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Sovereign Investment Project

AFRICAN DEVELOPMENT BANK GROUP

BENIN AGRICULTURAL SECTOR RESILIENCE AND CLIMATE RISK MANAGEMENT PROJECT (PRERAB)

BENIN

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PROJECT APPRAISAL REPORT

BENIN AGRICULTURAL SECTOR RESILIENCE AND CLIMATE RISK MANAGEMENT PROJECT (PRERAB)

BENIN

AHVP/RDGW/AHFR/COJB/PGCL DEPARTMENTS

July 2025

Translated Document

CURRENCY EQUIVALENTS

Exchange rate effective: December 2024

Currency Unit1	Equivalent
UA 1	EUR 1.25
UA 1	USD 1.31
UA 1	XOF 818.41
EUR 1	XOF 655.96
USD 1	

FISCAL YEAR

1 January – 31 December

WEIGHTS AND MEASURES

1 metric tonne	2,204.62 pounds (lbs)
1 kilogramme (kg)	2.20462 lb
1 metre (m)	3:28 feet (ft)
1 millimetre (mm)	0.03937 inch (“)
1 kilometre (km)	0.62 mile
1 hectare (ha)	2.471 acres

1 Add any additional foreign or local currencies relevant to the project and their currency equivalents.

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
ADF	African Development Fund
ADRiFi	Africa Disaster Risk Financing Programme
AIC	Cotton Interprofessional Association
ANCB	National Association of Benin Councils
ANOPER	National Association of Professional Livestock and Ruminants Organizations
ARC	African Risk Capacity
AU	African Union
CBA	cost-benefit analysis
CBE	cost-benefit efficiency
CCRB	Benin Rice Farmers Consultative Board
CFAF	Franc of the African Financial Community
CIMA	Inter-African Conference on Insurance Markets
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
DGEC	Directorate-General for the Environment and Climate
DGFD	Directorate General for Development Financing
DPAF	Directorate of Planning and Financial Affairs
ECOWAS	Economic Community of West African States
EIRR	economic internal rate of return
ESCON	Environmental and Social Compliance Note
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
EUR	Euro
FADEC	Council Development Support Fund
FAO	United Nations Food and Agriculture Organization
FNDA	National Agricultural Development Fund
FNEC	National Environment and Climate Fund
GAP	Government Action Programme
GBV	gender-based violence
GDP	gross domestic product
GHG	greenhouse gases
ID	Directorate of Insurance
INSAE	National Institute for Statistics and Economic Analysis
IRM	Independent Recourse Mechanism
LC	local currency
MAEP	Ministry of Agriculture, Livestock and Fisheries
MCVDD	Ministry of Living Environment and Sustainable Development
MDTF	Multi-Donor Trust Fund
MEF	Ministry of Economy and Finance
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
NPV	net present value
PAGEFCOM	Community Forest Management Support Project
PAR	Project Appraisal Report
PCR	Project Completion Report
PCN	Project Concept Note
PIU	Project Implementation Unit
PO	Procurement Officer
PND	National Development Plan
PReRAB	Benin Agricultural Sector Resilience and Climate Risk Management Project
PSDSA	Agricultural Sector Strategic Development Plan

PSRSA	Agricultural Sector Recovery Strategic Plan
RASME	Remote appraisal, supervision, monitoring and evaluation
RMC	Regional Member Countries
SDGs	Sustainable Development Goals
SEAH	sexual exploitation, abuse and harassment
TSF	Transition Support Facility
UA	Unit of Account
UNDP	United Nations Development Programme
US	United States
USD	United States dollars
XOF	Franc of African Financial Cooperation, West Africa

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Project Name:	**Benin Agricultural Sector Resilience and Climate Risk Management Project (PReRAB)**
Sector(s):	Agriculture, food and nutrition security, climate risk management and transfers
Borrower / Grant Recipient	Government of the Republic of Benin
Project Instrument (s):	Transition Support Facility Loan, African Development Fund Grant and ADRiFi Multi-Donor Trust Fund Grant
Executing agency:	Ministry of Agriculture, Livestock and Fisheries (MAEP) through the Directorate of Planning and Financial Affairs (DPAF)

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper period:	2022–2026
Priorities of the Country Strategy Paper supported by project:	Pillar 1 CSP "Supporting agricultural transformation and industrial development", in particular by supporting agricultural value chains and improving the business environment to encourage private investment.
Government programme (PRSP, PND or equivalent):	National Development Plan (PND - 2018-2025) Agricultural Sector Development Strategic Plan (PSDSA - 2017-2025) Government Action Programme (GAP - 2021-2026) National Adaptation Plan (NAP - 2022-2027) National Disaster Risk Reduction Strategy (2019-2030)
Project classification	Feed Africa - Better developed commercial value chains - Expansion of agricultural finance, improved inclusion, sustainability and nutrition
	SDG 1 (End poverty in all its forms); SDG 2 (End hunger); SDG 5 (Achieve gender equality and empower all women and girls); SDG 12 (Ensure responsible production and consumption patterns); SDG 13 (Take urgent action to combat climate change and its impacts); SDG 16 (Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and effective institutions at all levels).
	[Food and nutrition security; Climate risk management].
Country Performance and Institutional Assessment:	[4/6] 2020
Projects at risk in the country portfolio:	(25% of transactions have been flagged) (31 December 2024)

PROJECT CATEGORIZATION

Environmental and social risk categorisation	[Category 3 [SNSC validation date 06/01/2025].
Does the project involve involuntary resettlement?	No. Most activities focus on supporting smallholders and mechanisms to promote climate insurance. Therefore, no physical investment will be made in the environment that could warrant displacing the population.
Climate Safeguards categorization:	Category 3.
Fragility lens assessment:	Yes
Gender Marker System Categorisation:	Category 2.

TSF KEY FINANCING INFORMATION OF TSF-1 (PREVENTION ENVELOPE)

Interest rate:	(0%)
Service charge:	(1%) per year
Commitment fee:	(0.75%) Rate equal to 0.75 % per annum, commencing 120 days after the Loan Agreement date.
Tenor:	(2025–2075 (50 years)
Time frame:	[2025- 2035 Start date - End date] (10 years)
Reimbursement	Loan amortized over forty (40) years after the grace period

Source	Amount (millions)		Instrument
	UA	CFAF	
Transition Support Facility Pillar 1: Prevention Envelope	20	16,368	Loan
African Development Fund	5	4,092	Loan
ADRiFi Multi-Donor Trust Fund	2,28	1.906	Grant
Government	2,925	2 442	Contribution
Total project cost:	30,250	24 808	

DEVELOPMENT OF OBJECTIVE AND COMPONENTS

Project development objective:	Reduce agricultural sector fragility, enhance food and nutrition security and strengthen local communities' economic resilience to climate shocks externalities. and prevent future risks
Project components:	**Component 1**: Strengthening of institutional and operational capacity for climate and disaster risk management: CFAF 1.478 billion
	Component 2: Strengthening of resilience to climate pressures and externalities among farming communities in northern Benin (Atakora and Alibori): CFAF 5.652 billion
	Component 3: Promotion of climate risk transfer mechanisms for Benin's agricultural sector (macro-micro) CFAF 14.237 billion
	Component 4: Project management and coordination (FCFA 1.08 billion).

PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval:	As the project was developed as part of the ADRiFi programme, it is not subject to PCN
Appraisal Mission:	3 to 14 December 2024
Expected date of Board Presentation:	September 2025
Effectiveness:	September 2025
Project implementation period	2025 - 2029
Planned mid-term review:	December 2027
Project closing date:	31 - 12- 2029

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1 STRATEGIC CONTEXT

A. Context, strategy and objectives

1. Climate variability and environmental changes are affecting several strategic sectors of Benin's economy, especially agriculture. Although the Harmonized Framework projections predict an improvement in food security in 2025, with about 110,000 more people capable of easily covering their food and other needs, there are still pockets of vulnerability. For example, Alibori and Atakora Districts – where climate challenges are compounded by insecurity and instability threats emanating from the Sahel – posted food insecurity rates of 25% and 33% respectively, above the national average of 21% in 2024. Waves of people forced to move to safer areas, due to insecurity and instability in the Sahel, are putting pressure on existing resources in the host communities. This also applies to other economic shocks such as the closure of the border with Nigeria.

2. In view of this unsettling situation, building a resilient agricultural sector has become a national priority. Indeed, the sector employs 70% of the population and is a key pillar of the Beninese economy and therefore deserves special attention to prevent the escalation of the adverse effects of climate change and exogenous shocks on agricultural productivity, food security and the country's stability. In response, Benin has defined key priorities include in particular: (i) setting up a multi-hazard early warning system for the effective management of natural disasters; (ii) improving agricultural yields through the adoption of innovative and adapted practices; (iii) strengthening the competitiveness of agricultural value chains, focusing on strategic products such as maize, rice, cowpeas and vegetables.

3. These priorities are in line with several strategic instruments adopted by Benin, including: the National Development Plan (PND 2018-2025), which focuses on productivity, economic competitiveness and climate change adaptation; the National Adaptation Plan (NAP 2022-2027) targeting agricultural resilience and risk transfer mechanisms; Benin's National Development Financing Policy 2024-2033 and the African Union's Agenda 2063. In terms of disaster risk management, they are also in line with the National Climate Change Management Policy (2021-2030), whose programme-based framework 2 on climate change adaptation underscores the development of climate insurance mechanisms adapted to Benin's socio-cultural and economic contexts,. The National Disaster Risk Reduction Strategy (2019-2030) aims to build institutional capacity and promote innovative financial mechanisms to reduce community vulnerability and improve disaster preparedness and response. In addition, municipal development, contingency and local security plans prepared by local authorities at the grassroots also promote local economic development and encourage social intermediation to ensure peaceful cohabitation in a disrupted demographic and migratory setting.

B. Sector and Institutional Context

4. The agricultural sector plays a crucial role in Benin's economy as it contributes 36% of Gross Domestic Product (GDP), accounts for 15% of government revenue and generates 88% of export earnings (INSAE, 2016). However, despite this economic importance, the poverty rate among farming households remains high. Rural poverty affects 46% of the population (UNDP, 2022), while farming households account for about 70% of the total population. The main challenges facing Benin's agricultural sector include: (i) low productivity and declining agricultural yields exacerbated by climate hazards such as irregular rainfall, drought and floods, threatening food and nutrition security; (ii) climate change impacts and environmental vulnerability, with a projected increase in extreme weather events by 2050. (GDP losses will be up to 19% and between 500,000 and 1 million people exposed to poverty and

food insecurity in 2050)[2]. These issues underline the urgent need for adaptation measures to build the resilience of Benin's agricultural sector. Benin's Agriculture Sector Policy aims to transform it into a modern, competitive and sustainable agricultural sector, capable of ensuring food and nutrition security while contributing to the country's economic and social development. This vision is captured in a number of key strategic plans and programmes, including: (i) the Agricultural Sector Recovery Strategic Plan (PSRSA) which, among other things, underpins the development of financing, credit and insurance mechanisms specific to agriculture; (ii) the 2017-2025 Agricultural Sector Strategic Development Plan (PSDSA) which defines agricultural policies up to 2025.and identify five strategic priorities: (1) improving agricultural sub-sector productivity and production; (2) promoting and equitably structuring value-added chains; (3) Making farms; (4) improving agricultural sector governance and food and nutrition security; and (5) setting up appropriate and accessible financing and insurance mechanisms.

