubs such as Bagré Hub and cotton processing; (c) promote youth employment with particular emphasis on the development of agro-business and professional skills; (d) access to financing for the sector with institutional and financial support from an agricultural bank being established; and (e) construction of access infrastructure to improve the marketing of agricultural products and intra-regional trade. In this regard, *PACBA is fully aligned on the Bank's strategy, particularly with points (i) to (iv) indicated above.*

1.1.3. In addition, by broadening access to economic opportunities for the people, particularly farmers, PACBA is aligned on the Bank's Ten-Year Strategy (2013-2022) with respect to the objective of inclusive growth.

1.1.4. PACBA is also consistent with the Strategy for Agricultural Transformation in Africa ("Feed Africa"), which aims to "transform African agriculture into a competitive and inclusive agro-industrial sector that can create wealth".

1.1.5. The project also falls within the Bank's Second Climate Change Action Plan, particularly under its pillar relating to intensified financing for adaptation.

1.1.6 Finally, PACBA falls within the Bank's Financial Sector Development Strategy, which aims to "help increase access to financing, deepen African financial institutions and markets in RMCs

and at regional level, and support financial stability", as well as its **Gender Strategy (2014-2018)** in its focus on women's economic empowerment.

1.2. Context of the Bank's Intervention

1.2.1 With regard to the economic and social context, activity is picking up vigorously after a period of economic sluggishness in 2014 and 2015. Burkina Faso's economic growth remains strong despite a fragile security context (TA A4-Note on Fragility). Economic growth is estimated at 7% in 2018 after 6.7% in 2017 and 5.9% in 2016. The impact of transformative investments under the National Economic and Social Development Plan (PNDES 2016-2020), particularly in increasing energy supply, has contributed to this economic dynamism. In addition, the performance of the extractive industries through increased gold production has provided additional support for economic activity.

1.2.2. In 2018, the Government concluded a three-year programme supported by the IMF's Extended Credit Facility, which seeks to ensure stability of the macroeconomic framework and reduce the fiscal deficit to 5% in 2018 and to a maximum of 3% of GDP in 2019, in line with the WAEMU convergence criterion.

1.2.3. As regards execution of the State budget, the Government intends to continue its efforts towards controlling current expenditure, consolidating revenue mobilisation reforms, and implementing the PNDES. The measures to be taken in 2018 to increase revenue consist in further computerisation of tax services (online procedure, digitalisation, etc.), as well as further consolidation of business segmentation and reforms to modernise customs administration.

1.2.4. At the social level, Burkina Faso falls within the category of countries with low human development. The latest poverty survey in Burkina Faso (the Permanent Multisector Survey - EMC) estimated the poverty rate at 40.1% in 2014 compared to 46.7% in 2009, which corresponds to a 6.6% decline. Despite this progress, the prevalence of poverty in rural areas (41%) is higher than that at national level and in urban areas (14%).

1.3. Rationale for Bank Intervention

1.3.1. Unlocking access to financing for Burkina Faso's key economic sector (TA A3): The agricultural sector's contribution to national wealth creation remains below its potential. While it employs more than 80% of the working population, agriculture contributes only slightly more than 30% to the gross domestic product. The sector continues to face constraints that hamper it from contributing fully to the national economy. These constraints include difficulties regarding production, accessing financing and transporting agricultural products to markets. Admittedly, the financing of the cotton sector is a success story, thanks mainly to the quality of supervision of the sector and the smoothing mechanism put in place (**TA C4**). However, access to agricultural financing remains a real handicap, aggravated by the privatisation of BACB, which has created an institutional vacuum in agricultural financing. The proportion of financing devoted to the sector accounts for barely 3.5% of bank financing, despite the existence of thirteen (13) banks and four (4) financial institutions. There are many reasons for the banks' little interest in agricultural financing. One of the main reasons is the high risk inherent in such financing but, above all, the lack of control over the value chain: the vast majority of operators in the sector can neither offer adequate guarantees nor control the storage and marketing schedule for their products.

1.3.2. Securing the risk environment to ensure BADF viability and promote the attractiveness of agricultural financing for commercial banks. The farms face considerable risks (climate, markets, health risks, locust invasions, etc.), which can even lead to total production loss. It should be noted that the unavailability of agricultural insurance neither allows farmers to even out their

income nor encourages them to repay their debts to financial institutions. Consequently, it is necessary to set up an insurance system. Furthermore, the limited diversification of mechanisms to promote agricultural financing remains a handicap, hence the need to develop warrantage. In this regard, the Ministry of Agriculture in September 2017 prepared a national strategy to guide warrantage interventions with the support of the Alliance for a Green Revolution in Africa (AGRA). It is now necessary to move from strategy to action. Finally, it should also be noted that banks operating in Burkina Faso lack expertise in providing support and advisory services on agricultural sector financing. To help it get started and avoid all these pitfalls, BADF has decided to use the technical assistance of *Caisse Nationale de Crédit Agricole* (National Agricultural Credit Fund) (CNCA) of Senegal, an institution with more than thirty years' experience in financing Senegalese agricultural development.

1.3.3. Continue and intensify financing actions for agricultural and agrifood SMEs and SMIs initiated in sub-projects supported through lines of credit granted by AfDB to Coris Bank (December 2016) and Fidelis Finance (June 2014). These financial institutions provide significant support for agricultural financing, which is neglected by commercial banks. The support will continue and be reinforced with BADF, whose medium- and long-term credit forecasts for the agricultural sector is estimated at XOF 4.1 billion in 2019 to XOF 14.54 billion in 2024, with an annual growth rate of 28%. Furthermore, this operation will help to achieve three of the High 5s¹ identified by Senior Management, namely: "Feed Africa", "Industrialise Africa" and "Improve the quality of life for people in Africa", through the financing of agro-industrial projects that will contribute to promoting food security and improving living conditions in rural areas.

1.3.4. Reinforce and consolidate the Bank's involvement in Burkina Faso's agricultural sector: PACBA will reinforce and consolidate the impact of many other existing projects: Support Project for Bagré Growth Pole, Participatory Forest Management Project, Cashew Nut Development Support Project in Comoé Basin for REDD (PADA-REDD+), Preparation of PPG PGFC/REDD++ FIP, Resilience Building Programme (P2RS) and PPF for Youth and Women's Integration in Agro-Sylvo-Pastoral Sectors. PACBA falls within the Lending Programme of CSP 2017-2021 and is a Pillar II flagship operation.

1.3.5. Replicating Existing Success Models in West Africa

1.3.5.1 Banque Nationale de Développement Agricole du Mali (National Agricultural Development Bank of Mali) (BNDA) (TA C7), initially based on a fully agricultural banking model, has gradually diversified its portfolio to strengthen its viability. At the end of 2017, it had 54% of its portfolio in agricultural value chains, and 46% outside the agricultural sector. It is in its 38th year of existence and has remained profitable over the past twelve (12) years. Originally, BNDA was completely State-owned. After demonstrating its ability to be viable, it attracted several shareholders, including the French Development Agency (20% of the capital) and the German Development Finance Agency (DEG) (21% of the capital). BADF will be built on this semi-agricultural banking model, with 40% of its exposure outside the agricultural sector. This will allow it to mobilise deposits from other sectors and mitigate the effects of any crisis in the agricultural sector. In addition, gradual government withdrawal from its capital is being considered to make way for financial partners with expertise in agricultural financing.

1.3.5.2. Caisse Nationale du Crédit Agricole du Sénégal (National Agricultural Credit Fund of Senegal) (CNCAS) (TA C7), drawing on the lessons learned over the years, has finally found a model that guarantees its viability. CNCAS intervention is accompanied by a series of measures to secure the agricultural financing ecosystem in Senegal, in particular: (i) agricultural insurance, of which the

¹ The five strategic priorities ("High 5s") identified by Senior Management are: "Light up and power Africa", "Feed Africa", "Integrate Africa", "Industrialise Africa" and "Improve the quality of life for people in Africa".

Senegalese Government finances 50% of the premiums, enables it to increase the resilience of its borrowers, thereby curbing their default rate; (ii) Government's subsidising of agricultural credit rates to allow a greater number of farmers to have access to credit, thereby promoting diversification of CNCAS portfolio; and (iii) guarantees to be granted by the Government in financing major agricultural projects will allow CNCAS to have sufficient margins under its prudential ratios to increase its financing volumes. With PACBA, the Bank intends to support the establishment of a secure ecosystem similar to that of CNCAS in Senegal to strengthen BADF's viability. To that end, a technical assistance contract has been concluded between CNCAS and BADF. CNCAS will assist BADF in starting up its activity, particularly the information systems, risk systems, and commercial strategy.

1.3.6. Recent Cases of Bank Support for Agricultural Financing

1.3.6.1 In December 2016, the Board approved a UA 67 million ADF loan for a 40-year period, including a 10-year grace period, to the Government of Tanzania to be on-lent to the Agricultural Bank of Tanzania. Tanzania Agricultural Development Bank was officially launched and began its operations in 2015. It is structured to provide medium- and long-term financing, in the form of loans, guarantees and risk-sharing instruments, to fill the financing gaps in agricultural value chains in Tanzania. The support for the Tanzania Agricultural Development Bank has not yet been disbursed.

1.3.6.2. In December 2014, the Board approved a total financial plan of USD 500 million for the Federal Republic of Nigeria for the establishment of the Development Bank of Nigeria. The financial plan included: (i) an ADF loan of USD 50 million for 30 years, including a five-year grace period; (ii) a USD 400 million loan for 20 years, including a five-year grace period, from the Bank's regular resources; and (iii) a direct Bank equity participation of up to USD 50 million in the capital of the Development Bank of Nigeria Plc (DBN), with a redemption obligation for DBN after 10 years. The purchase of the Bank's stake by DBN is guaranteed by the Federal Republic of Nigeria. The Nigerian Development Bank has not yet published its first financial performance for preliminary lessons to be learned with respect to financial sustainability.

1.4 Aid Coordination

1.4.1 The Bank plays a key role in coordinating TFP assistance. After chairing the TFP troika from 2013 to 2014, it was lead partner of the Sector Dialogue Framework for Infrastructure from 2014 to 2015, and for Water and Sanitation from June 2015 to October 2016, and finally, the Bank was the coordinator of TFPs operating in the youth and vocational training sector from 2014 to 2016.

