



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

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BASIC INFORMATION

A. Basic Project Data

Country	Region	Project ID	Parent Project ID (if any)
Benin	AFRICA	P168132	
Project Name	AGRICULTURAL COMPETITIVENESS AND EXPORT DIVERSIFICATION PROJECT		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Agriculture and Food	Investment Project Financing	12/12/2019	1/30/2020
Borrower(s)	Implementing Agency(ies)		
Ministry of Economy and Finance	Agence de Promotion des Investissements et des Exportations		

Proposed Development Objective(s)

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

Financing (in USD Million)	Amount
Total Project Cost	160.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

Country Context

Benin is a low-income country of about 11.8 million (2017 estimate) with a per capita income of US\$860 in 2017. The economy is driven by agriculture and services, particularly import/export activities through the Port of Cotonou. Agriculture accounts for 25 percent of Gross Domestic Product (GDP) and 47 percent of the country's employment. Cotton is the primary export commodity. The informal sector contributes up to 56 percent of GDP. Re-export trade with Nigeria, mostly informal, accounts for 20 percent of GDP and 25 percent of government revenue. Steady GDP growth of about 5 percent per year during the period (2012-2017) was partially offset by rapid population growth



averaging 3.5 percent per year, which led to a modest and unequal increase in household consumption. The economy remains poorly diversified and vulnerable to external shocks.

Poverty reduction has been enshrined in successive poverty reduction strategies, but results have proven erratic and difficult to sustain. Poverty remains widespread, with a poverty rate of about 50 percent in 2015 (with US\$1.90 a day poverty line – 2011 purchasing power parity). Poverty levels grew from 36.2 percent in 2011 to 40.1 percent in 2015, highlighting the need to ensure a more inclusive and faster growth. In addition, population growth has limited per capita growth and its impact on poverty reduction. There are significant regional disparities in poverty rates, and rural poverty rates are higher than those in urban areas. Nationally, inequality grew between 2011 and 2015, from 0.464 to 0.470 as measured by the Gini Coefficient. Inequality is higher in urban areas, where the Gini coefficient rose from 0.452 to 0.467 between 2011 and 2015, while it increased from 0.373 to 0.403 in rural areas.

The disconnect between economic growth and poverty reduction during the last five years has been reinforced by the fact that higher growth stemmed mainly from more capital-intensive sectors like banking, telecommunications and port activities. In contrast, agriculture only grew at 4 percent per annum, with its growth derived from more land and more labor, but with modest increase in productivity. Furthermore, Nigeria’s economic slowdown and policy changes have led to decreased opportunities for informal trade, both in the gas sector, where gas flows informally from Nigeria to Benin, and in the broader consumer goods sector, where rice, chicken, edible oil, used cars, used clothing etc., are re-exported from Benin to Nigeria. This vulnerability underscores the need to promote economic diversification.

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

Sectoral and Institutional Context

In Benin, agriculture employs about 50 percent of the population and is the economy’s leading sector foreign exchange earner. The country has a large endowment of arable land. However, Benin’s comparative advantage in agriculture remains largely unexploited and the sector is subject to climate and price fluctuations. Overall agricultural growth over the 2012-2016 period is around 4 percent, which is offset by the relatively high population growth (3.5 percent) over the same period. Yet, the agri-food sector will remain one of the main sources of growth and employment for the foreseeable future in the country. Accelerated and sustained growth in the sector is expected to have a strong effect on poverty reduction.

The agriculture sector strategy in Benin is defined within the broader framework of the Comprehensive Africa Agricultural Development Program (CAADP). Through this framework the country commits to achieve a 6 percent growth in agriculture and to allocate at least 10 percent of the national budget to agriculture (as recommended in the Maputo declaration). The Government’s vision is that the country must move towards a greater diversification of agricultural production to become a major exporter of agricultural products by 2025. However, interventions in the sector to date have been heavy handed and have tended to crowd out private investments. Particularly, past subsidies to the cotton sector have caused market distortions, which have hindered growth and diversification of the agriculture sector more broadly. It is widely recognized that Benin needs to diversify its agricultural exports, as concentration in a limited number of commodities exposes the country to risk arising from market volatility.

Agricultural production in the country has remained largely a subsistence activity. The production system is essentially based on family farms and enhanced farm production relies mainly on extension of cropped area and family labor, with limited use of improved inputs, production methods, and farm equipment. Commercial production for export is