5. In addition to climate-related challenges, northern Benin – the country's main agricultural region – is facing increasing pressure from the influx of internally displaced persons and migrants from neighbouring countries, linked to insecurity in the Sahel region (Burkina Faso, Niger). This exacerbates social tensions (weaker social cohesion and growing community tensions linked to the arrival of displaced persons), competition for resources (in particular diminishing cultivated areas), a fall in agricultural output and a rise in food prices. In response, the Beninese government and its partners are working to build the security and resilience of the population, especially through investment in humanitarian aid, education, health and agriculture.

C. Rationale for the Bank’s Involvement

6. The adverse effects of climate change, causing considerable loss and damage as well as accentuating its economic, social and environmental fragility of Benin. However, the future climate projections[3] point to an increase in the frequency and intensity of extreme events, with a negative impact on agriculture, including a projected 22% drop in cotton production and a 6.3% drop in maize production, potentially causing economic loss of about XOF 201 billion (MCVDD 2018). Without effective protection mechanisms, the intensification of future climate shocks is likely to exacerbate the country's economic, political, social and environmental vulnerabilities.

7. To this end, PReRAB seeks to bolster the country's efforts in food security and to preserve the Bank's investments in the agricultural sector – which accounts for 6% of its portfolio in Benin. Accordingly, the project aligns with the Bank's 2022-2026 Country Strategy Paper (CSP) for Benin. The CSP provides for, inter alia, support for (i) increased agricultural production to enhance food security and climate resilience, (ii) the development of agricultural value chains, and (iii) creating a conducive environment for greater private investment in the agribusiness sector (Pillar 1 of the Bank's CSP for Benin). In this regard, the project is aligned with the Bank's Ten-Year Strategy (2024-2033) and two of its High 5s: “*Feed Africa”* and “*Improve the quality of life for the people of Africa*.” It is also in line with the Bank's Strategy for Addressing Fragility and Building Resilience in Africa 2022-2026, especially by strengthening institutions, supporting national efforts to address climate challenges and their impact on food security, and catalysing private investment through agricultural sector risk transfer instruments.[i] Lastly, the project is in line with Pillar I of the Bank's Climate Change and Green Growth Policy which promotes resilience building, climate adaptation and fragility reduction.

8. Given Benin's vulnerability to climate hazards, the Bank is responding to an urgent need by developing built-in stratified risk management mechanisms such as early warning systems, sovereign insurance and meso- and micro-level agricultural insurance against climate risks. This will help to improve the effectiveness and speed of the response to affected vulnerable populations. In addition, this

2 World Bank

3 based on RCP2.6, RCP4.5 and RCP8.5 scenarios

approach will significantly improve agricultural producers' risk profile with financial institutions, thereby facilitating their access to bank credit and loans. Lastly, the operation will help to prevent conflict in northern Benin by helping to boost smallholders' productivity, especially by facilitating their access to local food markets, and by taking measures to strengthen social cohesion and promote better integration of displaced persons into the region's economic sector.

D. Coordination of Development Partners

9. Benin receives significant funding from its development partners to support the agricultural sector in the face of climate change-related challenges and to assist the population in the northern region which is exposed to the impacts of insecurity in the Sahel. Their interventions aim to build the resilience of agricultural systems, promote sustainable practices and improve food security. Institutions such as the European Union, the World Bank, the World Food Programme (WFP), Swiss Cooperation, Luxembourg Cooperation, the French Development Agency and the Netherlands support Benin's efforts to adapt to climate change and develop the agricultural sector. These actions include the promotion of improved farming techniques, soil fertility management for better yields, the development of agricultural irrigation schemes, the dissemination of climate-smart agriculture, and the enhancement of agricultural value chains. With regard to the response to climate hazards, Swiss and Luxembourg Cooperation are supporting the Beninese government's ongoing efforts to set up agricultural insurance for smallholder farmers in Benin by subsidizing pilot premiums. PReRAB is strategically aligned and complementary with those of other development partners intervention to maximize the impact of collective efforts for sustainable and resilient development in Benin.

2 PROJECT DESCRIPTION

A. Project development objective

10. The project's development objective is to reduce the fragility of the agricultural sector, strengthen the food/nutrition security of the population and build economic resilience to climate shocks and externalities in Benin, especially in the northern region affected by the prevailing insecurity in the Sahel. To this end, the project specifically aims to (i) build the institutional and operational capacities of stakeholders involved in climate risk management in the agricultural sector; (ii) promote agricultural insurance as a viable solution to climate risks; (iii) boost smallholders' productivity and facilitate their access to markets; and (iv) build community resilience and support social cohesion by promoting the economic recovery of the most vulnerable people.

B. Theory of Change

11. With irregular rainfall patterns (leading to droughts and floods), exacerbated by security instability in the Sahel, severely impact agricultural productivity and make rural communities in northern Benin more vulnerable. In response, the PReRAB project adopts an integrated approach aimed at strengthening the climate, social, and economic resilience of the agricultural sector. This is achieved through modular support ranging from the sovereign level (municipalities and central government) down to individual producers, notably through the implementation of tailored agricultural insurance. To this end, the project mobilizes several **inputs**: targeted technical assistance, the subsidization of climate insurance premiums, the provision of agricultural and agro-meteorological equipment, and awareness campaigns to promote the adoption of climate-smart agricultural practices. Based on this, the implemented **activities** include the deployment of sovereign and agricultural insurance schemes, training for producers and key institutions, strengthening local governance capacity for risk management, and supporting security and climate planning at the municipal level.

12. These efforts will **produce** a number of measurable outputs: public institutions' capacities for preventing and responding to climate-related disasters; agricultural insurance is operational; small-scale agricultural producers are better prepared, trained and insured against climate-related shocks; and communities in Benin's northern region are benefiting from a better social climate thanks to cohesion enhancing and economic recovery actions. The **expected medium-term outcomes** include the reduction of producers' climate vulnerability, their improved access to credit and markets due to a better risk profile, and the easing of tensions over natural resources between host and displaced communities. **In the long term,** the project targets a number of **sustainable impact**s including Food self-sufficiency locally driven rural poverty reduction and socio-economic and environmental stability.

13. The achievement of this chain of results is posited on a number of key **assumption**s:

- **The Government of Benin effectively subscribes to a sovereign insurance policy** and keeps its financial commitment over time.
- **Smallholder farmers massively adopt index insurance** and clearly see how useful it is as a protection mechanism against agricultural risks including climate shocks.
- **Local governance mechanisms are functional**, with enhanced capacity to implement contingency and security plans.
- **Farmers sustainably adopt climate-smart farming practices**, supported by appropriate technical support.
- **The security context remains relatively stable**, allowing for the effective implementation of activities on the ground.

C. Project Components:

14. The project is built around four (4) components namely:

Component 1: Building institutional and operational capacities for climate disaster risk management (UA 1 902 200 / XOF 1.560 billion)

15. The aim of this component is to build stakeholders' institutional and operational capacities to improve climate governance and disaster risk management impacting Benin's agricultural sector. Specifically, this will involve:

- **Strengthening the institutional and operational decision-making framework for sovereign risk transfer (at the central government level)** through:

    i. specific training, procurement and installation of agro-meteorological equipment, and data processing and storage tools including academia.

    ii. the development of climate disaster risk profiles and contingency plans, and training in risk transfer parameters linked to insurance products (such as floods, droughts, yield losses, etc.).

- **Building the capacity of stakeholders involved in agricultural insurance implementation and monitoring in Benin by:**

i training the insurance department in its role of supervising the viability, transparency and effectiveness of agricultural insurance products.

ii building the capacity of the National Agricultural Development Fund (FNDA), responsible for implementing the agricultural insurance project;

iii training private sector stakeholders (insurance companies, microfinance institutions, etc.) involved in steering the agricultural insurance;

iv organizing awareness campaigns for final beneficiaries (producers, umbrella organisations, agricultural cooperatives, farmers' organizations, etc.) on the benefits, terms and conditions of use and the various categories of agricultural insurance products.

v Setting up a consultation framework for agricultural micro-insurance stakeholders, and developing a national strategy for index-based agricultural insurance.

vi Developing tailored insurance products that enable smallholder farmers, including youth, to access agricultural micro-credit from Microfinance Institutions (MFIs) in order to enhance their agricultural productivity.

- **Building the capacity of local governments in climate hazard response, particularly through assistance in formulating Local Adaptation Plans (LAPs).**

Component 2: Building the socio-economic resilience to climate pressures and externalities among farming communities in northern Benin (Atakora and Alibori) (UA 6,906,000 / XOF 5. 662 billion)

16. This component promotes integrated climate risk management in the agricultural sector, targeting the most vulnerable producers, including youth (with a 30% target), who represent approximately 23% of the population. The focus is on northern Benin, a region highly exposed to climate hazards and insecurity. It is structured into two sub-components:

- **Building the adaptive capacities of smallholder producers including youth and facilitating access to local markets**, through training on climate-smart farming practices, training on agri-food processing techniques, the supply of small-scale modern equipment to minimize post-harvest losses and optimize agricultural productivity and linking small-scale producers with local markets as suppliers to school canteens.

- **Supporting social cohesion and economic recovery in very vulnerable communities including youth** by strengthening social intermediation to enable the harmonious acceptance and integration of displaced people within host communities, and by promoting the creation of assets through production activities tailored to their needs in a context of migration pressures (land restoration, support for off-farm production, training and distribution of agri-food processing kits).

Component 3: Promoting climate risk transfer mechanisms for the agricultural sector in Benin (macro-micro) (UA 19 495 000 / XOF 15,985 billion)

17. This component promotes risk transfer mechanisms as a sustainable solution to climate hazards, utilizing sovereign insurance to limit the government's budget reallocations and agricultural insurance to prevent maladaptation among vulnerable producers and facilitate their access to credit.. The component is structured into two sub-components:

- **support for sovereign insurance** aimed at contributing to premium payment under the **sovereign** policy against drought and flooding with the Pan-African Mutual Risk Management Company (ARC);

- **support for index-based agricultural insurance** mainly aimed at supporting ongoing efforts to introduce this insurance, especially by subsidizing agricultural micro-insurance premiums, developing and rolling out new insurance products, and geo-referencing beneficiary farmers.

Component 4: Project Coordination and Management (UA 1,362 500 / XOF 1. 117 billion)

18. The aim of this component is to ensure overall coordination of project implementation as a means of guaranteeing effective, transparent monitoring and compliance with Bank requirements. Day-to-day management carried out by a project implementation unit (PIU), anchored in the Ministry of Agriculture, Livestock and Fisheries (MAEP) and supervised by the Directorate of Planning and Financial Administration (DPAF). Activities will be monitored regularly using the Bank's Remote Appraisal, Supervision, Monitoring and Evaluation (RASME) tool for real-time monitoring of progress and rapid decision-making, especially in areas exposed to the effects of insecurity emanating from the Sahel. The implementation of Component 2: *Building resilience to climate pressures and externalities among farming communities in northern Benin (Atacora and Alibori)* will be entrusted to the World Food Programme (WFP) under a tripartite fiduciary agreement with the Bank and the Government of Benin. The United Nations security arrangements, deployed in collaboration with the State, will be used to reach the most remote areas affected by insecurity. This approach will promote synergy between humanitarian action, development and peace.

D. Project Cost and Financing Arrangements (approx. 2 pages)

19. The project's overall cost is UA 30,25 million, or about XOF 24,808 billion) distributed by funding sources as follows: *UA 20 million (XOF 16,368, 000 000) from a concessional loan from the Transition Support Facility (TSF) Pillar 1 prevention envelop ; UA 5 million (XOF 4,092, 000.000) in the form of a grant from the African Development Fund (ADF); USD 3 million (XOF 1 906 000 000) in the form of a grant from ADRiFi's Multi-Donor Trust Fund.* XOF 2,442,000,000 (UA 2,920,000) Benin Government contribute to the payment of premiums for sovereign and micro-insurance schemes.