1.4.2 With respect to overall intervention volume, the Bank is the third-largest development aid TFP, after the European Union and the World Bank. The Bank is also Burkina Faso's main partner in the infrastructure sector (*Annex 3 and TA A6*).

1.4.3. As regards the financial sector, the Bank is Burkina Faso's leading TFP, especially with the different lines of credit granted to the country's banks. As for the agricultural sector, the Bank is within the TFP average (those between 10% and 50% of the sector's financing). PACBA's leverage effect on the entire agricultural sector will contribute to better complementarity with the actions of other TFPs in the sector.

1.4.4 Concerning warrantage, KFW intends to work with the Government for proper implementation of the mechanism, thereby creating good complementarity with support provided by PACBA in this area.

1.4.5 Other TFPs are involved, at different levels, in the project's activity areas (*TA A5*).

1.4.5.1 USAID, in partnership with Coris Bank International, held a training seminar on "Financing Agricultural Value Chains" on 3-4 December 2016. To narrow the financing gap in the sector, the Trade Hub, a USAID programme which, after analysing the financing rate in West Africa by most banks to agrifood and agro-industrial sector stakeholders, took the initiative in 2015 to embark on expanding its network of banking institutions to facilitate access to credit for small processors and exporters. USAID underscored the importance of the Trade Hub Project and for the United States to share its experience in credit guarantees for agricultural financing.

1.4.5.2 Through "Développement International Desjardins (DID)", Canada initiated the Project for Professionalisation of Agricultural Credit Methodologies (PMCA). Several MFI networks, supported by DID, operate in rural areas and are required to serve this relatively complex market. DID's Project for Professionalisation of Agricultural Credit Methodologies (PMCA) essentially aims to support a number of the MFIs as follows: (i) promote access to credit for small farmers; (ii) mitigate credit risks associated with the sector; and (iii) increase the profitability of MFIs operating in rural areas.

1.4.5.3 Other TFPs, particularly Proparco and IsDB, have also intervened through lines of credit to *Société Générale Burkina Faso* and Coris Bank International to support private sector development, particularly SMEs and SMIs, as well as promote Islamic financing.

II. PROJECT DESCRIPTION

2.1 Project Objectives and Components

2.1.1 The project goal is to help increase the growth rate of the agricultural sector and improve its productivity in order to reduce poverty and strengthen the resilience of Burkina Faso's rural environment. The specific project objectives are to: (i) improve access to agricultural financing; (ii) support the country's economic transformation through the emergence of an agro-industrial value chain that provides local employment; and (iii) help improve the attractiveness of the agricultural sector for bank financing by promoting the establishment of an ecosystem that mitigates risks in the agricultural sector, particularly agricultural insurance and warrantage.

2.1.2. The project is structured around two components: (i) support for improving access to agricultural financing through Government participation in the capital of the newly established *Banque Agricole du Faso* (Agricultural Bank of Burkina Faso) (BADF); and (ii) support for security of the agricultural financing ecosystem by establishing an agricultural insurance system and a warrantage mechanism.

2.1.3 Component 1: Support for Improving Access to Agricultural Financing

2.1.3.1. Through this component, the project will, in view of the high expectations of the population, particularly in the agricultural sector, as well as the significant financing needs of agriculture and its transformation, enable the Government to play its role as a driving force by acquiring a stake in BADF's capital. Considered as a priority in the Bank's 2017-2021 Strategy for Burkina Faso, the establishment of this bank will contribute to efforts towards responding to the scarcity of bank financing dedicated to the agricultural sector and lay the foundations for effective implementation of agricultural value chains. Thus, the Bank will provide financial support to the Government, amounting to XOF 5 billion, for the acquisition of a stake in BADF's capital. It should be noted that

BADF was approved by the Minister in charge of Finance by decree N° 183/MINEFID/DGTCP/DAMOF on 16 April 2018 after favourable opinion of the WAMU Banking Commission on 14 March 2018 and is currently working towards its operationalisation. The Bank's support will be through the reinbursement method (please refer to section 4.1.4.1).

2.1.3.2 An analysis of the financial sector (*TA A2*) shows strong expansion of the banking system in Burkina Faso, with bank loans increasing by 20% in 2017 and by more than 6% per year on average over the 2012-2017 period. The feasibility study on the *Banque Agricole du Faso* Project² shows that although it is a competitive sector, ***the prospects for developing the credit market confirm the existence of a niche for the establishment of a new bank dedicated to agricultural financing***. Since ECOBANK's takeover of *Banque Agricole et Commerciale du Burkina* (Agricultural and Commercial Bank of Burkina Faso) (BACB)³ in 2008, there is no longer any credit institution specialised in agricultural financing in Burkina Faso. This accounts for the small proportion of bank financing to the primary sector, the importance of which can no longer be underestimated. Nevertheless, as a precautionary measure, BADF intends to capture only 1% of deposits and loans at start-up, and gradually increase its market share to 3% in the fifth year. BADF will provide 60% of its assistance to the agricultural sector (particularly agro-industries), with the remaining 40% going to the trade and industry sectors. Accordingly, the establishment of BADF will help to increase the share of agricultural financing from 3.5% of bank loans in 2017 to 5% in 2020 and 7% in 2022 (or EUR 685 million). The establishment of BADF will create 114 new direct jobs⁴ in 2023 and more than 3,000 indirect jobs⁵ through recruitment in the agricultural companies that will be financed. To contribute to gender mainstreaming in agricultural financing, BADF intends to earmark at least 20% of its agricultural financing for women farmers, and subsequently increase it by 15% per year. The project will help to increase the country's number of bank account holders, which is expected to rise from 26% in 2016 to 40% in 2020.⁶

2.1.3.3 Once the banking licence has been obtained, BADF will launch its operationalisation: (i) **a headquarters** has been identified and rehabilitation works are in progress. The towns selected for the first two branches outside Ouagadougou are Dédougou and Bobo-Dioulasso; (ii) **SOPRA Amplitude banking solution** has been selected for BADF's IT systems following a competitive bidding process; (iii) **connections to GIM UEMOA, STAR-UEMOA and SWIFT payment platforms** are in progress; (iv) **staff recruitment**, which began with IT staff, will continue with the hiring of commercial and credit officers for the headquarters and Dédougou and Bobo-Dioulasso branches; and (v) **communication** is being organised with the creation of a website, the search for a logo, and the recruitment of a communication agency to define the bank's communication strategy.

2.1.3.4 Detailed Analysis of *Banque Agricole du Faso* (BADF) (*TA C3*)

2.1.3.4.1 Objectives

2.1.3.4.1.1 The BADF's corporate goal will be to provide its target customers in rural and urban areas with a wide range of financial services (credit, savings, insurance, money transfers, etc.) tailored to their needs. The target customers will include rural stakeholders (farmers, stock-breeders, fishermen, craftsmen, suppliers of agricultural inputs and equipment, agricultural product traders, processors, transporters, etc.) and those in other sectors of the national economy.

² Sponsored by BADF promoters and implemented by ACS consulting firm.

³ National Agricultural Credit Fund (CNCA), established by the Government in 1979, was transformed in 2002 into BACB, which operated as a commercial bank and did not grant medium-term loans. It was sold to ECOBANK under the programme with IMF.

⁴ Source: BADF feasibility study.

⁵ Based on long- and medium-term loans in 2023 resulting in an investment of XOF 120 billion, estimating the average cost of creating a job at XOF 40 million.

⁶ Source: BCEAO.

2.1.3.4.1.2 The specific objectives are to: (i) promote the development of the agricultural sector and offer a range of community-based financial services to the rural and urban population throughout Burkina Faso; (ii) contribute to the creation of added value in the agricultural sector through the financing of value chains; (iii) promote local investment, development and wealth creation among the population; (iv) increase the number of bank account holders in Burkina Faso, through gradual geographic coverage of the national territory, with the opening of branches in the headquarters of urban and rural municipalities that have enormous potential; and (v) become a benchmark in rural financing on the banking market in Burkina Faso and WAEMU.

2.1.3.4.2 Promoters, Shareholders and Management

2.1.3.4.2.1. **Shareholders:** The high government stake in the BADF's capital is due to: (i) the strong government commitment to the establishment of BADF; and (ii) the Central Bank's initial remarks on the financial soundness of the benchmark shareholders, particularly farmers' organisations and associations whose financial structure was considered weak by the Central Bank. In order not to delay the establishment of BADF, the shares of these shareholders were taken over by FBDES pending their reorganisation in accordance with banking regulations. However, given the importance of farmer organisations in BADF's business model, they will continue to sit on the Board of Directors.

Structure of BADF's Share Capital

Actionnaires	Part dans le Capital
Participations publiques	87,56%
Etat burkinabè (à travers le FBDES)	63,04%
Sociétés d'Etat	24,52%
Caisse Autonome de Retraite des Fonctionnaires (CARFO)	14,01%
Loterie Nationale du BURKINA (LONAB)	10,51%
Organisations paysannes	0,66%
Sociétés privées	6,71%
WATAM SA	4,90%
CORIS Bank International (CBI)	0,70%
Autres	1,11%
Personnes physiques	5,07%
Total	100%

2.1.3.4.2.2. **Management Team:** The majority of the management team will be members of the technical committee responsible for managing BADF implementation. The committee has already directed the market survey conducted by ACS, and is preparing the application for a banking licence. The committee, headed by the Chief of Staff of the Prime Minister and current Chair of the BADF Board of Directors, previously a senior executive at BCEAO, is composed mainly of former BACB senior executives and representatives of the agricultural community through farmer organisations. The General Manager was the last General Manager of BACB⁷, which he managed for more than 6 years. In particular, he led the merger and integration of BACB into ECOBANK. He has more than thirty years of banking experience. Before joining BACB's General Management, he had held several key management positions in the Credit and Commitments Department and the Administrative and Financial Department, and was the Deputy General Manager. His long experience in the banking sector, particularly in agricultural financing, will be essential to assisting BADF to cope with difficulties inherent in a new bank.

