PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA30844

Project Name	Smallholder Commercialization and Agribusiness Development Project (P153437)
Region	AFRICA
Country	Sierra Leone
Sector(s)	General agriculture, fishing and forestry sector (100%)
Theme(s)	Rural markets (60%), Rural services and infrastructure (20%), Other rural development (20%)
Lending Instrument	Investment Project Financing
Project ID	P153437
Borrower(s)	Ministry of Finance and Economic Development
Implementing Agency	Ministry of Agriculture, Forestry and Food Security
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	23-Nov-2015
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Estimated Date of Appraisal Completion	11-Dec-2015
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Appraisal Review Decision (from Decision Note)	10/30/2015

I. Project Context

Country Context

1. Before the Ebola virus disease (EVD) epidemic, which hit Sierra Leone, Guinea and Liberia towards the beginning of 2014, Sierra Leone had been making commendable progress since the end of the civil war in 2002. The Ebola crisis has resulted in a heavy economic toll on the country in 2014 and 2015, with the much of the economic impact still unfolding in 2015 and beyond. With the advent of Ebola in mid-2014, real GDP contracted over the second half of 2014 by an annualized rate of 1.3 percent, compared with an impressive annualized growth rate of 11.3 percent in the first half of 2014 and 20.7 percent in 2013. The robust first half performance was followed by the sharp reversal over the second half due to Ebola related effects on the country's main economic activities, including agriculture, industrial mining and services .

2. While the Government has developed the Ebola Recovery Strategy to address immediate, short-term effects, there is need to strengthen post-Ebola growth prospects by supporting key sectors such as agriculture. Ebola has had a negative effect on agricultural production due to labor constraints arising from EVD-related deaths, morbidity, fear and panic, and market distortions (due

to quarantines) will all affect the country's economic prospects. Furthermore, the impact on agriculture may lead to food insecurity and may also broaden and deepen poverty given that agriculture supports over 80 percent of the rural population. Various assessments on the impact of EVD on agriculture indicate a reduction in food and cash crop production attributed to the epidemic. Food production is likely to be reduced due to labor-related production constraints during the 2014/15 cropping season, a result of higher mortality and/or morbidity and self-imposed restrictions due to the general sense of fear and panic associated with the epidemic, particularly in hard-hit districts (Kenema and Kailahun, Port Loko, Moyamba and Bombali) where quarantines had been enforced since May 2014. The two initial Ebola epicenter districts (Kailahun and Kenema) are considered the bread-basket for the country producing over 20 percent of the national food supply. An FAO Rapid Assessment of the impact of Ebola on food security undertaken in 2015 indicates that about 47 percent of farmers claimed that Ebola has had significant adverse effects on farming activities during the 2014-15 agricultural season. The two districts also contribute significantly towards the production of key cash crops such as cocoa which have also been affected, mainly in terms of the harvesting and post-harvest handling which may affect the volumes and quality of cocoa exports. Similar assessment undertaken recently by the World Food Program also confirms that agricultural output has been reduced by up to 17 percent, especially in the EVD hard-hit districts.

3.There is need to strengthen the operations of agribusinesses, farmer-based organizations and the stakeholders along the agricultural value-chains. Many markets for agricultural produce have been disrupted due to the restricted movement of goods. This created a dampening effect on prices in the production areas while creating an upward pressure on prices in the supply constrained areas. For example, an assessment undertaken by WFP shows that rice prices in December 2014 were 15 percent higher than the same time in 2013. This is likely due to supply issues resulting from difficulties in transporting local rice from rural areas to the capital city, Freetown due to formal and informal movement restrictions. Reduced demand, due to limited cash in the rural areas, has invariably affected the farming community including the agribusinesses. Furthermore, the slump in iron ore prices (a drop of 40 percent in 2014) and coupled with investor aversion to the Ebola epidemic pose additional challenges to attracting agricultural investment/foreign direct investment (FDI) which was on the upward trend before the Ebola epidemic.