20. This overall cost is broken down into the project's 4 components, and the cost estimates for activities were prepared in consultation with local authorities, with a 2% provision for physical contingencies and price increases during implementation.

21. The project will use Euro (EUR) as its foreign exchange due to the exchange rate parity with the XOF (CFAF) except for the ADRiFi MDTF grant which will be disbursed in US dollars (USD).

22. The project's financial structure is in line with the Bank's financing parameters for Benin, which stipulate a minimum borrower's contribution of 10% of the total project cost.

E. Project Area, Beneficiaries and Other Stakeholders

23. The project's direct beneficiaries are mainly the Benin government, and the national agencies and structures involved in the development of agricultural insurance, in particular MAEP, FNDA and Directorate of Insurance (DI). Also included are farmers in the target areas and value chains which benefit

from sovereign insurance and agricultural micro-insurance mechanisms. The project will work closely with some of the key umbrella organisations targeted by the insurance, notably the National Rice Farmers Consultation Board (CCRB), the Cotton Interprofessional Association (AIC) and the National Association of Professional Livestock and Ruminants Organizations (ANOPER). Agricultural micro-insurance will also cover 150,000 smallholder farmers, 30% of them women. In addition, farmers in the country's northern region will benefit particularly from resilience-building activities (climate-resilient best farming practices, agricultural processing techniques), especially those in the Atakora and Alibori

Divisions (Atabénou, Banikoara, Kandi, Ounet, Tokey, Gomparou).

24. The project's indirect beneficiaries include the poor people who live in areas exposed to climate change and affected by the violence and insecurity in the Sahel, especially women, young people (women and men), smallholder farmers' cooperatives and processing units in the agro-sylvo-pastoral and fisheries value chains.

25. Bilateral meetings, followed by technical working sessions, were organized with all government actors, UN agencies, technical and financial partners and the private sector. The discussions were complemented by a site visit to identify the main concerns of potential beneficiaries. These strategic meetings helped to identify the specific project implementation needs, thus ensuring a tailored and effective approach to achieving the set objectives.

F. Bank Group Experience and Lessons Reflected in Project Design

26. PReRAB's design was guided by the Bank's experience and lessons learned from previous operations, especially the Project to Promote Sustainable Aquaculture and the Competitiveness of Fisheries Value Chains, the Community Forest Management Support Project (PAGEFCOM I & II) and analytical studies. A participatory approach was adopted in order to engage local communities and identify their specific needs. The involvement of the private sector and local organizations was central to amplifying the project's impact. The project encourages such collaboration as a means of building local capacity and ensuring alignment with Benin's long-term development objectives. A key lesson learned from the implementation of Bank projects in Benin is that projects commence late due to the setting up of project management units.

27. Furthermore, some weaknesses noted in the Bank's review reports have to do with the lack of community involvement and difficulties in cross-sector coordination. To overcome these obstacles in the proposed project, a participatory approach has been incorporated from the design stage, ensuring the active involvement of local communities (Government, the private sector and beneficiaries) to better identify their needs and priorities. Mechanisms for closer collaboration with the government, the private sector and local organizations were set up to enhance coordination and resource use. Drawing on these past lessons and experience, the project design is more adaptable and resilient, ensuring greater efficiency and lasting impact.

28. Lastly, the project is being developed as part of the African Disaster Risk Management Finance (ADRiFi) programme, which is being implemented at the Bank since 2018 and has supported 16 regional member countries (RMCs) to date. The lessons learned from the implementation of the ADRiFi programme are reflected in the project design. Commitments are made with various stakeholders, especially in terms of capacity building for better ownership of risk transfer mechanisms and their

sustainable adoption at the national level. In addition, a degressive approach to subsidizing insurance premiums is adopted in order to encourage the inclusion of insurance premium costs either in the national budget (sovereign insurance) or in the financing strategies of farming households who systematically include agricultural insurance in their application for agricultural credit.

3 PROJECT FEASIBILITY

A. Financial and Economic Analysis

29. PReRAB's economic analysis was conducted using a cost-benefit approach (CBA) to estimate the effectiveness of the resources invested in building the climate resilience of Benin's agricultural sector. Given the project's structural nature and the fact that it comprises insurance, three analytical scenarios were modelled to reflect the deferred earnings dynamic over 10, 15 and 20 years. Account was taken of the project's investment costs and the expected benefits in terms of:

- agricultural productivity gains (+15 to 20% in targeted sectors);
- reduced economic losses in the event of a disaster.
- improvement of incomes and better food security among smallholder producers; and
- stabilized public spending through sovereign insurance.

30. The analysis over a 20-year period shows a net present value (NPV) of + EUR 23.3 million and an internal rate of return (IRR) of 15.9%, above the economic efficiency threshold of 10%. These results remain robust under several sensitivity scenarios. In addition to its direct economic impacts, PReRAB also integrates the effects of climate insurance at the microeconomic scale, especially access to credit, because by protecting farmers' incomes against climate shocks, insurance improves the risk profile of producers, thus facilitating their access to agricultural credit.

31. Beyond the direct economic impacts, the project helps to reduce fragility and strengthen social cohesion, particularly in the rural areas of northern Benin, where the effects of climate change are compounded by pre-existing social and security vulnerabilities. By securing livelihoods, PReRAB plays a preventive role in managing community tensions linked to the scarcity of resources, and helps to consolidate peace and stability in areas exposed to multiple risks.

32. The project becomes profitable from the 12th year onward. The 20-year horizon allows for the reflection of all expected benefits, particularly those related to the activation of the insurance mechanism. This confirms that PReRAB represents an effective investment from an economic and social standpoint.

Horizon	**NPV at 10%**	**EIRR**
10 years	–1,06 M€	9,6 %
15 years	+16,9 M€	14,9 %
20 years	+23,3 M€	15,9 %

33. The project remains economically viable in most of the scenarios tested, although its profitability is sensitive to the occurrence of disasters and to the rate of adoption of the insurance and production-related instruments.

Scenario	**Modified Assumption**	**NPV (20 years)**	**EIRR**
Baseline Scenario	Standard Assumptions	+23,3 M€	15,9 %
Benefits -20%	Lower Adoption or Productivity	+2,6 M€	10,4 %
2 Year Delay	Delay in Project Impacts	–5,4 M€	8,7 %
No Climate Shocks	No Insurance Activation	–12,7 M€	6,2 %
15% Cost Increase	Inflation or Cost Overruns	+9,3 M€	13,4 %

34. The project's concessional financing is deemed appropriate, and the risks identified can be mitigated through rigorous and inclusive implementation. As a strategic investment, PReRAB is both economically profitable and socially transformative.

Table 4: Key Economic and Financial Figures (for Cost-Benefit Analysis)

Indicator	Value
FIRR→The project does not generate direct recoverable financial flows)	N/A
EIRR→, 10% discount rate over 20 years	15.9%
NPV (discount rate: 10%)	EUR +23.3 million

Additional Positive Outcomes

35. PReRAB project generates several additional positive effects, including the stimulation of private agricultural investment by securing incomes (through insurance), thereby incentivizing investments in improved agricultural production techniques. It also revitalizes the local financial sector, particularly MFIs and rural banks, through the integration of climate-related financial products. Furthermore, it reduces forced migration linked to climate shocks, especially in the vulnerable areas of northern Benin. The project also enhances the financial inclusion and empowerment of women, which in turn fosters social cohesion, economic inclusion, and more equitable sustainable development.

B. Environmental and Social Safeguards

36. **Project's environmental and social category:** The Benin Agricultural Sector Resilience and Climate Risk Management Project (PReRAB) is classified in Category C in accordance with Decree No. 2022-390 of 13 July 2022 organizing environmental assessment procedures in the Republic of Benin. It is classified as a "low risk" project. This clear classification corresponds to category 3 of the Bank's Integrated Safeguards System (ISS). This E&S categorization was validated in ISTS and entered into SAP on 15 January 2025.

37. **Environmental and social safeguards documents:** As no physical investment is planned, there are no environmental and social safeguard instruments to be prepared and published before the project is approved by the Board.

38. **Project's significant environmental and social risks and impacts:** As the project will not have environmental and social risks to manage, a preliminary assessment of capacity to implement E&S measures is not required.

39. **Environmental and social risk and impact mitigation measures:** As the project will not have environmental and social risks to manage, no mitigation measures are required.

40. **Involuntary resettlement:** As the project is not designed to displace communities or economic infrastructure in the target country, no involuntary resettlement is planned.

41. **Global institutional arrangements for safeguards and aspects related to the capacity and strengthening measures of implementation bodies:** the project will not generate environmental and social risks and impacts. That is why the availability of environmental and social safeguards specialist

in the Project Implementation Unit (PIU) to oversee the Environmental and Social Management System (ESMS).

42. **Environmental and social compliance:** The project complies with the Integrated Safeguards System (ISS), and the signed Environmental and Social Compliance Note (ESCON) is attached as an annex.

C. Climate Change and Green Growth

43. The last few decades have been marked particularly by intense climate variability, characterized by recurrent extreme weather events, excessive temperatures, heat waves and disruption of seasonal rainfall patterns. The ensuing climate hazards include heavy rainfall, long dry spells, flooding and extremely high-water levels. The number of municipalities at high risk of flooding in Benin rose from 22 in 2010 to 35 in 2022, demonstrating the scale of the flooding and its rapid rate of expansion. Climate forecasts predict very high rainfall variability, with a sharp increase in rainfall throughout the country, raising fears of more hydro-climatic disasters in the coming decades. The agricultural sector, which is basically rain-fed, is one of the most vulnerable sectors to the impacts of climate change in Benin.

44. In response to climate challenges, the Government has, beyond the risk and natural disaster management mechanism at the sovereign level, prioritized in its strategy the empowerment of local authorities and communities in climate action implementation, in particular by: (i) building the technical, financial and operational capacities of local councils and stakeholders in climate disaster management; (ii) institutionalizing local adaptation plans at the municipal level; (iii) establishing instruments for transferring and financing climate action at the local level (*FADEC Climat*, *FNEC*, *Fonds Cat*, etc.); (iv) promoting agricultural climate insurance for smallholders, etc.); and (iv) promoting agricultural climate insurance for small farmers, etc.

45. By promoting agricultural climate insurance, this project will help to fill some of the gaps in the current climate response system, which does not adequately address the agricultural losses and damage suffered by smallholder producers. The project strongly supports the national adaptation plan, which recommends climate insurance as one of the priority options for preventing and managing climate risks in the agricultural sector. It also supports the government's strategy of empowering local authorities and grassroots communities to manage the risks of climate-related disasters. It also supports the implementation of several climate change adaptation measures under Benin's NDC. The project is classified in Category 3 under the Bank's Climate Safeguards System and is therefore not exposed to the physical impacts of climate change. It proposes cogent mechanisms for preventing and adapting to climate shocks. It is in line with the Bank's Climate Change and Green Growth Strategic Framework, and the Paris Agreement alignment criteria developed by multilateral development banks to keep global warming below 2°C, and strengthen countries' capacities to cope with climate change impacts. The promoted climate-smart farming practices will help to improve vegetation cover and consequently avoid carbon dioxide emissions and promote carbon sequestration, although their sequestration potential was not estimated.