2.1.3.4.3 **Governance:** BADF is governed by a Board of Directors, whose role is to define strategic guidelines for the bank and ensure their implementation. The Board comprises 10 members,

⁷ Banque Agricole et Commerciale du Burkina

with 4 Government representatives or 5 if the CARFO representative is included. The other 5 members are as follows: 2 representatives of the farmers' unions (UNPCB and UNPSB), the representative of smallholders, the representative of WATAM, and the representative of the rural population. It should be noted that three of the four Government representatives, including the Chair of the Board of Directors, have no voting rights. However, the Government and its departments retain decision-making power with an absolute majority of voting rights. The farmers and the rural population are represented by an observer with no voting rights. The Board of Directors does not currently have any independent experts in the banking sector, although independent directors will be co-opted as time goes on. Similarly, the diversification of shareholders, with the envisaged entry of a leading technical and financial partner, could help to remedy the situation. The Board of Directors has three standing committees: (i) the Audit Committee comprises at least 3 directors and is in charge of the monitoring and control strategy; (ii) the Credit Committee is composed of at least 5 directors and has decision-making powers over any commitment exceeding XOF 50 million; and (iii) the Selection and Remuneration Committee comprises 3 directors who direct BADF's remuneration and selection policy.

2.1.3.4.4. Strategy: BADF's model consists in mobilising financial resources and then directing them mainly towards financing agricultural value chains in Burkina Faso. The end objective is to promote the development of the agricultural sector, as well as achieve more inclusive growth by unlocking access to financial services and financing for rural people who form the majority of Burkina Faso's population. To fully implement this strategy, BADF intends to mobilise various sources of financing, namely: (i) development finance institutions (DFIs) on which BADF intends to rely to raise long-term resources at concessional rates for its activity. Since these resources are not included in the basic business plan, this leaves BADF some room for manoeuvre as regards its resources; and (ii) customer savings, developed and captured for transformation purposes, constitute BADF's total resources, excluding equity, over the entire projection period.

2.1.3.4.5 Financial Analysis

Capital: The XOF 14.277 billion capitalisation level at start-up is adequate. This provides a risk coverage ratio of 48% in the first year, 31% in the second year, and an average of 20% in the subsequent three years. BADF's capitalisation level is significantly higher than that required by the Central Bank (8%). It is also higher than the national average (9.3% in 2016) and the WAEMU zone average (11.3% in 2016). Finally, it is higher than that of CNCAS, whose average over the past three years was 16%.

Assets: BADF expects to attain a credit portfolio of XOF 26 billion at the end of the first year, i.e. 1% of the total volume of credit at national level. Over the subsequent four years, it expects to post an average annual growth of 40%, resulting in a 0.5% increase in the market share to reach 3% of the credit market at the end of the fifth year. This volume of credit represents on average 40% of the estimated agricultural financing needs in Burkina Faso. The estimate of gain in market share seems conservative, given the limited proportion of agricultural sector financing in the existing bank and the strong involvement of the farming community in setting up BADF. BADF expects to maintain a high quality portfolio with only 1% of loans in default at the end of the first year, and then a 1% increase per year subsequently before stabilising at 4% in the fourth and fifth years (compared to a national average of 8.8% in 2016). In the long term, it will be essential to secure BADF's environment to enable it to maintain such a rate.

Profitability: BADF expects to post a Net Banking Income (NBI) of XOF 1.4 billion in the first year and an average annual growth rate of 60% subsequently, to reach XOF 8.3 billion by 2022. The cost/income ratio is expected to improve steadily from 112% in the first year to 39% in 2022, reflecting a low delinquency rate, with provisioning charges remaining under control at 16% of NBI over the period. As a result, after a first-year deficit of XOF 419 million, BADF is expected to become

profitable in the second year with a net income of XOF 564 million. The net income should then increase steadily to XOF 3.1 billion in 2022.

Liquidity: BADF's liquidity seems to be comfortable over the entire projection period. The short-term liquidity ratio⁸ averaged 150% compared to 100% required by the Central Bank, reflecting the preponderance of savings over demand deposits. Over the projection period, term deposits and other savings will account for 54% of deposits (46% for demand resources). The long-term structural liquidity ratio⁹ is comfortable over the first two years, at 180% and 132% respectively, compared to 100% required. It will gradually decline to 106% in 2022, reflecting deposits and savings mostly at less than one year.

2.1.3.4.6. Supervision. Like all WAEMU banks, BADF will be subject to the supervision and control of the Banking Commission. In this regard, it is required to comply with prudential and governance regulations, as well as all other aspects of WAEMU banking regulations. For all intents and purposes, it should be stressed that the regulations are consistent with Basel international norms and standards, with a transition phase from Basel 2 to Basel 3 currently underway.

2.1.3.5 Expected Outcomes of this Component: The expected outcomes include: (i) an increase in the share of bank credit to the agricultural sector from 3.5% in 2017 to 5% in 2020; and (ii) an increase in the processing rate of agricultural products from 16% in 2016 to 25% in 2020.

2.1.4 Component 2: Support for Security of the Agricultural Financing Ecosystem (TA C1)

2.1.4.1 Context

2.1.4.1.1. As regards the establishment of BADF, the authorities of Burkina Faso have undertaken to establish and operationalise a system to secure the agricultural financing environment. The objective is to enable the new bank to operate in a secure environment that allows it to absorb any shocks related to climatic hazards and changes in the prices of agricultural products and/or inputs. In addition, given the high level of financing needs for agricultural value chains as expressed in PNDES 2016-2020, the Government of Burkina Faso hopes to reinforce the attractiveness of the agricultural sector for private commercial banks through these mechanisms.

2.1.4.1.2. In this connection and through an ADF loan of XOF 888 750 000, PACBA will support the operationalisation of: (i) the **agricultural insurance mechanism** being designed between *Société Nationale d'Assurance et de Réassurance du Faso* (Faso National Insurance and Reinsurance Company (SONAR) and its technical partner, *Mutuelle Agricole Marocaine d'Assurance* (Moroccan Agricultural Insurance Company) (MAMDA); and (ii) **warrantage and third-party holding arrangements** to ensure decent price levels for farmers, even during periods of falling prices.

2.1.4.1.3 A complementary mechanism for securing the agricultural environment is being considered, and will be financed by the Government or other donors. The mechanism is the Agricultural Credit Security Fund, with funds for natural disasters and interest rate subsidies.

2.1.4.2 Need for an Agricultural Insurance Mechanism

2.1.4.2.1. A secure ecosystem is essential to ensure the viability of agricultural banks. An insurance mechanism guaranteeing farmers' income in the event of a drop in prices and/or a poor harvest is crucial to ensure a minimum income for farmers, enable them to honour their debt repayments and thus be able to borrow again to prepare for the new season. In addition, a secure environment will

⁸ Ratio of outstanding amounts of high-quality liquid assets (cash and quasi-cash) to expected net cash outflows over the next 30 days. This emanates from Basel III and is applied in WAEMU zone as from 1 January 2018.

⁹ The ratio of stable financing available (equity, long-term debt) to stable financing due.

allow BADF to diversify into several crops, thus avoiding the effects of concentration. In Burkina Faso, the examples of the former banks CNCA-B and BACB illustrate this very well. Such a system is essential to help BADF maintain a high quality portfolio. In the basic business plan, BADF intends to maintain a portfolio with only 1% of loans in arrears at the end of the first year and then 1% increase per year subsequently before stabilising at 4% in the fourth and fifth years. The BADF portfolio objective in terms of quality is significant when compared to the national average delinquency rate of 8.8% over the past three years and the average rate in WAEMU zone at 14.4%. Therefore, an agricultural insurance system that can strengthen borrowers' resilience is essential to enable BADF to achieve its portfolio quality objectives.

2.1.4.2.2. *Caisse Nationale de Crédit Agricole du Burkina Faso* (Burkina Faso National Agricultural Credit Fund) (CNCA-B) went through some difficulties in 2002. Those difficulties were due to the fall in world commodity prices to below producer prices. Since farmers' income did not allow them to meet their loan charges, CNCA was directly affected by the shock due to the lack of a safety net. The crisis was exacerbated by the poor organisation of the sectors. Thus, to diversify activities and limit risks, the CNCA-B changed its name for *Banque Agricole et Commerciale du Burkina* (Burkina Faso National Agricultural and Commercial Bank) (BACB).

2.1.4.2.3. Having drawn lessons from CNCA-B, BACB, has focused its exposure on organised sectors to facilitate credit collection and limit delinquencies. The cotton sector, which is better structured, has benefited the most from BACB financing. In 2007, higher input prices combined with poor rainfall affected cotton harvest volumes. Consequently BACB, which had focused on the cotton sector, experienced difficulties that led to its acquisition by ECOBANK Group in 2008, although it was profitable.

2.1.4.2.4. In addition, it is necessary to have a secure environment to prevent the agricultural bank from being "forced" to move away from its primary role and core business. Better still, by securing the agricultural financing environment, the sector will be able to attract commercial banks seeking better diversification. The need for such an environment is demonstrated by the success of BNDA in Mali and CNCAS in Senegal (TA C7).

2.1.4.2.5. Finally, it is imperative to reduce the charge of capital of the new agricultural bank to enable it to deploy its resources efficiently. The licence granted to the new bank is a generalist bank licence that does not take the special nature of the agricultural sector into account. Borrowers in the sector have income that are difficult to predict, volatile and very often seasonal. This carries a higher risk level, resulting in a much higher charge of capital for agricultural banks. The establishment of an insurance fund is crucial to reduce the charge of capital of the new agricultural bank and enable it to deploy its resources as effectively as possible and remain competitive with commercial banks. Without such a mechanism, the agricultural bank will be constrained in its ability to lend and will most often be limited to short-term loans with a requirement for collateral that is difficult for agricultural customers to obtain.