limited to only a few cash crops, such as cotton, fruits (pineapple), nuts and oilseed, which comprise most of the country's formal exports. Considering this, the country's agricultural trade performance is generally weak, with a persistently negative agricultural trade balance. With high post-harvest losses – often in the range of 30 to 70 percent – the production of high value fruits, vegetables and animal proteins remains relatively uncommon or low level. Recently, pineapple producers have contributed small but notable values to exports, towards the EU. but they do not provide significant foreign exchange earnings for Benin. The high post-harvest losses underlie the lack of sufficient access to cold-chain logistics services, which would prevent the loss of product on the way to market. The agribusiness sub sector, including agro-processing, is highly fragmented. It consists of a few medium and large formal firms, and a vast number of small firms operating with a few commodities, such as cashew, maize, rice, pineapple, horticulture, and cassava. In addition, low level of farmers' organization and coordination in many value chains leads to unstable markets for agricultural commodities and unpredictable input supplies for agribusiness small and medium enterprises (SMEs). Despite this, the agri-food sector has a good potential for exports on regional and international markets which is documented by recent studies for value chains such as pineapple, cashew, and shea butter. Benin has significant potential for pineapple production and export. With a production of 316,280 tons in 2017, Benin is the fifth largest African producer of pineapple in terms of volume, behind Nigeria, Ghana, Angola and Tanzania (FAOSTAT, 2017). The crop involves 15,000 producers, 70 percent of whom work on 0.5–1 ha of land. About 35% of pineapple production is locally consumed fresh, 15% is locally processed and consumed, 40% is sold in the markets of the sub-region (Sahel and Nigeria), 2% is exported fresh by air to the European Union (mainly France and Belgium), 8% is converted into dried fruits and exported to the EU market. Based on current trends and market preferences, West Africa, the EU, the Middle East and North Africa offer the best export potential for Beninese pineapple. The current trends in Benin's exports are mainly directed towards Nigeria for the regional market and to the European Union for the international market. There are opportunities for the country to position its products in new markets in West Africa and in the EU, but also in emerging and geographically close regions such as the Middle East and North Africa. Given the level of competitiveness of Benin and regional exports of fresh pineapple, several priority products could be targeted, for example (i) fresh pineapple; (ii) conventional or concentrated pineapple juice; (iii) organic pineapple juice; and (iv) organic dried pineapple fruit. With well targeted investments across the various segments of the value chain, Benin's market shares for pineapple over a 5-year period could increase and are roughly estimated at: 104 million USD (domestic market); 90 million USD (regional markets); 15 million USD (EU market); 2.6 million USD (Middle East) and 1.5 million USD (North Africa) (Dalberg, 2018). Thus, in the EU market, Beninese pineapple has some room to gain export market share while remaining in a relatively narrow niche. However, the regional market (Sahel, Nigeria) of fresh and processed products seems promising and easily accessible. To fully realize the export potential of pineapple in Benin, the Dalberg study further identified five major constraints which need to be alleviated: (i) limited access to fertilizers and good planting materials, (ii) lack of use of good agricultural practices among producers and limited marketing capacity of aggregators, (iii) difficult access to finance for producers, (iv) lack of investment to improve processing equipment; and (v) logistical and coordination problems of supply chains for air and sea freight.

Cashew also offers unexploited opportunities for export. The dynamics of international trade and the strong demand for cashew by Asian countries (China, Indonesia, Vietnam, India), the European Union and the United States, offer promising export opportunities for Benin. With an average annual production of 135,000 T/year between 2014 and 2017, and 115,000 tons of exports in 2015, Benin ranks 9th worldwide and fourth-largest cashew-exporting countries in Africa, behind Côte d'Ivoire (670,000 tons), Guinea Bissau (204,500 tons), and Tanzania (182,000 tons). The sector occupies about 60,000 agricultural households and more than 200,000 professionals (trade, processing and export) and contributes 3% to the national GDP (INSAE, 2014). It represents an average of 16% of Benin's export earnings, placing it second after cotton (PSDSA, 2016-2021). Most of the product (98%) is exported in raw form directly to India



and Vietnam, while the rest (2%) is processed locally and exported as kernels to European countries and North America. There is an opportunity to increase the market share of exported Beninese cashew kernels as only half of the domestic processing capacity of 28,000 tons is currently utilized. Cashew consumption is increasing in emerging countries: India, China, Brazil, Russia, but also in East Asia (Thailand, Pakistan) and the Middle East (Iran), and the prospect for cashew products on international markets looks promising. Benin could increase its market share both as exporter of raw cashew nuts and kernels on the international market. Furthermore, the global cashew prices are expected to escalate due to the ongoing supply crunch caused by reduced production in Vietnam and Western Africa. To realize this potential, some key constraints need to be overcome in Benin, namely: (i) low productivity of plantations, (ii) insufficient funding of stakeholders' needs, (iii) low level of local processing of cashew nuts, (iv) insufficient recycling and waste management during processing, (v) difficult access to energy and to packaging facilities for processors, and (vi) non-compliance with quality standards.

The shea market is growing significantly and offers export opportunities for Benin. In West Africa, Benin ranks as the 4th producer of shea kernels (11% of total production) behind Burkina Faso (26%), Mali (19%) and Ghana (17%), with a production volume of about 85,000 tons of dried nuts. It is estimated that only 40% of potential production is currently exploited. The main production areas are located in the departments of Atacora, Donga, Borgou and Alibori in the northern part of the country, where shea is notable for being an important source of income and employment for women. The destination of the 85,000 tons/year of shea kernel produced in Benin is as follows: (i) an export of 40,000 tons provided by KNAR-Benin and 3F; (ii) a local industrial production of 15,000 to 18,000 tons/year mainly for the domestic market; and (iii) 27,000 to 30,000 tones are processed into shea butter, part of which is exported, and the other part consumed locally as cooking fat. Shea products in Benin are exported in three forms: almonds, butter and stearic. Products for the cosmetic market are generally exported in the form of butter. In contrast, products for the food industry are exported in raw form (kernels) and processed in the consumer countries. The main use of shea butter is in the chocolate industry in the form of cocoa butter equivalent/CBE. Kernel and shea by-products exports have been growing over the past ten years, due to the expansion of global demand. For the past ten years, the main destination countries of shea kernels from Benin, are France, Denmark, India, Malaysia, and the United Kingdom. Canada, France, Spain, Sweden and the United States are the countries of destination of shea butter from Benin over the same period. In terms of prospects, competitiveness and market share gains of the shea sector in Benin are possible through: (i) an improvement in the institutional framework governing the sector; (ii) upgrading of productive capacities; (iii) investment in research, in particular for high performing planting materials and to develop new uses of shea; and (iv) capacity building to enable shea producing companies to meet the quality standards requirements for regional and international markets.