D. Other Cross-cutting Priorities including special attention to youth

Poverty Reduction, Inclusion and Job Creation and including youth

46. The intervention will strengthen food and nutrition security by reducing the number of food insecure persons and increasing the incomes of smallholder farmers through the adoption of climate-

smart practices which will help stabilize young people. This will help in efforts to combat internal migrations, youth/women's unemployment, and limit the risks of radicalization and religious extremism. Actions to build resilience among the farming communities in Alibori and Atakora will target about 10,000 farmers, of which 30% youth. The creation of productive agricultural assets—through soilless farming practices and 500 hectares of land restoration activities—will contribute to reducing unemployment among 11,000 young people in the project area. Additionally, a 5% quota of the micro-insurance premium subsidy will be reserved for young farmers who meet the condition of farming a 2-hectare plot. This will be drawn from among the 150,000 micro-insurance beneficiaries, amounting to approximately 7,500 young people. Furthermore, of the approximately 500,000 people covered by the macro-insurance scheme, 30% will be women and youth, totalling 150,000 people. For all other capacity-building activities, a quota of 5% to 10% is also reserved for youth, depending on their representation in the specific field. More specifically, two young insurance experts are scheduled to be recruited on behalf of the Insurance Directorate, and two others will be selected for a degree-granting training program in meteorology on behalf of the Beninese government. In addition, compensation from sovereign and agricultural insurance will help to ensure a rapid response to climate disasters, contribute to household recovery and prevent families from sinking into a vicious cycle of extreme poverty and food insecurity, often at the root of radicalism and violent religious extremism.

47. Climate change evidenced by floods and droughts is destroying crops, the main means of livelihood for rural communities, and the income-generating activities of women and young people. Households are forced to adopt negative coping mechanisms, such as taking children out of school, selling off productive assets, prostituting young girls and even forcing them into early marriage in extreme cases. Through its sovereign and agricultural climate insurance mechanisms, the project will help to mitigate the negative effects of climate-related disasters and speed up recovery.

Resilience-Building Opportunities

48. The project will address the environmental and social impacts of climate change which adversely affect agricultural productivity, food security and socio-economic development in Benin, at a time when the country is bearing the brunt of the contagion effects of the insecurity affecting the Sahel. The Alibori and Atakora Divisions, prioritized by the project, are both major agricultural production basins and the hardest hit by food insecurity, poverty and externalities. Although data from the harmonized framework indicate a slight improvement in the level of food security in Benin, with 15.9% of people "under pressure" and 4.1% of people in a situation of "crisis, emergency or famine" in 2025 versus 16.4% and 4.5% in 2024, the outlook for Alibori and Atakora runs counter to the national trend, with 25% and 8% compared with 19% and 6% for Alibori, and 34% and 12% compared with 27% and 8% for Atakora, in 2025 and 2024 respectively. According to data from the Harmonized Household Living Conditions Survey, in 2023, the monetary poverty index was 0.0397 in Alibori and 0.0497 in Atakora, compared with a national average of 0.0395. Between January and mid-March, less than three months since the start of 2025, Alibori and Atakora recorded a total of 46 safety incidents resulting in

160 deaths, out of 57 incidents and 170 deaths for Benin as a whole. In other words, more than 80% of incidents and 90% of their consequences in terms of fatalities are concentrated in these two regions. There were also more than 32,000 people forcibly displaced in the country in January 2025. This forced and unplanned migration puts pressure on already scarce natural resources, particularly arable and grazing land. The scarcity of grazing land in turn leads to uncontrolled transhumance, which sometimes

destroys fields, resulting in agricultural losses and providing fertile ground for often fatal community conflicts between farmers and herders.

49. Based on the GAP and NDC guidelines which aim to strengthen proactive climate risk management mechanisms and early warning systems in order to preserve lives, guarantee food security in vulnerable agro-ecological zones and increase water available for multiple uses, the project will extend climate insurance to 150,000 producers (30%), improve the State's capacity to respond to climate shocks, and stabilize the incomes of farming households, including those hosting forcibly displaced people. The project will support local contingency plans to more robustly respond to climate challenges and their impact on the food security of local communities. The project will also support local security plans, especially by strengthening income-generating activities and social intermediation to ensure peaceful cohabitation between host communities and these displaced persons. The shortage of land will be surmounted through innovative techniques such as soilless farming. The major challenge is providing communities with solidarity and confidence-building mechanisms towards public authorities to meet the challenges together and promote acceptance and peaceful cohabitation in order to avert the risk of contagion to which Benin is exposed due to the deteriorating security situation in the Sahel, the porous nature of its borders, combined with the spread of violent extremism in the northern region.

Promoting Gender Equality and Women's Empowerment

50. PReRAB is categorized in Category 2 under the Bank's Gender Marker System. It focuses on reducing gender disparities by improving rural women's access to productive resources. Indeed, according to the Ministry in charge of Agriculture[4] 30.5% of the country's producers are women and 46.9% of agricultural workers are women. These women face major obstacles such as limited access to quality farmland, hindering their production potential, and economic empowerment. Furthermore, agricultural technology and advice are unevenly distributed: only 4.6% of women farmers benefit from motorized and/or animal traction and 11.96% have access to agricultural advisory services. In addition, only 37.35%, of women involved in agriculture have access to financial services, while insurance services remain almost exclusively for men[5].

51. The effects of climate change are exacerbating these vulnerabilities, with land allocated to women being particularly exposed to climate risks such as drought and flooding. Between 2011 and 2015, floods caused 25 deaths, a higher percentage being women. Their preponderance in the domestic and agricultural sectors makes them more vulnerable to environmental risks. During this period, 63,203 houses were damaged, including 47,051 belonging to women[6]. To counter these structural challenges, PReRAB will deploy a series of strategic measures, including targeted awareness campaigns on gender issues such as GBV to improve women's access to better quality land and raise their awareness of appropriate agricultural insurance products; develop women's technical skills in risk management and

4 Directorate of Agricultural Statistics (DSA), MAEP-Benin, 2023, "Women and agriculture in Benin", Cotonou, Benin. ://. agriculture.gouv.bj/section/Documentations/Publication

5 African Development Bank Benin Gender Profile 2021

6 Ministry of Interior and Public Security. National Disaster Risk Reduction Strategy 2019-2030.

adaptation to climate-related disasters; promote access to and use of energy-efficient agricultural technologies, and provide post-harvest loss management support specifically designed for women producers affected by climate shocks.

52. In addition, a 35% quota will be reserved for women's participation in all project initiatives, and

gender experts will be recruited to ensure systematic mainstreaming of gender at all levels of the project. These initiatives aim to ensure the equitable representation and active participation of women in climate-smart agriculture and the development of adaptive agricultural policies. PReRAB aims to significantly strengthen women's economic autonomy and promote their central role in community resilience-building and sustainable development. This integrated approach underscores the importance of gender equity as a central pillar of agricultural and environmental progress in the Benin context.

4 IMPLEMENTATION

A. Institutional and Implementation Arrangements

53. Institutionally, PReRAB is anchored in the Ministry of Agriculture, Livestock and Fisheries (MAEP) through the Directorate of Planning and Financial Administration (DPAF). A project implementation unit (PIU) will be set up within MAEP under the administrative supervision of its General Secretariat, which will sign the coordinator's contract. The PIU will be responsible for the day-to-day management of project activities and reporting. The PIU will comprise: one (1) coordinator; one (1) administrative and financial officer; one (1) accountant; one (1) procurement specialist; one (1) project technical officer with expertise in climate change; one (1) monitoring, evaluation and capitalization officer; one (1) environmental and social specialist, with a profile in conflict analysis/social cohesion to ensure the project's contribution to inclusive development and the pacification of communities; one (1) gender officer; one (1) management assistant; and two (2) administrative vehicle drivers, all recruited on a competitive basis and subject to the Bank's prior review.

54. PIU members will be recruited on a competitive basis on the Benin market. Recruitment will be open to civil servants and private sector staff with the required profile for the posts to be filled. If a civil servant is selected, the following conditions must be met: (i) such recruitment does not conflict with any employment law, regulation, or policy of the Borrower's country; (ii) the civil servant is on leave without pay and is therefore eligible; however, access to such contracts is strictly prohibited for staff on paid leave, regardless of the national laws or policies of the Borrower's country; (iii) the civil servant is not recruited by the agency for which they previously worked, unless a reasonable "cooling-off period" has elapsed between their departure from that agency and the proposed assignment. This period is defined by the Bank but shall not be less than 12 calendar months from the date of cessation of the previous employment. As a general rule, if this period is longer, the Bank will, after review, accept the employment rules established by the legal provisions applicable to civil servants in the Borrower's country; (iv) their recruitment would not create a Conflict of Interest (COI) in accordance with the Procurement Policy.

55. Performance contracts will be signed with project team members to ensure transparency and efficiency in the execution of their responsibilities. The salaries of the PCU members will be paid from project resources.

56. The implementation of Component 2—Strengthening the Resilience of Agricultural Communities in Northern Benin (Atakora and Alibori) to Climate Pressures and Externalities—will be entrusted to the World Food Programme (WFP) under a tripartite fiduciary agreement with the Bank and

the Government of Benin. This implementation will leverage the United Nations security apparatus, deployed in collaboration with the Government, to reach the most remote and insecurity-affected areas. This approach will foster a synergy of action between humanitarian, development, and peace efforts.

57. Strategic oversight coordination of the project will be entrusted to a steering committee chaired by MAEP's Director of Cabinet. The steering committee will comprise the MAEP, represented by DPAF, and FNDA; the Ministry of the Economy and Finance (MEF), represented by the Directorate of Insurance and the Directorate General of Development Financing (DGFD); the Ministry of the Living Environment and Transport, represented by the National Meteorological Agency (Météo Benin) and the Directorate General of the Environment and Climate (DGEC); (v) the National Chamber of Agriculture of Benin (CNA); (vi) AIC; (vii) JRC; and (viii) ANOPER.

B. Procurement

58. **Applicable procurement policy and framework:** Applicable procurement policy and framework: All goods and consultancy services financed from Bank resources will be procured in accordance with the AfDB Procurement Policy for Bank Group-Funded Operations (AfDB Procurement Policy) dated October 2015 and the provisions to be specified in the Project Financing Agreement. Pursuant to this policy and based on various evaluations conducted, it has been agreed that

- certain goods (except component 2), consultancy services and other services presenting a low level of risk will be procured through competitive methods and in accordance with the country's procurement system (SPMP) enshrined in Law No. 2020/26 of 29 September 2020 instituting the Public Procurement Code and its implementing regulations. Standard national bidding documents (SNBDs) or other bidding documents agreed during project negotiations will be used for various types of project activities. Procurement arrangements will be based on the results of procurement risk assessments conducted at the country, sector, project and Executing Agency (EA) levels, as well as on the findings of market analysis. These will make it possible to take a decision on the applicable procurement system(s) (national, third-party or Bank system).
- all procurement for Component 2 of the project will be conducted using the WFP's procurement system. This decision was made in light of the challenges posed by the security context in the targeted areas.

59. Appropriate mitigation measures will be included in the Procurement Capacity and Risk Assessment Action Plan (PERCA). These measures are outlined in para. B.5.9. of Annex B5 relating to the procurement section featuring in the Technical Annex of the Project Appraisal Report.

60. Following the various assessments, appropriate mitigation measures have been proposed and included in the action plan of the Procurement Risk and Capacity Assessment (PRCA), under paragraph 4.5.9 of Annex 4.5. The details of the procurement arrangements are also available in the said Technical Annex.