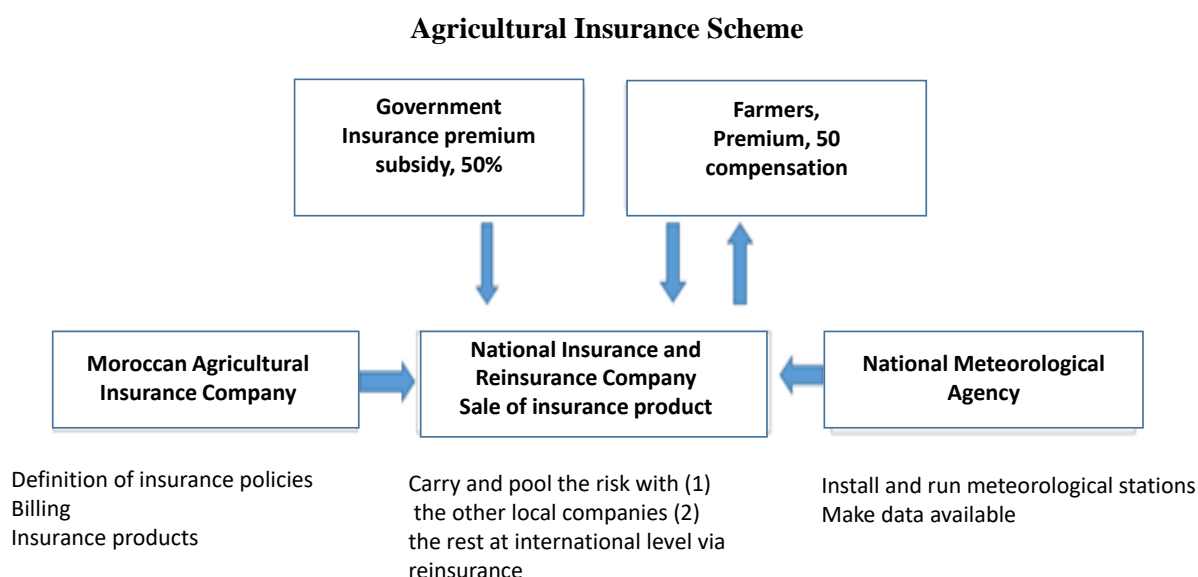
2.1.4.4.3 **Agricultural Insurance (TA CI / CI.1)**

2.1.4.4.3.1 **Description:** The agricultural insurance mechanism will start with a three-year pilot phase in three regions covering 35% of Burkina Faso's agricultural population (Boucle du Mouhoun, Centre-West, and East). The pilot phase will involve three crops whose production account for about 86% of Burkina Faso's annual food consumption (white and red sorghum, rice and maize). As regards the production volume, the pilot phase will cover 1,639,800 tonnes, or 36% of annual national production volumes. The mechanism will have two specific parameters to trigger compensation - performance coupled with climate data (local weather records). This will increase the mechanism's reliability. Triggering compensation that closely reflects the reality of claims is vital to ensure credibility of the system. No mechanism that combines meteorological data and yields has so far

been established in Burkina Faso. *Planet Guarantee*, in collaboration with *Alliance*, has launched two insurance products since 2011: (i) one for maize based solely on rainfall; and (ii) the other for cotton based solely on yield. Unlike the *Planet Guarantee* system, the mechanism under this project will be based on meteorological data collected locally (through mini weather stations) by the National Meteorology Agency (ANM). The installation of an adequate number of mini weather stations in the pilot phase areas will help to enhance the reliability of the data collected. The mechanism will compensate for any errors made by the current weather stations and take into account all types of disasters affecting agricultural production, particularly insects.

2.1.4.3.2 Implementation Arrangements and Actors: This component of the project will be implemented by the Ministry of Agriculture. The main actors and their respective roles in the project implementation include the Ministry of Agriculture and Water Management (MAAH), *Mutuelle Marocaine d'Assurances Agricoles* (Moroccan Agricultural Insurance Company) (MAMDA), *Société Nationale d'Assurance et de Réassurance* (National Insurance and Reinsurance Company) (SONAR-IARD), and the National Meteorological Agency (ANM). The activities supported under the project are as follows: (i) definition of insurance indices and products, and preparation of insurance policies; and (ii) procurement and operation of automatic weather stations that meet the standards of the World Meteorological Organization (WMO).

2.1.4.3.2 Status: To date, an inter-ministerial technical committee has been set up (end of 2017) for the definition of indices and insurance products, and the development of insurance policies. This technical committee has since worked with the technical partner MAMDA, the National Agency for Meteorology and *Société Nationale d'Assurance et de Réassurance* (National Insurance and Reinsurance Company) (SONAR). The AfDB support expected at this level relates to the financing of the work of the committee set up for this purpose. This includes the financing of the continuity of the different workshops already started by the Committee since its set up end of 2017.



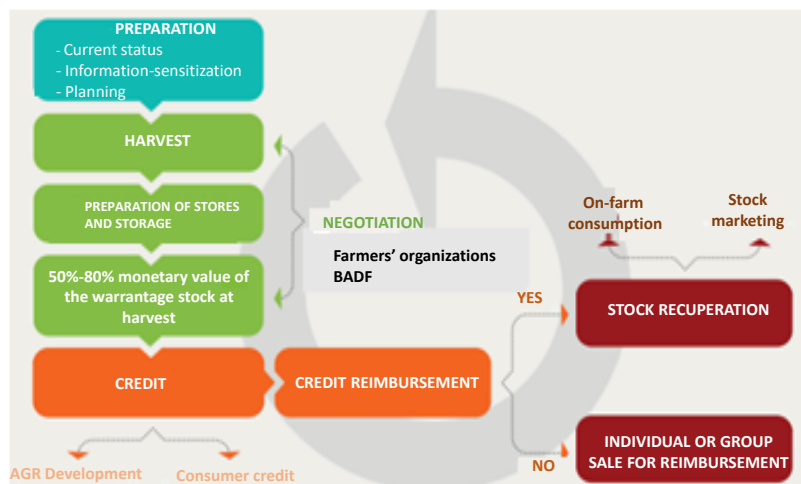
2.1.4.4. Warrantage and Third-Party Holding Mechanism (AT C1 / C1.2)

2.1.4.4.1 Description:

Warrantage (or storage credit) is a loan granted to a producer/farmer and guaranteed by his/her product harvest. The main purpose is to allow the farmer/producer to sell his crop when price conditions are most favourable. Three actors are involved in this mechanism: (1) the **third party holder** who offers storage services; it receives, stores and manages conservation of the agricultural produce under the warrantage throughout the transaction; (2) in exchange for his produce, **the farmer** receives from the third party

holder a certificate which shows storage of his/her produce; (3) **the bank**, in exchange for the certificate held by the farmer, makes available to the latter a loan for an amount equivalent to the value of the produce stored by the third party holder. The operation is closed when the farmer sells his produce and repays to the bank the amount borrowed.

Warrantage Scheme



2.1.4.4.2 **Objective:** Create favourable conditions for the successful development of community warrantage and third party holder activities. This mechanism allows farmers to access bank loans based on the value of their harvest.

2.1.4.4.3. **Implementation Arrangements and Actors:** The project will be implemented through the Ministry of Agriculture; the implementation team is still to be set up. The implementation will be conducted with the assistance of the German Cooperation Agency through KFW, which has shown interest in providing technical support to the Government of Burkina Faso, particularly in the area of professional storage credit. The proposed project activities under warrantage are as follows:

- Identify, prepare and ensure validation of the draft regulatory texts;
- Submit the draft texts for adoption;
- Disseminate the adopted regulatory texts;
- Create a network of all existing warrantage storage facilities;
- Disseminate storage and agricultural product standards;
- Build the capacity of warehouse inspection and control mechanisms; and
- Establish warrantage cooperatives.

2.1.5. Project Cost

The table below provides cost estimates of the various project components. Component 1 has only one operation, namely financing of Government's participation in BADF's share capital, for a total XOF 5 billion (or UA 6,367,642.19). Component 2 consists of two sub-components: **Sub-component**

2.1 "Establishment of an agricultural insurance mechanism"; and **Sub-component 2.2** "Assistance to the development of the warrantage activities".

*Table 2.1-1
Project Components and Cost Estimates in UA Thousand*

Sub-Components	Description of Components
Component 1: Support for improving access to agricultural financing	
UA 6,368 thousand	<ul style="list-style-type: none"> ▪ Financing of the share capital
Component 2: Support for security of the agricultural financing ecosystem	
Establishment of an agricultural insurance mechanism UA 846 thousand	<ul style="list-style-type: none"> ▪ Procurement and installation of automatic weather stations¹⁰ ▪ Definition of insurance indices and products, and preparation of insurance policies
Development of community warrantage and third-party holder activities UA 380 thousand	<ul style="list-style-type: none"> ▪ Identify, prepare and ensure validation of the draft regulatory texts; ▪ Submit the draft texts for adoption; ▪ Disseminate the adopted regulatory texts; ▪ Create a network of all existing warrantage storage facilities; ▪ Disseminate storage and agricultural product standards; ▪ Build the capacity of warehouse inspection and control mechanisms; ▪ Establish warrantage cooperatives.
Project Audit UA 32 thousand	
TOTAL COST	UA 7,626 thousand

2.2 *Technical Solutions Adopted and Alternatives Explored*

2.2.1 During dialogue with various stakeholders (Government, BADF, farmers' organisations, etc.), several options were presented regarding activities to be supported to improve the agricultural financing environment in light of the multiple constraints and challenges. With regard to the project implementation arrangements, although the institutional setup was not a problem since it was determined by decree for all Burkina Faso projects, there were several possibilities for the establishment and management of an implementation unit. The decisions taken were based on the need to focus the project on its ambitions in line with the financial package and synergies with other Bank projects in the sector, as well as the interventions of other TFPs.

¹⁰ Measurement of temperatures, air humidity, rainfall and wind speed.

Table 2.2.1
Alternatives Considered and Reasons for their Rejection

Establishment of a project implementation unit	Establish a project implementation unit comprising experts recruited for the project implementation and fully dedicated to the task	The decree establishing the institutional set-up for projects in Burkina Faso determines the <i>de facto</i> financial and technical supervisory authority and, in the case of PACBA, it is the Ministry of Economy, Finance and Development (MEFD) and the Ministry of Agriculture and Water Management (MAAH), respectively. MAAH has qualified technical and human resources to carry out agricultural insurance and warrantage activities. Furthermore, any additional support in this regard would be provided as part of the counterpart contribution.
Consider all components required to improve the agricultural financing environment	In this respect, the Government provides for several actions, in particular agricultural insurance, warrantage, the establishment of a subsidy fund and an agricultural security fund	Despite their relevance, the establishment of a subsidy fund and an agricultural security fund were not retained, mainly because of limited reflection on the tools and their complexity, as well as their high financial costs. In addition, as regards relevance, urgency, maturity and cost, agricultural insurance and warrantage tools are more appropriate for support through PACBA.

2.3 Project Type

PACBA is an institutional support project financed from ADF resources by a loan intended to: (i) pay the Government's participation in the capital of the new BADF amounting to XOF 5 billion; and (ii) finance, for an amount not exceeding XOF 888 750 000, the establishment of agricultural insurance and warrantage to improve the agricultural financing environment by reducing credit risks inherent in this sector in a country like Burkina Faso.

