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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 7.1 MILLION
(US\$10 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SIERRA LEONE

FOR A

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT
June 15, 2018

Finance, Competitiveness and Innovation Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2018)

Currency Unit = Sierra Leonean Leones

SLL 7824.73 = US\$1

US\$1.41665 = SDR 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

| | |
|---------|--|
| AfDB | African Development Bank |
| AfP | Agenda for Prosperity of the government of Sierra Leone |
| AWPB | Annual Work Plan and Budget |
| BDS | Business Development Services |
| Cordaid | Catholic Organization for Relief and Development Aid |
| CPF | Country Partnership Framework |
| DFID | U. K. Department for International Development |
| EIA | Environmental Impact Assessment |
| EPA | Environmental Protection Agency |
| ESMF | Environmental and Social Management Framework |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GIZ | German Agency for International Cooperation |
| GRM | Grievance Redress Mechanism |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IFR | Interim Financial Report |
| ILO | International Labour Organization |
| IRR | Internal Rate of Return |
| ISM | Implementation Support Mission |
| MAF | Ministry of Agriculture and Forestry |
| MDA | Ministries, Departments, and Agencies |
| MFD | Maximizing Finance for Development |
| M&E | Monitoring and Evaluation |
| MIS | Management Information System |
| MoF | Ministry of Finance |
| MSME | Micro, Small, and Medium Enterprises |
| MTI | Ministry of Trade and Industry |
| OECD | Organisation for Economic Co-operation and Development |
| PCU | Project Coordination Unit |
| PDO | Project Development Objective |
| PFMU | Project Fiduciary Management Unit |
| PPD | Public-Private Dialogue |
| PPSD | Project Procurement Strategy for Development |
| PSC | Project Steering Committee |
| QI | Quality Infrastructure |
| SCADeP | Smallholder Commercialization and Agribusiness Development Project |
| SCD | Systematic Country Diagnostic |
| SDR | Special Drawing Rights |
| SLeCAD | Sierra Leone Chamber for Agribusiness Development |
| SLIEPA | Sierra Leone Investment and Export Promotion Agency |
| SLSB | Sierra Leone Standards Bureau |
| SME | Small and Medium Enterprises |
| SMEDA | Small and Medium Enterprises Development Agency |
| SOBA | Sierra Leone Opportunities for Business Action |
| SORT | Systematic Operations Risk-Rating Tool |
| TA | Technical Assistance |
| UNIDO | United Nations Industrial Development Organization |
| YoY | Year on Year |



BASIC INFORMATION

| | | |
|--------------|--|-----------------------------------|
| Country(ies) | Project Name | |
| Sierra Leone | Sierra Leone Agro-Processing Competitiveness Project | |
| Project ID | Financing Instrument | Environmental Assessment Category |
| P160295 | Investment Project Financing | B-Partial Assessment |

Financing & Implementation Modalities

| | |
|---|---|
| <input type="checkbox"/> Multiphase Programmatic Approach (MPA) | <input type="checkbox"/> Contingent Emergency Response Component (CERC) |
| <input type="checkbox"/> Series of Projects (SOP) | <input checked="" type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Disbursement-linked Indicators (DLIs) | <input type="checkbox"/> Small State(s) |
| <input type="checkbox"/> Financial Intermediaries (FI) | <input type="checkbox"/> Fragile within a non-fragile Country |
| <input type="checkbox"/> Project-Based Guarantee | <input type="checkbox"/> Conflict |
| <input type="checkbox"/> Deferred Drawdown | <input type="checkbox"/> Responding to Natural or Man-made Disaster |
| <input type="checkbox"/> Alternate Procurement Arrangements (APA) | |

| | |
|------------------------|---|
| Expected Approval Date | Expected Closing Date |
| 09-Jul-2018 | 31-Dec-2023 |
| Bank/IFC Collaboration | Joint Level |
| Yes | Complementary or Interdependent project requiring active coordination |

Proposed Development Objective(s)

To improve business environment in agribusiness sector and increase productivity of targeted agro-processing firms in Sierra Leone.

Components

| Component Name | Cost (US\$, millions) |
|--|-----------------------|
| Promote enabling environment for expansion, and growth of agribusiness firms | 2.00 |



| | |
|--|------|
| Firm level support to increase productivity and strengthen competitiveness | 6.00 |
| Project implementation, coordination, Monitoring and Evaluation | 2.00 |

Organizations

| | |
|----------------------|--------------------------------|
| Borrower: | Republic of Sierra Leone |
| Implementing Agency: | Ministry of Trade and Industry |

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

| | |
|---------------------------|-------|
| Total Project Cost | 10.00 |
| Total Financing | 10.00 |
| of which IBRD/IDA | 10.00 |
| Financing Gap | 0.00 |

DETAILS**World Bank Group Financing**

| | |
|---|-------|
| International Development Association (IDA) | 10.00 |
| IDA Credit | 10.00 |

IDA Resources (in US\$, Millions)

| | Credit Amount | Grant Amount | Total Amount |
|--------------|---------------|--------------|--------------|
| National PBA | 10.00 | 0.00 | 10.00 |
| Total | 10.00 | 0.00 | 10.00 |

Expected Disbursements (in US\$, Millions)

| WB Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------|------|------|------|------|------|-------|
| Annual | 0.11 | 0.72 | 1.20 | 2.22 | 3.45 | 2.30 |
| Cumulative | 0.11 | 0.83 | 2.02 | 4.24 | 7.70 | 10.00 |



INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Agriculture, Education, Social Protection & Labor, Social, Urban, Rural and Resilience Global Practice

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category

Rating

1. Political and Governance

● High

2. Macroeconomic

● Substantial

3. Sector Strategies and Policies

● Moderate

4. Technical Design of Project or Program

● Substantial

5. Institutional Capacity for Implementation and Sustainability

● Substantial

6. Fiduciary

● Moderate

7. Environment and Social

● Moderate

8. Stakeholders

● Moderate

9. Other

10. Overall

● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Safeguard Policies Triggered by the Project

Yes

No

Environmental Assessment OP/BP 4.01

✓

Performance Standards for Private Sector Activities OP/BP 4.03

✓

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

✓

Legal Covenants

Sections and Description

Financing agreement, Schedule 2, Section I, B.1: To facilitate efficient implementation of the Project, the Recipient shall prepare and adopt, in form and substance satisfactory to the Association, a Project Operations Manual no later than one month after the Effective Date.

Conditions



**SIERRA LEONE
SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT**

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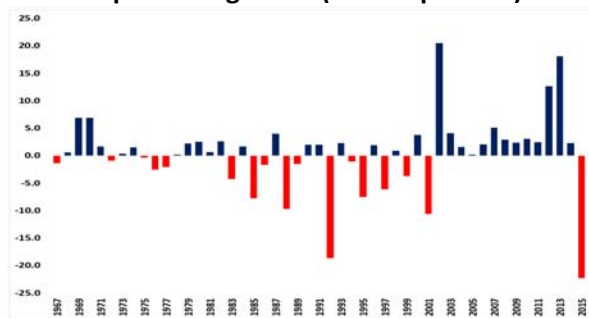
I. STRATEGIC CONTEXT

A. Country Context

1. Sierra Leone—a fragile, low-income country situated at the West Africa Atlantic coast, bordering Guinea to the west and north and Liberia to the east—has a population of 7.1 million people. The country has made good progress toward political stability and economic growth after more than a decade-long civil war that ended in 2002. Since then, the country has had three relatively peaceful national elections and recorded average annual growth of 7.8 percent from 2003–14. Postwar economic growth continued to be robust, bolstered by the resumption of iron ore exports, increased inflows of foreign direct investment (FDI), and rising government revenues. After more than a decade of robust economic growth, Sierra Leone’s economy deteriorated significantly since mid-2014 because of twin shocks from the Ebola virus disease and falling international iron ore prices. This resulted in sharp deterioration in economic outcomes with growth declining dramatically from 20.7 percent in 2013, to 4.6 percent in 2014, and further to –21.1 percent in 2015 (see figure 1a). Despite the decade-long growth, 2015 gross domestic product (GDP) per capita was US\$653.1, well below the Sub-Saharan Africa average of US\$1588.5.

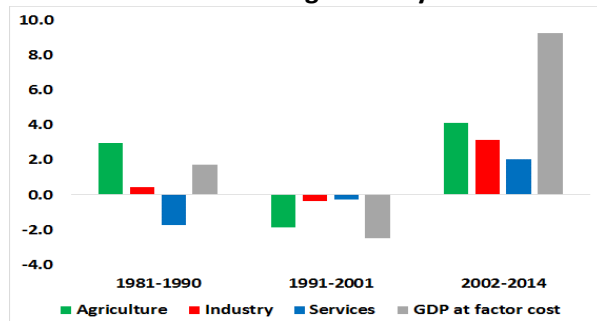
Figure 1. Gross Domestic Product Growth and Labor Employment

a. Per capita GDP growth (annual percent)



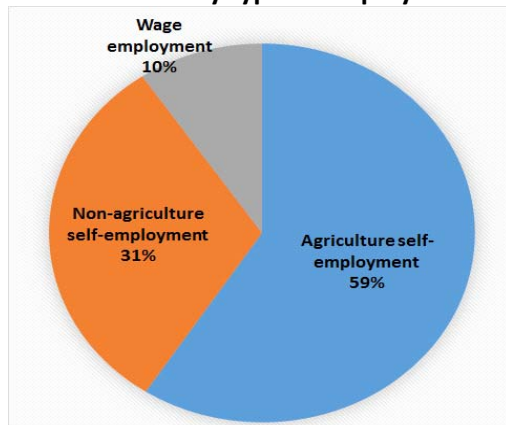
Source: World Development Indicators (2016)

b. Contribution to GDP growth by sector



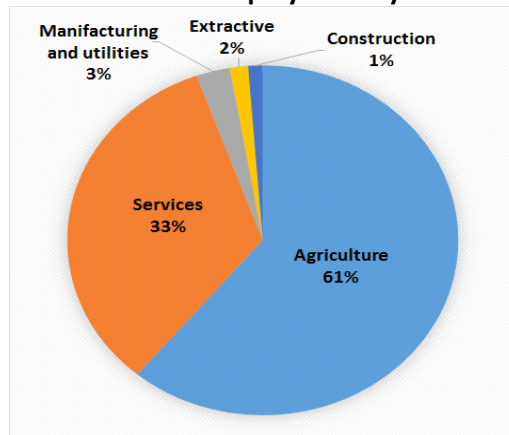
Source: World Development Indicators (2016)

c. Labor market by type of employment



Source: Labor Survey 2014

d. Labor market employment by sector



Source: Labor Survey 2014



2. In March 2016, the country was officially declared Ebola-free, which gradually led to normalization of economic activities to pre-Ebola levels, particularly in services and primary sectors such as agriculture that had demonstrated resilience during the crisis. Projected growth in household consumption and resumption in mining activities are expected to accelerate economic activity and improvements in living conditions compared with the height of the Ebola crisis. The medium-term outlook is positive but highly uncertain, with growth projected to recover gradually to about 6.5 percent in 2020, mostly driven by the non-iron ore sectors.¹

3. Sierra Leone has vast natural resources, and the economy is heavily dependent on its land endowments, especially agriculture and mining. Almost 75 percent of the total land area of about 72,300 square kilometers is arable. Agriculture, including forestry and fisheries, accounts for the largest GDP share, but that share declined from 57 percent in 2012 to 41 percent in 2013. The mining sector's contribution to GDP—based on exploitation of mainly rutile, diamonds, gold, chromite, and iron ore—increased substantially from 8.5 percent in 2011 to 16.8 percent in 2012 and on to 27.2 percent in 2013 because of the expansion of large-scale iron ore operations. The service sector, led by banking, retail, transport, and tourism, accounted for 28.8 percent of GDP in 2013, down from 35.5 percent in 2011, while the manufacturing sector, dominated by cement and light manufacturing, accounts for only 2 percent of GDP.² Other promising growth sectors are tourism, fisheries, and manufacturing.

4. Poverty levels remain high, even though the poverty headcount declined from 66.4 percent in 2003 to 52.9 percent in 2011. Strong growth in rural areas, where poverty declined from 78.7 percent in 2003 to 66.1 percent in 2011, explains much of the overall reductions in poverty. However, the rural poverty level is still higher than urban poverty, which declined from 46.9 percent in 2003 to 31.2 percent in 2011. Although about 62 percent of the working-age population is employed (formally or informally), there is a dearth of good-quality jobs, particularly among urban youth and in rural areas.³ Youth labor earnings are a key source of household income in Sierra Leone. According to the country's most recent labor force survey, 55.7 percent of individuals ages 15–35 participate in the labor force, deriving labor income mainly from self-employment. The lack of sufficient technical and vocational skills needed for the labor market compounds the unemployment problem, despite the potential offered by a growing workforce dominated by young people.

5. The government of Sierra Leone's strategy for social and economic development is articulated in the third-generation Poverty Reduction Strategy, the Agenda for Prosperity (AfP) for 2013–18. The AfP is part of the government's vision to become a middle-income country by 2035 based on a private sector-led economy generating widespread employment opportunities. The AfP identifies eight priority pillars for interventions, including two related to the drivers of private sector-led economic growth and diversification. The 2014–16 Ebola outbreak in West Africa derailed implementation of initiatives and activities in Sierra Leone aimed at achieving the goals and strategic objectives of the AfP. The priorities related to private sector development aimed to create 10,000 agricultural jobs and increase growth and competitiveness of 1,000 small and medium enterprises (SMEs) across key value chains such as rice, cassava, cocoa, and oil palm.

¹ IMF Sierra Leone Country Report, July 2016.

² Statistics Sierra Leone: Report on 2013 Real GDP Figures, October, 2014.

³ Statistics Sierra Leone, World Bank, International Labour Organization (ILO), Sierra Leone 2014 Labor Force Survey.



B. Sectoral and Institutional Context

6. Agriculture, including agribusiness, is a key sector of the economy, contributing more than half of the GDP and accounting for the largest share of labor markets, both by type of employment and sector contribution (figure 1b). The sector is dominated by smallholder production of staple crops, mainly rice and cassava, which together account for about three-quarters of the volume of agricultural production. Commercial farming and primary processing of commodities, such as oil palm, cocoa, coffee, other niche crops, and livestock, is becoming increasingly important, contributing about 16 percent of agricultural value added in 2014. However, low productivity and several market, policy, and institutional coordination failures dampen agriculture competitiveness.

7. Agroindustry in Sierra Leone has been growing during the last decade, with rising foreign and domestic investments in cultivation and processing of food and industrial crops such as rice, oil palm, sugar cane, horticulture, and livestock (mainly poultry). FDI in agriculture has been steadily increasing throughout the years, from US\$3.44 million during 1991–2000 to more than US\$174 million (about 7 percent of GDP) between 2001 and 2013. Most of the increase in foreign agriculture investment is due to a sharp increase in multimillion dollar investments in rice, cocoa, sugar cane, rubber, coffee, and oil palm, particularly after 2010. In addition to external investors, the domestic agribusiness sector has also experienced some growth in the last decade. A recent survey of 182 agribusiness enterprises in Sierra Leone showed a large number of domestic agribusinesses in both farm and off-farm segments of agricultural value chains.⁴ Many of these enterprises were involved in some form of primary agro-processing activities.

8. World Bank–supported diagnostics on sector competitiveness in Sierra Leone highlighted strong prospects for agro-processing to help drive economic growth more effectively compared with other sectors.⁵ Agro-processing investment opportunities are concentrated in oil palm (mainly for exports), and processed rice and poultry for domestic and regional markets. Some processors are involved in niche commodities, such as fruit juices, lemongrass, and rubber for exports, mainly to the European Union (EU) and the United States. However, the agribusiness industry, including agro-processing, is highly fragmented. Local agro-processors tend to be involved in a wide range of products, but they operate mostly in local markets. A few medium-size formal firms and a vast number of small, low-productivity informal firms coexist with a small number of large domestic and international companies that have operations linked to foreign investments. By contrast, large domestic and foreign investors operate modern processing plants that involve few commodities, such as oil palm, rice, and forestry products. Most agro-processors, regardless of size or technology used, have underutilized capacity and face challenges getting access to domestic and international markets.

9. Attracting and retaining private sector investments for economic diversification is a government priority, but the potential for catalyzing foreign and domestic investment into the Sierra Leone agro-business is underutilized. The Sierra Leone Investment and Export Promotion Agency (SLIEPA) has prioritized increased investment inflows in agribusiness as a key objective in its Strategic Plan 2016–18. This strategy aims to attract both domestic and foreign direct investments and develop and diversify exports, particularly in the agricultural sector. SLIEPA developed strategies and incentives to attract private investors, strengthen the competitiveness of the agribusiness sector, and promote SMEs that have strong potential for creating jobs. In addition, an initiative to rebrand “Made in Sierra Leone” aims to encourage growth of national supply chains.

⁴ Sierra Leone Agribusiness Database, SCADeP, 2017.

⁵ Sierra Leone Growth Pole Diagnostic, World Bank, July 2013.



10. Although Sierra Leone has good potential for agroindustry to be an important driver of economic growth, diversification, and poverty reduction, there are many challenges facing the sector and its investment attractiveness. The country ranks 135 out of 137 in the Global Entrepreneurship Index globally and 28 out of 30 in Sub-Saharan Africa. It ranks 132 out of 138 in the Global Competitiveness Index (2016–17 rankings). Creating an enabling environment for investments in agribusiness, strengthening institutions, and improving firm productivity are critical elements of a sector reform and growth agenda to catalyze investments in the agribusiness sector and agro-processing.

11. Several market failures are impeding competitiveness in the agribusiness sector and the productivity of agro-processing firms, including SMEs.⁶ These include policy, institutional, and coordination failures that raise the cost of doing business for agribusiness and agro-processing investors, as well as information asymmetries on both the demand and supply sides that limit SME market opportunities and links with larger domestic and foreign agro-processors. In addition, weak supply chain linkages, lack of access to finance and technology, and limited demand-led skills development pose challenges to agro-processing firm productivity and agribusiness sector competitiveness in Sierra Leone.

12. Sierra Leone has implemented a wide range of business environment reforms and developed policies aimed at improving the business environment. However, the record is mixed on implementation effectiveness and sustained impact. Lack of coordination and consistent application of policies, rather than a lack of policies themselves, hinder the development of the sector. Despite some improvements in the business and regulatory environment, investors point to the current business environment as a major constraint to the growth and expansion of agro-processing investments.

13. Many agribusiness investors face serious issues that are hindering the success of their operations and are leading them to downsize, abandon planned operations, or totally withdraw their investments in the country. According to a 2017 survey of 13 large foreign and domestic agribusiness investors and seven business intermediaries in Sierra Leone, the three main areas of concern for investors are the annual Environmental Impact Assessment (EIA) fees administered by the Environment Protection Agency (EPA), import procedures, and export procedures.⁷ A 2017 agribusiness investors' forum also cited these areas as having the most detrimental impact on the success of companies' operations.⁸ Agribusiness investors consider the annual EIA fees, which can reduce enterprise profits by up to 80 percent, to be very high when compared with other countries in the region. Eight of the 13 companies interviewed stated that the challenges they face are posing significant risks to the feasibility of their business operations in Sierra Leone, which could result in a loss of about US\$560 million in existing and potential investments and more than 47,000 direct and indirect jobs, and loss of cultivation of more than 76,500 hectares of agricultural land.

14. The capacity of public sector institutions dealing with private sector development and the business regulatory environment is limited. Inconsistent application of policies, regulations, and fiscal incentives significantly increase the cost (time and money) of doing business compared with alternative investment destinations. With a complex business and regulatory environment and wide-ranging policy agenda, there are significant challenges to effective implementation of government and development partner initiatives. Several

⁶ Some market failures affect the entire agribusiness sector, defined as commercial entities within any segment from upstream input supply to commercial production and downstream agro-processing and trade, while others are specific to the agro-processing segments of the value chain.

⁷ SLIEPA Capacity Needs Assessment for Aftercare in Agribusiness, World Bank, 2017.

⁸ Agribusiness Investors Forum, SLIEPA, May 2017.



government agencies are involved with designing and implementing initiatives on business and the regulatory environment, investment promotion, and SME development, but coordination among them is limited.

15. Scant data exist on SMEs in Sierra Leone. An agribusiness entrepreneurship diagnostic conducted in August 2017 revealed that agro-processing SMEs in Sierra Leone generally lack access to stable, viable markets for their products. The entire agribusiness sector, including agro-processing, is highly fragmented, consisting of few medium- and large-size formal firms, and a vast number of small, low-productivity firms operating in few commodities, such as oil palm, rice, coffee, and cocoa. The market for business development services (BDS), entrepreneurial training, and agribusiness-focused content is fragmented. Business development service providers have basic business training materials, but they lack proper information and experience in agribusiness and the food sector, and programmatic offerings typically do not extend beyond basic business plans and start-up advice. Agricultural productivity remains low, combined with low levels of farmer organization and coordination, which lead to highly unstable markets for agricultural commodities and unpredictability for inputs to agro-processing SMEs.

16. Financial institutions in Sierra Leone do not play significant roles in providing financial services to agriculture and agribusinesses—including commercial farmers, large companies, and agro-processing—despite the important contributions of agriculture to GDP and employment in the economy. Commercial bank loans to agriculture and agribusiness are mostly short term (up to 12 months), and long-term finance is not available in the market. Interest rate for credible borrowers could be about 15–18 percent, but new borrowers could face lending rates higher than 20 percent. Although about 70 percent of SMEs have an account at a formal financial institution, less than 20 percent have received any credit.⁹ The Maximizing Finance for Development (MFD) framework was applied during project preparation to assess the current country and sector context and to design activities to leverage the private sector investment and finance. Preparatory studies revealed critical regulatory bottlenecks and identified potential opportunities for the project to crowd-in private sector investments.