A combination of adequate policies and investments are necessary to seize those opportunities. Investments in infrastructure and logistic capacities are necessary to reduce the scope of post-harvest losses and increase the viability of producing perishable items. Infrastructure constraints prevent producers in the north from transporting product in good condition to hubs in the south and then on to markets abroad. As such, investments in rural roads and cold chain concession facilities at airports have been identified as critical by the Government. Similarly, on the private sector side, a variety of market failures – especially coordination failures and risk externalities – are preventing firms from making necessary investments. As a result, reefer trucks are quite uncommon and there are no third or fourth-party logistics providers (3PL/4PL) for perishable products (with trucking operations) located in the country. High value perishable product markets often require more specialized and knowledge intensive inputs. In southern Benin, there is high pressure on land resource, agricultural production occurs on extremely small plots (averaging only 0.26 ha). Global benchmarks suggest that to be competitive in exports, farms would have to be possibly -larger and more professionalized. Without some increase in farm size, producers will have limited access to improved inputs, production methods, irrigation and farm equipment, which will further restrict the productivity of the sector. In many



cases, farms will also need access to a range of specialized agricultural extension services, brokerages, market and consumer research services, and insurance. Farms and firms generally lack access to such specialized services in Benin.

Access to financial services is generally limited in agriculture outside the cotton system. Commercial banks, including micro-finance institutions, are reluctant to lend to agricultural firms given the high level of risk involved. The risks are accentuated by the prevalence of informality in the sector. With limited access to capital and with a series of market failures spread throughout the value chain, these small farms and informal SMEs remain outside the banking system. Without access to finance, they cannot invest in the certification and equipment that they need to meet quality standards on targeted markets, improve productivity and reduce post-harvest losses. Given the prevalence of informality in the sector, it would be hard to expect that Benin's private investors would be able to leverage the needed capital on their own. As such, this would need to be resolved to enhance investment in the sector.

Other major constraints to the development of the agri-food sector include:

- i. **Land Administration.** In Benin, farm sizes are small, and ownership is fractured. In market-based economies some degree of land consolidation naturally occurs so that commercial agricultural enterprises can meet the minimum efficient scales of production. In Benin, constraints related to the registration of property and the leasing of land are prohibiting the functioning of land markets. As a result, farms cannot reach a size that would allow for more efficient commercial farming operations. Regulatory and administrative enhancements are needed to better enable land markets. As the GoB has already enacted land reforms, the key issue is to provide support to the Government agency in charge of land management (ANDF) for a proper enforcement of the legislation.
- ii. **Business Environment Constraints:** Other regulatory frameworks governing the sector are poorly defined and adjudication of claims are often inadequate or are not sufficiently enforced. In 2018, Benin's Doing Business (DB) ranking stood at 151 out of 190 economies analyzed. The Distance to Frontier (DTF) – a measure of how far off a country is from an idealized benchmark – for Benin's stood at 50.47 out of 100 for all indicators. Moreover, with heavy government influence in the sector, it will be necessary to understand where public subsidies are crowding out private initiative. Conversely, it will also be necessary to identify where (and how) public subsidies could crowd in private capital
- iii. **Enabling Trade:** Significant growth in the targeted value chains will likely be driven by exogenous sources of demand rather than domestic sources. As such, trade will be key to enabling growth of the sector. Government's role in supporting the growth of the sector will thus need to focus on implementing the recommendations listed in the Diagnostic Trade Integration Study (DTIS) (Maur 2014). While great advancements have already been made since the last DTIS assessment, there is still scope to improve customs procedures. Customs paperwork at the airport takes approximately 24 hours to process. Further reductions in the amount of time to export would save valuable time for perishable produce that needs to make it to foreign markets on short order. However, time spent at the border is also a function of the trading partners. Trade practices with regional partners would have to be improved to reduce the time wasted at the other side of the border. For example, if markets were sought in Nigeria, Benin would have to find a way to reduce the time that product spends at the border.
- iv. **National Quality Infrastructure:** Besides the procedures and administrative capacities needed to process paperwork at the borders and to ensure traceability, it is also critical to ensure that products have sound National Quality Infrastructure (NQI) to back them up. NQI systems can enhance the competitiveness of sectors by ensuring conformity to food safety standards mandated by the market. The essential need for NQI is further given by the need to verify that proper SPS controls were taken prior to export. The NQI system for food systems in Benin is still in its preliminary stages of formation. The further development of the NQI system is expected after the government has passed the Sectorial Action Plan of the National Quality Policy in June 2018. With the plan in place, there is a need for



a set of administrative enhancements and other improvements that ensure Benin's NQI system is established in accordance with international best practices.

v. **Weakness of Adaptive Research:** Benin lacks an adequate breeding program in view of the need to improve the genetic potential of local varieties for more intensive production systems. The National Institute of Agricultural Research of Benin (INRAB) has a mandate to produce foundation and breeder seeds, but it is underfunded. Other seed inputs are provided by international companies or sometimes by local research centers (through MAEP or through Universities like UAC), which act in some market capacity. The interaction of R&D with extension systems could also be improved.

vi. **Limited access to Skills:** At the economy-wide level, Benin lacks a workforce that can fulfill the demands of knowledge-intensive export-oriented value chains. Specifically, there is a need for investment in both vocational and advanced training in: (i) Logistics Management, given the LPI ratings and the limited professionalization of such service providers in the country currently; (ii) Farmer Sensitization, given the needed to improve production and handling of products; and (iii) Food technologists, given the need to adapt value chain systems to new business models. As such, there is a need for investment in the development of agriculture experts, food technologists and cold chain logistic professionals that can better serve the labor needs of the targeted value chains.