2.4 Project Costs and Financing Arrangements

The total project cost, excluding taxes and customs duties, is estimated at UA 7.626 million (about XOF 5.988 billion), all in local currency. The cost does not take into account any physical contingencies and/or price escalation, which will be borne by the Government of Burkina Faso. The ADF contribution to the project financing is UA 7.5 million and covers the financing of Government's participation in the capital of BADF (UA 6.368 million) and the cost of establishing an agricultural insurance and warrantage mechanism (UA 1.131 million). The tables below provide more details on the overall project cost by component, expenditure category and source of financing. The detailed cost table is presented in the Technical Annex.

Table 2.4-1
Project Cost Estimate by Component

Components/Sub-Components	Cost in XOF Billion			Cost in UA Million			% F.E.
	F.E.	L.C.	Total	F.E.	L.C.	Total	
1. Support for improving access to agricultural financing		5.000	5.000		6.368	6.368	83.5%
2. Support for security of the agricultural financing ecosystem		0.963	0.963		1.226	1.226	16.1%
3. Project Audit		0.025	0.025		0.032	0.032	0.4%
TOTAL BASE COST		5.988	5.988		7.626	7.626	100%
Provision for price escalation (2%)							
Provision for physical contingencies (3%)							
TOTAL PROJECT COST		5.988	5.988		7.626	7.626	100%

*Table 2.4-2
Cost Estimate by Source of Financing (in UA Thousand)*

Source of Financing	Foreign Exchange	Local Currency in XOF	Base Cost in UA	Total Cost
ADF			7,500.00	7,500.00
Government		125.76		125.76
Other Sources of Financing				
Total		125.76	7,500.00	7,625.76

*Table 2.4-3
Project Cost by Expenditure Category (in UA Thousand)*

Expenditure Categories	Foreign Exchange	Local Currency	Total Cost	% Total
A. Goods	720.00		720.00	8.6%
B. Services	32.00		32.00	0.4%
C. Training	209.00		209.00	2.5%
D. Operating Costs	297.00		297.00	3.6%
E. Other: Financing of the Government's participation in BADF's share capital	6,368.00		6,368.00	84.9%
Total Base Cost	7,626.00		7,626.00	100%
Provision for implementation contingencies				
Provision for price escalation				
Total Project Cost	7,626.00		7,626.00	100%

*Table 2.4-4
Expenditure Schedule by Component (in UA Thousand)*

Components/Sub-Components	2018	2019	2020	2021	Total
1. Support for improving access to agricultural financing	6,368				
Financing of Government's participation in the share capital	6,368				
2. Support for security of the agricultural financing ecosystem		1,226			1,226
2.1 Establishment of an agricultural insurance mechanism		846			846
2.1.1 Definition of insurance indices and products, and preparation of insurance policies		126			126
2.1.2 Procurement and operation of automatic weather stations that meet the standards of the World Meteorology Organisation (WMO)		720			720
2.2 Assistance to the development of the warrantage activities UA 410,710		380			380
2.2.1 Preparation of regulatory texts		19			19
2.2.2 Validation of the proposed texts		13			13
2.2.3 Workshop for ownership/dissemination of adopted texts		83			83
2.2.4 Creation of a warrantage database for networking		66			66
2.2.5 Standards dissemination workshop		59			59
2.2.6 Sensitisation on the establishment of warrantage cooperatives		67			67
2.2.7 Support for constituent general meetings of warrantage cooperatives		73			73
3. Project Audit		10.6	10.6	10.6	32
TOTAL COST	6,368	1,236.6	10.6	10.6	7,626

2.5 Project Area and Beneficiaries

PACBA covers the entire territory of Burkina Faso. Consequently, under BADF, not only will its products, particularly loans, be open to all agricultural activities in the country, but it will gradually open branches nationwide. Agricultural insurance product will start with a pilot phase for three regions, while warrantage will cover the entire national territory. By improving agricultural production through productivity and processing, as well as the creation of agricultural value chains through increased access to agricultural financing, PACBA will benefit all people in Burkina Faso, particularly those living in rural and agricultural areas, young people and women, economic operators, and particularly agricultural organisations and leaders (TA C5). In addition, by improving the business environment for agricultural financing through agricultural insurance and warrantage, PACBA will benefit BADF and the entire banking system. Finally, Government's participation in BADF capital will help to complete its financing and bring the capital up to the minimum level required by WAEMU banking regulations.

2.6 Participatory Approach to Project Identification, Design and Implementation

At project preparation and appraisal, the main stakeholders were consulted, including farmers' organisations, the association of banks and financial institutions, as well as microfinance and insurance institutions, and BCEAO. The same applies to the BADF Design and Establishment Committee, set up since July 2016 and chaired by the Prime Minister, BADF Management, the consulting firm that prepared the BADF accreditation documents, BADF's technical partner (*Crédit Agricole du Sénégal*) and the Burkina Fund for Economic and Social Development. At Government level, meetings were held with the Ministry of Economy, Finance and Development (MINEFID) and the Ministry of Agriculture and Water Management (MAAH). Based on these consultations, the project challenges and content were determined and PACBA designed.

2.7 Bank Group Experience and Lessons Reflected in Project Design

2.7.1 As at 28 February 2018, the total portfolio volume in Burkina Faso was UA 440.09 million, for 17 active projects. The overall disbursement rate was estimated at 50% at that date, for an average age of 2.8 years. The sector breakdown of the active portfolio comprises transport (52%), agriculture (16.1%), energy (14%), water and sanitation (7.7%), private sector (7.9%), and multi-sector projects (2.3%). As regards performance, the Bank's portfolio in Burkina Faso is deemed highly satisfactory with an overall score of 3.04 on a scale of 1 to 4, and does not contain any problematic projects. Two operations are ongoing in the financial sector: (i) a line of credit for UA 2 million granted in 2014 to Fidelis Finance, which was used to finance SMEs operating in various sectors, including agrifood; and (ii) a line of credit for UA 32 million approved in 2016 and granted to Coris Bank International to finance SMEs operating mainly in the agricultural processing sector. Since these operations are still active, there are no completion reports for the sector yet. The project design team also drew lessons from the Bank's recent experience in establishing the Tanzania Agricultural Bank and the Nigerian Multisector Development Bank.

2.7.2 Overall, the Bank's portfolio in the agricultural sector in Burkina Faso is significant with 4 operations and 1 PPF amounting to UA 58.88 million. This represents about 15% of the total project portfolio (*Annex 2*). Ongoing operations include: (i) the Bagré Growth Pole Support Project; (ii) the Project to Build Resilience to Food and Nutritional Insecurity; (iii) the Classified Forests Participatory Management Project (PGFC) and the Comoé Basin Cashew Nut Development Support Project.

2.8 Key Performance Indicators

2.8.1 The key performance indicators identified for measuring expected outcomes upon project completion are included in the results-based logical framework. The indicators are essentially:

- *Project Impact:* The annual growth rate of the agricultural sector is expected to increase from 5.9% in 2016 to 6.5% in 2016.
- *Project Outcomes:* (i) The proportion of bank credit to the agricultural sector is expected to increase from 3.5% in 2017 to 5% in 2020; (ii) the processing rate of agricultural products is expected to increase from 16% in 2016 to 25% in 2020; and (iii) the proportion of non-resilient households active in the agro-sylvo-pastoral, wildlife and fisheries sub-sectors is expected to fall from 49% in 2010 to 25% in 2020.
- *Component 1 Outputs:* (i) The Government pays its share in BADF's capital, allowing for the capital to be closed and for compliance with the prudential standards of WAEMU Banking Commission; (ii) BADF is established and operational, and targets XOF 34 billion loans to the agricultural sector in 2020; (iii) gender equity in BADF's operations with 20% of total loans granted to women in 2020; this figure is expected to increase substantially when BADF launches its special product for women.
- *Component 2 Output:* (i) the agricultural insurance mechanism is established in 2020; and (ii) warrantage is operational in 2020.

2.8.2 Progress towards achievement of outcomes will be measured at regular intervals, through a variety of activities, including regular Bank supervision missions, and quarterly progress reports and audits. Objectively verifiable evidence of progress to the highest targets will be obtained from the reports of the quarterly portfolio monitoring meetings organised by COBF with the Bank's project implementation units in Burkina Faso.

III. PROJECT FEASIBILITY

3.1 Economic and Financial Performance

3.1.1 As an institutional support project, PACBA does not generate direct income to be used in determining the financial return. However, through the direct and indirect effects of improving access to agricultural financing and the degree of processing agricultural products, PACBA would achieve economic and social performance.

3.1.2 Furthermore, with regard to BADF (*TA C3*) itself, the analysis, based on the documents sent to the Central Bank for the 5-year business plan, shows a profitable banking model from the second fiscal year, driven by: (i) sustained growth in Net Banking Income (NBI), +60% on average per year to XOF 8 billion at the end of the fifth year; the NBI is driven by the portfolio volume whose average annual growth of 40% helps to give the bank 3% of the credit market share at the end of the fifth year, (ii) optimised operating expenses with a steadily decreasing operating ratio before stabilisation at 39% from the fourth year onwards; and (iii) a portfolio maintained at a very high quality, with an average default rate of 4% as from the fourth year of operation.

3.2 Environmental and Social Impact

3.2.1 Environmental Impact (*TA B7*)

3.2.1.1 By nature, PACBA is a financial sector project. The sub-projects to be financed by BADF will be projects with medium, minimal and/or no negative social or environmental impacts (agrifood, services, and soft services). Consequently, it has been classified under Category 4 (2) by the teams in charge of verifying the environmental and social compliance of Bank projects (SNSC). BADF is in the start-up phase and has not yet started its operations. However, as recommended by SNSC, the project will establish an Environmental and Social Management System (ESMS) in close

collaboration with SNSC teams. BADF will submit the final ESMS to the Bank for opinion and approval.

3.2.2 Impact on Climate Change

3.2.2.1 Since the project is in the financial sector, it is not in itself vulnerable to climate change, neither is it eligible for categorisation by the Bank's Climate Protection System. The sub-projects are in the agricultural sector, which is highly exposed to climatic hazards – droughts and floods caused by heavy rains and successive rainy days. Local measurements of these climatic hazards will contribute to measuring them more appropriately and providing proportional insurance. There are risks that other hazards that affect agricultural production may not be taken into account. Such is the case with capricious and staggered rainy seasons, their abrupt end not allowing for full maturation of crops (shorter duration of the rainy season).