17. As much as 70 percent of households in Sierra Leone rely on micro and small businesses operating within the informal sector, and about 70 percent of those businesses are women-owned.¹⁰ Many SMEs in Sierra Leone are women-owned, and many of them participate in different segments of agribusiness value chains. Women represent a vibrant and capable group in the business sector, but they often have unequal access to productive assets, finance, and other services. Therefore, many women are not realizing the full economic benefits from their engagement in agro-processing and other segments of agribusiness value chains because of discriminatory, customary, and statutory laws, as well as unequal access to resources

18. To design agro-processing competitiveness interventions successfully, it is necessary to place the project in the context of sector-specific interventions that improve the enabling business environment and firm-level interventions that increase productivity and encourage innovations. Therefore, the proposed project will focus on addressing sector- and firm-level challenges that can boost the competitiveness of agro-processing in Sierra Leone. At the sector level, project interventions will focus on the agribusiness sector, specifically on high-priority agribusiness reform areas, institutional development, and public-private dialogue.¹¹ At the firm level, the focus will be on the agro-processing or value addition segments of value

⁹ *National Strategy for Financial Inclusion 2017 – 2020*. The Bank of Sierra Leone.

¹⁰ National Study on Women's Access to Financing in Sierra Leone. IFC, November 2014.

¹¹ Sector-level interventions will focus on the entire agribusiness sector, which is defined as any commercial entity within agricultural value chains, from upstream input supply, to production, and to downstream agro-processing and trade.



chains and the companies that are providing services, such as packaging, equipment, and technologies to such agro-processing firms. In this project, agro-processing firms are defined as those involved in the processing and transformation of primary agricultural products—through quality upgrading or manufacturing—into consumable goods, generating value added. Project interventions at the firm level will emphasize improving firm-level productivity by upgrading local firms through tailored technical assistance (TA) to businesses at various stages of development, facilitating market linkages provision of market information, access to grants for specific expansion projects, and by upgrading the quality of local BDS.

19. The project will leverage existing World Bank Group projects in Sierra Leone. It will foster complementarities with the International Development Association (IDA)–financed Smallholder Commercialization and Agribusiness Development Project (SCADeP – P153437), approved in January 2016. SCADeP addresses market failures that agribusiness firms encounter upstream and production levels (low farm productivity, poor quality, and inconsistent supply of raw materials), while this project targets the market failures that agro-processing firms and SMEs face in downstream segments of value chains. It is expected that the increased farm productivity and reduced postharvest losses from SCADeP-supported interventions will increase the volume of agricultural commodities that are used as inputs for agro-processing firms. Thus, project interventions aim to sustain and increase the demand for agricultural outputs delivered under SCADeP. Complementarities and synergies in the two projects will be strengthened through consultations and active engagement in project design, as well as in priority setting and coordination mechanisms during implementation of project activities. Similar design and implementation arrangements will be developed with the Sierra Leone Skills Development Project (P163723), which responds to private sector demands for skills through the proposed Skills Development Fund (SDF). The SDF will provide a platform for supporting demand-led skills development, with priority to training activities that lead to improved productivity and competitiveness in the formal and informal sectors. The agriculture and agro-processing sectors are priorities identified in the SDF, so beneficiaries of the agro-processing project would be eligible for SDF-supported training that addresses identified SME skills gaps. In addition, the IDA-financed Agricultural Policy and Strategy Support Project will help strengthen agricultural policy analysis, monitoring, and evaluation. Furthermore, project activities will build on the International Finance Corporation (IFC)–World Bank SME Business Linkages Program, which has helped agricultural SMEs connect with large foreign and local agribusiness firms.

20. Project interventions are designed to provide solutions to critical challenges constraining agro-processing sector competitiveness and firm productivity that are not currently being addressed by the government of Sierra Leone and other development partners in a meaningful way. Although several donor interventions have provided some combination of phased BDS, training, and access to finance, few have focused on delivering high-quality agribusiness sector–specific BDS and training, with differential impacts on SMEs’ market expansion and access. The outputs will provide analytic evidence and a platform for policy engagement on business regulatory issues, such as EIA, that private investors and other stakeholder perceive as critical challenges to competitiveness of the agro-processing sector and firm productivity. The project also provides innovative and focused attention on upgrading agribusiness SMEs through improved BDS, hands-on TA support, and matching grant financing that links to specific business action plans. Many of the targeted SMEs are in what is known as the “missing middle” because they are too large to qualify for microfinance and too small to obtain finance from commercial financial institutions. Such enterprises do not get much attention in development interventions, yet they are crucial in ensuring productive investments and jobs. By exploring complementarities with the World Bank–supported SCADeP and Skills Development Project, this project makes unique contributions to end-to-end solutions in targeted value chains. The synergies from integrated solutions will strengthen agriculture sector competitiveness and improve firm productivity while avoiding duplication of efforts (see annex 5, tables A5.3 and A5.4).



C. Higher-Level Objectives to which the Project Contributes

21. There is a strong commitment from the government to strengthen the agriculture sector by leveraging private sector investment. The promotion of value addition and private sector-led growth in agriculture are essential elements in achieving the vision and goal of the AfP, notably Pillar 1 on economic diversification and Pillar 4 on improving Sierra Leone's international competitiveness, which aims to develop a supportive business environment, improve private sector coordination within government, and address binding constraints to competitiveness. These objectives are also consistent with the strategic objectives of the recently formed government which seeks to prioritize private sector led growth and promote value-addition of agricultural products as a key channels for job creation, poverty reduction, and economic diversification.¹² Therefore, this project is an integral part of World Bank engagement with the Sierra Leonean government's strategic policy objective to foster economic diversification, enhance the competitiveness of non-mineral tradable sectors, and generate more and better job opportunities.

22. The project also aligns with the agricultural sector strategic goals and objectives articulated in the National Sustainable Agriculture Development Plan 2010–30 and the Smallholder Commercialization Program 2010–15. These documents include a focus on commodity commercialization, promotion of the private sector, establishment of farmer-based organizations, and agribusiness centers involving about 122,500 farmers, of which 30 percent were female-headed households. The successor of the Smallholder Commercialization Program, the Inclusive Comprehensive Agricultural Development Program 2016–20, focuses on private sector-led commercialization and agribusiness development as a basis for inclusive growth.

23. Government, with support from its development partners, has developed specific policy documents related to SME development in Sierra Leone. A situation analysis of the SME landscape in Sierra Leone provided useful insights that culminated in policy and legislative measures to support SME's development. These include the development of the SME Strategy, SME Policy, and the SME Agency Act 2016. The National MSME Development Strategy was developed in 2013 by the Ministry of Trade and Industry (MTI) with support from IFC. The MTI also developed a National MSME Policy that complements the National MSME Strategy and an implementation plan that will guide the implementation of activities to ensure the development of MSMEs. In 2016, the Small and Medium Enterprises Development Agency Act 2015 was passed establishing the Small and Medium Enterprises Development Agency (SMEDA) in Sierra Leone.¹³ In addition, the government's 2014 Statement of Economic and Financial Policies established an SME Fund to support business entrepreneurial skills, innovation, expansion, and development, and to improve access to credit for women and youth. The 2015 Statement of Economic and Financial Policies adopted a policy that 30 percent of all government-funded procurement transactions should go to women to promote empowering women, especially women-owned businesses.

C. Relationship to the Country Partnership Framework

24. The proposed project will contribute to achievement of the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity, given the role that agriculture and agribusiness play in

¹² See Presidential Address at State Opening of the First Session of the Fifth Parliament of the Second Republic of Sierra Leone, May 10, 2018.

¹³ SMEDA's objective is to promote a conducive business environment, including an efficient and effective service delivery network to empower and develop SMEs for growth, productivity, and competitiveness.



providing jobs and income for the bottom 40 percent of the population. Project interventions aim at improving sector competitiveness and strengthening domestic value added in agro-processing. These interventions will help create income opportunities for poor people in the targeted value chains. At the firm level, project financing and TA will support agro-processors to acquire technology, facilitate transfer of knowledge, and develop critical skills that will encourage innovation and increase productivity. Project support for regulatory reforms, investment retention, and institutional capabilities will target policy and institutional constraints that expand market opportunities and stimulate investment in the agribusiness sector.

25. The proposed project will directly contribute to the Country Partnership Framework (CPF) for FY19-FY23 that is under preparation. This upcoming CPF will reflect the priorities of the 2017 Sierra Leone Systematic Country Diagnostics (SCD), which identified promotion of vertical integration as a key area for diversifying the economy and creating poverty-alleviating jobs. The SCD highlighted the potential of agro-processing in key value chains, such as rice, oil palm, and fisheries, in promoting inclusive and sustainable growth. The implementation of project interventions will provide practical insights into the enabling business environment and incentives that are critical to transform the SCD policy priorities into sustainable and inclusive growth options in the CPF under preparation.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objective

26. The project development objective is to improve the business environment in the agribusiness sector and increase productivity of targeted agro-processing firms in Sierra Leone.

27. Achieving the project objective contributes directly to strengthening agro-processing competitiveness, which is defined as the ability of agro-processing firms to generate new investments and increase market share in goods and services through improved productivity. Productivity depends on improving the quality of the business environment and capability of the economy, including skills and capacity of institutions that provide services to local and foreign investors.

B. Project Beneficiaries

28. The direct beneficiaries of the project interventions are agribusiness and agro-processing firms in Sierra Leone, including SMEs, in targeted value chains. Institutional beneficiaries include SLIEPA, the Sierra Leone Standards Bureau (SLSB), MTI, the Ministry of Agriculture and Forestry (MAF), and SMEDA.

C. PDO-Level Results Indicators

- Number of new investments in agribusiness sector
- Average cost to comply with Environmental Protection Agency (EPA) regulations
- Increased volume of processed products by SMEs



III. PROJECT DESCRIPTION

A. Project Components

29. The proposed project will focus on providing solutions to key market failures inhibiting competitiveness of the agro-processing sector and limiting firm and SME productivity. These market failures are as follows: (i) policy, institutional, and coordination failures that raise the cost of doing business for agribusiness and agro-processing investors; (ii) information asymmetries and failures on the demand and supply sides limiting SME market opportunities and links with larger domestic and foreign agro-processors; (iii) weak supply chain links; (iv) lack of access to finance and technology; and (v) skills gap at the firm and SME levels. Project components are designed to address these specific market failures and are meant to complement other World Bank-supported initiatives that address other market failures holding back the development of agriculture and agribusiness value chains in Sierra Leone (see annex 5, tables A5.3 and A5.4).

30. The MFD framework guided the project design to focus on binding constraints in the enabling environment and measures for facilitating sustainable private sector investments. Several diagnostic studies on the business environment in Sierra Leone indicate that the country is a difficult place for private firms to do business. In the agribusiness sector the EPA applies EIA criteria that were designed for the mining sector to agricultural investments, leading to annual compliance fees that range from 40 to 80 percent of enterprise profits. Proposed project activities to reform EIA procedures and reduce the annual cost of obtaining EIA licenses would alleviate a key constraint facing agribusiness investors, increasing incentives for existing private investors to grow and attract additional investments in farm production and downstream value chain segments.

31. The project will utilize the MFD framework to categorize and identify public sector interventions that will increase incentives for existing private investors to grow and attract additional investments in midstream and downstream value chain segments. Studies on effects of EPA's annual EIA suggest the farm production and agro-processing segments of value chains are expected to see increased private investment because of the reforms facilitated by the project. These are the value chain segments where the current EPA regulations are having significant negative effects that stunt private investment. By addressing these key policy bottlenecks, project interventions will help unlock additional private investment in agribusiness. Improvements in the EIA procedures and costs is expected within three years of project's closing date. Private sector firms are expected to significantly ramp up their investments in the sector within a year of the implementation of EIA reforms. Thus, public sector resources invested in the project will be used to strengthen supply chain links in ways that are productive to growth and enhanced competitiveness of the agribusiness sector.

32. The project consists of three components:

- Component 1: Promote enabling environment for agro-processing sector competitiveness and growth of agribusiness firms¹⁴ (US\$2 million)
- Component 2: Firm-level support to increase productivity and strengthen competitiveness of agro-processing firms and SMEs in selected value chains (US\$6 million)
- Component 3: Project implementation, coordination, and monitoring and evaluation (M&E) (US\$2 million).

¹⁴ Agribusiness-denoted organized firms, from SMEs to multinational corporations—involved in upstream activities, such as input supply, or in downstream transformation, such as agro-processing.



33. The interventions in components 1 and 2 are based on extensive consultations with the client and development partners.¹⁵ The business-enabling interventions in component 1 are aimed at filling critical gaps in the agribusiness sector competitiveness agenda that are not being addressed by other World Bank projects, development partners, or government. Project support to improve procedures for EIA will strengthen agribusiness and agro-processing sections in the EU-supported EIA Guidelines for Agricultural Development, and integrate lessons learned from EPAs in other countries and how they operate with the private sector. The project will collaborate with IFC on reforming the business environment, with a particular focus on the agribusiness sector. The work on public-private dialogue (PPD) will add a strong agribusiness sector dimension to the German Agency for International Cooperation's (GIZ) support on institutional assessment for PPD. In addition, project support for institutional development will complement ongoing institutional-building work in SLIEPA, SLSB, and SMEDA by World Bank, EU, and the International Labour Organization (ILO), respectively. The project is working with IFC on SME market linkages, supplier-development programs that link SMEs to procurement opportunities of larger agribusiness firms, and access to finance. As previously stated, project interventions also complement other World Bank-supported projects in Sierra Leone, notably the upstream and agriculture production segments of value chains in the SCADeP Project and demand for private sector skills, including SMEs, in the the Skills Development Project. In addition to the work on value chain development, the project will support SCADeP's efforts to strengthen capacity building to help financial institutions develop new financing products and services to improve access to finance for SMEs to complement the matching grant in Component 2. Although the project is complementary to SCADeP, it will not limit its interventions to SCADeP's priority value chains: rice, oil palm, cocoa, and poultry. Instead, this project will build in flexibility such that the firm-level interventions supported will focus on value chains with identified market opportunities that create good opportunities for market-led growth.

34. Men and women differ in their access to resources and participation in agro-processing segments of value chains. Therefore, this project will pay specific attention to gender-based differences and will incorporate gender into the design of project interventions to mitigate social and economic risks and improve project outcomes. It is expected that at least 40 percent of project beneficiaries will be women-owned businesses and at least 25 percent will be youth entrepreneurs. Detailed mechanisms for targeting women and youth entrepreneurs will be described in the Project Operations Manual. The project will support a study on gender in the SME landscape that will focus on identifying relevant gaps between women and men in agribusiness and agro-processing segments of value chains. The output from this analysis will help target women to build their business skills and inform other gender-relevant activities, such as coaching and economic empowerments, that enable women-owned businesses to generate new investments and achieve an increase in market shares. Gender-disaggregated indicators at the PDO and intermediate objectives will monitor actions and track performance of project interventions that are designed to reduce identified gender gaps.

Component 1: Promote enabling environment for agro-processing sector competitiveness and growth of agribusiness firms (SDR 1.5 million - US\$2 million equivalent)

35. The objective of this component is to help reduce burdensome agribusiness sector regulations that

¹⁵ The project will leverage other World Bank Group activities (i.e. SCADeP and Skills Development projects and IFC advisory services) and coordinate with donors (such as EU, GTZ and DfID). This has implications for the results framework - both with regard to attribution as well as with regard to assumptions about concurrent progress being made by these other activities. The project risk assessment relating to technical design of the project address these issues, including clear mitigation measures.



constrain productivity and weaken incentives of existing agribusiness firms and SMEs to reinvest earnings or make new investments for sector growth and competitiveness. Project interventions also aim to improve the quantity and quality of existing agro-processing investments through enhanced focus on agribusiness investment retention and expansion and by strengthening institutional capabilities that will facilitate investment and trade by agro-processing firms and SMEs.

- i. **Subcomponent 1.1: Enabling business regulations for competitive agro-processing (SDR 300,000 - US\$450,000 equivalent).** The subcomponent aims to strengthen the business environment for agribusiness investors. Policy inconsistencies, burdensome regulations, and weaknesses in institutional capabilities and coordination have been identified as key constraints on firm productivity and agribusiness sector competitiveness.¹⁶ Project support will help identify business regulations that distort or create disincentives for agro-processing investments and enhance dialogue between the public and private sector on agribusiness sector reform priorities. Project outputs are expected to strengthen sector productivity and competitiveness by reducing business and regulatory burdens and by providing enhanced service delivery for agribusiness investors. The project will finance an integrated set of activities focusing on the following: (i) generating evidence and good practices on EIA for agribusiness to simplify EIA procedures, reducing the cost of obtaining environmental licenses and ensuring that the existing legal framework for EIA is adequate; and (ii) strengthening the PPD mechanism to provide a structured platform for systematic engagement between the public sector and private investors in the agribusiness subsector. Specific support will include TA to inform the business and regulatory reform agenda as well as funding research and advocacy to set priorities for policy reform, and to strengthen engagement among public and private sector stakeholders in selected agribusiness value chains.
- ii. **Subcomponent 1.2: Targeted retention and expansion of agribusiness investors by SLIEPA (SDR 400,000 - US\$500,000 equivalent).** This subcomponent will support SLIEPA to develop and implement an aftercare program for the retention and expansion for agribusiness investors. It will include the following: (i) an investor perception survey to generate a solid evidence base that would increase understanding of the factors that influence the investment decisions of foreign and domestic agribusiness investors and provide an analysis of current and future trends and prospects based on perception of the investment climate; (ii) implementation support for agribusiness investor retention and aftercare, including development of a menu of relevant and high-quality investor aftercare services, capacity building, and development of systems and tools (investment information system, investor relationship management system, standards operating procedures, and the like); (iii) investment grievance mechanisms to identify ways to address investor grievances in the Sierra Leonean context, including host agency, and potentially establish a Systemic Investor Response Mechanism; and (iv) devising capacity-building plans to strengthen the technical staff's capacity to advocate and advise on issues relating to agribusiness investment promotion, export development, and policy advocacy. Support for capacity building will focus on study tours and experience-sharing visits to learn from and benchmark achievements from other investment promotion agencies.
- iii. **Subcomponent 1.3: Building institutional capabilities in the SLSB to improve market access for SMEs (SDR 300,000 - US\$400,000 equivalent).** This subcomponent aims to strengthen institutional capacity at the SLSB to improve capabilities for enhanced compliance with standards and conformity

¹⁶ Agribusiness Investors Forum, SLIEPA, May 2017; SLIEPA Capacity Needs Assessment for Aftercare in Agribusiness, World Bank, 2017; Government of Sierra Leone – Reform Agenda to facilitate foreign agricultural investment, Herbert Smith Freehills (undated)



assessments in Sierra Leone. Specifically, TA will be provided to support the following: (i) diagnostic assessment of the current status quo of quality infrastructure (QI) and institutions; verification of the demand for the QI services; and identifying essential QI services and training needs; (ii) identification of key compliance challenges for agro-processors, SMEs, and other actors in selected agro-processing value chains; (iii) initiatives to comply with regional and international market standards in selected agro-processing value chains; (iv) upgrade of institutional capacity at the SLSB to address key compliance challenges and solutions that will expand market opportunities for agro-processors and SMEs in selected value chains; (v) information dissemination and publishing on the SLSB website; and (vi) stakeholder engagement and roundtable events and coordination of other stakeholders.

iv. **Subcomponent 1.4: Support to MTI, MAF, and SMEDA for stronger SME coordination (SDR 500,000 - US\$650,000 equivalent).** In addition to institutional support for SLIEPA and SLSB, the project will support specific capacity-building efforts (functional capacity building) at the MTI, MAF and SMEDA. Specifically, the project will support the following for each organization:

- MTI: Strengthen their capacity to do the following:
 - Provide clearly defined services that support agro-processing (including enhanced institutional coordination for agro-processing actors and related institutions and other private sector actors), strategic planning, and priority identification
 - Strengthen communication activities to disseminate the significance of the project, expected deliverables, and links with other projects
 - Support development of a cadre of senior and mid-level professionals on agribusiness through targeted training activities.
- MAF: Support the Just-in-Time Agrimarket Initiative to create business links between producers of agricultural commodities, processors, and consumers, and provide timely information about the availability and demand for agricultural commodities to support agro-processing and marketing. Project support will be directed toward the provision of logistics for effective communication and information dissemination and capacity building for field and technical staff working on the Just-in-Time Agrimarket Initiative.
- SMEDA: Institutional development at SMEDA that will focus on the following:
 - Review laws, policies and/or institutions to inform the formulation of reform proposals for a more conducive environment for sustainable enterprises
 - Support for implementation of the country operational plan for market-driven BDS provision to MSMEs (action plan for coherence among MSME players, and guidelines for environmentally friendly and viable business models for support services to women and men entrepreneurs in a fragile setting).