C. Financial Management, Disbursement and Audit

61. The Ministry of Agriculture, Livestock and Fisheries (MAEP) will be responsible for PReRAB's financial management. MAEP has implemented several Bank-financed projects, including

PAIA VO, (closed), PRODEFILAV (ongoing), and PROMAC (ongoing). These projects are equipped with a procedures manual and accounting software, and their audit reports are submitted to the Bank.. It manages externally funded projects through Project Management Units (PMUs), made up of experts and staff seconded to the said projects. Therefore, it was recommended that a project implementation unit (PIU) be set up within the Directorate of Planning, Administration and Finance, which will be responsible for the overall coordination and financial management of the project. Its financial management staff will comprise an Administrative and Financial Officer (AFO) and an Accountant, both recruited on a competitive basis, with terms of reference acceptable to the Bank. In addition, a steering committee will be set up to manage the project. Before the beginning of each year, the PMU will prepare an Annual Work Plan and Budget (AWPB) which will be submitted to the steering committee for approval before submission to the Bank for its no-objection opinion.

62. The PIU will adopt MAEP's expenditure execution procedure for the mobilization of national counterpart funds. The counterpart contribution budget will be implemented and monitored through the Public Finance Management Information System (SYGFP). The data generated by SYGFP will be entered into the PIU's integrated management system and consolidated with PReRAB budget execution data kept in the same system, with a view to producing quarterly financial monitoring reports (FMRs). The project's internal control/audit will be based on (i) an addendum to the administrative, financial and accounting procedures manual inherited from PROMAC to reflect the specific features of the project and the SYCEBNL; and (ii) a commitment by MAEP to have the Ministry's Inspectorate General (IGM/MAEP) act as the project's internal auditor. As a result, PReRAB activities will officially be include in IGM's work programme.

63. Under this project, the PIU will acquire new rights and configure SUCCESS, the integrated accounting system already in use at PROMAC, to: (i) prepare annual financial statements; and (ii) produce quarterly financial monitoring reports (FMRs), to be transmitted to the Bank within 45 days of the end of each quarter. SUCCESS will be configured to ensure that project accounts are kept separately, and new financial statements and reports are generated automatically as recommended by the Bank. Project accounts will be kept by the PIU on an accrual basis. The chart of accounts will be prepared based on the accounting system for not-for-profit entities (SYCEBNL) in force in Benin since 1 January 2024.

64. **Disbursement Arrangements:** AfDB resources will be disbursed in accordance with its rules and procedures, in particular, the Disbursement Handbook. The following four methods will be used: (i) the special account method; (ii) the direct payment method; (iii) the reimbursement method; and (iv) the reimbursement by guarantee method. The special account will be opened at BCEAO. Transactions on the Special Account are authorized and executed by the Director General of the Autonomous Debt Management Fund and the Treasury's Accounting Officer. This special transit account will in turn transfer all the received funds from the Bank to the PIU bank account opened in a commercial bank acceptable to the Bank, the signatories being the PIU coordinator and AFO.

65. Disbursements by financial partners and the national counterpart will be made in accordance with their specific procedures. All transactions will be recorded in the integrated management software, and the supporting documents will be kept by the PIU.

66. The use of the special account method will be subject to the final liquidation of advances and the balance of special accounts for all closed projects in Benin.

67. Specifically, the project will submit to the Bank annually the sovereign insurance invoice along with the policy signed by ARC and the Government, enabling the Bank to make the payment directly to the insurer. As for the micro-insurance premiums, the project will also submit annually the insurer's

contract and the premium invoice to facilitate the Bank's direct payment to the insurer or the insurance consortium.

68. **External audit**: The annual financial statements prepared by the project will be subject to a financial and accounting audit. The project's external audit will be conducted by the Court of Auditors or by an independent audit firm. If the audit is conducted by the Court of Auditors, no fee will be paid, but the Bank will reimburse the actual costs incurred, based on a statement of expenditure submitted in advance for the Bank's opinion.

69. If the audit is conducted by an independent audit firm, the recruitment process must begin within three months of the entry into force of the financing agreements and no later than one year before the expiry of the current audit contract. The audit contract will be for a maximum of three years and the auditor will be required to submit his or her report no later than six months after the end of the financial year to which the mission relates. The full audit fee will only be paid if the reports were approved by the Bank. The auditor's services in the second and third years will only be provided if the services provided in the previous year were performed satisfactorily.

70. The audit of the first and the last years may cover the first 18 months or the last 18 months respectively, if the first disbursement is made in the second half of the year (after 30 June) and if the last disbursement is made in the first half of the year (before 30 June). The fiduciary risk of financial management is deemed to be Substantial.

71. **Agreement with, the National Agriculture Development Fund (FNDA**), set up by Decree No. 2017/304 of 21 June 2017. FNDA was approached to help implement the project under an agreement. FNDA is supported by the Benin government and by technical and financial partners including the Swiss Agency for Development and Cooperation, the Belgian Cooperation Agency and the European Union Delegation. From assessment, FNDA's current financial architecture meets the minimum requirements for financial information traceability, namely the existence of: (i) integrated accounting and financial management software (PERFECTO); (ii) an administrative, accounting and financial procedures manual and an operating manual; (iii) qualified staff with sound experience in the field; (iv) an internal auditor responsible for setting up the internal audit function; and (v) a Board of Directors responsible for defining broad strategic guidelines and ensuring consistent implementation.

72. With such multi-faceted support, FNDA had all the necessary management tools to operate at end-2018. However, these tools have not yet been sufficiently tested, given that they were introduced relatively recently. It is therefore necessary to ensure that: (i) PReRAB resources made available to FNDA are used for the purpose set out in the agreement; and (ii) FNDA periodically produces reliable financial information. In addition, the sound management of project funds requires improvements to FNDA's administrative, financial and accounting systems. These improvements include: (i) finalizing the configuration of PERFECTO the integrated accounting and financial management system so as to record expenditure by activity and resources by source of financing, given FNDA will receive resources from various sources; (ii) updating the existing administrative, financial and accounting procedures manual to

take into account the Bank's specific characteristics; and (iii) training already recruited staff in the use of management tools and providing them with a copy of the various manuals and management tools.

73. **Fiduciary Agreement with WFP**: In accordance with the provisions of the Fiduciary Principles Agreement signed between the Bank and UN system agencies, the World Food Programme (WFP) shall have responsibility for the administrative, accounting, and financial management of the Project. This includes budgeting, accounting, internal control and internal audit, funds flow and disbursement, financial reporting and external audit arrangements, as well as related policies, procedures, and practices. WFP will ensure that the financing resources are used for their intended purposes, with due regard to economy, efficiency, and value for money. Accordingly, the disbursed funds will be received, administered, managed, expended, reported on, and audited in accordance with WFP's regulations, rules, administrative procedures, and practices.

74. Reporting: To inform the Bank of the status of resource utilization for the project, WFP will submit a quarterly financial monitoring report to the Bank no later than 45 days after the end of the relevant quarter. The format of this report will be agreed upon with the Bank. Furthermore, WFP will provide the Bank and/or the Government of Benin with any financial information requested, in line with its relevant regulations, rules, policies, and procedures. Upon completion of the operation, WFP will provide the Bank with a final financial completion report detailing the interventions and the budget execution summary, within a period not exceeding three months from the project's activity completion date. Within six months of the activity closure date, WFP will provide the Recipient and the Bank with: (i) a final report summarizing the emergency assistance activities, their impacts, and financial data, and (ii) a written confirmation from the head of the operation certifying that WFP has complied with the terms of the Tripartite Letter of Agreement. WFP will ensure that the Bank's name and its contribution as a "Multilateral Development Institution" are included in the annexes of its annual financial reports. The Bank's logo will be displayed on materials and visible in the interventions financed by the Bank.

75. Disbursement: Disbursement to WFP will be made in accordance with the fiduciary agreement between the Bank and the agency. Disbursements will be made in several tranches via direct payment to a WFP bank account. These disbursements will be conditional upon: (i) the signing of the Tripartite Financing and Implementation Agreement between Benin, the Bank, and WFP; and (ii) the provision of the dedicated bank account details to which the funds will be disbursed.

76. **Audit:** The use of the financing resources will be subject exclusively to the internal and external audit procedures provided for in WFP's financial regulations, policies and procedures, rules and guidelines, as well as the relevant decisions of its governing body, as agreed with the Bank. In this regard, the audited financial statements and the auditors' report for the year in which the funds are utilized will be made available to the Bank within 30 days of their submission.

D. Monitoring and Evaluation

77. The project's monitoring and evaluation system will be designed taking into account the target indicators selected for the project components as well as the expected impact, outcome and output indicators. The system will include an M&E manual defining roles and responsibilities, data collection plans, analysis and reporting, and mechanisms to ensure data use and learning. Half-yearly and annual progress reports will also be prepared and submitted to the Bank, in accordance with existing agreements.

The Bank will conduct quarterly reviews, a monitoring and supervision mission at least twice a year and a mid-term review mission in the second year of implementation. It will assign human resources to support the Task Manager to closely monitor project implementation and integrate lessons for an adaptive and innovative management of the operation. The Benin Country Office will maintain ongoing dialogue with the country's authorities and monitor the project. At project completion, the Government will prepare a completion report on the basis of which the Bank will prepare its project completion report to assess the results achieved and draw lessons therefrom. More specific monitoring will be conducted between the Bank's Country Office and Headquarters. Using the remote project monitoring tool (RASME) will make it possible to track the project's implementation progress in real time and take any decisions as appropriate, particularly in areas exposed to the contagion effect of insecurity in the Sahel.

E. Governance

78. Benin, with an overall governance score of 58.9 on 100, ranks 13th out of 54 African countries, which is higher than the African average of 49.3 and the West African average of 52.6. Between 2014 and 2023, Benin recorded an increase of 3.4 points in this index, reflecting notable improvements in areas such as tax revenue mobilization effectiveness, budget and financial management, access to banking services, safe transport networks and access to energy. However, challenges remain, particularly with regard to equal rights and individual freedoms for women, equality before the law and the transparency of the assets of political figures and public officials.

79. With regard to disaster risk management governance, the regulatory framework in force in Benin is based on two instruments which guide government actions, and with which the project is fully in line. These are the National Climate Change Management Policy (2021-2030) whose programme-based framework 2 on Climate Change Adaptation emphasizes the development of climate insurance mechanisms tailored to Benin's socio-cultural and economic contexts, and the **National Disaster Risk Reduction Strategy (2019-2030)** which aims to build institutional capacity and promote innovative financial mechanisms to reduce community vulnerability and improve disaster preparedness and response.

80. As regards the Benin insurance regulatory framework, the sector is mainly governed by the Inter-African Conference of Insurance Markets (CIMA) Insurance Code. This code lays down rules applicable to insurance companies and operations in member states, including Benin. There is no formal agricultural insurance institutional regulatory framework in Benin. However, Government is working in earnest to remedy this shortcoming and provide a regulatory framework tailored to local ambitions. To this end, a national strategy on agricultural insurance which is essential for better organization of the sector, is listed as one of PReRAB's key deliverables.

81. For project governance, there are plans to set up a steering committee to provide strategic guidance as well as a management unit in accordance with current national regulations. The project implementation unit (PIU) will be responsible for coordinating, planning and organizing the statutory meetings of the steering committee. The steering committee will be responsible for the quality control of the PIU's actions in order to promote accountability and avoid lapses or irregularities during project implementation. Regular monitoring reports and financial audits will also ensure that the resources allocated are being used optimally. In addition, the procurement of goods and services required for the

implementation of project activities will be conducted in accordance with the "Procurement Policy for Bank Group Funded Operations", dated October 2015.