3.2.3 Social Impact

3.2.3.1 The social impact of PACBA has many dimensions. First, by increasing agricultural productivity and production, it will increase the income of farmers, many of whom are young people and women, as well as enhance food security. Better still, not only will income increase but it will also be stabilised through agricultural insurance. Similarly, the number of jobs created is expected to increase and, thanks to the securing of agricultural income, the jobs will steadily become less precarious. These are key factors for settling the rural population, and thereby avoiding massive rural exodus due mainly to poverty, droughts or sudden floods. Finally, PACBA opens new windows of investment opportunities for the private sector.

3.2.4 Gender (TA A5)

3.2.4.1 Burkina Faso ranked 146th under the Gender Equality Index in the 2016 Human Development Report, out of 188 countries surveyed. This is due to inequalities based on social perceptions and practices that restrict women's rights and reduce their access to economic and social opportunities in comparison to men (financial inclusion or political involvement). Women make up 55% of the agricultural labour force, but only 40% of them own land. Consequently, access to property likely to be mortgaged as collateral with the banking system is a discriminatory factor against women's access to credit, as well as lack of knowledge of the procedures for obtaining credit. As a result, women have less access to credit than men (8% compared to 15% for men).

3.2.4.2. The PACBA project is classified in Category 3 of the Bank's gender categorisation system. Specifically the project will: (i) improve women's access to financing, as well as financial and non-financial services; (ii) increase women farmers' productivity and income; and (iii) facilitate women's financial inclusion by supporting access to credit and financial education programmes for women. During the start-up period of the bank's activities, it is expected that 20% of the loans will be allocated to women. This figure is expected to double rapidly as BADF intends to introduce a specific product for women. In this regard, BADF plans to apply for a line of credit from potential donors. Under the project, efforts would be made to collaborate with AFAWA to provide strategic advice and services to BADF for better access for women.

3.2.5 Involuntary Settlement

3.2.5.1. The PACBA project will not lead to involuntary population displacements. However, the ESMS will allow for environmental and social screening of sub-projects that will subsequently be financed by AfDB to determine whether they will eventually lead to involuntary population displacements requiring the preparation of a resettlement action plan in line with AfDB's integrated safeguards system.

IV. IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 Institutional Arrangements (TA B3)

4.1.1.1 The institutional framework is based on Decree No. 2018-0092/PRES/PM/MINEFID of 15 February 2018 defining general regulations governing development projects and programmes implemented in Burkina Faso.

4.1.1.2 *Financial supervision of the project* will be provided by the Ministry of Economy, Finance and Development (MINEFID) through the General Directorate of the Treasury and Public Accounting (DGTCP). Its role is to mobilise financial resources required for project implementation. Technical supervision will be provided by the Ministry of Agriculture and Water Management (MAAH) through the General Directorate for Promotion of the Rural Economy (DGPER), which will be in charge of the project management. Therefore, it will ensure its effective implementation. The project is linked to the "**Agricultural Economy**" budget programme, *one of the operational objectives of which is to improve access to financing*.

4.1.1.3 The Budget Programme Officer will be the Project Coordinator. He/she will ensure permanent monitoring of project implementation, particularly the expected outcomes.

4.1.1.4 The Review Committee will steer the project. It will contribute to project implementation by adopting and approving key documents. In this capacity, it will be the project's decision-making body.

4.1.2. Applicable Procurement Policy and Framework (TA B4)

4.1.2.1 All goods and consultancy services financed by the Bank's resources will be procured in accordance with the Procurement Framework for operations financed by the Bank Group approved in October 2015. In accordance with the framework and following various evaluations conducted, it was agreed that all goods and consultancy services will be procured in accordance with the Bank's procurement system using the Standard Bidding Documents (SBD) provided for that purpose and based on the Bank's Procurement Methods and Procedures (PMP) specified in the Procurement Plan. More specifically, procurements will be made as follows:

- (i) All goods required for the project and to be procured using the PMP will be in accordance with the provisions of Article 8.5 of the Bank Group Procurement Policy document; and
- (ii) All consultancy services required for the project and to be procured using the PMP will be in accordance with the provisions of Article 8.6 of the Bank Group Procurement Policy document.

4.1.2.2 **Procurement Risks and Capacity Assessment (PRCA)**: To take into account the specific aspects of the project, the Bank has assessed: (i) the risks at national, sector and project level; and (ii) the capacity of the executing agency. The results of the assessments showed that the procurement risk was "**moderate**" and helped to determine the appropriate risk mitigation measures included in the PRCA action plan indicated in para. B.5.9 of Annex B5.

4.1.3. Financial Management Arrangements

4.1.3.1 PACBA financial management will be provided by the General Directorate for Promotion of the Rural Economy (DGPER) of the Ministry of Agriculture, Water and Fisheries Resources,

which has been appointed the Project Executing Agency. The project will be managed by a DGPER Project Implementation Unit that will be established and its capacity strengthened in terms of project management and compliance with Bank rules and procedures. The DGPER Director General will be responsible for the overall project financial management, and will be assisted in this regard by the DGPER Administrative and Financial Director. The fiduciary risk following the assessment is deemed substantial (*See the Technical Annex for more details*).

4.1.3.2. The project will prepare and submit quarterly reports (financial and technical) to the Bank within 45 days following the end of each quarter. The Internal Accounts Inspectorate of the supervisory Ministry should include the financial operations of the project in its annual audit programme as part of its role as the project internal auditor.

4.1.4 *Disbursement Arrangements*

4.1.4.1 Throughout the component 1, the Bank's support will be through the reimbursement method. Since obtaining the approval of the new bank is a prerequisite for the support provided by the Bank through the PACBA, the reimbursement method will be used to enable the Bank repay, up to five (5) billion FCFA, the State of Burkina Faso for the expenses it incurred as part of its participation in the capital of BADF. These expenses concern those incurred in order to obtain the favourable opinion of the WAMU Banking Commission obtained on March 14, 2018 and the approval of the Minister in charge of Finance obtained on April 16, 2018 by Order N ° 183/MINEFID/DGTCP/DAMOF which dedicates the effective creation of the BADF. It should be recalled that the Bank's support was requested to reimburse the State of Burkina Faso's stake in the capital of a bank, called Banque Agricole du Faso. Since the Agricultural Bank of Burkina Faso started to exist as a bank only after the authorization obtained on April 16, 2018, this date is used as the date on which the Burkinabe State's expenditure on the operation acquisition of a stake in the capital of BADF was incurred. For all intents and purposes, the timeline for the creation of the Agricultural Bank of Faso was as follows:

- i. On October 4, 2017 and September 21, 2017, the Burkinabe State, like the other shareholders, disbursed the amount corresponding to its planned share in the capital of BADF in two blocked bank accounts registered in the name of the "Société en formation (company in constitution) Banque Agricole du Faso";
- ii. On October 13, 2017, Banque Agricole du Faso was created as a public limited company. This step is a prerequisite for the review of the BADF application by the UEMOA Banking Commission. Thus, at this stage, the BADF does not yet have the status of a bank and is not yet registered on the list of WAEMU banks.
- iii. On April 16, 2018, the limited company Banque Agricole du Faso is approved as a bank and registered under the number C 0207 J on the list of banks of the UEMOA.

4.1.4.2. **Disbursements and Cash Flows:** Disbursements from ADF resources will be made in accordance with the Bank's disbursement procedures. Three (3) disbursement methods will be used:

- 1) The reimbursement method: it will be used to enable the State of Burkina Faso to request repayment to the Bank of the expenses, occurring starting April 16, 2018, related to its participation in the capital of the BADF for a total amount not exceeding UA 6,368 million as stipulated in the paragraph 4.1.4.1 of the evaluation report referring to the retroactive financing. Repayment by the Bank may be made upon receipt of a request for reimbursement accompanied by evidence of pre-financing by the State of its participation in the capital of BADF. The amount reimbursed will be up to the amount of shares owned by the State of Burkina Faso and held in the capital of the BADF.

- 2) The special account method: it will be used to finance the operation and the training and workshop activities organized by the project implementation unit. The provisions of the disbursement manual will be fully applicable for the management and justification of resources disbursed to the special account. A special account will be opened at the National Treasury with the Central Bank of West African States (BCEAO) for the Bank financing. The special account will operate under the principle of double signature. This account will receive the funds to pay the eligible expenses on the counterparty.
- 3) The direct payment method: it will be used for the payment of contracts and for expenses related to the implementation of component 2 "Support for Securing the Agricultural Financing Ecosystem", notably for payments in respect of the procurement of the weather stations and their maintenance contract.

4.1.4.3. In addition, disbursements from counterpart funds will be made at national level through a special counterpart funds account opened at the treasury and operating under the double signature principle. The account will receive the funds intended to pay for eligible expenses from the counterpart funds.

4.1.5 Audit Arrangements

The project's financial statements will be audited yearly by an independent audit firm acceptable to the Bank. The audit report, together with a management letter, will be submitted to the Bank within six months following the end of the fiscal year in accordance with the Bank's terms of reference. The cost of the audit will be borne by the project.

4.2 Monitoring and Evaluation

4.2.1 The physical implementation of the project will cover 25 months, from December 2018 to December 2020.

4.2.2 Upon effectiveness of the loan agreement, a launching mission will be organised to train BADF officials in the Bank's procedures. Supervision missions will be organised at least twice a year. Quarterly and annual activity reports will also be prepared and submitted to the Bank.

4.3 Governance

Burkina Faso has made significant progress in governance over the past three years. At the political level, the progress made is in terms of the creation and strengthening of republican institutions, the consolidation of the rule of law, and the reinforcement of human rights. As regards corruption, according to Transparency International's Corruption Perception Index in 2016, the country is ranked 72nd out of 172 countries in the world, and among the top 10 least corrupt African countries. With respect to public financial governance, Burkina Faso has, with IMF support, implemented major reforms to improve transparency and efficiency in public resource management. With regard to BADF, it should be noted that as a bank approved by BCEAO, it will be subject to the supervision of the WAEMU Banking Commission and will have to comply with the banking regulations in force in WAEMU.

4.4 Sustainability

4.4.1 PACBA will naturally be sustainable because, given its agricultural insurance mechanism, it comprises major actions to reinforce the sustainability of BADF in particular, and agricultural financing in general. In addition, the authorities' clear intention to consolidate the PACBA mechanism

by establishing an Agricultural Credit Security Fund, namely the Natural Disasters Fund and the Interest Rate Subsidy Fund, will strengthen, complement and replicate the impact of PACBA.