Component 2: Firm-level support to increase productivity and strengthen competitiveness of agro-processing firms and SMEs in selected value chains (SDR 4.2 million - US\$6 million equivalent)

36. An agribusiness SME diagnostic conducted to support preparation of this project revealed that the capacity of many agribusiness SMEs to respond to market challenges is very low. SMEs generally lack basic market assessment skills; technologies to upgrade; the ability to manage sales; distribution networks; and the ability to forecast demand, supply, and prices. Domestic BDS providers, though generally competent in delivering basic business skills to SMEs, lack training content, information, and expertise in agribusiness and the food sector. The objective of this component is to increase the productivity and competitiveness of agro-processing SMEs and their suppliers in selected value chains. The project will help improve SME productivity and competitiveness through establishment of a dedicated SME TA facility as the main instrument for



providing technical advice, implementation support, and BDS, along with provision of matching grants for capital investments and TA to implement SME action plans. SMEs will be characterized by size (number of employees) and annual revenues.¹⁷ Small enterprises are those employing from 5 to 19 employees and with annual revenues of up to Le 99 million, and medium enterprises have between 20 and 49 employees and annual revenues of Le 100–500 million.¹⁸

- i. **Subcomponent 2.1: Firm-level TA and capacity building of ecosystem players (SDR 1.8 million - US\$2.6 million equivalent).** This subcomponent aims to upgrade SME productivity and competitiveness through the establishment of an SME TA facility. Project support to SMEs will build on outcomes from World Bank–IFC collaboration in the SME Business Linkage Project that strengthened the capabilities of SMEs to successfully engage in procurement opportunities within the supply chains of large foreign and local firms in major sectors, including agribusiness. The SME TA facility is expected to reach 150 SMEs over the project life. Sixty of these 150 SMEs are expected to develop action plans that the matching grants in subcomponent 2.2 will support. The TA facility will be an innovative instrument for providing hands-on business advisory and TA to SMEs, upstream and downstream market linkages for SMEs, and investments in business innovations to companies at different stages of development within the agro-processing subsector, as well as to those providing goods and services to the agro-processing subsector. The facility will partner with selected financial institutions that will assist in the vetting process, and will help create a pipeline for potential bankable projects. The SME TA facility will use a market systems development approach, taking into account the interrelated needs of various market chain actors throughout the ecosystem, with distinct offerings and activities around firm-level TA to SMEs, and capacity-building of ecosystem players, including BDS providers. SMEs that are involved in agro-processing activities and those providing products and services to agro-processing (such as equipment supplies, packaging, distribution, and logistics services) will be eligible to participate in the TA facility. Eligibility will also be based on a combination of revenue and size of firms, such as number of employees. SMEs will be selected for the TA facility based on their commitment to growth, entrepreneurial and managerial potential, alignment with market segments that show viable potential in the local market, and the financial and technical viability of their businesses. Key selection criteria will include the following: (i) response to a written questionnaire designed to assess entrepreneurial traits and business potential; (ii) assessment of the potential demand for their products, taking into account different market segments, and alignment of the firm's market segment with the overall cohort; (iii) market competitiveness based on differentiation, cost, and/or focus; (iv) the identification of concrete operational, financial, or technical growth bottlenecks and the possibility of viable interventions for solving them; and, (v) the strength of the financial and technical business plans presented. SME eligibility and selection criteria will be detailed in the Project Operations Manual.
- **Direct implementation support to SMEs:** The project will aim to recruit cohorts of 15–20 SMEs annually to join the SME TA facility as beneficiaries, in which they will receive specialized, deep dive diagnostic services and TA to implement specific action plans. The project will source SMEs to join the facility through relationships with known lead firms, supermarkets, industry associations such as the Sierra Leone Chamber for Agribusiness Development (SLCAD) and the Association of Small-Scale Manufacturers, and previous and ongoing donor projects' application lists (such as the Sierra Leone Agribusiness Development Fund). Business action plans will describe specific managerial, technical, production, operational, supply chain, or marketing gaps and suggest tailored solutions to address bottlenecks. SME support will involve training modalities that will include coaching and hand-holding

¹⁷ SME Landscape Survey, Ministry of Trade and Industry (MTI), 2017.

¹⁸ Exchange rate in March 2018 was 1 US\$ = Le 7,680.



through the venture lifecycle involving one-to-one personalized training, and mentoring to growth-oriented enterprises based on their specific demand.

- **Access to day-to-day services:** The SME TA facility will provide access to a suite of everyday BDS, such as accounting, legal, financial, and technical services, along with access to shared physical workspace in the Project Coordination Unit, (PCU), offices.
 - **Market Linkages facilitation:** The TA facility will aim to facilitate both upstream and downstream market linkages for SMEs. SMEs have limited market and industry knowledge, which includes poor understanding of buyer quality requirements, inability to meet buyer quantity demands, lack of continuous and reliable upstream supply from primary producers, and a poor understanding of the profitability and market opportunities for various product lines. The SME TA facility will address these constraints by contributing to the provision of market information to agro-processing SMEs and market chain actors. Provision of information such as regular spot prices of agricultural goods, market intelligence that forecasts information on a range of products, and updated quality and quantity demands from buyers will strengthen the entire market system for agro-processed products. The SME TA facility will also play a key role in helping to foster commercial linkages between various market chain actors that will include corporate lead firms, supermarkets, distributors, and input suppliers. The facility will accomplish this using a bottom-up approach, customizing training to the needs of SMEs to position them as suppliers to larger firms that have been pre-identified.
 - **Ecosystem strengthening:** The TA facility will help strengthen the wider agribusiness market ecosystem by supporting existing initiatives that have proved successful, such as pitch nights, entrepreneur meetups and coffee hours, farmers' markets, and hackathons. The facility will also address overall coordination gaps in the wider ecosystem with an aim toward connecting SMEs to other market chain actors by communicating the needs of wider market actors to the SMEs. This could include delivering specific trainings to market chain actors, such as supermarkets, distributors, transport and logistics companies, wholesalers, and input suppliers. Enhanced support to BDS providers on agribusiness-specific topics is included in the ecosystem strengthening. The agribusiness entrepreneurship ecosystem diagnostic noted a lack of coordination among BDS providers and poor links between SMEs and BDS providers. SMEs often do not know where to go for specific types of advice and support services, and key skills and service offerings related to agribusiness-specific topics are missing from the BDS market. BDS providers will be invited to take part in trainings and capacity building delivered to SMEs as part of the SME TA facility's activities. Additionally, select BDS providers may participate in complementary trainings and workshops on business support topics specific to the agribusiness and agro-processing sectors. Facility staff or consultants with industry experience will train BDS providers on potential topics such as sales and marketing, pricing and product positioning strategy, understanding consumer demographics, distribution strategies, compliance, lab testing, international standards and certifications, good agricultural practice, category management, and packaging strategies.¹⁹ A network and accreditation system will aim to provide information to SMEs on BDS providers that have specific skills and offerings.
- ii. **Subcomponent 2.2: Provision of matching grants to SMEs (SDR 2.4 million - US\$3.4 million equivalent).** The TA facility will make the use of matching grant funds available for the following purposes:

¹⁹ Although the TA facility will provide a comprehensive set of activities, firm-level support does not include skills development and training on specific issues, such as good manufacturing practice, GHP, and HAACP that are important given the project's focus on processing foods in compliance with international market requirements. It is expected that the firms that need such training would apply for support to the proposed Skills Development Fund in the complementary Sierra Leone Skills Development Project. In addition, SMEs will benefit from TA to SLBS that aims to help them comply with international market requirements.



- **Matching grants for capital investment (SDR 2 million - US\$2.9 million equivalent):** The TA facility will manage a fund that will provide matching grants of up to US\$100,000 to the cohort of about 60 SMEs for specific business or operational needs that are identified in the action plans developed as part of the deep dive exercise conducted in subcomponent 2.1. If the action plan has identified a specific need that can be addressed through expansion capital, such as purchase of new equipment, the SME would be eligible to apply for a grant that covers up to 70 percent of the cost, with up to 30 percent matched by the firm (both cash and in-kind) and/or external finance.²⁰ Higher grant coverage might be allowed for special cases of women and youth entrepreneurs. The facility will invite financial institutions to assess the SMEs and consider providing necessary funds to support their growth, especially the incremental working capital requirements. SMEs involved in agro-processing, food processing, value addition—either through product transformation or quality upgrades—will be eligible for matching grants. The details on eligibility conditions and selection criteria will be specified in the Project Operations Manual.
- **Matching grants for TA and expert advice (SDR 400,000 - US\$500,000 equivalent):** Grants will be made available to SMEs to fund advice provided by an outside expert consultant, adviser, or from a BDS provider from a roster of providers that the facility has trained and credentialed. This will occur when an SME's business action plan has identified specific TA areas from which the firm could benefit that exist outside of the expertise contained internally within the facility (design, packaging services, supply chain consultancy, and so on). This window will provide grant funding of up to \$15,000 to selected SMEs to cover the expenses of such advisory services, and it can cover up to 80 percent of the total support costs. The firm's contribution would be either cash or in-kind.

37. The matching grant will be managed by the TA facility, and the facility manager will be supported by a service provider with experience managing similar grant programs. An investment committee will be established that includes both public and private sector participants, including financial and agribusinesses experts who would evaluate SME submissions for matching grants. The investment committee will recommend potential SME beneficiaries to the facility manager for funding decisions. The details of selection and evaluation of proposals for matching grants will be fully described in the Project Operations Manual.

Component 3: Project implementation, coordination, and M&E (SDR 1.4 million - US\$2 million equivalent)

38. The overall day-to-day coordination and management of the project will be carried out by a dedicated PCU under the supervision of MTI. The PCU will consist of a lean team of specialists with strong project management experience whose sole function will be coordinating and managing the technical components of the project. The project will specifically support PCU staff salaries, and equipment and operating costs, including operational costs required to coordinate project implementation and the costs of the Project Steering Committee (PSC). The PCU will have primary responsibility for implementing the non-fiduciary aspects of project activities. The Project Fiduciary Management Unit (PFMU), established under the Ministry of Finance, will be responsible for all fiduciary functions, including procurement, financial management, M&E, and internal audit for all World Bank supported projects. The project will pay a management fee to the PFMU for the support of project-related fiduciary functions. The PFMU will have a role in M&E at the portfolio level but the PCU will have primary responsibility for M&E at the project level. The PCU will recruit an M&E officer who will be responsible for establishing an effective M&E framework and collect data to track performance

²⁰ In-kind contribution cannot exceed 10 percent of the total cost of the subproject supported by the matching grant.



on outcome, intermediate outcome, and output indicators. This is necessary because the role of the PFMU is to collate data on project performance at the portfolio level from project M&E staff.

Table 1. Market Failures, Project Components, and Activities

| Market Failure | Project Component | Project Activities |
|---|---|---|
| Policy/institutional and coordination failures | Component 1: subcomponent 1.1 | <ul style="list-style-type: none"> i. Analytical work to generate evidence on cost of EIA regulation (benchmark with other countries) ii. Analytical work on simplifying import and export procedures for agricultural goods and services iii. PPD to provide a platform for structured engagement and potential reform based on evidence from EIA; import/export procedures |
| | Component 1: subcomponent 1.2 | TA to SLIEPA for developing and implementing an aftercare program for the retention and expansion of agribusiness investment |
| | Component 1: subcomponent 1.3 | <p>TA to SLSB for strengthening capacity on standards and conformity assessment and to implement a pilot initiative to improve market access for targeted commodities in regional/international markets</p> <p>TA for improved coordination between SLIEPA, SLSB, and the Agribusiness Industry Association</p> |
| | Component 1: subcomponent 1.4 | TA to the MTI and SMEDA for improving SME coordination mechanisms |
| | Component 3 | Coordination mechanisms in PCU |
| Information asymmetries/limited knowledge of market opportunities | <p>Component 1: subcomponent 1.4</p> <p>Component 2: subcomponent 2.1</p> <p>subcomponent 2.2</p> | <p>TA to MAF for the Just-in-Time Agrimarket Initiative</p> <p>Development and deployment of a network of BDS providers to deliver deep dives and trainings to agro-processors and retailers/distributors</p> <p>Market research to bridge information gaps; development of SME database; matchmaking between SMEs and agribusiness</p> |
| Weak supply chain links | Component 2: subcomponent 2.2 | Establishment of TA facility to provide hands on business advisory and investment support, including market and a supplier development program |
| Lack of access to finance | <p>Component 2: subcomponent 2.2</p> <p>subcomponent 2.3</p> | <p>SME fund to provide partial grants to eligible agribusiness SMEs</p> <p>TA for development of agribusiness SME financial products and services</p> |
| Skills gap at farm and firm/SME level | <p>Component 2: subcomponent 2.1</p> <p>subcomponent 2.2</p> | <p>BDS for entrepreneurial training;</p> <p>TA facility providing a clearinghouse for matching agribusiness demand and supply of skills</p> |



B. Project Cost and Financing

39. The estimated total cost for the project is US\$10 million, financed by IDA through an IDA credit to the government of Sierra Leone. The IDA funding will be structured as an Investment Project Financing (IPF). Table 2 shows the detailed cost breakdown by component. The project preparation advance in the amount of \$997,500 was extended in March 2018 in order to assist in financing of activities focused on providing technical support, goods, workshops and training and operating costs in preparation of the project. Activities included: conduct environmental and social safeguards framework stakeholder consultations, diagnostic study to support agro business public private dialogue platform, assessment of opportunities in domestic, regional and international market, survey and analysis of investors, skills gap assessment, gender analysis of SME landscape, monitoring and evaluation baseline study, prepare procurement development strategy and develop draft Project Operations Manual.

Table 2: Project Cost by Component

| Project Components | Project Cost (US\$, millions) | IDA Financing |
|---|-------------------------------|---------------|
| 1. Promote enabling environment for agro-processing sector competitiveness and growth of agribusiness firms | 2.0 | 2.0 |
| 1.1 Enabling business regulation for competitive agro-processing | 0.45 | 0.45 |
| 1.2 Targeted retention and expansion of agribusiness investors by SLIEPA | 0.5 | 0.5 |
| 1.3 Building institutional capabilities in the SLSB to improve market access for SMEs | 0.4 | 0.4 |
| 1.4 Support to MTI, MAF and SMEDA for stronger SME coordination | 0.65 | 0.65 |
| 2. Firm-level support to increase productivity and strengthen competitiveness of agro-processing firms and SMEs in selected value chains | 6.0 | 6.0 |
| 2.1 Firm level TA and capacity building of ecosystem players | 2.6 | 2.6 |
| 2.2 Provision of matching grants to SMEs | 3.4 | 3.4 |
| 3. Project implementation, coordination, Monitoring and Evaluation | 2.0 | 2.0 |
| Total Costs | 10.0 | 10.0 |

C. Lessons Learned and Reflected in the Project Design

40. The design of the Sierra Leone Agro-Processing Competitiveness Project was informed by experiences and lessons drawn from several closed and active operations in agriculture and agribusiness, Independent Evaluation Group (IEG) evaluations on World Bank Group support to industry competitiveness and jobs, targeted support to SMEs, and skills interventions. In addition, lessons were drawn from a World Bank-supported impact evaluation on skills intervention among urban youth in Sierra Leone at the onset of the Ebola crisis²¹, and a review of World Bank experience supporting SMEs through matching grant programs.

41. The IEG evaluation on industry competitiveness and jobs showed the importance of supporting a combination of complementary interventions to promote industry competitiveness successfully. Success depends largely on properly identifying and supporting key elements of the industry’s ecosystem because there could be multiple binding constraints to sector and firm performance. Broader, longer-term, and strategic engagements have a greater likelihood of success in unlocking sector and firm potential to contribute to economic growth. Important lessons that were considered in the design of the project include the following:

²¹ “They Got Mad Skills: The Effects of Training on Youth Employability and Resilience to the Ebola Shock”, 2017, Rosas, Nina, Acevedo, Maria Cecilia, and Zaldivar, Samantha



- **Regulatory and institutional impediments can have a prominent role in resource misallocation and hence low productivity.** Sector-specific regulatory reforms are critical for improving the business environment. Projects supporting improvements in the business and regulatory environment encourage investment and improve FDI and SME performance because of reductions in time and the cost of compliance. Reforms that create an easier environment for doing business are associated with SME performance. Anderson and Gonzalez (2012) show that a 1 percent difference in regulatory quality, as measured by Doing Business distance to frontier scores, is associated with increased annual FDI inflows of US\$250–500 million.²² Thus, streamlining business policies, rules, and regulations lowers transaction costs and increases productivity as firms grow and investment increases.
- **Sustained government support and strong institutions are critical to strengthening agro-processing competitiveness.** Industry-specific institutions providing support services that promote agriculture and agribusiness competitiveness should be strengthened through sustained support for institutional capacity building and technical advice in both the public and private sectors. Limited institutional capacity poses significant risks to achieving PDOs and implementation effectiveness. Therefore, institutional capacity building is a critical component of policy actions to strengthen sector competitiveness, and to promote private investment, trade, and SME development.
- **Strong links between foreign investment and local companies can help spread the benefits from FDI to the local economy.** Long-term foreign investment boosts the local economy by facilitating technology transfers, improvement in the quality of output, and emergence of SMEs with capabilities to supply goods and services to large local and foreign investors. Market link initiatives, such as supplier development programs, generate multiplier effects and spillovers into the local economy by creating opportunities for SMEs to be part of national or global supply chains through connections to foreign investments. Upstream and downstream agricultural links are also critical in creating markets for agricultural produce, boosting the manufacturing sector, and expanding provision of services that strengthen competitiveness in domestic and international markets.
- **There are strong links between firm productivity and quality of human capital.** The role of management skills has long been recognized in the business literature and, more recently, in the economics literature. However, improvements in various types of practical skills lead to improvements in firm productivity and are an indispensable element of competitiveness. Supply-side interventions that foster skill development and relevance of skills, along with demand-side interventions that foster job creation or work opportunities, are critical in designing effective skills interventions. Engaging industry or private investors to better understand firm needs and linking them to solution design provides useful opportunities to deliver effective practical skills.

42. The design of the SME TA facility received input from the World Bank’s infoDev Global Agribusiness Entrepreneurship Program, which has incorporated lessons from entrepreneurship incubator and accelerator programs around the world. Assessments of mLabs, climate innovation centers, and agribusiness entrepreneurship centers²³ in Africa, Asia, Europe and Central Asia, financed by the World Bank, have yielded several key learnings that were considered in the design of this project, as follows:

- **A blend of international and local expertise is essential for proper governance of the facility.** The director or CEO of the facility should be intimately familiar with the local context and environment, and can be trained and upskilled on more technical matters. Local staff with hands-on experience in profit and loss, food manufacturing, marketing, and start-up experience will be highly valued.

²² IFC, 2013, Reforming Business Registration A Toolkit for the Practitioners

²³ “Growing Agribusiness SMEs in Tanzania.” 2016. World Bank Group, infoDev.



- **Project success is tied to the right selection of entrepreneurs.** Full-time entrepreneurs who are already at market with existing turnover have a higher likelihood of success. These criteria will be reflected in the Project Operations Manual’s eligibility criteria for SME intake.
- **Lack of market knowledge and sales skills keep many firms from growing.** Viable market opportunities may exist, but many small-scale agribusiness firms lack the technical skills to assess markets properly and might focus unnecessarily on product development before properly assessing the market. The agribusiness diagnostic confirmed that this occurs with many SMEs in Sierra Leone. The facility will provide skills related directly to market information and assessment.
- **Facilities benefit from focusing on one market segment at a time.** Businesses in the same market segments (shelf-stable, fresh, frozen, and the like) have similar training, networks, and supply chain needs, often with overlapping buyers. Facilities that focus on one market segment at a time can take advantage of network effects and provide expertise that is more focused to SMEs. Market segments that deal in perishable products pose specific challenges.
- **A World Bank study on promoting links between SMEs and lead firms recommended building the capacity of BDS providers as a best practice for bottom-up link initiatives.**²⁴ Bottom-up link initiatives customize instruments to the needs of SMEs to position them as suppliers to larger firms. Strengthening the overall BDS market is seen as a public good that has positive effects on SMEs.

43. The skills impact evaluation in Sierra Leone showed that combining skills training and cash injections—even small ones—can be effective in stimulating employment and entrepreneurship. The program increased the overall levels of employment by 3.1 percent, profits by 25 percent, and the likelihood of first-time entrepreneurship by 4.1 percent. Positive impacts were observed among men and women, even though the program’s design was relatively gender neutral and not characterized by explicit gender features beyond the 40 percent quota for women’s participation. Beyond reducing key capital and skills constraints to enterprise development that affected women disproportionately, the program also induced positive changes in young men’s perceptions related to occupational segregation.

44. A World Bank review of matching grant projects showed that identifying the market failures that constrain access to finance is critical in developing effective models for providing access to finance for SMEs.²⁵ Projects should articulate a sound economic rationale, identify key market failures, and target assistance to those specific development challenges. Regarding matching grants, probabilities of success are higher when grants are tailored to local circumstances and capacities and when personalized TA is provided to beneficiary firms. Strengthening local capacities for implementing grant programs, broad stakeholder engagement (including with financial institutions), and transparent communication are key factors that contribute to successful design and implementation of matching grants. Another lesson from the World Bank review is that matching grants are effective when deployed to incentivize uptake of private services and link market actors toward sustainable private service provision. The broad-based training of trainers given to BDS providers is meant to help create and sustain a market for private BDS provision, whereby BDS consultants will retain key skills and service offerings in agribusiness-specific topics after the project closes.

²⁴ “Linking Lead Firms to Agro-Processing Small and Medium Enterprises.” 2018. Innovation and Entrepreneurship and Competitive Sector Units of the Trade and Competitiveness Global Practice of the World Bank Group.

²⁵ “How to Make Grants a Better Match for Private Sector Development: Review of World Bank Matching Grant Projects.” 2016. Competitive Industries and Innovation Program. World Bank Group; “Lessons Learned from World Bank Projects Using Matching Grants”, World Bank, 2017; “How Matching Grants in Agriculture Facilitate Access to Finance” Sberro-Kessler, 2017.



45. Structured interaction between governments and the private sector is critical to establish a platform for consultations and discussion on key issues that affect sector competitiveness, including the business environment, acceleration of the policy reform agenda, and investment priorities. Market-based or problem-driven approaches supporting both public and private sector engagement concerning specific problem areas, such as sector-specific issues identified by private investors as limiting competitiveness, are promising.

46. Designing competitiveness projects in low-capacity and resource-constrained environments should consider the limited implementation capacity in the client country. Project design and implementation should be tailored to the realities of institutional capabilities and the resource envelope, ensuring that the overall project design is simple and has only a few components, which can be managed effectively.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

47. The overall day-to-day coordination and management of the project will be carried out by a dedicated PCU that will be established under the MTI. The PCU will consist of a lean team of specialists with strong project management experience whose sole function will be coordinating and managing the technical components of the project. The PCU will seek strong coordination with the PCU of the SCADeP and Skills Development Project, given their complementarities.

48. Effective July 1, 2017 at the request of the government of Sierra Leone, all fiduciary aspects of new World Bank projects will be managed centrally by the PFMU under the Ministry of Finance. Therefore, all fiduciary functions (that is, financial management, internal audit, procurement, and M&E for the portfolio of all World Bank supported projects) will be carried out by the PFMU. It is expected that specific officers from the PFMU will be assigned to the project.

49. The PCU will work with the assigned officers from the PFMU to develop the Annual Work Plan and Budget (AWPB), procurement plans, and M&E systems design and implementation plan, including the planning for internal and external audits, preparation of interim financial statements as required for periodic submission to the World Bank, and preparation of quarterly progress reports. The detailed implementation arrangements for the proposed project are provided in annex 3 (Implementation Arrangements), and further details will be provided in the Project Operations Manual. The implementation arrangements—that is, the PFMU managing all the fiduciary and M&E issues for the portfolio of World Bank supported projects while the PCU will be responsible for overall coordination of activities and project level M&E—will be reviewed at the midterm review.