1. In addition to these challenges, the agri-food sector in Benin is vulnerable to the impact of climate change manifested by rising temperatures, especially in the northern part of the country. Floods are recurrent but appear to be more widespread and severe due to violent rain; periods of drought and late rains are becoming frequent. These major climatic hazards affect livelihoods and patterns in agriculture, water resources, coastal and forestry sectors. Some recent analysis indicates that without adaptive measures, agricultural production in Benin could potentially decrease by 3-18 percent in 2025 . Benin has prepared and submitted its Nationally Determined Contribution, where the country has emphasized the existing and future climate vulnerabilities for agriculture, in addition to explicitly including agriculture in its proposed adaptation as well as mitigation and strategies, policies, programs and measures. On mitigation, it recognizes agriculture as a main source of emissions. On June 18, 2018, the National Assembly passed a Bill on Climate Change in compliance with international requirements, especially the UN Convention on Climate Change and the country's commitment with the framework of Paris Agreement to regulate the level of global warming.

2. **Women's contribution to agriculture in Benin is substantial.** They represent most of the agricultural labor and a high percentage of them are involved in agro-processing, marketing and trading. Women are very prominent in the activities that shape agricultural production, processing, distribution and marketing, and consumption. Despite their contributions, women have weaker influence because of limited business skills, voice, and agency. They also face disadvantages accessing land use rights because of cultural norms . They also face more obstacles than men in accessing improved agricultural production technology, finance, and extension services. The lack of productive capital poses additional and considerable barriers to women who would like to engage in agribusiness. Because of weaker access to productive assets and extension services, women usually have a lower capacity to deal with climate impacts, are more vulnerable, and have different response and adaptation mechanisms when a climate hazard occurs.

Relationship to CPF

Link to Country Partnership Framework. The proposed project will contribute significantly to achieving the CPF's goals of: (i) strengthening competitiveness and accelerating sustainable growth in the agricultural sector; (ii) creating more decent jobs; and (iii) reducing extreme poverty, especially in rural areas, and promoting shared prosperity. The operation is also a critical instrument towards structural transformation for strengthened competitiveness in the agriculture sector and is aligned with the Government Action Plan (Programme d'Action du Gouvernement 2016-2020-PAG) which considers agriculture as a key sector for growth, job creation and poverty reduction. Notably, the PAG clearly focuses on promoting key value chains both for domestic market and export, by defining seven agro-



ecological zones according to their respective potential. The proposed project also corresponds to the government's National Agriculture Development Strategy (Plan Stratégique de Développement du Secteur Agricole -PSDSA 2017-2021).

Project Description

Component 1. Enhancement of enabling environment and capacity building for agribusiness development (US\$ 20 million)

This component would aim at: (i) Strengthening the enabling environment for the targeted value chains. Business environment issues pertaining to agri-business value chains may include land management, food safety management and SPS inspection enhancements, policy framework for investments and exports , etc; (ii) Supporting agencies and export promotion institutions that would guide strategic competitiveness reinforcement efforts along the value chains and enhance the utilization of market research tools; and (iii) providing support to skills development for agribusiness and export.

Sub-Component 1.1: Support to export promotion bodies and value chain organization. This sub-component will focus on building the capacity of the National Agency for Investment and Export Promotion (APIEX), which can define in collaboration with Ministries in charge of Agriculture, Trade, Industry, Transport and other relevant technical bodies, strategic opportunities for entrepreneurs in the agri-food sector. In so doing the agency will coordinate work on: (i) identifying attractive segments for each of the sub-sectors supported; (ii) prioritizing policy areas that will help facilitate investment in the sector; (iii) identifying the specific and necessary investments for the targeted value chains; (iv) promoting foreign and domestic investments in critical activities; and (v) facilitating export procedures for the value chains identified. The subcomponent will also provide support to strengthen coordinating entities like professional and interprofessional organizations within the targeted value chains to enable them provide quality advisory services to their members and build trust among various segments of the value chains.

Sub-Component 1.2: Policy incentives & regulatory framework development. SC 1.2 will focus on detailing how regulations and administrative procedures could be improved to enable the private sector to access markets in the selected value chains. As such, this component will finance (i) in-depth studies on the policy areas prioritized under SC 1.1, and (ii) technical assistance and systems upgrades for the ministries involved in implementing the policy areas considered. Potential policy topics that could be financed may include improvements in: (a) land administration: supporting ANDF in establishing and enforcing relevant regulations regarding the ownership, leasing and adjudication of land to facilitate agribusiness investments; (b) business regulations: streamline existing regulations, as well as controls and taxation arrangements that create an unnecessary burden or unjustified cost to private activities ; and (c) trade regulations: strengthen the national sanitary and phytosanitary regulatory framework and customs procedures that can ensure appropriate food safety/quality regulations and facilities are available to enable the country to compete on targeted export markets.