4.5 Risk Management

*Table 4.5
Potential Risks and Mitigation Measures*

Risks	Level	Mitigation Measures
Rising socio-political unrest	Moderate	Government commitment to continue negotiations with a view to taking socio-economic and political demands into account.
Increased security risks	Moderate	The Government has redoubled its efforts to provide strong and sustainable responses, and has resolutely embraced a regional antiterrorism framework (G5 Sahel) to address the various threats.
BADF's weak human and institutional capacity to properly manage the bank	Moderate	BADF's managers have extensive experience in banking and, particularly, in agricultural financing. In addition, the technical assistance contract with CNCA of Senegal will provide support to BADF in various areas, including IT systems management and risk management systems and procedures. Similarly, the entry of a technical and financial partner into BADF's capital is still under consideration.
Governance: Strong Government participation in the bank's capital following the Central Bank's request to pull out shareholders deemed financially unsound.	Moderate	The Burkinabe Fund for Economic and Social Development (FBDES) holds the Government's participation and additional shares owned by organisations considered weak by the Central Bank; the Central Bank has requested the organisations to pull out of BADF capital. FBDES is also requested to gradually transfer the shares, as well as the Government's participation, to stakeholders in line with its area of activity as soon as possible. In addition, the entry of a technical and financial partner is still being considered. Independent directors will also be co-opted to the Board of Directors to improve the quality of the management structure.
Risk of strong pressure on management from farmers' cooperatives who consider BADF as a bank established on their initiative and dedicated to them	Moderate	Strong ownership of the project establishing BADF from the outset by farmers' organisations, and therefore their willingness to ensure the bank's viability. In addition, the continued and strong sensitisation of farmers' organisations on the need to ensure the bank's sustainability. BADF will give priority to organised farmers' networks that will help to gather customer information and, if necessary, collect unpaid debts.
Strong competition from existing banks	Moderate	BADF will address segments not covered by existing banks. Given the strong ownership by farmer organisations, BADF will rely on farmers' networks to attract agricultural customers. The bank will also diversify its activities by financing non-agricultural sectors.

4.6 Knowledge Building

PACBA implementation will help to build several types of knowledge, particularly: (i) best practice in agribusiness investment financing within an innovative context; (ii) the adoption of appropriate instruments and an attractive deposit remuneration system to substantially improve the mobilisation of national savings; (iii) the creation of agribusiness project databases to promote the emergence of agricultural processing units and improve agricultural value chains in Burkina Faso; and (iv) studies to be conducted on agricultural insurance and warrantage. The practices will be disseminated within the administration and to non-State actors through the documents and procedures manuals produced, procedures manuals, as well as training sessions that will be organised under the project. The knowledge will be acquired through producing the following reports: technical assistance reports, activity reports prepared by the executing agency, supervision reports, project completion report, and "discussion and working documents" of the Bank's Office in Burkina Faso. Finally, the knowledge and lessons learned will be disseminated within the Department, the Bank and in the host country by the AfDB through seminars and IDEV reports.

V. LEGAL FRAMEWORK

5.1 Legal Instrument

PACBA will be financed from ADF resources by a loan of UA 7.5 million, for which a loan agreement will be concluded between the African Development Fund and Burkina Faso (the Borrower).

5.2 Conditions for Intervention by the African Development Fund

- *Conditions Precedent to Effectiveness*

Effectiveness of the loan agreement shall be subject to the Borrower's fulfilment of Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the Fund (Sovereign Entities).

- *Conditions Precedent to First Disbursement of the Loan*

In addition to effectiveness of the loan agreement, the first disbursement of loan resources shall be subject to the Borrower's fulfilment of the following conditions:

- (i) Provide evidence of the appointment of the Project Coordinator whose experience and terms of reference would have been deemed satisfactory by the Fund; and
- (ii) Provide evidence of the attachment of the project to the review committee of the program “Agricultural economy” (économie agricole) which will ensure continuous monitoring of project implementation, particularly the adoption and approval of key documents and the expected outcomes.

- *Environmental and Social Safeguard Clauses*

The Borrower undertakes to implement an Environmental and Social Management System (ESMS) to ensure that the new *Banque Agricole du Faso* (Agricultural Bank of Burkina Faso) identifies and implements environmental and social management measures for its sub-projects before the loans or investments are approved by BADF, and that BADF also applies the required level of sub-project control during the loan period.

- *Other Undertakings*

- (i) Provide evidence of BADF's establishment of a computerised management system (accounting and financial management software) and training staff in its use latest by 31 March 2019;
- (ii) Prepare and submit to the Fund an Administrative, Accounting and Financial Procedures Manual for the project unit, and train staff in its use latest by 31 March 2019;
- (iii) Prepare and submit to the Fund a BADF Operational Business Plan latest 30 September 2019; and
- (iv) Provide to the Fund, by December 31st of each year, evidence of the budgeting of the annual tranche for the following year of the borrower's contribution to the starting fiscal year 2020.

5.3 *Compliance with Bank Policies*

This project complies with applicable Bank policies.

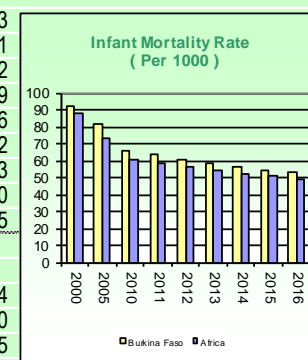
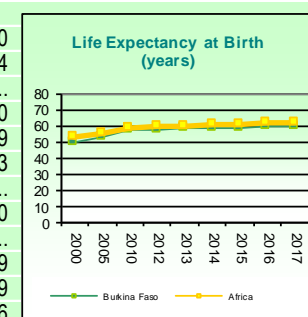
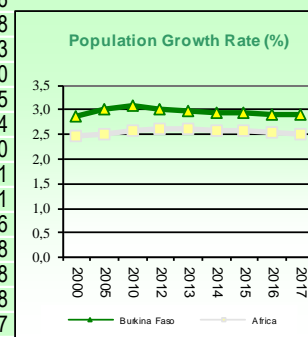
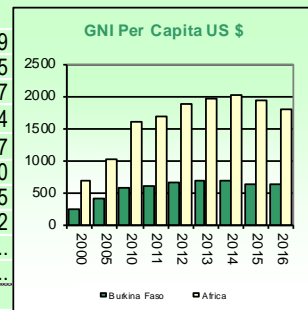
VI. RECOMMENDATION

Management recommends that the Board of Directors approve the proposal to grant Burkina Faso an ADF loan of UA 7.5 million to finance the Support Project for Establishing an Agribusiness Bank (PACBA) under the conditions set out in this report.

Annex 1: Comparative Socio-economic Indicators

Burkina Faso COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Burkina Faso	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)	2017	274	30 067	80 386	53 939
Total Population (millions)	2017	19,2	1 184,5	5 945,0	1 401,5
Urban Population (% of Total)	2017	31,1	39,7	47,0	80,7
Population Density (per Km²)	2017	70,1	40,3	78,5	25,4
GNI per Capita (US \$)	2016	620	2 045	4 226	38 317
Labor Force Participation *- Total (%)	2017	83,4	66,3	67,7	72,0
Labor Force Participation **- Female (%)	2017	76,5	56,5	53,0	64,5
Sex Ratio (per 100 female)	2017	98,7	0,801	0,506	0,792
Human Develop. Index (Rank among 187 countries)	2015	185
Popul. Living Below \$ 1.90 a Day (% of Population)	2014	43,7	39,6	17,0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2017	2,9	2,6	1,3	0,6
Population Growth Rate - Urban (%)	2017	5,6	3,6	2,6	0,8
Population < 15 years (%)	2017	45,1	41,0	28,3	17,3
Population 15-24 years (%)	2017	20,0	3,5	6,2	16,0
Population >= 65 years (%)	2017	2,4	80,1	54,6	50,5
Dependency Ratio (%)	2017	90,6	100,1	102,8	97,4
Female Population 15-49 years (% of total population)	2017	23,2	24,0	25,8	23,0
Life Expectancy at Birth - Total (years)	2017	59,7	61,2	68,9	79,1
Life Expectancy at Birth - Female (years)	2017	61,0	62,6	70,8	82,1
Crude Birth Rate (per 1,000)	2017	38,6	34,8	21,0	11,6
Crude Death Rate (per 1,000)	2017	8,9	9,3	7,7	8,8
Infant Mortality Rate (per 1,000)	2016	52,7	52,2	35,2	5,8
Child Mortality Rate (per 1,000)	2016	84,6	75,5	47,3	6,8
Total Fertility Rate (per woman)	2017	5,3	4,6	2,6	1,7
Maternal Mortality Rate (per 100,000)	2015	371,0	411,3	230,0	22,0
Women Using Contraception (%)	2017	24,3	35,3	62,1	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2012	4,7	46,9	118,1	308,0
Nurses and midwives (per 100,000 people)	2012	63,0	133,4	202,9	857,4
Births attended by Trained Health Personnel (%)	2010	65,9	50,6	67,7	...
Access to Safe Water (% of Population)	2015	82,3	71,6	89,1	99,0
Access to Sanitation (% of Population)	2015	19,7	51,3	57	69
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2016	0,8	39,4	60,8	96,3
Incidence of Tuberculosis (per 100,000)	2016	51,0	3,8	1,2	...
Child Immunization Against Tuberculosis (%)	2016	98,0	245,9	149,0	22,0
Child Immunization Against Measles (%)	2016	88,0	84,1	90,0	...
Underweight Children (% of children under 5 years)	2010	26,2	76,0	82,7	93,9
Prevalence of stunting	2010	35,1	20,8	17,0	0,9
Prevalence of undernourishment (% of pop.)	2015	20,2	2 621	2 335	3 416
Public Expenditure on Health (as % of GDP)	2014	2,6	2,7	3,1	7,3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2016	91,1	106,4	109,4	101,3
Primary School - Female	2016	90,1	102,6	107,6	101,1
Secondary School - Total	2016	35,8	54,6	69,0	100,2
Secondary School - Female	2016	34,9	51,4	67,7	99,9
Primary School Female Teaching Staff (% of Total)	2016	45,8	45,1	58,1	81,6
Adult literacy Rate - Total (%)	2014	34,6	61,8	80,4	99,2
Adult literacy Rate - Male (%)	2014	44,4	70,7	85,9	99,3
Adult literacy Rate - Female (%)	2014	26,2	53,4	75,2	99,0
Percentage of GDP Spent on Education	2015	4,2	5,3	4,3	5,5
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2015	21,9	8,6	11,9	9,4
Agricultural Land (as % of land area)	2015	44,2	43,2	43,4	30,0
Forest (As % of Land Area)	2015	19,6	23,3	28,0	34,5
Per Capita CO2 Emissions (metric tons)	2014	0,2	1,1	3,0	11,6