50. **Implementation arrangements for Component 1:** The PCU will implement all activities in component 1. It will work closely with other development partners; industry associations; ministries, departments, and agencies (MDA); and other stakeholders that are directly involved in those activities. The TA to support reform of EIA for agribusiness will be implemented in collaboration with the EPA, EU, SLIEPA, and MAF. The implementation of the PPD will be implemented in collaboration with GIZ, IFC, and SCADeP. The PCU will implement activities relating to agribusiness investment retention and capacity building at SLIEPA, and institutional development at SLSB, the MTI, MAF, and SMEDA. To the extent possible, support for institutional development at SLSB will be in collaboration with the United Nations Industrial Development Organization (UNIDO). This will build on UNIDO's past and current interventions on National Quality Infrastructure and SMEs in Sierra Leone and other developing countries. The PCU will work closely with SLeCAD, an advocacy



group and industry association, to implement the business and regulatory reform and the PPD. The PCU will have technical oversight over all implementation partners. It will also work closely with SCADeP and other development partners to avoid duplication and maximize complementarities and synergies.

51. **Implementation arrangements for Component 2:** The PCU will provide overall coordination of component 2, but a TA facility manager will be recruited through competitive selection to manage and implement activities in the SME TA facility, including the matching grants. The TA facility manager will be supported by an independent evaluation team with technical skills in relevant areas (such as impact/investment finance, agribusiness, and SME development) for implementation of the SME matching grants. The SME TA facility will have resources to hire national and international business advisers with commercial and investment experience in the agro-processing subsector. The facility manager will work closely with the project coordinator in the PCU to deliver the work program of the TA facility.

B. Results Monitoring and Evaluation

52. The PCU will have primary responsibility for project level M&E. It will hire a M&E officer who will provide leadership for collecting data to assess performance on project activities, outputs, and outcomes. The project M&E officer will work closely with the M&E and Reporting Division in the PFMU. The M&E and Reporting Division in the PFMU will collate data on project performance from the project M&E staff and report them as part of its responsibility to provide M&E to all World Bank supported projects. The M&E function housed in the PFMU's M&E and Reporting Division will be responsible for managing and coordinating the M&E activities of all projects, including the coordination of externally conducted impact evaluation and delivering a Performance Monitoring and Evaluation Plan for high-quality, results-oriented projects. The division will be responsible for analyzing, interpreting, and communicating information to the project technical team, management team, and other stakeholders to promote informed decision making for ongoing and future programmatic activity. The technical staff in the PCU will develop the Annual Work Plan and will coordinate with the fiduciary unit to prepare budgets, periodic progress reports, and procurement plans. They will meet periodically with the fiduciary teams to review project progress and help address M&E concerns. The unit, together with the fiduciary unit, will work with the World Bank on strategies to facilitate results-based implementation of the World Bank's funded project activities.

C. Sustainability

53. The main factors that will affect project sustainability are coordination challenges and institutional capacity. Private sector development is inherently cross-sectoral, involving multiple institutions. The government of Sierra Leone will address the coordination challenges at multiple levels. At the project level, it will ensure that strong coordination mechanisms, such as joint planning and implementation, are built into the work plan and budgets of the Agro-processing, SCADeP, and Skills Development projects. It will also support the MTI through enhanced capacity building and ensure strong engagement of relevant MDA and private sector organizations, such as SLeCAD, in project implementation. The project will support institutional capabilities to build support in core functions in public and private sector institutions that are critical for promoting investment and trade.

D. Role of Partners

54. The project will work closely with the MTI, MAF, SLIEPA, SLSB, SMEDA, and development partners during project implementation. Project activities will be implemented in partnership with the World Bank–



supported SCADeP and Skills Development Project, IFC, and other development partners, such as EU, GIZ, the U.K. Department for International Development (DFID), and the like. IFC is providing support and TA on SME development, particularly on SME market links, supplier development programs involving agro-processing firms and SMEs, and access to finance. Project support to improve procedures for EIA will build on the EU-supported EIA Guidelines for Agricultural Development prepared as part of the Environmental Governance and Mainstreaming Project for the EPA Sierra Leone. The EU is also supporting a complementary regional competitiveness program that includes a pilot in export competitiveness in agricultural value chains, and institutional development at the SLSB. The project continues to engage with the EU to exploit complementarities and synergies. GIZ is supporting institutional assessment for PPD on which the project will build. The DFID-supported Sierra Leone Opportunities for Business Action (SOBA) initiative is closed, but this project incorporated many of the successful business models and lessons learned on SME development and agro-processing. DFID continues its interest in agro-processing, agriculture/agribusiness policy reforms, and SME development, so this project will continue the engagement going forward. Project staff will undertake joint implementation support missions (ISMs) biannually with relevant MDA and development partners to provide guidance to project implementation teams. Project staff will also organize bilateral engagements with relevant MDA and development partners to identify opportunities for building synergies in project activities. Potential collaboration has been discussed with potential partners, and the details on collaboration will be specified in the Project Operations Manual.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

55. The overall risk rating is considered Substantial due to ratings of Substantial or High of the following risks: political and governance, macroeconomic, technical design and institutional capacity for implementation and sustainability.

56. Political and governance risks are judged high regarding their effect on the PDO. Political risk is considered high given the fragile country context and political transition that could impact the government's priorities with respect to the operation following the recently concluded elections in March 2018. Economic activities have slowed because of the potential for political violence. In addition, political decisions could affect the cost of doing business and the longer-term policy engagement required for sustained, focused business and regulatory reforms in the agribusiness sector. Despite high alignment with the country's Agenda for Prosperity and the importance of agriculture and agribusiness in the economy, there is a risk of patchy political commitment to deal with substantive business environment and regulatory reforms because of vested interests and intertwining of economic and political power. To mitigate this risk the project is working closely with key reform champions, such as the SLIEPA and SLeCAD, to press for evidence-based public-private dialogue and reform of the environmental procedures for agribusiness investments.

57. Macroeconomic risk is judged substantial due to the risk of continuing domestic imbalances. The government faces huge fiscal constraints, and fiscal space is narrow. Achievement of the PDO would be undermined by the tight fiscal space if current trends continue. To mitigate this risk at the country level, the Sierra Leone Systematic Country Diagnostic identified strengthening domestic resource mobilization and improved efficiency of public spending and value for money as key priorities to alleviate fiscal constraints. The upcoming CPF, which builds on the SCD, will identify priority areas of potential interventions to address the binding fiscal constraints.



58. The risk of technical design of project is rated as substantial. There is substantial likelihood that the dependence of some project components on interventions may adversely affect the project's economic benefits because they cannot be controlled through the operational design. To mitigate this risk the project has engaged with collaborating development partners in design and during implementation will ensure that potential issues that might affect project performance are readily tracked and addressed.

59. Institutional capacity for implementation and sustainability are judged substantial. Failure in project coordination is a major risk, especially among and within MDA, nonstate actors, and private agribusiness. Many development initiatives fail to achieve their expected results because of weak coordination during implementation. Private investors and other stakeholders consistently pointed out that institutions that provide critical support services to private sector investors remain weak, and coordination among them is fragmented. The project will mitigate this risk by ensuring that the PCU has clear mechanisms for effective coordination during project implementation. Coordination mechanisms will be built into the annual work planning process of the technical PCUs that are implementing this project, SCADEP, and the Skills Development Project. In addition, resources will be provided to strengthen coordination mechanisms on SME development at the MTI and between SLIEPA and SLSB, including their engagement with industry associations, such as SLeCAD.

60. Weak government buy-in and engagement on business and regulatory reforms, lack of awareness of the importance of aftercare, and insufficient budgetary and human resources for SLIEPA and SLSB to carry out the activities could hamper the success of business environment reforms and institutional development to support agribusiness investment and trade. To mitigate this risk, the project would involve relevant MDA, government agencies, private sector representatives, and intermediaries such as chambers, associations, foreign representations, and the local and foreign investors themselves; civil society organizations; and local community representatives, and use a consultative process designed to ensure their buy-in and participation during project implementation.

61. Since the market for BDS provision is highly fragmented, there are risks involved in the coordination of service provision, competition between actors, and the potential to distort the market for such services. A key to the successful implementation of these activities will be to convene as many actors as possible, develop a strong and inclusive network of BDS providers that is open to as many as can apply and meet basic selection criteria, and standardize the training. The program will be delivered with an eye toward its financial sustainability, building into the model a price point for service provision that is feasible for continuation of the services after the program itself ends.

62. An SME scoping mission identified strong demand for capital from the potential beneficiaries, but risks arise from the low interest of SMEs and financial institutions, elite capture, and limited impact from the interventions. To mitigate these risks, the project will organize marketing and communication campaigns about the TA facility; identify potential beneficiaries through industry associations and other development initiatives; and provide the grant for SMEs as complementary TA from service providers who the facility manager will monitor closely. The partner financial institutions will be required to have periodic meetings for reporting. The facility's selection process will ensure strong commitment from the beneficiaries and allow the facility and the beneficiaries to agree on the expected outcome of the support.



VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

63. Rationale of public financing: Firms that operate below optimal level characterize the agribusiness sector in Sierra Leone. Often there is lack of incentives for the large firms to support their supply chains and trigger the development of smaller firms. Such repressed environments require public sector interventions to help firms modernize their production processes, access markets, comply with international standards, and become competitive to be beneficial to the economy. Small and large local firms are mainly constrained by information and market failures that require public interventions to alleviate. In cognizance of the significant role of SMEs, most Organisation for Economic Co-operation and Development (OECD) countries and emerging economies have programs that support SMEs.

64. The economic and financial analysis (EFA) is based on two principles: (i) whether the expected benefits that flow from the project justify the expected costs; and (ii) a comparison of scenarios with and without the project. The EFA has two components: sector and firm-level interventions. At the sector level, the assessment focuses on targeted policy reforms, and firm-level interventions assess the impact of project interventions in the SME TA facility and BDS.

65. The project is expected to generate economic impact resulting from sector-level and firm-level interventions. The sector-level intervention is expected to generate positive returns because improvements in the business environment and providing support services to firms will enhance the efficiency and growth of firms. The reduction in annual EIA license fees will improve profitability for all businesses by reducing the policy and regulatory burden. It will be particularly important for SMEs for which these fees can reduce enterprise profits by up to 80 percent. SLIEPA's aftercare support to existing and new agribusiness firms will reduce the transaction costs of connecting to the market and hence increase firms' survival. Firms' contribution to the economy increases as they mature and expand. An enabling business environment combined with capable institutional support has proved to retain and attract foreign and domestic investments. The links established between local and foreign firms will open new opportunities and technology spillovers, which increases sustainability. Together, these sector-level interventions will improve firms' profitability and hence their contribution to incomes, employment, and tax revenues, among others.

66. There is a dearth of data on SME profitability and growth to facilitate a rigorous assessment of benefits and costs to project interventions in the TA facility in Sierra Leone. Because of the lack of data, it has not been possible to accurately quantify the potential benefits directly linked to this specific project. However, in an attempt to replicate the improvements that would be targeted, the EFA is constructed based on scenario analysis. Taking the base-case model of an agro-processing SME in Sierra Leone and assumption on growth of firms above trend, discount rate, and 10-year horizon, the project is estimated to generate positive net present value and internal rate of return (IRR) from investments in the SME TA facility.²⁶

67. One model scenario shows that to generate a target 12 percent IRR to justify project success requires 3 percent growth year on year (YoY) for 10 years, assuming 30 participating similar-size SMEs. The model is

²⁶ A discount rate of 12 percent is used for similar agribusiness investments in Sierra Leone. Interest rates published by the Bank of Sierra Leone are much higher, but these rates might reflect macroeconomic and fiscal distortions that are affecting the financial system.



sensitive to both the upside and downside scenarios. If 7 percent YoY growth was achieved and the SME TA facility could work with 40 businesses, an IRR of 49 percent would be achieved. However, if only 3 percent YoY growth was achieved across 20 businesses, an IRR of –23 percent would be returned.

68. A second project scenario model assumes that the SME TA facility works with 30 businesses. To generate the target IRR to justify project success, the model would require 5 percent YoY growth at a margin of 30 percent. Assuming that the TA facility would improve only gross margins, the downside scenarios are more limited. A growth rate of 3 percent with the baseline margin of 30 percent would result in a –16 percent IRR. However, the upside potential increases significantly. With a YoY growth rate of 7 percent and a gross margin of 33 percent, an IRR of 79 percent would be achievable.

B. Technical

69. The project’s technical design has been discussed extensively with the government, development partners, and potential beneficiaries. Senior officials from the MTI and the MAF emphasized government’s commitment to the proposed project’s development objectives and components, underscoring the importance of supporting value addition, agro-processing, and development of agribusiness firms in various government strategies. Project design builds on several development partner initiatives in Sierra Leone. Support for reform of EIA for agribusiness investors extends work on the EU-supported EIA Guidelines for Agricultural Development; the findings from the GIZ-supported diagnostics on the PPD platform inform the design and implementation of the proposed PPD mechanisms; and TA to SLIEPA, SLSB, and SMEDA will extend support for institutional development by development partners such as IFC, EU, UNIDO, and ILO. The SME TA facility is designed based on the lessons and results achieved by SME development initiatives supported by DFID and the Catholic Organization for Relief and Development Aid (Cordaid) in Sierra Leone, and from infoDev’s global experience in designing and implementing agribusiness entrepreneurship programs. Potential SME beneficiaries, service providers, development partners, and other stakeholders noted that an enhanced focus on SMEs is necessary to help upgrade them, improve productivity, and increase market access. The project preparation committee (PPC) established by the government to work with the World Bank team during project preparation has discussed, reviewed, and endorsed the proposed PDO, project components, and potential implementation partners. In addition, the project’s technical design was discussed and agreed on with the political leadership and senior staff at MTI and MAF.

C. Financial Management

70. The newly created Project Fiduciary Management Unit (PFMU), under the Ministry of Finance (MoF), will undertake the financial management–related functions of the project. The unit is in the process of recruiting competent staff, including qualified accountants with the requisite capabilities to carry out the financial management functions. With the PFMU catering to the implementation needs of the financial management arrangements for the project, the proposed project is expected to have an appropriate and acceptable institutional anchorage to support its financial management implementation while ensuring that the government’s financial management systems are also used for the project. The PFMU will be responsible for the reporting, internal control, and auditing arrangements of the project as well as accounting and financial reporting. Project accounts will be maintained on a cash basis, supported with appropriate records and procedures to track commitments and safeguard project assets. The PCU will coordinate with the PFMU and prepare the project’s AWPB. The PFMU will assign internal auditors to strengthen the systemic controls in the project. An external auditor with qualifications and experience satisfactory to the World Bank will be formally appointed to conduct the audit of the project’s financial statements.



D. Procurement

71. The Borrower will carry out procurement under the proposed project in accordance with the World Bank's *Procurement Regulations for IPF Borrowers* (Procurement Regulations) dated July 2016 and revised in November 2017 under the New Procurement Framework, and the *Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants*, dated July 1, 2016, and other provisions stipulated in the financing agreements. Procurement under this project will be carried out by the PFMU that is under MoF. As part of the project preparation, the government prepared a Project Procurement Strategy for Development (PPSD), which describes how procurement activities will support project operations for the achievement of PDO and deliver value for money. A procurement plan, which is the output of the PPSD that outlines the procurement procedures to be used to plan and monitor implementation of investment activities, was prepared and agreed upon by the World Bank and the government. An open competitive approach to the market will be the default approach.

E. Social (including Safeguards)

72. The project does not envision land acquisition, and civil works are likely to involve small improvements to existing facilities. The potential impacts may be determined after the screening, and these may be site-specific and minimal. Since the project triggers OP 4.01, it prepared the requisite Environmental and Social Management Framework (ESMF), which provides guidelines on how to mitigate likely social risks and impacts. Safeguards capacity within the main implementation institution, which is MTI, has been assessed preliminarily as weak. Two officers from the ministry were recommended to participate in a World Bank-supported training for a team of officers on the SCADeP team, but additional training is needed, which the World Bank safeguards specialist would tailor for the implementation agencies.

73. Gender: The project will involve engagement with different stakeholders, and meaningful opportunities exist for integrating gender elements into some activities within the project's components to make it gender-sensitive by requiring the beneficiary institutions to include women in these opportunities.

74. Citizen engagement: Consultations will be arranged with a wide variety of stakeholders, including civil society organizations, nongovernmental organizations, community organizations, and, more specifically, women's groups. The World Bank team has discussed with the government the preparation of a communication strategy and arrangements for consultations with stakeholders to expand the scope of citizen engagement. The project will seek to monitor and report on the number of citizen engagement meetings held and the percentage of participants who consider their views have been taken into account.

F. Environment (including Safeguards)

75. Project activities do not involve large infrastructure works, and the physical impacts are expected to be minimal and site-specific, if any. Activities are related mainly to enhancement in SME and BDS services for agro-processors. Physical infrastructure development will be limited to small improvements in already-existing agro-processing enterprises through access to finance under component 2.3 under the agribusiness growth window. These improvements will relate to efficiency and scaling-up activities. At the appraisal stage, it is not possible to specify which activities would be financed under the subcomponent, hence the project will develop an ESMF to help guide screening and further assessment of the activities to be financed during implementation. The ESMF will be prepared and disclosed on the World Bank website before appraisal.



76. The institutional capacity for the implementation of safeguards requirements is low for MTI because it does not have in-house officers responsible for safeguards and has no experience in the implementation of World Bank safeguards policies. However, the project will be implemented in tandem and complementary to other World Bank–financed projects such as SCADeP. Though the implementing agency has limited safeguards capacity, it is expected that the PCU will appoint a safeguards officer with relevant experience to support the project during implementation and leverage the experience of the safeguards capacity within the SCADeP project. The World Bank team will also provide training support to the project PCU.

G. World Bank Grievance Redress

77. Communities and individuals who believe that they are affected adversely by a World Bank–supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are reviewed promptly to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel, which determines whether harm occurred or could occur because of World Bank noncompliance with its policies and procedures. Complaints can be submitted at any time after concerns have been brought directly to the World Bank’s attention and World Bank management has had an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate GRS, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

Project Development Objective(s)

To improve business environment in agribusiness sector and increase productivity of targeted agro-processing firms in Sierra Leone.

| PDO Indicators by Objectives / Outcomes | DLI | CRI | Unit of Measure | Baseline | End Target |
|---|-----|-----|-----------------|-----------|------------|
| To improve business environment in agribusiness sector | | | | | |
| Number of new investments in agribusiness sector | | | Number | 0.00 | 20.00 |
| Of which female involved as owners or workers | | | Number | 0.00 | 8.00 |
| Average cost to comply with EPA regulations | | | Amount(USD) | 25,000.00 | 5,000.00 |
| To increase productivity of targeted agro-processing firms in Sierra Leone | | | | | |
| Increased volume of processed products by SMEs | | | Percentage | 0.00 | 30.00 |
| Of which female owned | | | Percentage | 0.00 | 40.00 |



| Intermediate Results Indicators by Components | DLI | CRI | Unit of Measure | Baseline | End Target |
|---|------------|------------|------------------------|-----------------------|-------------------|
| Promote enabling environm. for agro-processing sector competitiveness & growth of agribusiness firms | | | | | |
| Number of agribusiness firms implementing revised EIA procedures | | | Number | 0.00 | 40.00 |
| Agribusiness investor use of Investor Relationship Management System | | | Percentage | 0.00 | 50.00 |
| Support to increase productivity & strengthen competitiveness of agro-processing SMEs | | | | | |
| Number of SMEs compliant with private/international market standards | | | Number | 0.00 | 30.00 |
| Of which female | | | Number | 0.00 | 15.00 |
| Number of SME action plans receiving funding for business expansion | | | Number | 0.00 | 60.00 |
| Of which female | | | Number | 0.00 | 25.00 |
| Project implementation, coordination, Monitoring and Evaluation | | | | | |
| Agroprocessing industry association feedback on effectiveness of project activities | | | Text | No feedback available | Positive feedback |



Monitoring & Evaluation Plan: PDO Indicators

| | |
|---|--|
| Indicator Name | Number of new investments in agribusiness sector |
| Definition/Description | This indicator tracks expansion of investments in the agribusiness sector due to improvements in the business regulatory environment |
| Frequency | Annually |
| Data Source | Interviews/SLIEPA database |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |
| Indicator Name | Of which female involved as owners or workers |
| Definition/Description | This indicator tracks expansion of investments with significant female participation in the agribusiness sector due to improvements in the business regulatory environment |
| Frequency | Annually |
| Data Source | Interviews/SLIEPA database |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



| | |
|---|--|
| Indicator Name | Average cost to comply with EPA regulations |
| Definition/Description | This indicator measures improvements in the business environment due to improvements in environmental impact assessment procedures |
| Frequency | Annually |
| Data Source | SLIEPA database/ Investor database |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |
| Indicator Name | Increased volume of processed products by SMEs |
| Definition/Description | This indicator tracks volume of processed products coming from firms investing more due to improvements in the business environment and/or rising productivity |
| Frequency | Annually |
| Data Source | Interview/Agribusiness firms |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



| | |
|---|---|
| Indicator Name | Of which female owned |
| Definition/Description | This indicator tracks volume of processed products coming from women owned firms investing more due to improvements in the business environment and/or rising productivity. The project targets 40% or more female beneficiaries in all its interventions |
| Frequency | Annually |
| Data Source | Interview/Agribusiness firms |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |

Monitoring & Evaluation Plan: Intermediate Results Indicators

| | |
|---|---|
| Indicator Name | Number of agribusiness firms implementing revised EIA procedures |
| Definition/Description | This indicator tracks agribusiness investor adoption of improved procedures of environmental impact assessments that save investors time and costs. |
| Frequency | Bi-annually |
| Data Source | Interviews/Agribusiness firms |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



| | |
|---|--|
| Indicator Name | Agribusiness investor use of Investor Relationship Management System |
| Definition/Description | This indicator tracks investor use of an investor relationship management system to improve investment promotion and after care services at SLIEPA. |
| Frequency | Bi-annually |
| Data Source | Interviews/SLIEPA database |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |
| Indicator Name | Number of SMEs compliant with private/international market standards |
| Definition/Description | This indicator tracks the number of SMEs that comply with private/international market standards that will help increase product quality and facilitate marketing of agri-product. |
| Frequency | Bi-annually |
| Data Source | SLSB database/SME records |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



| | |
|---|--|
| Indicator Name | Of which female |
| Definition/Description | This indicator tracks the number of women-owned/women-partnered SMEs that comply with private/international market standards that will help increase product quality and facilitate marketing of agri-product. |
| Frequency | Bi-annually |
| Data Source | SLSB database/SME records |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |
| Indicator Name | Number of SME action plans receiving funding for business expansion |
| Definition/Description | This indicator tracks agri-SMEs that receive funding to implement actions plans for upgrading, market linkages etc. |
| Frequency | Bi-annually |
| Data Source | Interviews/SME records |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



| | |
|---|---|
| Indicator Name | Of which female |
| Definition/Description | This indicator tracks women owned/women partnered agri-SMEs that receive funding to implement actions plans for upgrading, market linkages etc. |
| Frequency | Bi-annually |
| Data Source | Interviews/SME records |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |
| Indicator Name | Agroprocessing industry association feedback on effectiveness of project activities |
| Definition/Description | The indicator tracks citizen engagement in implementation of project activities |
| Frequency | Bi-annually |
| Data Source | Focus group discussion |
| Methodology for Data Collection | |
| Responsibility for Data Collection | PCU |



ANNEX 1: DETAILED PROJECT DESCRIPTION

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT

A. Conceptual Framework for Project Design

1. **There are several market failures holding back the competitiveness of the agro-processing sector and limiting firm and SME productivity.** Key market failures that pose development challenges to firm productivity and sector competitiveness include the following: (i) policy, institutional, and coordination failures that raise the cost of doing business for agribusiness/agro-processing investors; (ii) information asymmetries on the demand and supply sides limiting SME market opportunities and links with larger domestic and foreign agro-processors; (iii) weak supply chain links; (iv) lack of access to finance and technology; and (v) skills gaps at the firm and SME levels. In addition to these, there are other market failures inhibiting the development of agriculture and agribusiness value chains in Sierra Leone.