F. Sustainability

82. The PReRAB's sustainability is based on a robust combination of **institutional** commitment, innovative financial mechanisms, capacity-building, and community anchoring, guaranteeing the continuity of achievements beyond the duration of external funding. Firstly, government's active and sustained involvement is a fundamental pillar of sustainability. This commitment is seen in its submission of funding applications and a letter of endorsement for the Transition Support Facility, and significant participation in the co-construction of the project. The institutional leadership provided by key sector ministries (Agriculture, Economy and Finance, Living Environment, Interior) will ensure the continuity of interventions by mainstreaming them into existing public policies, in particular the National Development Plan (NDP) and the National Adaptation Plan (NAP).

83. **Financially,** the transition towards internalizing the cost of insurance premiums is being carefully planned. The study conducted by PULA led to the design of an inclusive and degressive premium model, supported by beneficiaries, the project and the government, which strengthens local ownership and paves the way for a responsible exit from external financing. This arrangement is supported by a national index-based agricultural insurance strategy, currently being developed, which will make it possible to mainstream insurance mechanisms into national budgetary and financial instruments on a long-term basis. The project also plans to systematically build on lessons learned through ongoing monitoring, documentation of compensation and dissemination of results, supported by a feedback mechanism, community workshops and digital knowledge-sharing platforms. These actions will also feed into national and local adaptation instruments through municipal contingency and safety plans.

84. **In terms of social sustainability**, the project is founded on an inclusive and participatory approach. Community participation is fostered through local climate change adaptation plans, enhanced local governance mechanisms, and support for the structuring of farmers' organisations. This approach is critical to preventing feelings of exclusion and safeguarding social cohesion in areas affected by climate pressures, land disputes, and forced displacement. On the technical front, sustainability is ensured by leveraging existing structures—such as local authorities, national institutions, and agricultural cooperatives—alongside targeted capacity-building for stakeholders, including government bodies, microfinance institutions, and insurance providers. The integration of climate-smart agricultural practices, support for agro-processing, and improved market access will generate sustainable income streams and bolster producers' economic resilience.

G. Risk Management

85. PReRAB operates in a national context marked by gradual reduction in structural risks, though pockets of fragility persist at the subnational level, particularly in northern border regions. **The primary risk identified is technical in nature**, linked to the introduction of climate insurance in Benin—a mechanism still relatively untested in the country. This innovation entails experimental phases, the outcomes of which will hinge on progressive learning and the calibration of instruments to the local context. In this regard, the project adopts an adaptive management approach, combining risk-sharing

between the Bank and national stakeholders with close monitoring in the initial years, including quarterly reviews and a mid-term review.

86. **Political risk**, deemed low, is further mitigated by the project's institutional anchoring within a stable technical ministry (MAEP), thereby minimizing the impact of potential post-election changes. From a macroeconomic perspective, inflationary pressures in the CFA Franc zone pose a moderate challenge, alleviated by the fact that insurance products are indexed to the inflation rate, ensuring the stability of compensation payments.

87. There is lingering **security risk** in Atakora and Alibori Divisions, the project's target areas, due to regional instability. This risk is mitigated by a strategic partnership with the World Food Programme (WFP), which will implement Component 2 of the project while leveraging United Nations security arrangements.

88. Overall, the project's design, strong institutional anchoring, clear distribution of responsibilities among partners, and regular review and adjustment mechanisms will ensure rigorous risk management and operational flexibility which are crucial to the intervention's success.

H. Knowledge-Building

89. PReRAB has a strong dimension on knowledge generation, capitalization, and dissemination, aimed at enhancing the collective learning on climate risk management mechanisms and agricultural resilience in Benin. As a pilot initiative combining sovereign, meso-, and micro-insurance, it serves as an experimental testing ground the findings of which will prove valuable at the national and regional levels. The knowledge generated will cover many aspects such as the effectiveness of climate-smart agricultural practices, the conditions for uptake of insurance products, the impact of compensation on farmers' recovery, and the financial sustainability of the mechanisms established. A capitalization strategy will guide data collection, case studies, feedback and participatory evaluations throughout the project cycle.

90. The expected outputs include capitalization reports, agro-climatic bulletins, a national strategy on index-based agricultural insurance, and digital knowledge-sharing platforms. As complementary measures, multi-stakeholder workshops and inter-institutional seminars will be organized to enhance dialogue between policy-makers, researchers, insurance providers, development practitioners and farmers' representatives.

91. Knowledge dissemination will leverage multiple channels: **technical publications**, **inter-institutional seminars**, **multi-stakeholder workshops**, as well as **digital platforms** and **regional knowledge-sharing networks**. This approach will strengthen national capacities while informing other climate insurance initiatives both within the sub-region and across the Bank's wider portfolio. Furthermore, this knowledge management strategy is designed to **foster the project's adaptive learning**, inform mid-term and final reviews, and guide the evolution of national climate resilience policies. As such, it serves as a critical lever to maximize the impact and scalability of the innovations pioneered by PReRAB.

5 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal Instruments

92. The following legal instruments will govern the project's implementation: (i) A Loan Agreement between the Republic of Benin of the one part, and the African Development Bank and African Development Fund (collectively referred to hereinunder as "the Bank"), acting in their capacity as administrators of the Transition Support Facility prevention envelop (the TSF prevention envelop Loan Agreement); (ii) a Loan Agreement between the Republic of Benin on one part, and the African Development Fund ("the ADF Loan Agreement"); and (iii) A grant agreement between the Republic of Benin on one part, and the African Development Bank and African Development Fund, acting in their capacity as administrators of the Africa Disaster Risk Financing Programme (ADRiFi), of the other part (the ADRiFi Grant Agreement).

a. Conditions Associated with the Bank's Intervention

93. **Conditions Precedent to Effectiveness of the TSF prevention envelop Loan Agreement:** The effectiveness of the TSF prevention envelop Loan Agreement shall be subject to the Borrower fulfilling, to the Bank's satisfaction, the requirements stipulated in Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund (Sovereign Entities).

94. **Conditions Precedent to Effectiveness of the Loan Agreements**: The ADF Loan Agreement and the ADRiFi Grant Agreement shall enter into force on the date of their signature by the respective parties.

95. **Conditions Precedent to First Disbursement of Bank Resources**: Beyond the entry into force of the Loan Agreement and Grant Protocol, the Bank's obligation to proceed with the first disbursement of funds under the TSF prevention envelop Loan Agreement, ADF Loan Agreement and ADRiFi Grant Agreement remains subject to the Republic of Benin fulfilling the following conditions: (i) submission to the Bank of proof of signature, in accordance with Benin's current regulations, of the ministerial order or decision relating to the establishment, purpose, classification, administration and operational framework of the project; (ii) submission to the Bank of proof of signature, in accordance with Benin's current regulations, of the ministerial order or decision relating to the composition, mandate and terms of reference of the Project Steering Committee; (iii) submission of proof of appointment of the Project Coordinator, whose professional qualifications and experience must be deemed acceptable by the Bank prior to appointment; (iv) submission to the Bank of evidence regarding the recruitment of a procurement specialist and an administrative and financial officer, whose professional qualifications and experience must be approved by the Fund as meeting required standards; and (v) opening of a dedicated bank account at either BCEAO or a commercial bank approved by the Bank, to be used exclusively for receiving operational expenditure allocations.

96. **Additional Conditions**: The Republic of Benin shall also provide the Bank, no later than six (6) months from the date of the first disbursement: (i) proof of recruitment of additional members of the Project Implementation Unit (PIU): One (01) Technical Project Manager with a background in climate change, one (1) monitoring, evaluation, and knowledge management officer; one (1) Gender Officer who also has a background in conflict analysis and social cohesion. This person's role will be to ensure that

the project contributes effectively to inclusive development and peacebuilding within the communities;

one (1) accounting clerk; and two (2) administrative vehicle drivers.

B. Compliance with Bank Policies

[Tick the box below]

☒ This project complies with all applicable Bank policies.
☐ There are waivers to Bank policies.

C. The African Development Bank Group's Independent Recourse Mechanism

97. Communities and individuals that feel adversely affected by an African Development Bank (AfDB) Group-financed project can file a complaint with existing project grievance mechanisms or with the AfDB's Independent Recourse Mechanism (IRM). The IRM provides an opportunity for communities and individuals affected by projects to file a complaint with the AfDB's Independent Recourse Mechanism, which determines whether harm caused by a project that is a result of the Bank's failure to follow its own policies and procedures has occurred or is likely to occur. To file a complaint or request more information, please contact: IRM@afdb.org or log onto the IRM website: www.irm.afdb.org. Complaints can be filed at any time once the matter has been brought directly to the attention of the AfDB, and its management has had the opportunity to respond before contacting the IRM.

6 RECOMMENDATION

98. Management hereby recommends that the Board of Directors approve the proposal to grant the Republic of Benin: (i) a Loan of up to twenty million units of account (UA 20,000,000) from Transition Support Facility (TSF) resources prevention envelop; (ii) a Loan of up to five million units of account (UA 5,000,000) from of the African Development Fund resources; and (iii) a Grant of up three million US dollars (USD 3,000,000) allocated from Multi-Donor Trust Fund (ADRiFi) resources, to finance the Project to finance the Benin Agricultural Sector Resilience and Climate Risk Management Project (PReRAB), subject to the conditions set out in this report.

7 RESULTS FRAMEWORK

RESULTS FRAMEWORK					
A		PROJECT INFORMATION			
▌PROJECT NAME AND SAP CODE: Benin Agricultural Sector Resilience and Climate Risk Management Project (PReRAB) **P-BJ-A00-012**			▌COUNTRY/REGION: Benin/ RDGW		
▌PROJECT DEVELOPMENT OBJECTIVE: Reducing the fragility of the agricultural sector to enhance climate resilience, improve food and nutritional security, and reduce the agricultural sector's vulnerability to climate shocks externalities and prevent future risks in Benin					
▌ALIGNMENT INDICATOR(S): Prevalence of moderate or severe food insecurity in Africa (%)Population living below the poverty line (%) (%); Income inequality (Gini index) (0 = perfect equality; 100 = perfect inequality)					
B		RESULTS MATRIX			
RESULTS CHAIN AND DESCRIPTION OF INDICATORS	**CMR/ADOA INDICATOR**	**UNIT OF MEASUREMENT**	**BASELINE (2024)**	**TARGET AT COMPLETION (2028)**	**MEANS OF VERIFICATION**
▌OUTCOME 1: ENHANCING CLIMATE AND ECONOMIC RESILIENCE					
Outcome 1.1: Population covered by sovereign insurance	☐	Number M/F	450 000	700,000 (210 000 Women) with 210 000 youth	Insurance policies
Outcome 1.2: cultivated areas (cotton, soybean, maize rice etc.) covered by agricultural insurance		hectare	0	450 000 (5 000 Women) with 100 youth	Subscription forms/Activity reports
▌OUTCOME 2: FOOD SECURITY IMPROVEMENT					
Outcome 2.1: Improved agricultural production of beneficiaries)		Tons	6000	At least 6000	Published Statistics Report
Outcome 2.2: Average agricultural yield per hectare on reclaimed degraded land		Kg/ha	0	300	Published Statistics Report
Outcome 2.3: Youth benefiting from resilience activities		Number	0	11000	Attended list
OUTCOME 3: INCREASED NUMBER OF JOINT INITIATIVES IMPLEMENTED BY HOST COMMUNITIES AND DISPLACED PEOPLE					