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

May 2018

UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Annex 2: Table of AfDB Active Portfolio as at 30 September 2018

SECTOR	PROJECT NAME	TASK MANAG	CODE SA	Number Loan / Grant	Approval Date	Date Signature	Effective ness Date	Fulfil. Cond. Disburs.	Date 1st Disburs.	Disburs. Deadlin e	Amount in UA Loan / Grant	Disburs. Rate %	Total Disburs.
Governance	ECONOMIC TRANSFORMATION SUPPORT - PATEC	EKPO Alain	P-BF-KF0-009	2100150028217	9/17/2014	10/9/2014	10/9/2014	6/9/2015	8/18/2015	4/30/2020	10 000 000	45,54	4 554 000
	ENERGY SECTOR REFORM SUPPORT - PARSE - LOAN	EKPO Alain	P-BF-KZ0-001	2100150039794	7/18/2018	8/28/2018				6/30/2020	15 000 000	0,00	0
Transport	INTERNAL ACCESS ROADS - LOAN	YOUNGARE Barnab	P-BF-DB0-017	2100150030394	11/13/2013	11/9/2014	9/17/2014	9/17/2014	7/24/2015	12/31/2019	31218 000	35,02	10 932 544
	INTERNAL ACCESS ROADS - GRANT	YOUNGARE Barnab	P-BF-DB0-017	2100150026370	11/13/2013	11/9/2014	11/9/2014	11/9/2014	2/4/2016	12/31/2019	15 220 000	33,51	5 100 222
Water - Sanitation	OUAGA SUBURB SANITATION - SPAQPO - GRANT	N'ZOMBIE Zounoub	P-BF-EB0-001	2100150025919	10/9/2013	11/29/2013	11/29/2013	12/15/2014	3/23/2015	5/31/2019	33 020 000	73,93	24 411 686
	NARE DAM REHABILITATION STUDY-GRANT	N'ZOMBIE Zounoub	P-BF-EAZ-001	5600150004501	4/11/2016	9/9/2016	9/9/2016	11/21/2016	12/20/2016	12/29/2019	699 721	4,55	31837
Energy	SEMI-URBAN ELECTRIFICATION OUAGA-BOBO - LOAN	KITANDALA Raymo	P-BF-FA0-001	2100150035993	9/21/2016	10/18/2016	4/24/2017	9/4/2017	12/1/2017	12/31/2020	20 600 000	33,70	6 942 200
	SEMI-URBAN ELECTRIFICATION OUAGA-BOBO - GRANT	KITANDALA Raymo	P-BF-FA0-001	2100150033166	9/21/2016	10/18/2016	10/18/2016	9/4/2017	11/27/2017	12/31/2020	6 630 000	21,53	1 427 439
Agric / Environ	BAGRE GROWTH POLE SUPPORT - LOAN	BABAH M. Aly	P-BF-AA0-02	2100150033093	4/29/2015	5/28/2015	12/1/2015	12/1/2015	9/9/2016	4/30/2021	15 000 000	69,75	10 462 500
	BAGRE GROWTH POLE SUPPORT - GRANT	BABAH M. Aly	P-BF-AA0-02	2100150029766	4/29/2015	5/28/2015	12/1/2015	12/1/2015	2/15/2016	4/30/2021	6 000 000	32,00	1 920 000
	CLASSIFIED FORESTS MANAGEMENT PGFC / REDD	GARBA Laouali	P-BF-AAD-001	556515000651	11/28/2013	11/9/2014	11/9/2014	7/11/2014	10/22/2014	12/31/2019	8 202 275	40,16	3 294 034
	CASHEWNUT SUPPORT COMOE BASIN - LOAN	GARBA Laouali	P-BF-AAD-001	5565130000451	2/16/2017	3/24/2017	8/23/2017	9/18/2017	2/16/2018	12/31/2022	2 852 965	2,79	79 598
	CASHEWNUT SUPPORT COMOE BASIN - GRANT	GARBA Laouali	P-BF-AAD-001	2100150034216	2/16/2017	3/24/2017	3/24/2017	9/18/2017	12/4/2017	12/31/2021	1 000 000	26,37	263 700
NATIONAL PUBLIC PORTFOLIO											165 442 961	41,96	69 419 759
Private Sector	SHEA VALUE CHAINS SUPPORT - GRANT	OUEDRAOGO Alfred	P-BF-AAG-001	570015002552	7/12/2016	9/9/2016	2/27/2017	2/27/2017	2/16/2018	6/30/2019	708 498	28,26	200 222
	AFRICA SME PROGRAMME FIDELIS	DIGUMBAYE Rose	P-BF-HB0-001	2000130013930	6/19/2014	7/30/2015	7/30/2015	8/21/2015	9/3/2015	7/30/2017	2 087 473	100,00	2 087 473
	AFRICA SME PROGRAMME FIDELIS	DIGUMBAYE Rose	P-BF-HB0-001	5060140000253	10/11/2017	6/29/2018					626 262	0,00	0
	LINE OF CREDIT TO CORIS BANK INTERNATIONAL	DIOP Sidi Gallo	P-BF-HA0-001	2000130016582	11/23/2016	7/14/2017	7/14/2017	8/10/2017	8/23/2017	7/14/2019	31729 597	100,00	31729 597
	LINE OF CREDIT TO CORIS BANK INTERNATIONAL	DIOP Sidi Gallo	P-BF-HA0-001	5060140000201	10/11/2017	5/16/2018					15 864 798	0,00	0
NATIONAL PRIVATE PORTFOLIO											51 016 628	66,68	34 017 292
Regional Agric / Environ.	RESILIENCE STRENGTHENING P2RS - LOAN	BABAH M. Aly	P-Z1AAZ-019	2100150032046	10/15/2014	11/9/2015	9/1/2015	10/16/2015	3/16/2016	6/30/2020	12 725 000	37,45	4 765 513
	RESILIENCE STRENGTHENING P2RS - GRANT	BABAH M. Aly	P-Z1AAZ-019	2100150028526	10/15/2014	11/9/2015	11/3/2015	6/8/2015	11/3/2015	6/30/2020	12 725 000	46,61	5 931 123
Regional Energy	NIGERIA-NIGER-BENIN-BURKINA INTERCONNECTION	KITANDALA Raymo	P-Z1FA0-146	2100150038699	12/15/2017	3/14/2018	7/23/2018			12/31/2022	34 680 000	0,00	0
	NIGERIA-NIGER-BENIN-BURKINA INTERCONNECTION	KITANDALA Raymo	P-Z1FA0-146	2100150036219	12/15/2017	3/14/2018	3/14/2018			12/31/2022	15 320 000	0,00	0
Regional Transport	REHABILITATION AND FACILITATION CORRIDOR LOAN	DIOP Maimounatou	P-Z1DB0-097	2100150027044	6/27/2012	7/19/2012	6/21/2013	8/30/2013	12/2/2014	12/31/2018	21530 000	69,23	14 905 219
	REHABILITATION AND FACILITATION CORRIDOR LOAN	DIOP Maimounatou	P-Z1DB0-097	2100150023018	6/27/2012	7/19/2012	7/19/2012	8/30/2013	6/24/2014	12/31/2018	84 600 000	67,02	56 698 920
	REHABILITATION AND FACILITATION CORRIDOR LOAN	DIOP Maimounatou	P-Z1DB0-097	5580150000051	2/23/2015	5/29/2015	5/29/2015	5/29/2015	12/2/2015	12/31/2018	976 937	37,59	367 231
	RN 4 GOUNGHIN-FADA REINFORCEMENT - LOAN	YOUNGARE Barnab	P-Z1DB0-182	2000200001856	11/24/2017	12/18/2017	1/23/2018	6/22/2018		12/31/2022	35 086 254	0,00	0
	RN 4 GOUNGHIN-FADA REINFORCEMENT - GRANT	YOUNGARE Barnab	P-Z1DB0-182	2100150036022	11/24/2017	12/18/2017	12/18/2017	6/22/2018		12/31/2022	25 360 000	0,00	0
	RN 4 GOUNGHIN-FADA REINFORCEMENT - LOAN	YOUNGARE Barnab	P-Z1DB0-182	2100150038495	11/24/2017	12/18/2017	1/23/2018	6/22/2018		12/31/2022	16 000 000	0,33	52 800
REGIONAL PUBLIC PORTFOLIO											259 003 191	31,94	82 720 805
OVERALL PORTFOLIO											475 462 780	39,15	186 157 855

Annex 3: Summary Table of Donor Interventions

Intervention Areas	Education	Agriculture (Including access roads to production areas)	Health and nutrition, food aid	Transport	Drinking water and sanitation	Energy, mines and quarries	Private sector development, youth and employment, trade	Social Protection	TCI	Justice and human rights	Environment	Town Planning and Housing	Administrative and Political Governance and Decentralisation	Economic Governance, Multi-sector Aid	Financial Sector
Belgium	*	*	*								*		*	***	
Germany	*	**	**	*	**		*						**	*	
Sweden		**			**		**						**		
USA		*	****		*		*						*	*	
AfDB		*	**	**	**	**	*								**
European Union			*	**	**		*	**		****	*		*	***	
World Bank	*	**	*	*	**	**	*	*		*			**	**	
Switzerland	**	**					****						*	*	
France	**				**			*						***	
Luxemburg	*	**	*			**	**		*		*				
Japan	***	*			*		*		*		*		*	*	
China Taiwan			**			**	**		*		*		*	**	
UNS	*	*	***		*		*			****	**		**	*	
Canada	**	*	**			*	*			*			**	*	*
Denmark	*				**		*			**			*	***	
Austria	**	*	**				**							*	
BADEA		**		*			*							**	
BOAD		**			***									**	

***-' Sector with more than 50% TFP financing; **-' Sector with 10-50% of TFP financing; *-' Sector with less than 10% TFP financing.

Source: Data from 2015 Report on Development Cooperation. Ministry of Economy and Finance, Burkina Faso, updated by the CSP Team.

Annex 4: Map of the Project Area



This map has been drawn by the staff of the African Development Bank exclusively for use by readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank Group and its members any judgement concerning the legal status of a territory or any approval or acceptance of its borders.