2. **Policy, institutions, and coordination:** Despite some improvements in the business and regulatory environment, foreign and local private investors point to the current business environment a major constraint to the growth and expansion of agro-processing investments. Key areas of concern for agribusiness investors are the annual EIA fees administered by the EPA, and import and export procedures for agricultural products and inputs. Agribusiness investors consider the annual EIA fees, which can reduce enterprise profits by up to 80 percent, to be very high when compared with other countries in the region. Even though operational efficiencies at the port have improved, there are significant delays in import and export procedures for agricultural goods and inputs, with important cost implications. In many cases, investors must wait for long periods for an import tariff exemption on goods or inputs. The inconsistent application of policies, regulations, and fiscal incentives significantly increase the cost (time and money) of doing business compared with alternative investment destinations. The capacity of public sector institutions to support private sector-led growth is also limited. With a complex business and regulatory environment and wide-ranging policy agenda, there are significant challenges to effective implementation of government and development partner initiatives. Several government agencies are involved with designing and implementing initiatives on business and the regulatory environment, investment promotion and trade, and SME development, but there is limited coordination among them.

3. **Access markets:** Agro-processing SMEs in Sierra Leone generally lack access to stable, viable markets for their products. The entire agribusiness sector, including agro-processing, is highly fragmented, consisting of few medium- and large-size formal firms, and a vast number of small, low-productivity firms operating in few commodities, such as oil palm, rice, coffee, and cocoa. Agricultural productivity remains low, which combined with low levels of farmer organization and coordination leads to highly unstable markets for agricultural commodities and unpredictability for inputs to agro-processing SMEs.

4. **Weak supply chain links:** Import food products dominate the local markets, reflecting high operational costs for the local agribusiness companies. Because of high input costs, poor availability of packaging, seasonal price variability, and poor links between processing SMEs and farm-level producers, local products are available (specifically rice, forestry-derived snacks, spices, coffee, and cocoa), but they are generally uncompetitive with imported category leaders in local markets on both price and quality. Food imports account for about one-third of the total value of imports, and a powerful class of importers and traders exert political and economic influence to maintain control of markets and compete with domestic products. Consultations with distributors have revealed an extreme bias in favor of imported products and substantial prejudice toward local products because local perception of local products remains low, and profit margins on imported products can be up to twice the value of domestic products. It may also relate to the fact that the distributors themselves are involved in the import business.



5. **Access to finance:** Financial institutions in Sierra Leone do not play significant roles in providing financial services to agriculture and agribusinesses (including commercial farmers, large companies, and agro-processing) despite the important contributions of agriculture to GDP and employment in the economy. Commercial bank loans to agriculture/agribusiness are mostly short term (up to 12 months), and long-term finance is not available in the market. Interest rates for credible borrowers could be about 15–18 percent, but new borrowers could face lending rates higher than 20 percent. Although about 70 percent of SMEs have an account at a formal financial institution, less than 20 percent have received any credit.²⁷ According to a recent survey, 88 percent of agri-related MSMEs consider access to finance a serious barrier to their growth. SMEs either are typically too small or too large to satisfy the usual loan requirements of commercial banks and microfinance institutions. They face unique risks prevalent in agriculture value chains such as market volatility, changing climatic conditions, and dependence on unorganized agricultural production and transportation. Many financial institutions also lack the capacity to properly assess businesses in the agriculture/agribusiness sector and manage the relevant risks in their portfolios. Leading financial institutions, especially commercial banks, seem to possess adequate resources—including liquidity—to explore new business opportunities, but many do not prioritize agriculture or agribusiness.

6. **Skills gap:** Although Sierra Leone presents promising potential and opportunities for private sector growth and investment in sectors such as agriculture, tourism, mining, services, and the like, key market failures persist that hinder firm productivity and inhibit private sector firms' ability to maximize this potential. Lack of access to relevant skills at the quality demanded is a major constraint to preventing firms from modernizing and improving product quality, which on the aggregate affects levels of private sector investment and the extent to which the economy can expand and create employment. A skills gap assessment conducted by the African Development Bank (AfDB) suggests that the workforce in Sierra Leone lacks both foundational and technical skills. In addition, the high cost of training prohibits private sector investment in skills enhancements, especially for domestic SMEs. However, the skills sector in Sierra Leone suffers from demand and supply challenges. On the demand side, the cost of training is prohibitive, and firms do not invest adequately in training because of the risk of poaching. Furthermore, firms lack information on available skills training options and incentives provided by the government, such as tax incentives. On the supply side, training is not aligned with the needs of the labor market, so the substance and quality of training programs do not match the demands of the private sector. According to the AfDB study, services provided by skills providers do not meet the demand of the private sector, which further depresses skills demand. Active private sector engagement in the design and delivery of training programs is necessary to ensure that skills supply and demand are better aligned. In addition, coordination challenges are quite significant, with multiple private sector, public agencies, and nongovernmental organizations participating in the skills space without a coherent policy on skills.

Project Justification

7. **The project is designed to address specific market failures inhibiting competitiveness in the agro-processing sector and limiting firm productivity.** Project components are designed to address these specific market failures and are meant to complement other World Bank-supported initiatives that address other market failures holding back the development of agriculture and agribusiness value chains in Sierra Leone (see annex 5, tables A5.3 and A5.4). The project will work with agro-processors and SMEs in priority value chains identified by SCADEP—rice, oil palm, cocoa, poultry—but will build in flexibility and consider other value chains that demonstrate good commercial viability and potential for development impact. More than two-thirds of SMEs in Sierra Leone are women-owned. They represent a vibrant and capable group in the business

²⁷ The Bank of Sierra Leone. "National Strategy for Financial Inclusion 2017 – 2020."



sector, but often have unequal access to productive assets, finance, and other services. Men and women differ in their access to resources and participation in agro-processing segments of value chains. Therefore, this project will pay specific attention to gender-based differences and will incorporate gender into the design of project interventions to mitigate social and economic risks and improve project outcomes. It is expected that at least 40 percent of project beneficiaries will be women-owned businesses and at least 25 percent youth entrepreneurs. Detailed mechanisms for targeting women and youth entrepreneurs will be described in the Project Operations Manual. The project will support a study on gender in the SME landscape that will focus on identifying relevant gaps between women and men in agribusiness and agro-processing segments of value chains. The output from this analysis will help target women building their business skills and other gender-relevant activities, such as coaching and economic empowerments, that enable women-owned businesses to generate new investments and achieve an increase in market shares. Gender-disaggregated indicators at the PDO and intermediate objectives will monitor actions and track performance of project interventions that are designed to reduce identified gender gaps.

8. **The interventions in components 1 and 2 are based on extensive consultations with the client and development partners.** The business enabling interventions in component 1 are aimed at filling critical gaps in the agribusiness sector competitiveness agenda that are not being addressed by other World Bank projects, development partners, or government.

Component 1: Promote enabling environment for agro-processing sector competitiveness and growth of agribusiness firms (SDR 1.5 million - US\$2 million equivalent).

9. **Sierra Leone has seen some improvements in the business and regulatory environment, with the country climbing into the top half of the index of doing business in Sub-Saharan Africa within five years.** However, its overall record on investment climate is patchy, and the Doing Business rank has dropped 3 points from 145 to 148 between 2016 and 2017. The country also scores poorly on competitiveness indicators and attractiveness as an investment destination for foreign investors. In 2017, it ranked 132 out of 138 in the Global Competitiveness Index and 135 out of 137 in the Global Entrepreneurship Index.

10. **The objective of this component is to help reduce burdensome business regulations and cumbersome import and export procedures** that constrain productivity and weaken incentives of existing agribusiness firms and SMEs to reinvest earnings or make new investments that will help grow the agribusiness sector. Project interventions also aim to improve the quantity and quality of existing agro-processing investments through enhanced focus on agribusiness investment retention and expansion, and strengthening institutional capabilities to facilitate investment and trade by agro-processing firms and SMEs.

Subcomponent 1.1: Enabling business, regulations, and administrative procedures for competitive agro-processing (SDR 300,000 - US\$450,000 equivalent)

11. **The government of Sierra Leone has developed several policies and fiscal incentives to encourage agribusiness investments that are often included in memoranda of understanding signed between the government and investors.** However, findings from business environment reform diagnostics, assessment of reform agenda to facilitate foreign agricultural investment, agribusiness investor forum, and interviews with foreign and local private investors point to the current business and regulatory environment as a major constraint to the growth and expansion of the agro-processing investments in the country. The following were identified as priorities for improving the business and regulatory environment for agribusiness investors: (i) remove distortive policies or burdensome sector regulations, such as the EIA; ii) support a systematic PPD to provide a platform for systematic engagement between private investors and public sector stakeholders in agriculture and agribusiness sector; and (iii) strengthen institutional capabilities and coordination in key



institutions that deal with investment and trade to develop functional capacity to support growth and competitiveness of the agribusiness sector.

12. **The subcomponent aims to strengthen the business environment for agribusiness investors.** Project support will help identify business procedures and regulations that distort or create disincentives for agro-processing investments and enhance dialogue between the public and private sector on agribusiness sector reform priorities. Project outputs are expected to strengthen sector productivity and competitiveness by reducing the business and regulatory burden as well as enhance service provision for agribusiness investors. The project will finance an integrated set of activities focusing on the following: (i) generating evidence and good practices on EIA for agribusiness to simplify EIA procedures, reducing the cost for obtaining environmental licenses, and ensuring that the existing legal framework for EIA is adequate; and (ii) strengthening the PPD mechanism to provide a structured platform for systematic engagement between the public sector and private investors in the agribusiness subsector. Specific support will include TA to inform the business and regulatory reform agenda, and funding of research and advocacy to set priorities for policy reform and strengthen engagement among public and private sector stakeholders in selected agribusiness value chains.

Subcomponent 1.2: Targeted retention and expansion of agribusiness investors by SLIEPA (SDR 400,000 - US\$500,000 equivalent)

13. **Agribusiness investors in Sierra Leone are facing serious issues that are hindering their operations' success and leading them to downsize, abandon planned expansions, or totally withdraw their investments in the country.** According to a 2017 survey of 13 large foreign and domestic agribusiness investors and seven business intermediaries in Sierra Leone, the three main areas of concern for investors were the EIA fee administered by the EPA, import procedures, and export procedures.²⁸ These areas were consistently cited as the most grievous and having the most detrimental impact on the success of companies' operations. Other issues also pervade aspects of doing business in Sierra Leone (such as fees, laws, transparency, bureaucracy, low capacity/mindset of public officials, availability of inputs, access to finance, infrastructure, utilities, logistics, corruption, taxation, labor, and so on). Eight of the companies surveyed stated that the issues and grievances faced put the feasibility of their businesses in Sierra Leone at risk, which could result in a loss of about US\$560 million in existing and potential investments, more than 47,000 direct and indirect jobs, and the cultivation of more than 76,500 hectares of agricultural land.

14. **This potential atrophy in agribusiness investment will result in a loss in benefits that private investment in agribusiness can bring to Sierra Leone's economy, including direct and indirect jobs created, improved livelihoods for smallholder farmers, agricultural land cultivated, export earnings, enhanced food security and reduced reliance on imports, technology transfer, training, and spillovers from links with local suppliers and buyers.** The risk to investment also constitutes a lost opportunity in terms of readily available sources of additional investment in Sierra Leone. Global trends show that existing companies are likely to reinvest their earnings: in 2016, reinvested earnings accounted for about half of FDI outflows from developed-country multinational enterprises, and the share of reinvested earnings in outward investment flows of multinational enterprises from developing economies rose from 45 percent to 66 percent.²⁹ In addition, the perception of political risk can deter new investment (in this case, lack of transparency and unpredictable and

²⁸ The 13 companies surveyed included one lost investment. Eleven of the twelve existing companies stated that they were facing issues, and eight of those stated that the issues and grievances faced put at risk the feasibility of their business in Sierra Leone.

²⁹ UNCTAD World Investment Report 2017.



arbitrary action by the state).³⁰ The withdrawal of investments sends a negative signal to potential investors about the ease of doing business in the country and contributes to creating or reinforcing a negative image of the country as a difficult investment destination.

15. **At the same time, existing investors are not receiving the support that they need from SLIEPA to solve their issues.** The investment promotion agency is usually the main agency that investors seek when they face an issue. However, SLIEPA is not always considered the primary or most effective counterpart in government for investors to have their issues solved, and their appreciation of its aftercare services is mixed. Despite its best efforts, SLIEPA is disadvantaged by deficiencies in resources and capacities that lead to inconsistencies in the level and value of the services it provides in terms of responsiveness, proactivity, accuracy, timeliness, and effectiveness. Investors do not have a clear approach or mechanism for solving their grievances, and they must plead with many agencies to find solutions, a process that is burdensome, lengthy, and uncertain. The fact that none of the investors surveyed chose to seek legal recourse is hardly due to the efficient handling of their grievances before escalating, but rather a sense of futility in seeking legal action and that withdrawing the investment is preferable—and sometimes even the only viable option.

16. **This subcomponent will support SLIEPA in developing and implementing an aftercare program for the retention and expansion of agribusiness investment.** Aftercare is a particularly important set of investor services provided by an investment promotion agency. It entails providing information, assistance, and marketing services to investors after they have decided to invest in a location; encouraging them to not only remain in the country, but also to expand and diversify their operations; and to link with the local economy. Project support for SLIEPA's aftercare program will involve the following:

- *Diagnostic assessment:* The project will conduct diagnostic assessment to create the evidence base for the design and implementation of the aftercare program. This will include an audit of SLIEPA's existing resources (human, financial, and information), its current partnerships, and the institutional landscape related to investor aftercare and grievance management, in addition to a demand-supply gap analysis to assess investor perspectives on agro-processing investment and their needs in linking with local firms.
- *Technical assistance:* The project will provide technical assessment to develop a menu of relevant and high-quality investor aftercare services based on the aftercare strategy. Existing aftercare services (site visits, troubleshooting, and roundtables) could be improved and expanded. This includes systemizing and streamlining services, providing accurate and up-to-date investor information; establishing preemptive measures; reaching out to established investors to present reinvestment opportunities; matchmaking with potential partners, suppliers, and buyers; assisting with the hiring and training of employees; finding local providers of business services; and establishing mechanisms to solve investor issues.
- *Systems and tools:* The project will support the deployment of systems and tools that will enhance the quality and efficiency of SLIEPA's services, including aftercare, and enable it to report on its achievements to the government and other stakeholders. These include an investor relationship management system (a subset of customer relationship management systems), standard operating procedures for investor aftercare, and an investor information system. This could be done through TA

³⁰ Political risk was ranked as the second most important constraint to FDI after macroeconomic stability in the 2013 MIGA-EIU Political Risk Survey, and the most grievous of political risks were related to government actions. Thus, political risk was ranked as a more important constraint than access to qualified staff, access to finance, corruption, infrastructure capacity, limited market opportunities, and others. The number one constraint was macroeconomic stability.



and quality control toward the selection, design, deployment, implementation, and adoption of these systems, in addition to financing support to the procurement of the needed hardware and software.

- *Investment grievance management mechanism:* An in-depth assessment could be carried out to determine the optimal mechanism to address investor grievances in the Sierra Leonean context, including host agency, and potentially establish a systemic investor response mechanism through TA to assessing and devising the grievance management mechanism.
- *Capacity building:* Current aftercare staff skills can be audited to determine what is needed to build on the existing skills and experiences, and a capacity-building program will be developed to enhance the execution of current activities and introduce new skills. The project will provide TA to determine needs, devise a capacity-building program, and contribute to the offering of the capacity-building modules. It will also strengthen the capacity of the technical staff to advocate and advise on issues relating to agribusiness investment promotion, export development, and policy advocacy. Support for capacity building will focus on study tours and experience-sharing visits to learn from and benchmark achievements from other investment promotion agencies.

Subcomponent 1.3: Building institutional capabilities in the SLSB to improve market access for SMEs (SDR 300,000 - US\$400,000 equivalent)

17. **SLSB, created by an Act of Parliament, has the legal responsibility for the development and enforcement of standards nationally in conformity with international standards.** SLSB is presently addressing the issues of standards and their relationship with overseas trade. Standards based on the Codex Alimentarius, ISPM, and ISO have been developed for various agriculture and food products, which include cocoa, coffee, rice, cashew, oil palm, and palm kernel oil. However, the application of the standards is voluntary. Conformity assessment through inspection, testing, metrology, and product certification programs (such as Quality Mark) based on good agricultural practices can help improve market access of agricultural products. Given the current setup, SLSB is unable to perform its mandated tasks because of the following: (i) physical and human capacity and equipment are insufficient to cover all the scopes needed to serve the economy; (ii) laboratories are not accredited, thus test results and certificates are not recognized in export market; and (iii) coordination is lacking and mandates are unclear between other QI-related institutions. To ensure standards compliance, Sierra Leone needs to establish an effective and efficient testing, inspection, and certification system for SMEs to verify and assess conformity and compliance to standards and market requirements. Increasing compliance of domestic suppliers of goods and services with quality principles would increase competitiveness of exports and expand market access. In Sierra Leone, MSMEs face challenges to meet standards, technical regulations and sanitary and phytosanitary measures, as well as other market requirements. This is because there is a general low-level knowledge base and understanding, and weak capacity along value chain actors on standards and market requirements.

18. **This subcomponent aims to strengthen institutional capabilities at the SLSB and to improve capabilities for enhanced compliance with standards and conformity assessments in Sierra Leone.** Specifically, TA will be provided to support the following: (i) diagnostic assessment of the current status quo of QI, institutions, verification of the demand for the QI services, identification of essential QI services, and training needs; (ii) identification of key compliance challenges for agro-processors, SMEs, and other actors in selected agro-processing value chains; (iii) implementation of initiatives to comply with regional and international market standards in selected agro-processing value chains; (iv) upgrade of institutional capacity at the SLSB to address key compliance challenges and solutions that will expand market opportunities for agro-processors and SMEs in targeted value chains; (v) information dissemination and publishing on the SLSB website; and (vi) stakeholder engagement and roundtable events, and coordination of other stakeholders. Project support to SLSB will complement the EU-supported and UNIDO-implemented West Africa



Competitiveness Program that seeks to strengthen competitiveness of Sierra Leone through an enhanced level of production, transformation, and export capacities of the private sector in line with the regional industrial and SME strategies of the Economic Community of West African States.

Subcomponent 1.4: Support to MTI, MAF, and SMEDA for stronger SME coordination (SDR 500,000 - US\$650,000 equivalent)

19. **In addition, the project will provide support for strengthening coordination on SME development across and within MDA at MTI and SMEDA.** It will support MTI and SMEDA to strengthen strategic engagement and coordination between MTI, MAF, and other implementing MDA. These specific capacity-building efforts will focus on strengthening capacities in key institutions to enable them provide clearly defined services, such as enhanced coordination on the SME development agenda, strategic planning, priority setting and improved service delivery to private sector actors involved in agro-processing. Specifically, the project will support the following:

- *MTI*: Strengthen their capacity to do the following:
 - Provide clearly defined services that support agro-processing (including enhanced institutional coordination for agro-processing actors and related institutions and other private sector actors), strategic planning, and priority identification
 - Strengthen communication activities to disseminate the significance of the project, expected deliverables, and links with other projects
 - Support development of a cadre of senior and mid-level professionals on agribusiness through targeted training activities.
- *MAF*: Support the Just-in-Time Agrimarket Initiative to create business links between producers of agricultural commodities, processors, and consumers, and provide timely information about the availability and demand for agricultural commodities to support agro-processing and marketing. Project support will be directed toward the provision of logistics for effective communication and information dissemination and capacity building for field and technical staff working on the Just-in-Time Agrimarket Initiative.
- *SMEDA*: Institutional development at SMEDA that will focus on the following:
 - Review laws, policies and/or institutions to inform the formulation of reform proposals for a more conducive environment for sustainable enterprises
 - Support for implementation of the country operational plan for market-driven BDS provision to MSMEs (action plan for coherence among MSME players, and guidelines for environmentally friendly and viable business models for support services to women and men entrepreneurs in a fragile setting).