Sub-Component 1.3: Development of skills for agribusiness and export. Benin lacks critical skills in topics related to export and agribusiness. Therefore, this sub component will provide support for skills development for agribusiness and export. The project will provide grants (under performance management contracts) to universities, institutes, vocational schools and professional associations in an effort to train and empower adequate human resource and the right type of skills to improve the productivity and competitiveness of the targeted value chains.

Component 2. Development of critical investments in infrastructure and enhanced services for VC production and competitiveness (US\$ 65 million)

Benin has both underdeveloped infrastructure for agriculture and trade, as well as underdeveloped services that can enhance productivity, competitiveness and facilitate trade. This component will finance: (i) the development of critical public infrastructure; (ii) the provision of adequate support to ensure adequate level of production and quality standards for the targeted export markets; and (iii) the provision of other services that are necessary for value chains



to function (especially for products that require knowledge intensive management of production systems). Financing will be provided through matching grants and/or guarantee financing instruments.

Sub-Component 2.1: Development/rehabilitation of critical infrastructure for export-oriented value chains. SC 2.1 would: (i) rehabilitate and maintain existing rural road networks to reinforce the connection of producing areas targeted by the project with the supply sources and market outlets ; (ii) build cold chain infrastructure (such as cooling rooms at the airport based on detailed feasibility studies), which can be managed as a public concession to a private service operator . The project will not invest in public irrigation infrastructures. However, it will support private small-scale irrigation through matching grants for eligible sub-projects. The project will ensure that efficient management (including cost-recovery) systems are in place for those facilities, through specialized private-sector operators.

Sub-Component 2.2: Provision of enhanced services for value chain competitiveness and export development. This sub-component will focus on putting in place adequate mechanisms to address production constraints and ensure there is adequate level of production with quality standards that meet the requirements of the targeted export markets. This will be done across targeted value chains with emphasis on improving access to quality inputs, improved technologies, and enhanced extension services. In addition to addressing supply chain constraints, SC 2.2 will also focus on constraints affecting the overall value chain performance, such as high aggregation costs, high processing and marketing costs, as well as quality issues. In this regard, project support will involve facilitation of access to finance for productive investments, technical assistance, and business development services. Productive investments include support for production inputs, processing equipment, and other assets that can increase productive capacity, value addition, and marketing opportunities of agribusiness SMEs. The absence of sophisticated private-sector service providers in Benin is inhibiting the development of exports. However, it is not likely that this capacity can be built within the lifetime of this project. The technical skills necessary to provide such services will likely come from foreign providers of specialized knowledge, who are reluctant to invest in Benin due to high commercial risk and a set of market failures related to volumes. To resolve these market failures, this sub component will consider attracting to Benin critical service providers through a set of incentives and specific financing instruments . Potential service providers could include Specialized Agricultural Insurance Companies, Logistics Companies, Foreign Brokers, Market & Consumer Research Consultancies, private agricultural extension services, etc. The project will systematically ensure that all activities and investments financed include risk reduction and resilience enhancement, as well as climate-smart and good environmental management practices, and that the technical support and financial incentives provided by the project facilitate the wide adoption of such practices. Focus will be on adaptation and increased productivity (resulting in lower emission intensities), and support to private investments will also include specific mitigation option such as energy saving devices.

Component 3. Business Development Services and Access to Finance for Agribusiness SMEs (US\$ 55 million)

The component will provide support to build capacity of SMEs in agribusiness or provide the knowledge needed to operate in the value chains. This component will also provide incubation/business development services and promotion of access to finance to foster SME development along the targeted agricultural value chains A detailed analysis of the gender gaps in the selected value chains will be conducted to inform the specific gaps that the project can address (like possible easier access to finance or lower collaterals for female and young entrepreneurs). GoB will consider the option of hiring a Delegated Management company for the implementation of SC 3.1 and 3.2 of the Project. This will be done through the signing of a Management Agreement which will contain provisions for Anti-Corruption Guidelines, Safeguards, etc.

Sub-Component 3.1: Capacity building for SMEs & support to development of business plan. SC 3.1 will support the creation/ expansion of matching grants for Business Development Services (BDSs) that agribusiness SMEs can use to



engage knowledge-intensive consultancy services. As a starting point, the sub-component will assist investors in developing business plans and coaching them to make their projects successful. The component will then coordinate the provision of service providers to these firms, in areas such as corporation formation, tax filing, corporate strategy, market and consumer research, food technologist consultants, certification consultants, agronomist consultants, brokerage services, logistics consultants, etc. Financing for these services will be provided through a matching grant to SMEs. This component will also provide technical assistance and capacity building to local service providers (where possible) so that their operation can continue past the project.