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4. Furthermore, beyond the post-Ebola recovery, there is need for support to establish a sustainable basis for agricultural sector growth in order to diversify the country's economic base away from the extractives. The country's sustained long-term growth may be hindered by sluggish growth in the key sectors that support the livelihoods of the majority of the population. While the extractives boom will drive the growth trajectory in the short to medium term, reductions in poverty will depend on key sectors, such as agriculture, that sustainably employ the majority of the population, especially in rural areas. Agriculture supports over 80 percent of the rural population; however, low levels of agricultural productivity render the sector less competitive and depress rural wages, discouraging employment among youth who are the most non/under-employed in the country. For the country to achieve the twin goals of reducing extreme poverty and improving shared prosperity, there is need for renewed focus to transform the largely subsistence low-input, low-output agriculture into a more productive and commercialized system capable of creating gainful employment as a basis for broad-based poverty reduction.

5. The proposed project intervention focuses on the medium to long-term agricultural sector growth. However, it is important to acknowledge that the Ebola epidemic has put a strain on a

sector which is riddled with low productivity and competitiveness. As such, the incidence of the epidemic makes this project intervention much more urgent as it will partly contribute towards the country's Ebola recovery.

Sectoral and institutional Context

6. Despite the boom in the natural resource extractives, agriculture has been contributing significantly to Sierra Leone’s economy, both before and after the war. Agriculture’s contribution to GDP has on average been about 51.8 percent since 2003. Agriculture’s contribution increased from 47.9 percent in 2003, increasing to 54.5 percent in 2009 before declining slightly to 52.8 percent in 2011. From 2012 to 2014, agriculture contribution to GDP has been 47.2 percent, 41.0 percent and 39.8 percent, respectively . The relative decline between 2009 and 2014, was partially driven by the expansion of the extractive industry (particularly iron ore) during this period and partly driven by the decline in the real value contribution to GDP due to fluctuations in both the exchange rate and international commodity prices. According to the Ministry of Agriculture estimates, the sector employs 66 percent of the labor force, and contributes 22 percent of the export earnings.

7. The agriculture sector is heavily dominated by the production of staple crops, mainly rice and cassava. Rice and cassava are the main staple crops, accounting for over three-quarters of the sector output while cash crops like cocoa, coffee, palm oil and others contribute up to 16 percent by value (see Figure 1). The major challenges for the sector include: low productivity due to lack of improved technologies including agricultural inputs; low levels of value chain integration mainly due to inefficient production systems that undercut competitiveness; lack of access to markets for both inputs and outputs;, high interest rates for of agricultural finance; low farmers’ organizational capacity; and low institutional capacity, especially for the provision of agricultural research and development and extension.

8. Sector Strategy: The Government’s strategy for agriculture developed in 2010 focused on addressing the sector challenges through the promotion of smallholder commercialization. During the past five years, Government’s strategy in agriculture has been driven by the National Sustainable Agriculture Development Plan (NSADP) through the Smallholder Commercialization Program (SCP), which has been a flagship sector program aimed at making agriculture the ‘engine’ for socio-economic growth through the development of commercial agriculture. The SCP has been focusing on intensification, diversification and commercialization of smallholder agriculture (through improving value-addition and access to marketing). The SCP, which started implementation in 2010, was a five-year program and it is expected to close towards the end of 2015. Government has been developing its successor program, the Inclusive, Comprehensive Agricultural Development Program (ICADEP) under which there is a component exclusively focusing on commercialization and agribusiness development as a basis for inclusive sector growth.