Component 2: Firm-level support to increase productivity and strengthen competitiveness of agro-processing firms and SMEs in selected value chains (SDR 4.2 million - US\$6 million equivalent)

20. **The objective of this component is to increase the productivity, profitability, scalability, and competitiveness of SMEs in agro-processing and linked subsectors.** An agribusiness diagnostic conducted in August of 2017 and subsequent validation mission in February 2018 revealed that, among other things, regardless of size or commodity, agro-processing SMEs in Sierra Leone generally lack knowledge about management of sales and distribution networks, management of retail outlets, and the ability to forecast demand, supply, and prices. Because of high operating costs (taxes and government fees, unavailable skills needs, and fragmented markets and distribution networks), costs increase disproportionately to profit capability, thus reducing the incentive and capacity for small firms to grow. The market for BDS, entrepreneurial training, and agribusiness-focused content is fragmented and generally unavailable for local entrepreneurs. BDS providers have basic business training materials, and many of them can deliver basic



services in a competent way, but they generally lack proper information on agribusiness and the food sector in particular. BDS offerings generally do not extend beyond basic provision of business plans and start-up advice, and they rarely venture into the technical aspects of revenue growth through market expansion. Key skills areas that are lacking in agro-processing SMEs include (among others) proper packaging and postharvest loss prevention; bar codes and inventory management; basic bookkeeping and accounting; price forecasting; sales and marketing; managing distribution networks; compliance; and category management. SMEs generally have poor links with other market actors, including input suppliers, packagers, distributors, wholesalers, and supermarkets. Supermarkets tend to favor imported food products because they offer higher margins, more reliable supply, and better packaging quality. Therefore, domestic food processing SMEs are at a disadvantage when competing with food imports, and they lack the proper market knowledge and training to compete.

21. Project support to SMEs will build on outcomes from World Bank–IFC collaboration in the SME Business Link Project that facilitated market links by strengthening the capabilities of SMEs to engage successfully in procurement opportunities within the supply chains of large foreign and local firms in major sectors, including agribusiness. The project will upgrade SME productivity and competitiveness through the establishment of a TA facility for SMEs that is expected to reach 150 SMEs over the project life. Of these 150 SMEs, 60 are expected to develop action plans that will be supported by the matching grants in subcomponent 2.2. The TA facility will serve as an innovative instrument for the provision of hands-on business advisory and TA to SMEs, upstream and downstream market links for SMEs, strengthening of the wider agribusiness ecosystem, and investments in business innovations to companies at different stages of development within the agro-processing sector.

Subcomponent 2.1: Firm-level TA and capacity building of ecosystem players (SDR 1.8 million - US\$2.6 million equivalent)

22. The experiences of other SME-upgrading programs in Sierra Leone suggest that there are benefits to providing a suite of business services to SMEs under one comprehensive facility. A market systems development approach considers the need to promote links between multiple market actors, including processors, suppliers, wholesalers, distributors, and supermarkets. This approach also recognizes that the needs of growth-oriented SMEs in an environment such as Sierra Leone are numerous and will require a broad array of coordinated offerings, including links with professional business support services, strong relationships with buyers and corporate lead firms, the provision of updated and accurate market information, access to everyday services such as accounting and legal advice, and access to financing opportunities. The design for the SME TA facility is based on learnings gained from collaborative meetings and interviews with other SME and entrepreneurial support programs in Sierra Leone, such as the DFID-funded SOBA program, GIZ's Innovation Fund, and Cordaid's business training and investment readiness program. All three programs combine some elements of both training and skills upgrading with access to finance in a phased approach.

23. Consultations with other development partners, donors, and financial institutions (such as those mentioned previously) reveal that although there are business training and financing programs available in the country, a key element that is missing is enhanced training on agribusiness-specific themes and content areas related to market information and market assessment. In-country industry expertise on food processing and agribusiness marketing generally does not exist, and BDS providers that such programs use lack technical agribusiness-specific content to offer to SMEs.

24. The SME TA facility will have two dedicated senior staff, both of whom report directly to the project coordinator housed in the PCU. A program manager/team leader will be competitively recruited to manage the facility, directing the intake and quality control processes for both BDS providers and SME clients. The agribusiness development officer will help ensure that the activities of the SME TA facility are in line with the



policy and enabling environment activities described in Component 1, and will have a key role in coordinating with other market chain actors, such as lead firms, supermarkets, and distributors. It is important for both positions to have advanced knowledge of the local context and a baseline of technical skills and competencies. These positions will likely be assisted by the support of one or two junior project staff as needed. Complete job descriptions and roles are explained further in the Project Operations Manual.

25. **Businesses in the agro-processing subsector in Sierra Leone and businesses providing goods and services to the subsector face varying challenges depending on their size and stage of growth.** In response, the SME TA facility will provide tailored business advisory to businesses of varying capacity by taking them through a “funnel” of TA. For example:

- The SME TA facility will serve as an incubator of start-ups, providing support in areas such as product development, prototyping, market research, visual identity development, packaging, and branding.
- Established SMEs will be provided with assistance, depending on need, in areas such as financial management, internal controls, human resources, and marketing, which are common challenges for these types of businesses.
- Large local enterprises will be supported in areas such as product diversification, supply chain management, audit, or getting investment-ready, including linking to potential investors and support in negotiating terms.
- The SME TA facility will offer high-quality training and mentoring to business owners and managers in areas such as leadership, corporate governance, negotiation skills, and people management.
- The SME TA facility will serve as a market research facility to bridge information gaps, which is one of the key constraints for business growth in Sierra Leone. It will identify and connect businesses to market opportunities, support research to identify new market opportunities, and facilitate links between various players in the agro-processing sector.
- The SME TA facility will coordinate skills development initiatives with other World Bank Group institutions, development partners, and the Sierra Leonean government to ensure that leading industry associations (such as SLeCAD and the Commercial Agriculture Producers and Processors Association) are involved in and get resources to develop and implement accredited training programs that address the shortage of skills, focusing on agreed skills sets demanded by the private sector as well as connecting employers to trained personnel.
- The TA facility will aim to help businesses that can redefine competitive norms. These businesses will not only change their own practices and scale up, but also be an example to other businesses, attracting replication of business innovations and changing the markets. Businesses often fail in complex and unpredictable environments like Sierra Leone—that is, partners are unable or unwilling to deliver shared strategy, grow into new markets, and so on. The TA facility will operate with the expectation of this failure. Therefore, selection of businesses into the TA facility will be adapted from a static due diligence process (used in some challenge funds, for example) to dynamic self-selection. Engagement will be phased and determined based on partner performance against an ongoing set of hurdles for partners to demonstrate their merit, interest, and capacity. Performance will unlock increased investment and new avenues for assistance.

26. The TA facility will also link into the government’s Made in Sierra Leone initiative, which promotes local content. This will be through creating a platform for the voice of the private sector on how local content can be strengthened, and through aligning marketing strategies with the Made in Sierra Leone initiative to increase consumer awareness and appreciation of goods produced in Sierra Leone.



27. **The SME TA facility will provide direct TA and services to agro-processing SMEs.** SMEs will be recruited in cohorts to receive deep dive diagnostics and BDS to develop business action plans that identify specific managerial, technical, production, and supply chain gaps. The project will aim to recruit cohorts of 15–20 SMEs to join the SME TA facility as beneficiaries. Based on one cohort per year, the total number of SMEs assisted could reach up to a maximum of 100 over the lifetime of the project.³¹ The project will source SMEs to join the facility through relationships with known lead firms, supermarkets, industry associations (such as SLECAD and the Association of Small-Scale Manufacturers), and previous and ongoing donor projects' application lists (such as the Sierra Leone Agribusiness Development Fund).

28. **Growth-oriented SMEs will be eligible to participate in the TA facility based on their commitment to growth, entrepreneurial and managerial potential, alignment with market segments that show viable potential in the local market, and the financial and technical viability of their businesses.** SMEs will initially be identified through local associations, BDS providers, previous or existing donor and nongovernmental organization programs, retailers and wholesalers, and financial institutions. Key selection criteria will include the following: (i) response to a written questionnaire designed to assess entrepreneurial traits and business potential; (ii) assessment of the potential demand for their products, taking into account different market segments, and alignment of the firm's market segment with the overall cohort; (iii) market competitiveness based on differentiation, cost, and/or focus; (iv) the identification of concrete operational, financial, or technical growth bottlenecks and the possibility of viable interventions for solving them; and, (v) the strength of the financial and technical business plans presented. The exact criteria to select participating SMEs will be specified in the Project Operations Manual, and the selection will be broadly based on size (MTI defines SMEs as having 5–49 employees), verifiable market opportunity, successful track record, growth potential, entrepreneurial potential assessment scores, and personal interviews. Exceptions can be made for start-ups and microenterprises (fewer than five employees) with high potential, and for women- and youth-owned enterprises. The selection committee should include a diverse set of individuals, including industry experts, BDS facilitators, project staff, and representatives of financial institutions.

29. **Less-developed firms will have an opportunity to participate in trainings and receive benefit from the TA facility.** Subsistence entrepreneurs, start-ups without a clear track record of business, and women- and youth-owned firms will be encouraged to take advantage of the facility's services, with slightly different eligibility criteria and a moderated intake process. Definitions for different classifications of firms and the services they can access are explained more fully in the Project Operations Manual.

30. **Deep dives will feed into business action plans for the SMEs that will address key bottlenecks constraining the growth of SMEs.** The TA facility conducts SME deep dives that aim at understanding a firm's business operations in detail, capturing a baseline of existing operations, providing a logical deconstruction of business and financials (for example, costs, monthly sales by product, cash flows, average product profitability, manufacturing procedures, and so on), and allow for scenario analyses to be built using the deconstructed data gathered. From there, business action plans will be designed between SME and the TA facility staff or a qualified BDS provider. The action plans will describe specific managerial, technical, production, operational, supply chain, or marketing gaps, and tailored solutions to address bottlenecks. Business advisors (either TA facility staff or selected external consultants) will provide guidance to SMEs to support the implementation of their action plans. The cohort of SMEs will be encouraged to learn from each other, participate in select group trainings, and attend courses on topics of common interest. Arranging the cohorts around predetermined market segments will produce enhanced benefits through shared trainings, buyer introductions, and network events.

³¹ This number is informed partly by a recent MTI SME survey, which reported less than 300 total registered agribusiness firms in the whole country.



31. **The SME TA facility will focus on improving market links between various agribusiness market chain actors, including agro-processing SMEs, producers, supermarkets, exporters, input suppliers, exporters, and international buyers.** The agribusiness scoping and diagnostic exercise revealed that agro-processing SMEs in Sierra Leone generally lack access to stable, viable markets for their products because of a confluence of factors that end up favoring higher margins and more reliable quality and supply from imported products. One of the chief reasons for this is the domestic SMEs' limited market and industry knowledge, which includes poor understanding of buyer quality requirements, inability to meet buyer quantity demands, and a poor understanding of the profitability and market opportunities for various product lines. Similarly, agro-processing SMEs suffer from poor upstream links with agricultural production supply, an inability to procure raw materials consistently and at favorable prices, and an inability to forecast prices and supply and demand of products. Public sources of market information are either nonexistent or are outdated and unreliable. The diagnostic revealed that upstream links between SMEs and producers are currently weak, and TA helping SMEs identify reliable streams of production would be quite useful.
32. **The SME TA facility will address these constraints by contributing to the provision of market information to agro-processing SMEs and market chain actors.** Provision of information such as regular spot prices of agricultural goods, market intelligence that forecasts information on a range of products, and updated quality and quantity demands from buyers would be a public good that would strengthen the entire market system for agro-processed products.
33. **The SME TA facility will also play a role in helping to foster commercial links between various market chain actors.** Facility staff will help foster dialogue between groups of market actors, communicate needs, make introductions, and provide space for events that bring them together. Foreign buyers or importers could communicate quality needs and be matched with potential domestic suppliers. Lead firms can provide information on what they buy from suppliers, and define their purchasing requirements, standards, and specifications. Transport and logistics companies can receive updated market information from the facility. SMEs can be connected to domestic supermarkets, and supermarkets could receive information on structuring pricing and promotional schedules for specialty products. Market assessments will be conducted to describe the gap between buyers' demands and current domestic output, and priority sectors or value chains can be identified for further development. Agro-processing firms can be connected to input and equipment suppliers and primary producers, as well.
34. **Good practices for market link initiatives suggest that there is a supportive role for the TA facility to play in identifying potential lead firm champions and viable market segments.** A World Bank study on linking lead firms to SMEs³² identified prerequisite conditions for a donor or public entity to be involved in facilitating firm linkages. Among the lessons learned is that a linkage initiative should be pursued only if there is an identifiable market opportunity and if lead firm champions have been identified that have the capacity and business interest to engage. Public facilitators can help to identify mutual business benefits for both lead firms and SMEs, communicate needs and challenges between both parties, and help solve external constraints for both the lead firm and the SME, such as enabling environment or policy constraints. This suggests a role for the TA facility in helping to identify preestablished market opportunities around market segments or specific commodities (for example, opportunity segments identified by the diagnostic include shelf-stable products in supermarkets; snacks and juices in domestic markets; and ground cassava in regional markets). The study concluded that public or donor entities have had the most success with bottom-up approaches, whereby a facilitator customizes training to the needs of the SMEs to position them as potential suppliers to larger firms that have been pre-identified.

³² "Linking Lead Firms to Agro-Processing SMEs." 2018. World Bank.



35. **The SME TA facility will help strengthen the wider agribusiness market ecosystem by supporting existing initiatives that bring together market chain actors.** Previous and existing donor initiatives have revealed that activities that strengthen the wider entrepreneurial ecosystem and connect market chain actors are of high importance. Programs such as SOBA, Cordaid, and GIZ’s innovation fund have benefited the wider ecosystem by providing space for peer-to-peer learning among SMEs, offering group trainings and sector collaboration, and for incentivizing increased interaction with business support services and BDS providers. The TA facility aims to replicate these and other events, such as agro-processing pitch nights, business clinics, entrepreneurs coffee hours, start-up weekends, and hackathons. A regional TA facility can also be established to take advantage of opportunities in the agro-processing sector outside of Freetown.

36. **As part of the wider support to ecosystem players, the TA facility will provide enhanced support to BDS providers.** The facility will offer agribusiness sector-specific training of trainers to a broad array of BDS providers, independent consultants, and business trainers, and contribute to the accreditation and facilitation of the BDS market as a market-building public good. Firms will be invited to sit in on trainings and capacity building delivered to SMEs as part of the facility’s core activities. The firms can range from single independent consultants to multiperson business advisory consultancies (most are small consultancy shops with less than five employees). The project will source master trainers with industry experience to train the BDS providers who will receive accreditation for such training from the TA facility. Potential training topics will include the following areas (among others):

- Sales and marketing (sustainable and successful sales training for growth, identification of key retail customers, understanding consumer demographics, developing a unique selling proposition, pricing and product positioning strategy, developing a distribution strategy, promotion strategies, developing marketing materials, supermarket design, and retail layout strategies)
- Compliance (business registration, bureau of standards, international food and drug compliance, export licensing, tax ID registration, GS-1 registered bar codes, accurate weights and measures, HAACP, ISO certifications, palletized containers, product and facility registration, good agricultural practice, good manufacturing practice, and organic and fair-trade certifications)
- Category management (organizational capability, information technology management, and category tactics)
- Packaging strategies and technical specifications, packaging design, and production quality control.

37. **The provision of agribusiness training materials and content to a broad array of BDS providers serves a larger public good of building a sustainable market for business support services.** The agribusiness diagnostic identified developing a network of BDS providers and offering training of trainers as a potential option for an intervention. BDS providers have demonstrated a concrete need for training of trainers in agribusiness technical areas and have continually expressed to the project diagnostic team an interest in participating in such trainings. Low-quality BDS and poor coordination among BDS providers has led to SMEs having a low perception of the available offerings. Despite this, an MTI SME survey estimated that SMEs in the country that received BDS experienced a 33 percent growth rate. Providing a broad array of trainings to a diverse set of BDS providers will help build credibility in the BDS market and incentivize uptake of services among SMEs and other market chain actors, such as supermarkets, input suppliers, and wholesalers. Thus, subcomponent 2.1 will be a market facilitator for BDS. BDS providers will receive certifications or accreditations on specific trainings they have received and core competencies they possess, allowing the project to be a clearinghouse for available skills and resources and to connect agribusiness market chain actors to necessary service providers. Select BDS providers could be invited to attend trainings together with core staff of the SME TA facility. BDS providers will be connected to an expert mentor, and follow and observe



facility staff and business advisors as they deliver hands-on diagnostic and training services to SMEs through the SME TA facility.

38. **An open application process will allow BDS providers and business consultants from across the country to apply to receive trainings and accreditation from the SME TA facility.** Potential applicants will be sourced from partner organizations with previous and ongoing training programs in the country that have worked with BDS consultants and can provide references of credible, competent individuals and companies. A nascent BDS provider network can also be a partner in identifying qualified BDS providers to apply to the program. Accepted BDS providers are expected to have a track record in providing business services to SMEs in any sector, along with appropriate educational and professional backgrounds, but they do not need to have proficiency in agribusiness topics at this stage. Precise eligibility criteria are explained in the Project Operations Manual.

Subcomponent 2.2: Provision of matching grants to SMEs (SDR 2.4 million - US\$3.4 million equivalent)

39. The SME TA facility will house a matching grant facility making matching funds of up to US\$100,000 available to the cohort of about 60 SMEs, tied to the implementation of their action plans. As business advisors identify specific bottlenecks in the SMEs' business operations, if there are areas where clear financing gaps exist for the firm, a matching grant will be made available to them. The application process for the grant will be tied to the SME's successful completion of the deep dive and action plan. This is consistent with good practices learned from previous World Bank matching grant programs, which suggest that a comprehensive business plan developed with TA is a prerequisite for the administration of grants.³³ This also helps to crowd in private capital on the back of the matching grant because banks appear more willing to lend when there is a compelling and credible business plan that is supported by a public grant and business advisory services.

40. **The matching grant facility will be managed by the SME TA facility, with technical support from a private firm or nongovernmental organization that has experience designing and managing innovation, matching grants, or challenge funds.** The beneficiaries of the matching grant facility will be selected exclusively from the SMEs supported by the SME TA facility. The selection committee of the TA facility will review matching grant applications from the SMEs, recommendations from the business advisors, and business action plans and could reject SMEs against the TA facility selection criteria specified in Project Operations Manual. Involvement of banks and commercial finance institutions in the review is important as a mechanism to encourage lending to agribusiness SMEs, which is currently a challenge. This component ties in with other World Bank projects in Sierra Leone, such as SCADeP, that will provide capacity building to financial institutions on designing and deploying financial products for agribusiness SMEs. The details of the matching grant fund will be defined in the Project Operations Manual.

41. **Matching grant funds will be made available to SMEs for both capital investment, and for specialized TA and expert advice.** If the SME action plans identify a specific business or operational need that can be addressed through investment capital (for example, for the purchase of new equipment), the SME would be eligible to apply for a grant for up to \$100,000. An SME would be eligible to apply for a grant that covers up to 70 percent of the cost, with up to 30 percent matched by the firm (both cash and in-kind) and/or external finance.³⁴ The incremental working capital requirements from the investment will need to be self-financed or funded by external providers. The project will encourage financial institutions to consider funding these requirements to ensure the sustainability of the business operations. If the funds cannot be raised, the matching grant can consider covering a limited amount of incremental working capital requirements on an

³³ World Bank. 2012. "Case Study 12: COMRURAL Honduras—Crowding in Commercial Banks through Matching Grants." Risk and Finance in the Coffee Sector. Agriculture Global Practice Working Paper 02.

³⁴ In-kind contribution cannot exceed 10 percent of the total cost of the subproject supported by the matching grant.



exceptional basis. In some cases, the action plan will inform the SME of critical gaps that need to be addressed in product development, market assessment, optimization of business operations, and financial management. The analysis will conclude with a list of specific TA areas from which the firm could benefit and the expected results in improved business performance (sales/profit increase, for example). In some cases, the gap analysis will conclude that the SME will benefit from advice by an outside expert consultant, from expertise that cannot be sourced internally in the facility, or from a service that can be provided by a BDS provider from the roster of providers that are registered with the facility. The grant funding available to cover the expense of such advisory services can cover up to 90 percent of the total support costs, with the firm contribution being either cash or in-kind. The grant will not cover any investment for nonproductive purposes and operational expenses. The details of the eligibility and non-eligibility items will be defined in the Project Operations Manual.

42. **Special funds will be set aside for women- and youth-owned SMEs.** In specific cases, women-owned or youth entrepreneurs, businesses with start-ups, or microenterprises may be eligible for specialized training and funding to address their targeted needs. Youth entrepreneurship will be encouraged through special events and a streamlined application process for grant funding.

43. **The matching grant will be managed by the TA facility, and the facility manager will be supported by a service provider with experience managing similar grant programs .** An investment committee will be made up of both public and private sector participants, including financial and agribusinesses experts who would evaluate SME submissions for matching grants. The investment committee will recommend potential SME beneficiaries to the facility manager for funding decisions. The details of selection and evaluation of proposals matching grants will be described fully in the Project Operations Manual.