Sub-Component 3.2: Access to Finance for SMEs and Risk Sharing Facility for Commercial Banks lending to Agricultural Enterprises. Formation of new SMEs in the agribusiness sector is necessary given the extremely low level of formality in the economy at present, and the need for professionalization of the industry. However, newly registered SMEs will require working capital for their operating expenses and investments. But given the income of potential rural investors in the country, the initial SME capitalization would probably be insufficient, meanwhile lacking credit history or accounts receivable would not likely be enough to incentivize commercial banks to lend to such entirely new companies without collateral (even considering the establishment of a risk sharing facility). The subcomponent will help alleviate this funding constraint by improving access to finance for new agribusiness SMEs through a budget line – called Dedicated Financial Facility (DFF) – to provide a one-time capital grant to these newly registered SMEs. The DDF will be predicated on the MFD’s central principle regarding the generation of private capital investment lending on the part of Financial Institutions.

Whereas the DFF will provide startup capital for new agribusinesses, greater amounts of working capital will be needed to sustain and scale up the new SMEs. However, as new firms, these enterprises will likely still lack access to finance due to the risk exposures that commercial banks would be willing to accept. As such, this sub-component will: (i) establish a Risk Sharing Facility (RSF) in cooperation with IFC to encourage Participating Banks to serve selected SME by partially mitigating creditor risk through Counter Guarantees for first loss cover; and (ii) provide technical assistance to Participating Banks and MSME to promote the utilization of said Risk Sharing Facility.

Agribusiness and agribusiness-related SMEs’ will benefit from access to finance by increased incentives for financial institutions to lend to and support SMEs and to improve their own value chain lending capabilities. The project will explore the creation of a joint IDA-IFC Risk-Sharing Facility (RSF) to encourage private commercial banks and, potentially, other financial intermediaries to serve a new cohort of SME clients by partially mitigating creditor risk through first-loss cover. The RSF will leverage International Finance Corporation’s (IFC) strategic objectives and experience in the region to bolster SME financing with a focus on agribusinesses, such as commercial farms, aggregators and agro-processing firms. The Financing Agreement will mention clearly that IFC’s Performance Standards will be applied for environmental and social potential adverse impacts associated with the sub-Component 3.2 investments.

Component 4. Institutional support and Project Management (US\$ 20 million)

Considering the multisectoral nature of the project interventions and the focus on export diversification, it is proposed that the Agency for the Promotion of Investment and Export (APIEX) which is under the oversight of the Presidency will be the lead implementing agency and have responsibility for the coordination of project implementation. The component will therefore support the establishment of a Project Coordination Unit (PCU) to be housed at APIEX, through provision of appropriate staffing and operating resources to take charge of project management including resources for fiduciary management, safeguard compliance and Monitoring and Evaluation (M&E). A detailed M&E plan will be prepared to align project activities and tasks with the key results and the related PDO level results indicators and the intermediate level indicators at the component level. Given the nature of this project, particularly with rehabilitation/construction of infrastructure, environmental and social safeguards measures are expected to play an important role. The component will therefore support the implementation of safeguard



activities and provide support for capacity enhancement of institutions in charge of promoting agricultural exports and ministries involved in project activities including the Ministries in charge of Agriculture, Trade and Industry.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social] The project is national in scope. It also aims to hence positive cross-border impacts by enabling conditions for joint export facilities with Togo.

D. 2. Borrower’s Institutional Capacity

The borrower has an acceptable legal and regulatory environmental and social framework. The National agency called Agence Beninoise pour l’Environnement (ABE) is the entity that oversees the approvals of environmental and social studies, monitoring and evaluation of such studies, and implementation at the national level. Capacity building is nevertheless required to enable this structure to play its role fully, particularly in the context of the implementation of the new environmental and social standards of the ESF.

Going forward the Bank identified the need to hire a full time dedicated Environmental safeguards specialist and a Social safeguards specialist to lead the implementation of: ESS1 (Assessment and Management of Environmental and Social Risks and Impacts); ESS2 (Labor and Working Conditions); the community aspects of ESS4 (Community Health and Safety); ESS5 (Land Acquisition, Restrictions of Land Use and Involuntary Resettlement) and ESS10 (Stakeholder Engagement and Information Disclosure). In addition, community liaison officers will be mobilized at the local level to support the implementation and monitoring of the stakeholder engagement plan.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) Substantial

Environmental Risk Rating Substantial

The expected environmental and social impacts of the project will be overall positive. The project will finance the construction of critical public infrastructure, rehabilitation and maintenance of rural road, club-good facilities . The project will not invest in public irrigation infrastructures. However, it will support private small-scale irrigation through matching grants for eligible sub-projects. It is also expected that the project builds cold chain infrastructures such as cooling rooms at the airport. Some of the mentioned activities would lead to noise pollution related to project activities, generation of solid and liquid waste, probable loss of plant cover, increase in occupational and traffic accidents. Due to the potential use of pesticides and fertilizers, the degradation of surface water and groundwater quality should also need to be considered as possible adverse impacts.

Based on activities nature and their magnitude, potential adverse impacts on environment components are expected to be substantial.

Social Risk Rating Substantial

Among activities to be funded by the project, there are the construction of critical public good infrastructure, rehabilitation and maintenance of rural road networks, club-good facilities, and the construction/rehabilitation of cold chain infrastructures such as cooling rooms at the airport.