9.Challenges for smallholder commercialization: While the implementation of the SCP over the past five years has led to improvements, particularly in food security, the major challenges affecting the commercialization of smallholder farmers still persist. Sierra Leone agriculture still operates under sub-optimal productivity level, consistent with low-input, low-output subsistence agricultural systems prevalent in most of sub-Saharan Africa. In general, yields are low even by sub-Saharan African standards but can be much higher with the use of more intensive cultivation methods, improved seeds, agro-chemicals and fertilizers. Yields estimated for most crops are only about a third of the potential productivity levels. This is the most critical factor affecting profitability and competitiveness, and ultimately the sector growth, as low yields and cost inefficiency invariably affect the net returns to agriculture. Many of the factors identified as key sector constraints play a role in undermining productivity and competitiveness. The most important factors that affect smallholder commercialization include: lack of access to finance (for inputs and advisory services), inadequate access to effective agricultural input supply systems, low levels of value-chain integration mainly due to market access challenges, low levels of agro-processing mainly due to the limited access and high cost of utilities (water and energy) and high risk and costs of marketing due to unavailability of marketing infrastructure as well as the lack of skills required for commercialization (technical know-how, agri-business management and financial literacy skills).

10. Furthermore, many smallholder farmers are still less organized to meet the complex demands of the ever evolving agricultural business. Many of them lack the capacity, skills and resources required to engage in commercialized agriculture. Over 80% of smallholder farmers still operate under subsistence level, trapped under the low-level equilibrium, and facing enormous and complex challenges. Most of the Farmer-based organizations (FBOs) including the Agri-business Centers (ABCs) are less functional because of the challenges related to the management and governance of such institutions. A study undertaken by Richards and Mokuwa (2014) to determine the functionality and viability of ABCs as a way of promoting farming as a business noted that while as many as over 80% of the established ABCs are functional, most of the services remain unused (except for rice mills, albeit at lower capacity), many are embroiled in management and governance issues, and many suffer from the lack of a viable business model (given that many of them were supply-driven). Many of the agricultural/farmer coope ratives suffer from similar challenges. As such, in their current form, these rural institutions are still less effective in promoting commercialization and agribusiness development. These set of factors are a priority and addressing them in a consistent manner is likely to have significant positive impact on smallholder commercialization.

11. Opportunities for smallholder commercialization: The most appropriate approach to promote smallholder commercialization is to help them build productive partnerships with agribusinesses. Sierra Leone has experienced steady increase in medium to large-scale investment in agriculture, from very low levels during and immediately after the war to an estimated investment of over US$174 million (about 7% of GDP) a decade after the end of the war. From 2010 onwards, Sierra Leone has recorded a sharp increase in the number of agribusiness investors in rice, cocoa, sugar cane, rubber, coffee and oil palm. The private investor database of the Ministry of Agriculture, Forestry and Food Security (MAFFS) has over 85 domestic and foreign enterprises which have already or are intending to invest in agriculture. The Sierra Leone Investment and Export Promotion Agency (SLIEPA) Investment Portal counts over 45 investors, with the total estimated investment of at least US$ 60-80 million per annum. Although most of these are in their early phases of development, most of them are expected to reach full production by 2018, and if sustained, will have a huge impact on sector growth. In addition, domestic private investment in agriculture is estimated around US$ 30-40 million per annum. The domestic investors comprise the middle to large size farms (from 10 ha or more), with farming and non-farming sources of capital, including current and former government employees, traders and Sierra Leoneans in the Diaspora.

12. On the part of the farmers, although a lot of technical assistance is required to build-up their technical and agribusiness skills, the establishment of Agribusiness Centers (ABCs) provides a platform upon which to build viable producer organizations. Since 2010, the MAFFS through the

SCP has established and equipped a total of 193 ABCs . These ABCs are operated by 490 Farmer Based Organizations (FBOs), involving a total of about 122,500 farmers, of which 30 percent come from female-headed households. Although the functionality of most of these ABCs is limited due to governance and operational challenges, their existence in the rural areas provide a useful platform upon which to scale-up the performance of farmer-based organizations which in turn can engage with agribusinesses through out-grower schemes. Some of these farmer-based organizations have already started to engage with agribusinesses (e.g. in rice, oil palm and poultry), but significant effort is required to strengthen their capacity in order to become reliable entities to work with organized supply chains.