Component 3: Project implementation, coordination, and M&E (SDR 1.4 million - US\$2 million equivalent)

44. The overall day-to-day coordination and management of project activities will be anchored in a PCU. The project will be implemented under MTI by a newly created PCU. The establishment of a strong technical PCU will be necessary to implement project activities given that the MTI does not have recent experience implementing World Bank-supported projects, and existing MTI staff already has existing Terms of Reference with other responsibilities. The project will support a dedicated technical team of staff in the PCU to coordinate project implementation between all the state and nonstate implementing partners. The project will specifically support PCU staff salaries, equipment, and operating costs, including operational costs required to coordinate project implementation and the costs of the PSC. The PCU will have primary responsibility for implementing the non-fiduciary aspects of project activities. The PFMU, established under MoF, will be responsible for all fiduciary functions, including procurement, financial management, M&E, and internal audit for portfolio of all World Bank supported projects. The PFMU will have a role in M&E at the portfolio level but the PCU will have primary responsibility for M&E at the project level. The PCU will recruit an M&E officer who will be responsible for establishing an effective M&E framework and collect data to track performance on outcome, intermediate outcome, and output indicators. This is necessary because the role of the PFMU is to collate data on project performance at the portfolio level from project M&E staff. The project will pay a management fee to the PFMU and in return, the PFMU will carry out all fiduciary functions. Officers from the PFMU will be assigned to the project at its commencement. It is envisioned that although the technical and fiduciary functions of project management are to be carried out by two separate entities, there will be a close working relationship between the two. The PCU will be expected to work with assigned officers in the PFMU to develop annual budgets, procurement plans, and M&E systems.



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT

Project Institutional and Implementation Arrangements

1. The overall responsibility for steering project implementation will be with MTI, MAF, and MoF. Other government departments and agencies and nonstate institutions—such as the EPA, SLIEPA, SLSB, SMEDA, and SLeCAD—will have primary responsibilities as implementing partners for specific activities related directly to specific functional areas for which they have been assigned responsibilities consistent with support for promoting agro-processing competitiveness. The assignment of implementation functions, transfer, and accountability for project funds will be specified in the project financing agreement.
2. The institutional and implementation arrangement will involve the PSC, the PCU, and technical working groups.
3. **PSC:** Although the overall responsibility of project oversight will be with MTI as the lead implementation partner, the project will establish the PSC, which will have policy and advisory functions. It will include high-level officials from key MDA involved in the project implementation and will be chaired by MTI. The lifespan of the PSC will be five years, consistent with that of the project. The PSC will be responsible for providing policy guidance and oversight during project implementation. Its primary responsibilities are as follows: (i) approve the annual work plan, budget, and procurement plan; (ii) review progress against milestones set out in the annual work plan and results framework; (iii) perform fiduciary oversight according to World Bank procedures on financial management and procurement; and (iv) ensure policy coherence and implementation coordination among project components and among project implementing institutions. It is expected that the PSC will meet twice a year. However, the PCU may convene a meeting with the PSC if need arise.
4. **PCU:** The project will establish a PCU that will be responsible for the overall day-to-day project coordination. The PCU will operate under the supervision of MTI, but have sole responsibility for managing the project's technical aspects and will perform all the non-fiduciary roles in project implementation. The PCU will be staffed with personnel with strong project management experience, and the project will recruit technical specialists, including a project coordinator, SME TA facility manager, implementation officers, and support staff who will be dedicated solely to coordination and management of this project. The following would be the main functions of the PCU: (i) ensure overall coordination of the project, and make sure that project activities are implemented cohesively and promptly; (ii) prepare key documents, such as the Project Operations Manual and Annual Work Plan; coordinate with the PFMU to prepare budgets, periodic progress reports, and procurement plans and ensure that they are executed according to World Bank policies; (iii) provide technical advice and guidance to the implementing agencies or ministries in implementing project activities; (iv) work closely with the PFMU to identify potential implementing agencies and goods and service providers, organize their selection and hiring, negotiate and sign contracts with selected implementation partners and service providers, and oversee all project-related procurement work to ensure that it is executed according to the approved procurement plan; (v) ensure timely reporting to the World Bank through preparation of quarterly, semiannual, and M&E reports in collaboration with the PFMU; (vi) ensure timely reporting of project implementation progress to MTI and other relevant government ministries and agencies; and (vii) ensure that all project activities are implemented according to World Bank guidelines on environmental and social safeguards policies and procedures. In performing these functions, the PCU could form technical working groups. These groups will provide technical advisory services around the



implementation of specific project activities, particularly those relating to policy reforms. The groups will consist of relevant technical specialists from key state and nonstate institutions. Their role will be to provide technical advice to the PCU and ensure that proposed activities are technically coherent with government policies and strategies. The working groups will be formed and disbanded as needed.

5. **PFMU:** The PFMU is a specialized unit under the Office of the Financial Secretary in MoF. The PFMU will be responsible for all fiduciary functions for portfolio of all World Bank supported projects, including financial management, procurement, M&E, and internal audit. It will also undertake all the fiduciary reporting functions and prepare internal audit reports. It is expected that the PFMU will assign specific officers to the project, such as project accountant, internal auditor, procurement officer, and M&E specialists. The PFMU will submit periodic financial reports (audited and unaudited) to the World Bank within an agreed time frame, will maintain financial management systems that are acceptable to IDA, and will use the proceeds of the IDA credit only for the intended purpose with economy and efficiency.

6. **Partnership arrangements:** The project will be implemented in partnership with the World Bank–supported SCADeP and Skills Development Project, IFC, and other development partners, such as EU, GIZ, DFID, and the like. IFC is providing support and TA on SME development, particularly on SME market links, supplier development programs involving agro-processing firms and SMEs, and access to finance. Project support to improve procedures for EIA will build on the EU-supported EIA Guidelines for Agricultural Development prepared as part of the Environmental Governance and Mainstreaming Project for the EPA Sierra Leone. The EU is also supporting a complementary regional competitiveness program that includes a pilot in export competitiveness in agricultural value chains, as well as institutional development at the SLSB. The project continues to engage with the EU to exploit complementarities and synergies. GIZ is supporting institutional assessment for PPD, on which the project will build. The DFID-supported SOBA initiative has closed, but this project has incorporated many of the successful business models and lessons learned on SME development and agro-processing. DFID continues to be interested in agro-processing, agriculture and agribusiness policy reforms, and SME development, so this project will continue the engagement going forward. The development partners and the government will undertake joint ISMs biannually to provide guidance to project implementation teams. Partnership arrangements have been discussed with potential partners, and the details on collaboration will be specified in the Project Operations Manual.

7. **Implementation Arrangements for Component 1:** The PCU will implement all activities in component 1 and will work closely with other development partners, industry associations, MDA, and other stakeholders directly involved in those activities. The TA to support reform of EIA for agribusiness will be implemented in collaboration with the EPA, EU, SLIEPA, and MAF. The PPD will be implemented in collaboration with GIZ, IFC, and SCADeP. The PCU will implement activities relating to agribusiness investment retention and capacity building at SLIEPA and institutional development at SLSB, MTI, MAF, and SMEDA. To the extent possible, support for institutional development at the SLSB will be in collaboration with UNIDO and will build on UNIDO’s past and current interventions on National Quality Infrastructure and SMEs in Sierra Leone and other developing countries. The PCU will work closely with SLeCAD, an advocacy group and industry association, to implement the business and regulatory reform and the PPD. The PCU will have technical oversight over all implementation partners. It will also work closely with SCADeP and other development partners to avoid duplication and to maximize complementarities and synergies.

8. **Implementation Arrangements for Component 2:** The PCU will provide overall coordination of the component 2. A TA facility manager will be recruited through competitive selection to manage and implement activities in the SME TA facility and provision of matching grants to SMEs. The SME TA facility will have resources to hire national and international business advisers with commercial and investment experience in the agro-processing subsector and in matching grants implementation.



9. The SME TA facility will be led by a facility manager who will work closely with the project coordinator and other key technical support staff in the PCU to deliver the TA facility's work program. The TA facility manager should be an individual with background and experience in program management, SME development/agribusiness, and strong networks with state and nonstate actors supporting entrepreneurial development, and have credibility with buyers, financiers, and entrepreneurs. The TA facility manager reports directly to the PCU project coordinator and is primarily responsible for achieving the TA facility's strategic objectives. The TA facility manager will be supported directly by one or more technical officers with expertise in SME development, agribusiness, and grant management.

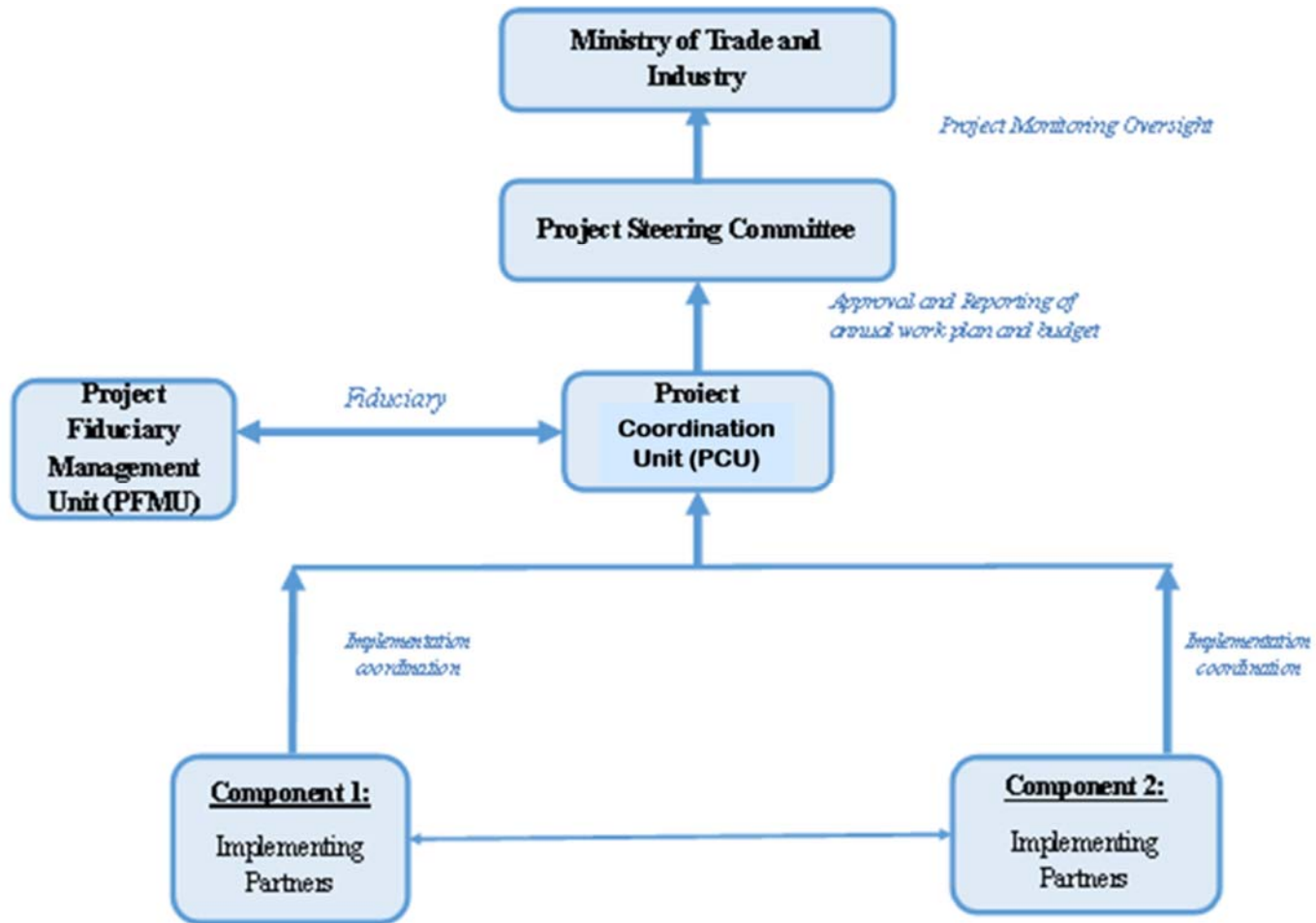
10. The TA facility manager will be responsible for managing any partnership arrangements with other development partners or public and private sector entities. The project is designed to complement the efforts of ongoing World Bank lending operations and the operations and interests of other development partners. Therefore, the project will have opportunities to collaborate with development partners on specific initiatives (such as pitch nights, entrepreneurial events, agribusiness-specific trainings and networking events, and the like). The project is intended to include ecosystem coordination as part of its design, and the TA facility manager is responsible for managing partnership roles. Potential partners include wider ecosystem stakeholders, such as government and compliance organizations, investors and banks, other donors or SME support programs, marketplace actors (including buyers and suppliers), universities, nongovernmental organizations, BDS providers, and local mentor networks.

11. The TA facility manager will work with an investment committee made up of external professionals with appropriate expertise in areas such as SME agrifinancing, SME development in agribusiness, and grant management to help the TA facility evaluate SME proposals that are submitted for matching grants.

12. The TA facility manager will work with the project coordinator and PFMU to develop and negotiate contracts with external service providers. In cases in which a private sector firm might be contracted to implement certain elements of program activities (SME linkages, specific trainings delivered by BDS providers, market information provision, and so on), the facility manager will be responsible for ensuring that the TA facility is equipped to handle the procurement guidelines for World Bank Group and donor implementation. Examples of potential external service providers include market knowledge provision (supermarkets, distributors, importers, and exporters), accountants and auditors (leveraged for fee-based service provision to beneficiaries of the facility), legal professionals, and technical expertise (food scientists, global industry experts, manufacturing experts, food safety experts, and the like).



Figure A3.1: Project Implementation Arrangements





Financial Management, Disbursement, Procurement, and Safeguards

13. The financial management assessment of the PFMU was carried out in November 2017 in accordance with the *Financial Management Manual for World Bank–Financed Investment Operations*, which was issued by the Financial Management Sector Board and became effective on March 1, 2010. The financial management systems of the PFMU of MoF meet the World Bank’s minimum requirements for the administration of projects funds under the World Bank Directive and Policy Investment Project Financing.

14. A designated account managed by the PFMU will be opened at a commercial bank acceptable to the World Bank, and the proceeds of Credit will be deposited to the account to expedite the implementation of activities described in paragraph 5 of this annex. Actual expenditures of the Credit will be documented through submission of withdrawal applications by the PFMU. The audit arrangement for the Credit will follow the existing procedures for auditing for project implementation units at the PFMU.

15. The World Bank conducted a financial management assessment to determine the adequacy of the financial management systems of the PFMU of MoF. The assessment concluded that the financial management systems of the PFMU of MoF meet the World Bank’s minimum requirements for the administration of projects under Bank Policy: Investment Project Financing.

16. The PFMU is headed by a Manager who is responsible for ensuring the overall direction of work at the unit. Under the direction and supervision of the interim unit manager, the PFMU financial management team consists of the finance management specialist (a qualified accountant), finance officer, assistant finance officer, a finance assistant, and two administrative finance assistants. The financial management team is responsible for all the day-to-day financial management functions of specified donor-funded projects.

17. The PFMU has satisfactory planning and budgeting, accounting, internal controls, financial reporting, and external auditing processes in place that will support the effective and efficient utilization of resources for the proposed project. The related operational costs of maintaining the staff during the life of the project, including computer hardware, stationery, mailing withdrawal applications, and printing project financial management reports, will form part of the costs that the project will bear as part of project management costs.

Disbursement

18. The PFMU will open a USD-denominated designated account at a commercial bank approved by the World Bank. The project will use report-based disbursements through the submission of quarterly Interim Financial Reports (IFRs) on the sources and uses of project funds. A forecast of the first six months of expenditures will form the basis for the initial withdrawal of funds from the credit, and subsequent withdrawals will be based on the net cash requirements.

19. The project will follow a cash basis of accounting and financial reporting and will submit quarterly IFRs of the project activities within 45 days of each government of Sierra Leone fiscal quarter. At a minimum, the constituents of the IFRs will be as follows: (i) a statement of sources and uses of funds for the reported quarter and cumulative period from project inception, reconciled to opening and closing bank balances; (ii) a statement of uses of funds (expenditures) by project activity/component, comparing actual expenditures against budget, with explanations for significant variances for both the quarter and cumulative period; and (iii) a designated account reconciliation statement.

20. The project’s annual audited financial statements will be submitted to IDA within six months of the end of the government of Sierra Leone’s fiscal year (that is, by June 30 each year). The external auditors will conduct the audits on the project financial statements on terms of reference as agreed with the World Bank.



Procurement

21. The Borrower will carry out procurement under the proposed project in accordance with the World Bank's *Procurement Regulations for IPF Borrowers* (Procurement Regulations) dated July 2016 and revised in November 2017 under the New Procurement Framework, and the *Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants*, dated July 1, 2016, and other provisions stipulated in the financing agreements.
22. Procurement under this project will be carried out by the PFMU that is under MoF.
23. The procuring entity, bidders, and service providers (suppliers, contractors, and consultants) will observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with Section I and Section II of the Procurement Regulations.
24. As part of the project preparation, the government prepared a PPSD that describes how procurement activities will support project operations for the achievement of PDO and deliver value for money. The procurement strategy will be linked to the project implementation strategy, ensuring proper sequencing of the activities. The PPSD considers institutional arrangements for procurement; roles and responsibilities; and thresholds, procurement methods, prior review, and the requirements for carrying out procurement. It also includes a detailed assessment and description of PCU capacity for carrying out procurement and managing contract implementation within an acceptable governance structure and accountability framework. Other issues for consideration include the behaviors, trends, and capabilities of the market (market analysis) to respond to the procurement plan. The strategy includes a summary of procurement risk, mitigation action plan, and procurement implementation support and supervision plan.
25. A procurement plan, which is the output of the PPSD that outlines the procurement procedures to be used to plan and monitor implementation of investment activities, was prepared and agreed on by the World Bank and the government. The procurement plan for the project details the activities to be carried out during the first 18 months, reflecting the actual project implementation needs.
26. An open competitive approach to the market will be the default approach because it provides all eligible bidders and proposers with timely and adequate information about project requirements and provides equal opportunity to deliver the required goods or services. For procurements involving National Procurement Procedures below the defined thresholds, national procurement systems will be used as defined by the PPSD.

Procurement of Works, Goods, and Non-Consultant Services

27. **Prior review threshold:** Procurement decisions subject to prior review by the World Bank as stated in Appendix 1 of the Procurement Guidelines.



Table A3.1: Procurement of goods and services

| No. | Expenditure Category | Contract (C) Value Threshold* (eq. USD) | Procurement Method | Contracts Subject to Prior Review /(eq. US\$) |
|-----|--|---|---|---|
| 1 | Works | $C \geq 20,000,000$ | Open competition international market approach and direct contracting | All contracts of US\$10 million or more are subject to international advertising and the use of the World Bank's SPDs (or other documents agreed to with the World Bank). |
| | | $200,000 < C < 20,000,000$ | Open competition national market approach | None |
| | | $C \leq 200,000$ | Request for quotation | None |
| 2 | Goods, IT, and non-consulting services | $C \geq 5,000,000$ | Open competition international market approach and direct contracting | All contracts of US\$2 million or more are subject to international advertising and the use of the World Bank's SPDs (or other documents agreed with the World Bank). |
| | | | Open competition national market approach | None |
| | | $C \leq 100,000$ | Request for quotation | None |
| 3 | National shortlist for selection of consultant firms | $C < 300,000$ | For consulting services | All contracts of US\$300,000 or more are subject to international advertising and the use of the World Bank's SPDs (or other documents agreed to with the World Bank). |
| | | $C \leq 500,000$ | For engineering and construction supervision | All contracts of US\$300,000 or more are subject to international advertising and the use of the World Bank's SPDs (or other documents agreed to with the World Bank). |
| 4 | Selection of individual consultants | $\geq 300,000$ | All approaches | $\geq 300,000$ |
| 5 | Training, workshops, and study tours | All values | Based on approved Annual Work Plan and Budget by the task team leader | This line activity is not subject to procurement review. |

Safeguards

28. The project is collocated with the catchment area of the SCADeP. The specific subproject sites are yet to be determined. MTI, being the implementing agency for the project, will work in close collaboration with MAF through the World Bank-funded SCADeP. The project coordinating unit for the project implementation will recruit a safeguards specialist and will work in close collaboration with SCADeP's safeguards specialist, who is already in place. It is expected that through the close collaboration with SCADeP, the needed capacity building for the client will take place throughout implementation.

29. The proposed project categorization is B (partial assessment). The project will fund agro-processing equipment and other value chain enhancement activities, and the impacts associated with these activities are



expected to be site-specific and reversible in nature. The ESMF disclosed in May 2018, outlines measures for screening subprojects to determine any further environmental assessment that might be required during implementation. The ESMF also provides a template for the preparation of an Environmental Management Plan based on the subprojects' screening results.

Monitoring and Evaluation

30. The PFMU has M&E as part of its responsibility to provide M&E to all World Bank-funded projects. The M&E function housed in the PFMU's M&E and Reporting Division will be responsible for managing and coordinating the M&E activities of all projects, including the coordination of externally conducted impact evaluation and delivering a Performance Monitoring and Evaluation Plan for high-quality, results-oriented projects. The division will be responsible for analyzing, interpreting, and communicating information to project technical teams, management, and other stakeholders to promote informed decision making for ongoing and future programmatic activity. The technical staff in the PCU will develop the Annual Work Plan and will coordinate with the fiduciary unit to prepare budgets, periodic progress reports, and procurement plans. They will meet periodically with the fiduciary teams to review project progress and help address M&E concerns. The unit, together with the fiduciary unit, will work with the World Bank on strategies to facilitate results-based implementation of the World Bank's funded project activities.

31. The PCU will have primary responsibility for project M&E and will work with relevant MDA, other implementation partners, agribusinesses, and SMEs to collect data, monitor performance, and report on project activities, outputs, and outcomes. The PCU will recruit a qualified M&E specialist who will be responsible for managing the day-to-day activities of the project's M&E. The project will establish a robust M&E system that will include a management information system in the PCU. The project M&E system will be the main project management and reporting tool that will be used by the PCU and other stakeholders to track performance.

32. The project M&E specialist will supervise the collection of data required to measure project performance using the outcome and intermediate outcome indicators. A template for collecting data will be developed, pretested, and utilized to design the management information system. The PCU will fund a baseline study, undertaken by a qualified consultant or firm, to properly benchmark project baseline data, set targets, and measure progress on all indicators.