Outcome 3.1: Number of joint community work sessions for degraded land reclamation involving both host communities and displaced people.		Number of joint community initiatives	0	3	
COMPONENT 1: STRENGTHENING INSTITUTIONAL AND OPERATIONAL CAPACITIES FOR CLIMATE DISASTER RISK MANAGEMENT					
❚ OUTPUT 1.1: STRENGTHENING INSTITUTIONAL AND OPERATIONAL CAPACITIES FOR THE PROMOTION OF SOVEREIGN CLIMATE INSURANCE					
Output 1.1.1: experts (technical working groups [GTT], Benin Meteorology) trained to effectively implement sovereign insurance initiatives	□	Number M/W	0	43 13 Women with 5 youth	Training reports
Output 1.1.2: Trained volunteer observers for meteorological data collection and weather station maintenance techniques		Number M/W	0	100 30 Women with 10 youth	Training report/list of participants.
Output 1.1.3: Procurement of Meteorological Equipment (5 automatic synoptic stations, 13 automatic agro-climatological stations, 27 automatic rainfall stations, and 150 SIM stations)		Number	2 automatic synoptic stations 0 automatic agro-climatological 3 automatic rainfall stations 0 SIM stations	7 automatic synoptic stations 13 automatic agro-climatological 30 automatic rainfall stations 150 SIM stations	Procurement report.
❚ OUTPUT 1.2 CAPACITY BUILDING FOR INDEX-BASED AGRICULTURAL INSURANCE STAKEHOLDERS					
Output 1.2.1: DA MAEP ASA staff and MFIs (microfinance institutions) with enhanced agricultural insurance capacities		Number W/Y	0	76 23 Women with 5 youth	Training report/list of participants
Output 1.2.2: Stakeholder awareness-raising (targeting MFIs, producers, agricultural unions, cooperatives, and farmers' organizations) on insurance benefits, utilization, and agricultural insurance products		Number W/Y		7500 2,250 women with 100 youth	Awareness-raising reports
Output 1.2.3: National Index-Based Agricultural Insurance Strategy validated		Binary	No	Yes	Strategy report
Output 1.3: CAPACITY BUILDING FOR LOCAL AUTHORITIES ON GENDER-RESPONSIVE DISASTER RISK AND CLIMATE CHANGE RESPONSE					
Output 1.3.1: Gender-responsive local climate change adaptation plans (LCCAPs) for 5 municipalities		Number	0	5	Municipal plan reports
Output 1.3.2: Climate information broadcast in local languages (Fon, Dendi, Baatonu, Bariba) via community radio stations		Number	0	4	Progress report/Agreement with radio stations

Output 1.3.5: Municipal stakeholders trained on access mechanisms and proposal development for national (FONCAT) and international climate funding windows		Number M/W	0	40 12 Women with 2 youth	Training report
Output 1.3.6: Number of study tours conducted		Number	0	4	Activity report
COMPONENT 2: REDUCING CLIMATE CHANGE IMPACTS ON AGRICULTURAL COMMUNITIES IN NORTHERN BENIN					
❚ OUTPUT 2.1: ENHANCING THE ADAPTIVE CAPACITY OF SMALLHOLDERS (MALE AND FEMALE) AND FACILITATING ACCESS TO LOCAL MARKETS					
Output 2.1.1: smallholders trained in good agricultural production and agro processing practices in 5 municipalities (: Banikoara, Segbana, Malanvile, in the Alibori department and Materi, Tanguiéta in the Atacora divisions)		Number M/W	0	10,000 3,000 Women with 1000 youth	Training report/list of participants.
Output 2.1.2 kits (solar irrigation systems, power tillers, improved seeds, etc) distributed to market garden groups		Number	0	150 (20 Women)	Procurement /Activity report
Output 2.1.3: rice parboiling kits distributed to rice processor groups		Number	0	100 (20 Women)	Procurement/ / Activity report
OUTPUT 2.2: SUPPORT FOR SOCIAL COHESION AND ECONOMIC RECOVERY					
Output 2.2.1: Area of degraded agricultural land restored		hectares	0	500	Activity report
Output 2.2.2: Soilless production kits for distribution		Number	0	2,000 (600 Women with 50 youth)	Kit distribution report
Output 2.2.3: farmers' organisations benefiting from agro processing equipment		Number	0	100 (20 women)	List of equipment/ procurement report

COMPONENT 3: PROMOTING CLIMATE RISK TRANSFER MECHANISMS FOR THE AGRICULTURAL SECTOR IN BENIN (MACRO-MICRO)					
OUTPUT 3.1: SOVEREIGN INSURANCE					
ARV Customization Reports		Number	0	4	The ARV Customization Report documentation package
Output 3.1.2. Sovereign insurance policy contracted		Number	1	5	Subscription report/list of policies
OUTPUT 3.2: INDEX-BASED AGRICULTURAL INSURANCE					
Output 3.2.1: : Small producers insured under an agricultural micro-insurance policy		Number	0	150,000 45,000 Women with 7500 youth	List of subscriptions
Output 3.2.2: Microfinance institutions participating in agricultural insurance schemes		Number	0	3	Subscription report
Output 3.2.3: The insured capital under the agricultural insurance scheme.		USD	2,860,000	47,700,000	Insurance subscription report.

Benin__P-BJ-A00-012__Benin Agricultural Sector Resilience and Climate Risk Mamnagement Project (PReRAB)

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

A. Basic Information[7]			
Project Title: Bening Agricultural Sector Resilience and Climate Risk Management Project			**Project SAP or TFMS code:** P-BJ-A00-012
Country: Benin	**Region: RDGW**		**Lending Instrument**: Project Finance Loan/Grant
Project Sector*:* Agriculture	**Task Team Leader(s):** Donald SINGUE		
Appraisal dates: 03 au 13/12/2024			**Estimated Approval Date**: April 15, 2025
Environmental Safeguards Officer: XXXX			
Social Safeguards Officer: Abdou Madjidou TONDRO MAMAN / Pierre Hassan SANON			
Environmental and Social Category: Category 3	**Operation type**: Public Sector Operation		**Financial Intermediary**: No
Categorization date: December 4, 2024	**Categorization in ISTS: December 4, 2024**		**Categorization in SAP: January 21, 2025**
Is this project processed under rapid responses to crises and emergencies?			**No**
Is this project processed under a waiver to Integrated Safeguards System (ISS) requirement(s)?			**No**

B. Disclosure and Compliance Monitoring **B.1 Mandatory disclosure**	
Environmental Assessment/Audit/System/Others: NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Resettlement Action Plan (RAP)[8]**: NA.**	
Was/Were the document (s) disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Stakeholder Engagement Plan (SEP): NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Pest or Vector Management Plan (PMP/VMP): NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Vulnerable Peoples Plan (VPP): NA.	
Was the document disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Riparian Communities Participation Plan (RCPP): NA.	
Was the document disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Emergency Preparedness & Response Plan (EPRP): NA.	
Was the document disclosed ***prior to appraisal?***	**NA.**
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*

7 **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

8 *Including Livelihood Restoration Plan*

Hazardous/Medical Waste Management Plan (HWMP): NA.	
Was the document disclosed ***prior to appraisal?***	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Riparian notification:	
Was the document disclosed ***prior to appraisal?***	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
Environmental and Social Management Plan (ESMP) of the financing agreement[9]	
Was the document disclosed ***prior to appraisal?***	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorization to disclose	*Click to Set the date*
Date of disclosure by the Bank	*Click to Set the date*
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: xxx	

B.2. Compliance monitoring indicators

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	NA.
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	NA.
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized, and secured?[10]	NA.
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	NA.
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	NA.

C. Clearance

Is the project compliant with the Bank's environmental and social safeguards requirements, and can be submitted to Approval? **Yes**

Prepared by	***Name***	***Signature***	***Date***
Environmental Safeguards Officer:	XXX		Click or tap to enter a date.
Social Safeguards Officer:	Abdou Madjidou TONDRO MAMAN / Pierre Hassan SANON		**March 21, 2025**
Task Team Leader:	Donald SINGUE		Click to set the date
Submitted by			
Sector Director:	Richard OFORI-MANTE		22 May 2025
Cleared by			
Director SNSC:	Maman Sani ISSA		27 May 2025

9 As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)

10 *In case a resettlement action plan (RAP) are not required although ESIA is/are disclosed, attached the image/picture of the project's area/site/landscape to evidence it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the borrower/client (Official letter) that it is a public-owned or client-owned land.*

COUNTRY FINANCING PARAMETERS FOR BENIN

I. Summary

The Note on Country Financing Parameters for Benin proposes the general framework for cost-sharing arrangements between the African Development Bank Group (hereinafter "the Bank") on the one hand, and the government on the other, based on the Policy on Eligible Expenditures for Bank Group Financing *(ADB/BD/WP/2007/106/Rev.2 and ADF/BD/WP/2007/72/Rev.2 of May 2, 2008).*

The objective of this note is to introduce flexibility in the application of the AfDB Group's Policy on Eligible Expenditures in order to support the approval of operations that do not meet the minimum financing requirements without the need for a justification note, thereby accelerating project implementation in Benin. This flexibility will facilitate the processing and approval of operations for which the government lacks the required minimum counterpart funding. It will also help prevent delays in project start-up, improve implementation, and maximize their development impact. The note is informed by the Bank Group's financing experiences in Benin, the country's fiscal situation relative to its current development needs, and consultations with the country's authorities.

This note recommends adjusting the Bank's eligible financing: i) up to 90% of the project cost for operations financed through the AfDB sovereign operations window, and up to 100% on a case-by-case basis; and, ii) up to 90% of the total project or program cost for operations financed by the ADF, and up to 100% of the total cost of studies.

II. Eligible Expenditures

The country financing parameters for Benin focus on five types of expenditures that are either ineligible or eligible under certain conditions: counterpart funding, taxes and duties, local currency expenditures, operating expenditures, and transitional expenditures for infrastructure projects.

a. Counterpart Funding

The financing of the Bank's sovereign operations in Benin is governed by the institution's guiding principles for the use of AfDB and ADF resources, which stipulate that the government's counterpart funding i) cannot be less than 50% of the total project or program cost for operations financed through the AfDB sovereign operations window; and ii) should not be below 10% of the total project or program cost for operations financed by the ADF.

In 2021, the government adopted the Government Action Program (PAG) 2021-2026, which serves as the country's development policy framework. The goal of this PAG 2021-2026 is to accelerate Benin's economic and social development. It is structured around three pillars: (i) Pillar 1-Strengthening democracy, the rule of law, and good governance, (ii) Pillar 2-Continuing the structural transformation of the economy, and (iii) Pillar 3-Sustainably increasing the social well-being of the population. Despite remarkable economic performance in recent years, which allowed the country to achieve lower-middle-income status in 2020, the poverty rate, although declining, remains high. Poverty affected nearly 36.2% of the population in 2022, down from 38.5% in 2019, according to the National Institute of Statistics and Demography (INSTAD). The departments of Atacora, Borgou, Donga, and Alibori in the north of the country recorded particularly high poverty rates, ranging from 44.7% to 53.1% of the population in 2022. The economic performance has not led to a significant change in the structure of the economy, which remains dominated by the primary and tertiary sectors. The country continues to face a slow pace of structural transformation. The large size of the informal sector in the economy (65% of GDP) remains a major constraint. Other challenges include: i) large labor flows that the economy cannot absorb due to rapid population growth (2.7%), ii) low labor productivity, iii) the adverse effects of climate change, and iv) security threats related to pockets of instability in the sub-region. To address these challenges, the country must continue to invest heavily in the driving sectors of structural transformation, such as: i) creating a favorable business environment to attract private investment flows and increase the size of the formal private sector; ii) using sustainable financing mechanisms to attract private sector investment in green growth infrastructure and to create more productive, sustainable jobs; and iii) developing high-quality human capital to boost labor productivity and ensure the country's demographic transition.