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Some of these expected investments would lead to potential adverse social risks and impacts to communities and workers in the activities' implementation areas. Construction and rehabilitation investments will involve land acquisition that would lead to physical and/or economical displacements through the loss of property, the loss or the disruption of income or livelihood activities for individuals or groups of people, as well as restriction of access to the natural resources. There could be social challenges related to labor influx, community's health and safety (accidents and incidents including GBV/SEA risks), social exclusion such as vulnerable groups (women, youth, minority groups, disabilities, etc.), conflicts and complaints. Therefore, the environmental and social due diligence will include a social risk assessment and mitigation measures to anticipate and properly manage the assessed social risks will be provided in the project's environmental and social required instruments. The social risk was rated Substantial.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

ESS 1 requires that an environmental and social risk and impact assessment be conducted prior to Board approval. Given that, the sites of the expected investments will be identified overtime and no technical studies are available, the environmental and social risks assessment to be conducted will lead to the preparation of an Environmental and Social Management Framework(ESMF) that will be disclosed prior to Appraisal. The ESMF lays out procedures for screening and mitigating impacts from constructions/rehabilitations, to guide the preparation of ESIA's and ESMPs as and when needed for specific project activities, and includes the following: (a) checklists of potential environmental and social impacts and their sources; (b) procedures for participatory screening of proposed sites and activities and the environmental and social considerations; (c) procedures for assessing potential environmental and social impacts of the planned project activities; (d) institutional arrangements for mitigating, preventing, and managing the identified impacts; (e) typical environmental management planning process for addressing negative externalities in the course of project implementation; (f) a system for monitoring the implementation of mitigation measures; and (g) recommended capacity building measures for environmental planning and monitoring of project activities. In addition, the ESMF will also make use of the general and sector-specific EHSs for the identified subprojects in relation to occupational and community health and safety. In addition to the ESMF, the borrower will also prepare an Environmental and Social Commitment Plan (ESCP) with the support of the Bank. That ESCP will include the commitment and the timeline for the preparation of subsequent ESIA's.

Areas where "Use of Borrower Framework" is being considered:

This project will not use the Borrower's E&S Framework in the assessment, development and implementation of investments. However, it will comply with relevant national legal and regulatory requirements.

ESS10 Stakeholder Engagement and Information Disclosure

From the preliminary assessment, the stakeholders are constituted of the Ministry of Agriculture, Livestock and Fisheries; farmers, agribusiness enterprises, processors, traders, transporters and various service providers who will be involved in project-supported activities. The project is also expected to target youth and women in their roles as



entrepreneurs or employees of commercial farms. In addition, other beneficiaries will include Institutions such as Universities, Vocational Schools, R&D Institutes, Professional Organizations within the targeted value chains, Labs and relevant public agencies.

With the aim of improving the environmental and social sustainability of the project, enhancing the operation acceptance and make a significant contribution to successful project design and implementation, a Stakeholder Engagement Plan (SEP) will be developed and disclosed. This plan will address specific risks identified by stakeholders and it will be updated as and when necessary. The objective is to have an overview of project stakeholders and establish a systematic approach for stakeholder engagement, maintain a constructive relationship with them, take into account stakeholders' views, promote and provide means for effective and inclusive engagement with project-affected parties throughout the project life-cycle, and ensure that appropriate project information is disclosed to stakeholders in a timely, understandable, accessible and appropriate manner. The SEP will also include a grievance mechanism to handle any complaints in the context of the project. The GRM will be responsive to the risks of GBV/SEA and the need to be accessible to a wide diversity of stakeholder groups.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

Through the Project Implementation Unit(PIU), the project will include direct workers. There will be contracted workers as the construction of critical public good and club good infrastructure, rural road networks, club-good facilities, irrigation infrastructure, the construction/rehabilitation of cold chain infrastructures such as cooling rooms at the airport will be done by companies that will have employees. As, goods and materials are essential for the core function of the project, there will also be primary supply workers. The borrower will need to meet requirements described in the ESS2 for terms and conditions of employment, non-discrimination and equal opportunity, worker's organizations, prevention of child labor and forced labor, a grievance mechanism and, occupational health and safety. Civil servants working in connection with the project full-time or part-time will remain subject to the terms and conditions of their existing public-sector employment or agreement, unless there has been an effective legal transfer of their employment or engagement in the project. However, the project will include a condition of effectiveness for Labor Management Procedures for the direct workers (e.g. PIU staff), contracted workers and primary supply workers if applicable. The project will also include a grievance mechanism for labor disputes.

The country's legal system includes regulations for OHS and the prevention of forced labor and child labor. No significant risks on forced labor and working conditions are envisaged. However, Agriculture accounts up to 47 percent of the country's employment and Poverty remains widespread, with a poverty rate of about 50 percent in 2015. The combination of these two parameters could induce child employment and for which the Labor Management Procedures (LMP) to prepare according to the national laws and regulations and ESS2 requirements, will establish strong guidelines to avoid any child employment.

ESS3 Resource Efficiency and Pollution Prevention and Management



Air emissions: During the construction/rehabilitation phase, air emissions will include exhaust from heavy vehicles and machinery, and fugitive dust generated by construction activities. Those most likely to be affected are people living within the proximity of the construction sites. The implementation of mitigation measures such as dust suppression and vehicle maintenance will be applied to minimize the impact of air emissions during construction and rehabilitation, and residual impacts are expected to be limited in scope and duration.

Noise: During the construction/rehabilitation phase, noise might likely be generated from the use of construction machinery and vehicle movements. The relatively short-term and small-scale nature of the works suggest that noise levels will not be excessive or cause long-term nuisances. The construction works will however, present short-term nuisance to the public and to owners adjacent to some of the project sites. The Environmental and Social Management Plan of the ESIA's to be prepared overtime by the borrower will include mitigation measures to minimize and manage the noise levels such by applying standard restrictions to hours of site work.