33. The project M&E specialist will work closely with the PFMU's M&E and Reporting Division. The project M&E specialist will have primary responsibility for managing project M&E activities, including preparing monthly monitoring tables and quarterly reports on project progress that will be submitted to the PFMU's M&E and Reporting Division and the World Bank. The M&E and Reporting Division in the PFMU will collate data on project performance at portfolio level from project M&E staff and report this to the World Bank and other stakeholders.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT

Support to Implementation

1. The strategy and approach for implementation support for the project will focus on addressing critical issues highlighted in the risk profile that might affect project implementation. The project implementation support plan aims to strengthen the quality of delivery of proposed project interventions by the client. Thus, the focus of implementation support will be on implementation of the risk mitigation measures defined in the Systematic Operations Risk-Rating Tool (SORT) by undertaking semiannual World Bank ISMs that will include a review of technical, institutional, social, and environmental safeguards. These ISMs will assess project implementation arrangements in which the PFMU managed all fiduciary and M&E issues, while the PCU will be responsible for overall coordination of the project.

2. Semiannual World Bank ISMs, including visits to beneficiaries and agencies supported under all components and activities, would focus on the following areas:

- **Strategic:** To the extent possible, ISMs would visit the project implementation team and key stakeholders to review project activities, and identify insights and develop appropriate action plans to address identified implementation challenges, including a clear tracking and follow-up of progress.
- **Technical:** ISMs would focus on the implementation of all project activities at all levels of project implementation. Random field visits would be undertaken to verify compliance with the Project Operations Manual and encourage adjustments to project design as needed, given observed results in the field. During the field visits, the mission will interact with implementing agencies and beneficiaries to validate findings from progress reports submitted to the World Bank. The mission team would comprise technical specialists (agribusiness/agroindustry specialists, SME development, operations staff, safeguards, agri/SME finance, financial management, and the like) to provide technical support for implementation of all activities, including the management of project funds and compliance with safeguards.
- **Safeguards:** The World Bank's environmental and social safeguards specialists assigned to the project will continue to provide technical oversight for implementation of the management tools that have been developed to address identified risks during project preparation. This will be done in collaboration with the Sierra Leone EPA, which has the national mandate to ensure compliance with environmental and social safeguard issues. The World Bank team will provide the services of consultants as needed by the implementation team.
- **Fiduciary:** The World Bank's financial management and procurement specialists will provide oversight and targeted training to financial management and procurement specialists in the PFMU before effectiveness and during project implementation. These specialists will perform the following:
 - Prepare staff to work with implementation partners at the provincial, district, and community levels in conducting procurement under their respective subprojects in compliance with the Procurement and Anti-Corruption Guidelines and the Project Operations Manual.
 - Ensure the capacity of staff to manage the flow of funds and simple accounting procedures in line with financial management guidance
 - Work with the project team in building its overall financial management and procurement capacity to improve and facilitate project management. Implementation support toward the project's



financial management arrangements would be conducted semiannually and as needed in response to client needs. Procurement supervision would also be carried out semiannually during regularly scheduled World Bank implementation missions and/or as the need arises based on client requests.

- **Client relations:** The task team leader will coordinate World Bank implementation support to ensure consistent project implementation as specified in the legal agreements (that is, Financing Agreement and Project Operations Manual), and meet regularly with the client’s senior representatives (that is, MTI, MAF, state and nonstate implementing agencies; SMEs, agribusinesses and other stakeholders) to assess project progress in achieving the PDO and address implementation challenges as they arise.

Table A4.1 Implementation Support Plan (based on 18 months Procurement Plan)

| Time | Focus | Skills Needed | Resource Estimate (US\$) | Partner Role |
|---------------------------------------|--|---|--------------------------|---|
| First 12 months (establishment phase) | Providing support for project launch and initial implementation of the Annual Work Plan and Budget | All team members | 200,000 per year | Participation in all mission activities |
| 12–48 months | Consolidating project implementation, making necessary changes | All team members | 150,000 per year | Participation in all mission activities |
| Other | Support to PCU for day-to-day implementation issues | Financial management specialist, procurement specialist, task team leader | TBD | Participation in all mission activities |

Table A4.2. Skills Mix Required

| Skills Needed | Number of Staff Weeks per FY | Number of Trips per FY | Comments |
|---------------------------------------|------------------------------|------------------------|-------------------|
| Task Team Leader/Technical Specialist | 6 | 4 | HQ-based |
| Procurement Specialist | 3 | 2 | Country-based |
| Financial Management Specialist | 3 | 2 | Country-based |
| SME Development Specialist | 4 | 2 | HQ-based |
| Agrifinance Specialist | 4 | 2 | HQ-based |
| Agribusiness Specialist | 4 | 2 | HQ-based |
| Agricultural Specialist | 2 | 2 | Country-based |
| Social safeguards Specialist | 3 | 2 | Subregional-based |
| Environmental Specialist | 3 | 2 | Subregional-based |
| M&E Specialist | 3 | 2 | HQ-based |
| Legal Counsel | 3 | 2 | HQ-based |
| Governance Specialist | 3 | 2 | HQ-based |
| Gender Specialist | 4 | 2 | HQ-based |
| Team Assistant/Logistics | 3 | 3 | Country-based |



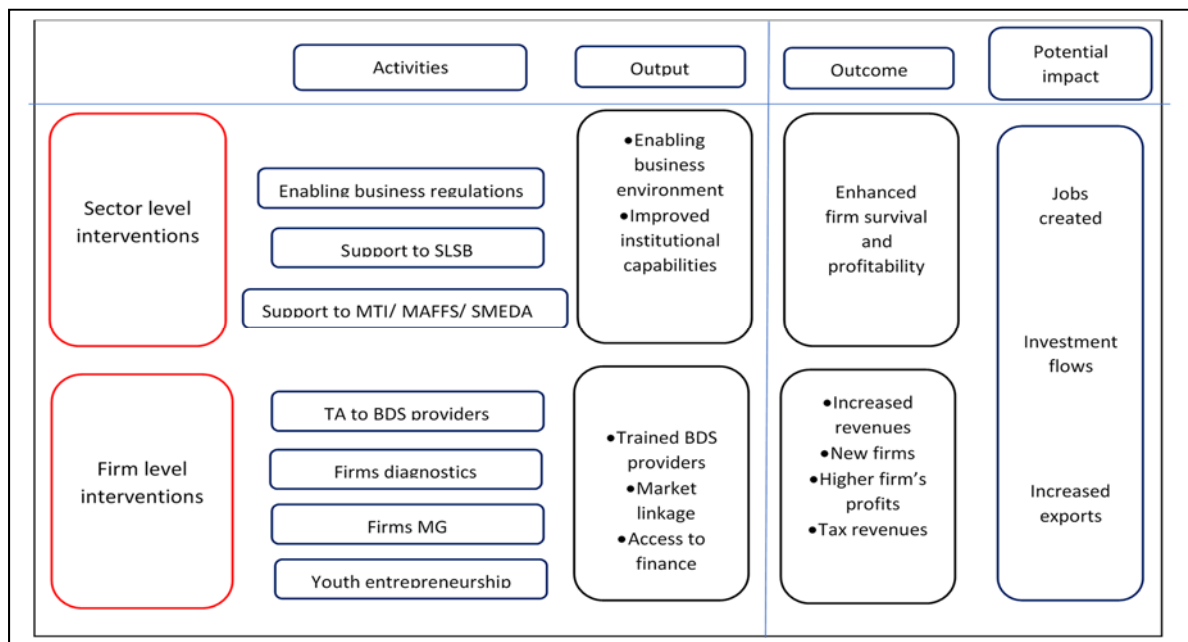
ANNEX 4: ECONOMIC AND FINANCIAL ANALYSIS

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT

1. **Rationale of public financing.** Firms that operate below optimal level characterize the agribusiness sector in Sierra Leone. Often there is lack of incentives for the large firms to support their supply chains and trigger the development of smaller firms. Such repressed environments require public sector interventions to help firms modernize their production processes, access markets, comply with international standards, and become competitive to be beneficial to the economy. Small and large local firms are mainly constrained by information and market failures that require public interventions to alleviate. In cognizance of the significant role of SMEs, most Organisation for Economic Co-operation and Development (OECD) countries and emerging economies have programs that support SMEs.

2. The returns from project interventions are expected to be derived as shown in figure A5.1.

Figure A5.1. Project Theory of Change



3. **Project's economic impact.** The project is expected to generate economic impact resulting from sector-level and firm-level interventions. The sector-level intervention is expected to generate positive returns because improvements in the business environment and providing support services to firms will enhance the efficiency and growth of firms. The reduction in annual EIA license fees will improve profitability for all businesses by reducing the policy and regulatory burden. It will be particularly important for SMEs, for which these fees can reduce enterprise profits by up to 80 percent.

4. The aftercare support by SLIEPA to existing and new agribusiness firms will reduce the transaction costs of connecting to the market and hence increase firms' survival. Firms' contribution to the economy increases as they mature and expand. An enabling business environment combined with capable institutional support has proved to retain and attract foreign and domestic investments. The links established between local and foreign firms will open new opportunities and technology spillovers, which increases sustainability.



Together, these sector-level interventions will improve firms’ profitability and hence their contribution to incomes, employment, and tax revenues, among others.

5. The technical training to BDS providers is expected to upgrade the technical advice accessed by firms in reviewing and addressing the constraints toward competitiveness. The trained BDS providers will shift the business support ecosystem, where they will set higher standards for these services and provide a successful demonstration effect to other BDS providers. The BDS providers’ understanding and connection to international market will improve the likelihood of firms to better understand market opportunities, upgrading needs, and implement international best practices.

6. SMEs and start-ups contribute about 60–70 percent of jobs in most developing countries.³⁵ The sector- and firm-level support is expected to contribute to increased job creation and investments as the firms expand and become more competitive. This will also accelerate product to market and stimulate firms’ expansion.

7. The project TA facility funds will help firms implement action plans that improve profitability and productivity. Addressing bottlenecks in areas such as business planning, financial management, marketing, sales, and research and development leads management of business enterprises that is more efficient and improves profitability. At the nascent stage, management capabilities are crucial to survival, and as firms mature, innovation becomes for growth. Firms that are managed better are 60–80 percent more productive than firms that are not.³⁶

8. There is a dearth of data on SME profitability and growth to facilitate a rigorous assessment of benefits and costs to project interventions in the TA facility in Sierra Leone. Because of this lack of data, it has not been possible to accurately quantify the potential benefits directly linked to this specific project. However, a stylized model was developed in an attempt to replicate the improvements that would be targeted. This model does *not* represent a rigorous economic analysis upon which the project could be justified, but rather serves only to illustrate the growth required from SMEs to generate certain returns. Thus, the economic and financial analyses are constructed based on scenario analysis.

9. The base-case model is a rice SME in Sierra Leone, with an initial configuration as follows:

- Sale of 600 tonnes per year generating Le 2.4 million (about US\$350,000) annually
- Gross margin of 30 percent and EBITDA margin of 16 percent generating LeT 400 million (about US\$50,000 annually).

10. Major assumptions are as follows:

- Project benefits are assumed to accrue for 10 years.
- The SME TA facility spending is assumed to be US\$3 million and is broken down equally over the first five years of the project.

Table A5.1. Growth Rate and Number of Businesses

| | | IRR Scenario Calculation | | | | |
|----------------------------|----|--------------------------|-----|-----|-----|-----|
| | | Growth Rate: | | | | |
| | | 3% | 4% | 5% | 6% | 7% |
| Number of Business Worked: | 40 | -10% | 7% | 22% | 35% | 49% |
| | 30 | -16% | 0% | 12% | 23% | 33% |
| | 20 | -23% | -9% | 1% | 9% | 17% |

³⁵ OECD report, downloaded from <https://www.oecd.org/cfe/smes/2090740.pdf>.

³⁶ Nigeria Investment Climate Assessment, 2009.



11. To generate the target 12 percent IRR to justify project success, the stylized model would require 3 percent growth YoY for 10 years, assuming the SME TA facility worked with 30 companies of this size. The model is sensitive to both the upside and downside scenarios. If 7 percent YoY growth was achieved and the SME TA facility could work with 40 businesses, an IRR of 49 percent would be achieved. However, in the case that only 3 percent YoY growth was achieved across 20 businesses, an IRR of -23 percent would be returned.

12. The second project scenario model assumes that the SME TA facility works with 30 businesses.

Table A5.2. Growth Rate and Gross Margin Improvement

| | | IRR Scenario Calculation | | | | |
|----------------------|-----|--------------------------|-----|-----|-----|-----|
| | | Growth Rate: | | | | |
| | | 3% | 4% | 5% | 6% | 7% |
| Gross Profit Margin: | 33% | 10% | 26% | 41% | 59% | 79% |
| | 32% | 5% | 19% | 34% | 48% | 65% |
| | 31% | -6% | 9% | 21% | 33% | 46% |
| | 30% | -16% | 0% | 12% | 23% | 33% |

13. To generate the target IRR to justify project success, the stylized model would require 5 percent YoY growth at a margin of 30 percent. Because it is assumed that the TA facility would improve only the gross margin, the downside scenarios are more limited. A growth rate of 3 percent with the baseline margin of 30 percent would result in a -16 percent IRR. However, the upside potential significantly increases. With a YoY growth rate of 7 percent and a gross margin or 33 percent, an IRR of 79 percent would be achievable.



Table A5.3: Market Failures that Hold Back End-to-End Value Chain Development in Sierra Leone and Different Project Interventions

| Market Failure | Description | SCADeP | Agro-processing Project | Education/Skills Project |
|--|---|--|--|--------------------------|
| Policy/institutional and coordination failures | <ul style="list-style-type: none"> • Difficult business environment facing agribusiness/agro-processing investors, inhibiting competitiveness, productivity, and growth • Weak institutional capacity for supporting agribusiness/agro-processing development | <p>SCADeP has no interventions dealing with the policy/business environment facing agribusiness/agro-processing investors.</p> <p>SCADeP provides institutional support for a broad range of public and non-state actors involved in agriculture/agribusiness development.</p> | <p>Project will focus on business environment barriers that agribusiness investors identified as major challenges to competitiveness and growth. Specifically, EIA challenges by EPA, and import and export procedures for agribusiness investors.³⁷</p> <p>Project support for institutional development on agribusiness investment policy, promotion, and trade focus on strengthening capabilities at SLIEPA for agribusiness investment retention and growth, and SLSB for quality infrastructure reform to increase market access in targeted value chains.</p> | No intervention |
| Inefficiencies in upstream supply chain activities | <ul style="list-style-type: none"> • Upstream constraints in supply chains leading to inefficiencies in down stream • Weak farm-agribusiness links | SCADeP deals with upstream and production interventions. | Project has no upstream and/or production-level interventions. | No intervention |
| Weak supply chain links | <ul style="list-style-type: none"> • Weak links of agricultural processors and linked industries (for example, processors and packaging) lead to increased cost | SCADeP does not have interventions that focus on downstream links, such as links between agro-processors and linked industries, most of which are SMEs. | Project aims to strengthen links between SMEs and agricultural processors to improve efficiencies in downstream supply linkages, such as packaging, distribution services, and so on. | No intervention |
| | <ul style="list-style-type: none"> • Difficult logistics and trade facilitation (including export trade) | SCADeP has no interventions on trade logistics or import/export procedures for agribusiness investors. | Project has no interventions logistics or trade facilitation. | No interventions |

³⁷ SLIEPA's recent Agribusiness Forum and the U.K. Department for International Development's Business Environment Reform Diagnostic identified these two areas as top priorities for reform to strengthen competitiveness and improve productivity in agribusiness/agro-processing sector.



| | | | | |
|---|---|--|---|--|
| Information asymmetries/limited knowledge of market opportunities | <ul style="list-style-type: none"> • Farmers—upstream and downstream actors • SMEs—large firms—FDI • Large firms and linked industries • FDI and local firms agribusinesses lack market information and effective business enabling support | SCADeP interventions focus on market information system that better connects farmers-upstream actors and agribusiness. | Project interventions focus on downstream market information systems that better connect SMEs, local firms, and foreign investors. | No interventions |
| Infrastructure bottlenecks: energy, roads, water | High cost of operation and distribution of goods and services | SCADeP component 2 has interventions on rural roads. | Project has no infrastructure intervention. However, project will support downstream linkages in SCADeP project areas to leverage the infrastructure investments. | |
| Lack of access to finance and technology | Reliance on self-finance; limited use of commercial financing; dominance of low-productivity technology ; High interest rates and little incentive to develop agriculture-specific loans | SCADeP access to finance interventions focus on farmers, agribusinesses, and upstream services (agro dealers, and so on). | Project access to finance interventions will focus on upgrading SMEs in downstream market linkages, links between SMEs and large local and foreign agro-processors, and capacity development in a few financial institutions to better serve agribusiness SMEs. | |
| Skills gap at farm and firm/SME level | Low business, technical, and sector-specific skills of farmers, SMEs; agro-processors; investors in linked sectors Companies cannot find appropriate technical skills when looking for them | SCADeP skills interventions focus on farmers/farmer producer organizations. | Project interventions are targeted to entrepreneurial and soft skills (business development with emphasis on helping firms better understand their markets and their position in those markets) | Project addresses range of skills development initiatives on supply and demand sides, including TVET, and ensuring private sector engagement in skills agenda. This includes practical training to support firm/SME upgrading and productivity growth. |
| Difficult access to land for commercial agriculture | Confusion over land lease process | No intervention | No intervention | No intervention |



Table A5:4: Sequencing of SCADeP and Agro-processing Project Interventions

| Activity | SCADeP | Agro-processing | Outcome |
|--|--|--|---|
| Sector level | | | |
| Business and regulatory reform– EIA; import and export procedures; PPD | No direct interventions | Project interventions aim to improve the business regulatory environment in the agro-processing sector. | Strengthened sector competitiveness reduces costs and processing time and improves productivity of agribusiness firms supported by SCADeP. |
| Institutional development | Support for MAF | Support for MTI and SMEDA | Together, these interventions strengthen capacity for agribusiness and SME development in two key sector ministries (Agriculture and Trade and Industry) dealing with agribusiness development, investment, trade, and SME development. |
| SLIEPA agribusiness investment promotion | Institutional assessment of SLIEPA | SLIEPA’s investment retention strategy and implementation support based on findings from SCADeP’s institutional assessment | Link between institutional assessment, strategy, and action plan results in evidence-based and targeted design and implementation of interventions to retain and grow agribusiness investments. |
| SLSB standards and conformity assessment; regional market access | Value chain development for targeted commodities in domestic markets; no explicit focus on standards and conformity assessment | Additional dimension on national quality infrastructure opens new market opportunities in domestic, regional, and international markets. | High-value domestic and international market opportunities provide economies of scale and more income opportunities for value chain actors. |
| Firm level | | | |
| Value chains | Identify priority value chains for interventions | Work with agro-processors and SMEs in priority value chains identified by SCADeP, but will build in flexibility and consider other value chains that demonstrate good commercial viability and potential for development impact. | Interventions focused on targeted value chains |
| Value chain segments/activities | Upstream segments of targeted value chains (input supply, services, and so on) and farm production (farm productivity, farmer organizations, outgrower | Downstream segments of value chains (agro-processing, SMEs, retail, distribution, and logistics) | Together, provide end-to-end value chain development solutions |



| | | | |
|----------------------|--|--|--|
| | programs) | | |
| Firm-level upgrading | Focus on agribusiness farmer links Focus on SMEs limited to upstream input supply service | Focus on agro-processing firms SME upgrading; SME links to agro-processing firms Comprehensive focus on SME upgrading spanning BDS, business advisory, and investment support | Improved productivity in agro-processing firms provides increased demand opportunities for agribusiness and firms supported by SCADeP. Address key (and often) missing link in integrated value chain solutions |
| Access to finance | Provide partial grants for farmers and agribusiness with outgrower program | Provide partial grant for agribusiness SMEs Provide support for developing agri-SME products and services in selected commercial banks and financial institutions | Integrated agrifinancing solutions for all key actors in targeted value chains Encourage agricultural value chain financing by commercial lenders and providers of capital |
| Infrastructure | Investment in rural roads | No intervention | Agro-processors and SMEs will benefit from reduced transaction costs. |



ANNEX 5: PROJECT RISK ASSESSMENT AND MITIGATION

SIERRA LEONE AGRO-PROCESSING COMPETITIVENESS PROJECT

This section presents, in tabular form, a summary of specific risks that are rated high and substantial in the SORT, the client’s plan, and World Bank support for risk management and mitigation.

Table A6.1. Risk Rating Summary Table

| Risk | Risk Rating | Risk Mitigation Measures | Conditions of Negotiations, Board, or Effectiveness (Yes/No) | Residual Risk Rating |
|---|--------------------|--|---|-----------------------------|
| <p>Political and governance There is high likelihood that recently concluded elections could lead to a difficult transition process that could significantly affect the PDO because sustained political commitment is required at the highest level to implement an effective business regulatory reform agenda.</p> | H | Several development partners are helping the government manage the postelection political situation. The project is working closely with key reform champions, such as the Sierra Leone Investment and Export Promotion Agency and Sierra Leone Chamber for Agribusiness Development, to press for evidence-based public-private dialogue and reform of the environmental procedures for agribusiness investments. | No | H |
| <p>Macroeconomic The risk of continuing domestic imbalances is substantial. The government faces huge fiscal constraints, and fiscal space is narrow. Achievement of the PDO would be undermined by the tight fiscal space if current trends continue.</p> | S | The Sierra Leone Systematic Country Diagnostic identified strengthening domestic resource mobilization and improved efficiency of public spending and value for money as key priorities to alleviate fiscal constraints. The upcoming CPF, which builds on the SCD, will identify priority areas of potential interventions to address the binding fiscal constraints. | No | S |
| <p>Technical design of project There is substantial likelihood that the dependence of some project components on interventions may adversely affect the project’s economic benefits because they cannot be controlled through the operational design.</p> | S | The project is engaging with collaborating development partners in design and during implementation to ensure that potential issues that might affect project performance are readily tracked and addressed. | No | S |
| <p>Institutional capacity for implementation and sustainability MTI does not have recent experience working on World Bank operations and has weak institutional capacity that could derail project implementation.</p> | S | The project is establishing a PCU that will be staffed by qualified personnel with strong project management experience and technical expertise. The PCU will put in place operations manual, oversight, and control mechanisms to facilitate project implementation. | No | S |
| Overall risk rating | S | | | S |

Note: H = high; L = low; M = moderate; S = substantial.