13. In order to support smallholder commercialization, there is need to promote approaches which integrate smallholder farmers into organized supply chains through the creation of viable out-grower schemes. Integration of smallholder farmers into these value chains through mutually beneficial business partnerships is the most viable way to achieve sustainable income growth. For Sierra Leone, such win-win business relationships with smallholder farmers may not only be limited to agribusiness companies. There are also opportunities to create mutually beneficial supply contracts between smallholder farmers (as producers) and the mining and tourism industry (as potential buyers), as a way to promote the growth pole approach to sustainable socio-economic development. This is one of the viable ways through which smallholder commercialization may be achieved because the smallholder farmers will not only gain secure markets for their commodities, but will also learn the skills required to operate within organized value-chains.

14. The World Bank will leverage its extensive experience in supporting smallholder farmers' growth through facilitating the creation of productive alliances. The World's Bank experience with the financing (by way of grants) of rural productive partnerships (defined as agreements between formally organized Producer Organizations (POs) and a commercial buyer) started in 2003 and has since been implemented in Colombia, Bolivia, Panama, Guatemala, Honduras, Brazil, Peru, Mexico, and Jamaica. However, Honduras is the only country where accessing formal credit through a Bank/Financial Institutions loan was a requirement (30 percent of the cost of the business plan). There are also emerging lessons from fairly recent projects in Cameroon and Nepal from which lessons have been drawn to inform the design of this project. Furthermore, the Banks-supported Rural and Private Sector Development Project (RPSDP) implemented in Sierra Leone since 2008 also provides important lessons which have informed the design of this proposed project.

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II. Proposed Development Objectives

3. The project development objective is to promote smallholder commercialization by fostering productive business linkages between smallholder farmers and selected agribusiness firms and other commodity off-takers in Sierra Leone. This will be achieved through support for interventions aimed at improving agricultural productivity and access to markets as well as development of inclusive smallholder farmer-agribusiness linkages in the targeted project areas of Sierra Leone.

III. Project Description

Component Name

Support to agribusiness-farmer linkages and SMEs along selected agricultural value chains

Comments (optional)

This component is designed to strengthen linkages between agribusiness firms and farmers and promote producer associations and SMEs linkages along four agricultural value-chains (rice, cocoa, palm oil and poultry). The project will aim at improving access to finance through a combination of matching grants scheme and/or on-lending facilities and technical assistance. This component has two sub-components: Sub-component 1A. Value-Chain Financing to Selected Agribusinesses linked to out-grower schemes (US$12 million); Sub-component 1B Sustainable financing for smallholder farmers and agricultural small and medium scale enterprises (US$ 7 million).

Component Name

Market Access Improvement

Comments (optional)

The objective of this component is to link high agricultural production areas to markets. This component will support the rehabilitation of about 300 km of feeder roads and undertaking spot improvements for the key roads linking out-growers to the agribusinesses, including access infrastructure such as culverts and/or bridges. Specific focus will be on those rural roads that link high production areas to markets in the areas where contract farming/out-grower arrangements will be established. In addition, the project will aim at scaling-up the capacity of the district assemblies for routine maintenance for the newly rehabilitated feeder roads critical in linking high production areas to markets. Aggregation Structures and ICT technologies for market coordination will also be supported.

Component Name

Capacity Building support for state and non-state institutions and producer organizations

Comments (optional)

The objective of this component is to strengthen the capacity of state and non-state institutions responsible for the provision of services relevant for smallholder commercialization and agribusiness development. This component will support capacity building among state and quasi-state institutions responsible for providing public sector services, including the policy environment for the promotion of agribusiness development in the country. Support will also be provided for value-chain development services among farmers' producer organizations.

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Component Name

Project Management, Monitoring and Evaluation

Comments (optional)

The overall day to day running, project coordination and management would be anchored within the Project Coordination Unit (PCU). The project will be implemented under the existing PCU while the fiduciary capacity of the unified Project Implementation Unit under MAFFS will be built. This will also help reduce the operational costs since the existing PCU has equipment and office space already. Furthermore, the existing PCU has strong experience in implementing projects following the Bank's fiduciary procedures, thereby improving implementation readiness of the project. As part of project preparation and appraisal, there will be need to assess and if necessary enhance the capacity of MAFFS and other responsible sector ministries to provide effective project management, M&E.