Waste management: Construction and rehabilitation activities will generate solid waste which will primarily include excavated soil and hazardous waste such as hydrocarbon oils from construction machinery and vehicles. The waste generated by the construction works whose quantity is not anticipated to be important will be disposed at sites previously identified by the ESIA.

Water balance: irrigation activities will mostly use groundwater through the construction of sumps. That means there will no any competition with other users such as populations, breeders, fishermen and wildlife. In addition, the contamination of surface water with its consequences on halieutic resources will be negligible.

Lastly, the project includes agriculture activities that aim at fostering agriculture productivity. That means, the probability for the use of chemical products namely pesticides and fertilizers is not negligible. Knowing that the misuse of pesticides could lead to pollutions, the project will develop a Pest Management Plan(PMP) that will be disclosed prior to Appraisal.

ESS4 Community Health and Safety

The project will finance the realization of infrastructures and the rehabilitation of road sections that may have negative risks and effects on the health, safety and security of the riverside communities at the work sites. Experience indicates that the influx of workers into a project area can lead to adverse social impacts (gender-based violence, sexual exploitation, communicable diseases) on local communities, especially if the communities are rural, remote or small as they are in the case of the road sections rehabilitation. To prevent the risk of sexually transmitted diseases the need to minimize the inflow of external male workers is further pronounced. The ESIA's to be developed for each road-section will determine whether a specific labor management plan is required (in the case of significant impacts) or whether (in a low risk scenario) the ESMP can include labor related clauses.

For all the construction work, including critical public good and club good infrastructures, club-good facilities, irrigation infrastructure, road sections rehabilitation, it will be stipulated in the ESMP requesting the contractor to put in place some measures such as signaling/signs/markings to prevent accidents during the construction/rehabilitation works period. When works take place on open roads, equipment and vehicles will be brought together to one single protected area during the night to minimize accidents .



ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

The project will finance the construction and rehabilitation of public infrastructures including rural road networks, cold chain infrastructures, club property facilities, irrigation infrastructures, etc. Some mentioned activities would involve land acquisition, restrictions on land used and involuntary resettlement that would lead to the involuntary resettlement, physical and/or economical displacements (e.g. loss of property, loss or the disruption of income and/or livelihood activities for individuals or groups of people). The sites of these expected investments will be determined overtime during the project implementation phase. Therefore, a social risks assessment will be conducted and a Resettlement Policy Framework(RPF) will be prepared and disclosed prior to Appraisal to help screen project sites once known, and guide the preparation of Resettlement Actions Plans (RAPs) when needed.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Most of the construction activities of the project will take place in inhabited areas. So, it is not anticipated that those constructions will impact negatively natural habitats or modified habitat of biodiversity significance. Only, the rehabilitation of rural road networks might induce the clearance and loss of areas of vegetation and faunal habitat when it comes to widen the right-of-way of those road-sections. In that case, a very little vegetation will be destroyed or damaged along the routes. The overall environmental risk for ESS6 is therefore deemed moderate to negligible. Based on that, the risk will be managed by applying known mitigation measures to be included in the ESMPs.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

There are no known Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities in the project area.

ESS8 Cultural Heritage

It is not anticipated that the project will impact cultural heritage. However, the project will finance the realization of investments that will induce excavation during construction phase and demolition during the rehabilitation of some infrastructures. The environmental and social assessment (ESIAs) will assess and may confirm the existence of tangible or intangible cultural heritage. Furthermore, all construction and rehabilitation contracts will include a “Chance Find” clause which will require contractors to stop construction/rehabilitation in the event that cultural property sites are encountered during civil works.

ESS9 Financial Intermediaries

This standard is not relevant.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No



OP 7.60 Projects in Disputed Areas

No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?

No

Financing Partners

N/A

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

Actions to be completed prior to Bank Board Approval:

- Preparation and disclosure of the Environmental and Social Commitment Plan (ESCP) ;
- Preparation and disclosure of the Stakeholder Engagement Plan (SEP);
- Preparation and disclosure of the Environmental and Social Management Framework(ESMF);
- Preparation and disclosure of the Pest Management Plan(PMP);
- Preparation and disclosure of the Resettlement Policy Framework(RPF).

Actions to be completed prior to Appraisal:

- Preparation and disclosure of the Environmental and Social Commitment Plan (ESCP)
- Preparation, consultation and disclosure of the Stakeholders Engagement Plan (SEP)
- Preparation and disclosure of the Labor Management Procedures (LMP)
- Preparation of an advanced draft of the Environmental and Social Management Framework(ESMF)
- Preparation of an advanced draft of the Resettlement Policy Framework(RPF)
- Preparation of an advanced draft of the Pest Management Plan (PMP)

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

Elaborate the Stakeholder Engagement Plan , the Grievance Redress Mechanism, the Labor Management Procedures, ESIA's, RAPs, and a GBV/SEA plan.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS

09-Dec-2019

IV. CONTACT POINTS

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VI. APPROVAL

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Practice Manager (ENR/Social)	Abdelaziz Lagnaoui Recommended on 27-Nov-2019 at 08:52:0 EST
Safeguards Advisor ESSA	Hanneke Van Tilburg (SAESSA) Cleared on 27-Nov-2019 at 12:38:35 EST