Benin's structural transformation requires an increase in factor productivity, notably through technological improvements and investments in tangible and intangible capital to increase sectoral productivity. Achieving significant progress in structural transformation requires policy and regulatory reforms to increase investment in infrastructure (roads, energy), human capital (quality education and vocational training), and productivity, underpinned by research and development and ICTs. The AfDB estimates that financing the four driving sectors directly linked to accelerating structural transformation will alone require bridging a financing gap of USD 1.87 billion per year until 2030, according to the AfDB's 2024 Country Report. Regarding the effects of climate change, a 2023 World Bank model indicated that average annual GDP losses are expected to grow over time and could reach 19% of GDP by 2050 without additional adaptation efforts. To meet the challenges of climate change, Benin would need to unlock more than USD 1.2 billion per year until 2030 to meet the needs of its Nationally Determined Contribution (NDC) and to ensure its transition to green growth, according to the AfDB's 2023 Country Report. The significant pressure from climate change impacts requires a stronger commitment to climate action and a rapid transition to inclusive, strong, and sustainable green growth. Combating the climate crisis will necessitate significant investments in climate change mitigation and adaptation infrastructure across multiple sectors, including energy and agriculture, as well as adaptation in water, health, and disaster prevention and preparedness infrastructure. The global context is marked by changing trade policies, which expose the country to external shocks. The tariff war could indirectly lead to a decrease in commodity prices (cotton, cashew). The decline in official development assistance, which represented 26.6% of public spending in 2024, is weighing on public finances due to the gradual withdrawal of the United States. Furthermore, the deteriorating security situation at the borders also poses a major risk to the country's economic trajectory.

Given the significant financing needs for resilience to security threats and to support structural transformation and the green transition, and considering the government's limited fiscal space, financial support from development partners remains a crucial source of financing for the country. Benin's tax revenues decreased with the 2019 GDP rebasing. In 2024, the tax-to-GDP ratio was 13.3%, below the WAEMU community standard of 20% of GDP. Tax revenues continue to grow from their 2022 level of 12.9% of GDP, thanks to reforms implemented to improve digital solutions for tax administration and collection systems, as well as measures to rationalize tax expenditures. In the face of the persistent effects of multiple shocks and to finance infrastructure, the government maintained high public spending at 19.0% in 2023, slightly below the 19.2% of GDP level in 2023. The budget deficit was 3% in 2024, compared to 4.3% of GDP in 2023. With ongoing reforms aimed at improving the performance of tax administrations and broadening the tax base, fiscal consolidation is expected to continue, with a budget deficit of 3% in 2025, but uncertainties remain due to the disrupted sub-regional and international contexts and the **effects of recurrent climate shocks.**

To cope with the persistent effects of multiple shocks and to finance infrastructure, the authorities have resorted to debt while implementing an active public debt management strategy. The public debt stock increased from 41.2% of GDP in 2019 to 54.3% in 2023, an increase of 13.1 percentage points over the period, before declining to 54% in 2024. Recourse to international loans has increased the share of external debt, which reached 72% of the total debt stock compared to 28% for domestic debt in 2024. The risk of debt distress is moderate overall, but with limited room to absorb shocks, according to the International Monetary Fund (IMF)'s debt sustainability analysis. In April 2024, the rating agency Standard & Poor's upgraded Benin's credit rating from (B+) to (BB-) with a stable outlook.

The government's counterpart contribution has been low for both ADF-financed and AfDB-financed projects. The new Policy on Eligible Expenditures for Bank Group Financing requires that the amount of counterpart funding be determined based on i) the country's commitment to implementing its overall development program; ii) the country's financing allocated to the sectors targeted by the Bank's assistance; and iii) the fiscal situation and debt level. The Bank will continue to engage with the authorities on the importance of counterpart funding to promote country ownership of Bank-financed projects. To bridge the counterpart funding gap, the Bank will redouble its efforts to mobilize co-financing from other development partners. The Bank has already established a strong network of partners in the country and will build on these partnerships to mobilize co-financing. The country office has already initiated an ongoing dialogue with the EU, AFD, EIB, JICA, BOAD, IsDB, etc., to explore areas of common interest. In addition to co-financing with other development partners, a potential solution would be to mobilize direct co-financing from Bank-managed funds to cover the government's counterpart contributions. To anticipate potential difficulties in mobilizing counterpart resources, given budgetary constraints, and to avoid delaying the start-up and implementation of projects, greater flexibility from the Bank in financing its projects is proposed to help free up fiscal space to address the effects of multiple shocks (persistent effects of the Covid-19 crisis, tightening of international financial conditions, effects of climate change, security crisis in the Sahel, changing trade policies, decline in official development assistance), which have contributed to widening budget deficits and increasing the country's debt level. The note on country financing parameters therefore proposes that the Bank: i) consider financing up to 90% of the project cost for operations financed through the AfDB sovereign operations window, and up to 100% on a case-by-case basis; and ii) finance up to 90% of the total project or program cost for operations financed by the ADF, and up to 100% of the total cost of studies.

b. Taxes and Duties

Benin's tax system is progressive and consists of several direct and indirect taxes, including income tax, value-added tax (VAT), customs duties, excise duties, and stamp duties. Benin has begun its fiscal transition, with customs revenues decreasing from 52.9% of tax revenues in 2010 to 39.2% in 2021. Tax revenues reached 13.3% of GDP in 2024, up from 12.2% in 2022, thanks to reforms implemented to improve digital solutions for tax administration and collection systems, as well as measures to rationalize tax expenditures. Key measures include: i) the introduction and generalization of electronic VAT invoicing machines; ii) the reform of the single tax/social security declaration; iii) online submission of financial statements (e-bilan); iv) e-filing and e-payment of taxes; v) payment of certain taxes via mobile phone; vi) the operationalization of conciliation and mediation structures for tax and customs disputes; and vii) the fight against tax fraud and evasion. Despite the progress made in recent years, the level of tax and non-tax revenue mobilization remains well below its potential. Due to the 2019 GDP rebasing, tax revenues remain significantly below the WAEMU community target of a minimum of 20% of GDP. Compared to other WAEMU countries, Benin lags in domestic revenue mobilization. Among the top performers in revenue mobilization in the WAEMU zone are Togo at 17.6% of GDP and Senegal (17.6%). Constraints on domestic resource mobilization include, among others: the stagnation of VAT-related revenues, the low collection of property taxes and excise duties relative to their potential, the low efficiency of personal income taxes, and the control of tax expenditures. **Given the low level of tax pressure in Benin, the Bank Group should implement its policy on eligible expenditures, which allows for case-by-case financing of expenditures related to existing taxes and duties**.

c. Operating Expenditures

The eligibility of operating expenditures, as defined by the Bank Group's policy on eligible expenditures, will be guaranteed for up to 100%. Operating expenditures, which include training expenses, costs related to organizing project workshops, expenses related to studies, and the procurement of office supplies, among others, are short-term and are therefore only incurred during project implementation. Operating expenditures accounted for over 60% of public spending in 2023. The Bank Group will finance project/program operating expenditures up to 100% on a case-by-case basis. Operating expenditures will be financed by the Bank only if i) the expenditures are an integral part of the project; ii) they are necessary to achieve the project's development objectives; iii) they are productive within the specific project being financed; and iv) the financing needs are temporary and arrangements are made to ensure the sustainability of the project/sector. The Bank Group will also assist the authorities in identifying options to maintain operating expenditures at reasonable levels after project completion to maximize development impact and ensure fiscal sustainability.

d. Local Currency Expenditures

The Bank will continue to finance local currency expenditures as its portfolio remains dominated by infrastructure projects with significant local currency cost components. Local currency expenditures for Bank-financed projects in Benin averaged 46% between 2016 and 2023. In the transport sector, local currency expenditures for Bank-financed projects reached an average of 42% of costs. In the energy sector, they accounted for 90%

of total project financing. They also represented 90% of project costs in the agricultural sector.

The Indicative Operations Program for the 2022-2026 period also includes several infrastructure projects, in line with Priority Area II of the Bank Group's CSP for Benin. These projects involve activities with significant local currency costs, such as civil works and the procurement of goods and services. The related expenditures must therefore be consistently financed in local currency by the Bank. Thus, the Bank will continue to finance expenditures in CFA Francs if: i) the country's program financing needs exceed public sector resources (i.e., tax proceeds and other revenues) and the planned domestic borrowing level; and ii) if financing foreign currency expenditures alone is not sufficient to ensure the effective implementation of the project in question. Gross budgetary resources represent nearly 75% of budgetary expenditure commitments as of the end of December 2023, indicating that the government's financing needs exceed its own public revenues and domestic borrowing. In this context, the Bank Group's financing of local currency expenditures is justified.

e. Interim Expenditures for Infrastructure Projects

The Bank does not finance transitional expenditures (costs necessary for the operation of newly built infrastructure before it begins to generate revenue) for infrastructure projects/programs in Benin. However, in accordance with the Bank's policy on eligible expenditures, the institution may finance up to 100% of the transitional expenditures for revenue-generating or transformative socio-economic infrastructure projects, at the government's request and on a case-by-case basis, for a maximum period of 3 years. These expenditures will be eligible for financing if the Bank Group is satisfied that they: i) constitute an essential part of the project/program during appraisal, and ii) represent a small portion of the project/program costs that the executing agency cannot finance. Other factors to be considered include confirmation that the transitional expenditures contribute to achieving the project/program's development objectives and that they can be sustainably financed by the executing agency after the 3-year transition period. The Bank Group will continue to work with executing agencies to ensure that measures are adopted to cover transitional expenditures after the full disbursement of the institution's aid.

III. Conclusion and Recommendations

Despite fiscal consolidation efforts in Benin, the government's fiscal space remains limited compared to the significant financing needs for resilience to security threats and to support structural transformation and the green transition, which limits its ability to mobilize counterpart funding for Bank-financed projects. To bridge the counterpart funding gap, the Bank will redouble its efforts to mobilize co-financing from other development partners. In addition to co-financing with other development partners, a potential solution would be to mobilize direct co-financing from Bank-managed funds to cover the government's counterpart contributions. Furthermore, to anticipate potential difficulties in mobilizing counterpart resources, given budgetary constraints, and to avoid delaying the start-up and implementation of projects, greater flexibility from the Bank in financing its projects is proposed. The proposed flexibility will not only increase the government's fiscal space and free up additional funds to address the effects of multiple shocks (persistent effects of the Covid-19 crisis, tightening of international financial conditions, effects of climate change, security crisis in the Sahel, changing trade policies, decline in official development assistance), which have contributed to widening budget deficits and increasing the country's debt level. The proposed flexibility will also help reduce project implementation delays and improve the country's portfolio performance, while ensuring government ownership of projects and programs.

This note on country financing parameters therefore recommends:

i Financing the government's counterpart contribution for programs financed through the AfDB sovereign operations window up to 90% (compared to the current rate of 50%) of the project/program cost, and up to 100% on a case-by-case basis; and,

ii Financing up to 90% of the total project or program cost for operations financed by the ADF, and up to 100% of the total cost of studies.

The Bank will continue to cooperate with the government on ways to increase domestic resource mobilization, control operating expenditures, and increase fiscal space. The Benin Country Office will regularly review the country financing parameters to account for the evolving country context and its implications for macroeconomic stability.