IV. Financing *(in USD Million)*

Total Project Cost:	40.00	Total Bank Financing:	40.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	40.00
Total	40.00

V. Implementation

15. The overall responsibility for steering the project implementation will be with the Ministries of Agriculture, Forestry and Food Security (MAFFS); Industry and Trade (MOTI) and Works, Housing and Infrastructure (MWHI). Other state and non-state institutions such as: Sierra Leone Agricultural Research Institute (SLARI); Sierra Leone Roads Authority (SLRA), Sierra Leone Investment and Export Promotion Agency (SLIEPA) and Sierra Leone Chamber for Agribusiness Development (SLeCAD) will have primary responsibility as implementing agencies for specific activities directly related to their areas of functional responsibility, in line with promotion of smallholder commercialization and agribusiness development. The assignment of implementation functions and the transfer and accountability for project funds will be detailed in the financing agreement and disbursement letter.

16. The National Project Steering Committee (NPSC): To ensure proper coordination and supervision of all project components, a Project Steering Committee (NPSC) will be established to provide policy guidance and oversight. The NPSC would have a policy and advisory role and would meet twice a year. The Steering Committee will be responsible for: (i) approving the annual work plans; (ii) approving the annual procurement plan; and (iii) reviewing progress in the implementation of the work plans and other aspects of project performance, including taking responsibility on fiduciary oversight responsibilities following World Bank procedures on financial management and procurement; and (iv) ensuring that there is policy and implementation coordination, not only between sub-components of the project but also among all the project implementing institutions. The tenure of the Steering Committee will be five years, consistent with the project implementation period. The Minister of Agriculture, Forestry and Food Security, as the key sector ministry, will chair the NPSC which will comprise relevant officials from the other sector ministries and the state and non-state institutions involved in project implementation.

17. Project Coordination Unit (PCU): The project will be implemented under the existing PCU while the fiduciary capacity of the unified Project Implementation Unit under MAFFS will be built. This will also help reduce the operational costs since the existing PCU has equipment and office space already. Furthermore, the existing PCU has strong experience in implementing projects following the Bank's fiduciary procedures, thereby improving implementation readiness of the project. The main PCU functions would be to: (i) ensure the overall coordination of the project, make sure implementation of component activities complement each other; (ii) manage project funds on behalf of the executing agencies, keep financial records according to international standards, implement internal management control, and ensure regular external audit (in collaboration with the Audit Authority in the country); (iii) prepare and implement Annual Work Plans and Budgets aggregating the needs of all project implementing institutions; (iv) identify potential implementing agencies/goods and service providers, organize their procurement activities, negotiate and sign contracts, and carry out all procurement work related to the project as per the approved procurement plans; (v) prepare quarterly, semi-annual and annual project progress and monitoring and evaluation (M&E) reports. Overall implementation arrangements are shown in Figure 3 under Annex 3.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	×	
Natural Habitats OP/BP 4.04	×	
Forests OP/BP 4.36	×	
Pest Management OP 4.09	×	
Physical Cultural Resources OP/BP 4.11	×	
Indigenous Peoples OP/BP 4.10		×
Involuntary Resettlement OP/BP 4.12	×	
Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50		×
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

VII. Contact point

World Bank

Contact: Hardwick Tchale
Title: Senior Agriculture Economist
Tel: 5342+3317
Email: htchale@worldbank.org

Contact: Adesimi Freeman
Title: Head
Tel: 473-9520
Email: afreeman@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance and Economic Development
Contact: Edmund Koroma
Title: Financial Secretary
Tel: (232-22) 222-211
Email: ekoroma@mofed.gov.sl

Implementing Agencies

Name: Ministry of Agriculture, Forestry and Food Security
Contact: Joseph Sam Sesay
Title: Dr
Tel: 0023276610260
Email: samsesay2@yahoo.com

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VIII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop