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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the Republic of Benin for the**

### **Rural Economic Growth Support Project**

Executive Board — Ninety-sixth Session  
Rome, 29-30 April 2009

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

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## **Abbreviations and acronyms**

AfDB	African Development Bank
BOAD	West African Development Bank
DSF	Debt Sustainability Framework
FAO	Food and Agriculture Organization of the United Nations
MAEP	Ministry of Agriculture, Livestock and Fisheries
MSE	micro- and small-scale enterprise
PACER	Rural Economic Growth Support Project
PADER	Rural Development Support Programme
UNDP	United Nations Development Programme

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Republic of Benin for the Rural Economic Growth Support Project, as contained in paragraph 35.

## Map of the project area

### Benin

#### Rural Economic Growth Support Project



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD Map compiled by IFAD

## Republic of Benin

### Rural Economic Growth Support Project

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Benin
<b>Executing agency:</b>	Ministry of Agriculture, Livestock and Fisheries
<b>Total project cost:</b>	US\$47.78 million
<b>Amount of IFAD loan:</b>	SDR 6 million (equivalent to approximately US\$8.96 million)
<b>Amount of IFAD grant:</b>	SDR 6 million (equivalent to approximately US\$8.96 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinanciers:</b>	West African Development Bank (BOAD) United Nations Development Programme (UNDP) Food and Agriculture Organization (FAO) Financial institutions
<b>Amount of cofinancing:</b>	BOAD: US\$9.06 million UNDP: US\$3.04 million FAO: US\$0.50 million Financial institutions: US\$9.94 million
<b>Terms of cofinancing:</b>	BOAD: loan UNDP: grant FAO: grant Financial institutions: loan
<b>Contribution of borrower:</b>	US\$4.39 million
<b>Contribution of beneficiaries:</b>	US\$2.93 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD





# Proposed loan and grant to the Republic of Benin for the Rural Economic Growth Support Project

## I. The project

### A. Main development opportunity addressed by the project

1. Agriculture plays a critically important role in the economy of Benin, assuring the livelihood of 61 per cent of the population and close to 33 per cent of gross domestic product. Although many crops can be grown, only cotton-growers are supported by an integrated value chain, but they – and the country – remain highly vulnerable to volatile world markets. The new project will help Benin's small-scale rural producers in developing well integrated value chains for four non-cotton crops with a broader range of markets: roots and tubers, lowland rice, vegetables and pineapples.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide to the Republic of Benin a loan in the amount of SDR 6 million (equivalent to approximately US\$8.96 million), on highly concessional terms, and a Debt Sustainability Framework (DSF) grant in the amount of SDR 6 million (equivalent to approximately US\$8.96 million) to help finance the Rural Economic Growth Support Project (PACER). The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

#### Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Benin under the PBAS is US\$18.00 million over the 2007-2009 allocation cycle. The proposed amount is within this allocation.

#### Country debt burden and absorptive capacity of the State

4. Although Benin's capacity to service external debt has never been a problem, its high overall debt burden made it eligible for the Heavily Indebted Poor Countries (HIPC) Debt Initiative until 2006, when all debt incurred before 2005 was written off. Under the DSF, Benin is considered a "yellow" country for 2009, making it eligible for 50 per cent grant financing.

#### Flow of funds

5. A special account in United States dollars will be opened with the Central Bank of West African States in Cotonou. Upon effectiveness, IFAD will make an initial deposit into the special account, which will subsequently be replenished according to IFAD procedures. A project account in CFA francs will be opened with the same bank. Counterpart funds will be deposited by the Government into the project account according to a pre-established annual schedule. The Government will also open a subsidiary special account in CFA francs with a bank acceptable to IFAD. These accounts will be managed by the Ministry of Economy and Finance on behalf of the Government of Benin.

#### Supervision arrangements

6. The project will be supervised by IFAD, in close collaboration with the cofinanciers, through biannual joint supervision missions. A mid-term review will be carried out with the Government in the third year of implementation.

#### Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions.

#### Governance

8. The following measures will be taken to limit the scope for corruption and misuse of funds: (i) engagement of external expertise for annual audits of project accounts

and support funds; (ii) active involvement of representatives of producer organizations in the screening of microproject proposals; (iii) close monitoring of the use of funds and provision for meaningful sanctions in the event of misuse; and (iv) all partners and staff operating under annually renewable performance-based contracts.

## **C. Target group and participation**

### **Target group**

9. The project will reach women, young people and men belonging to: (i) village-level groups undertaking rural income-generating activities and their inter-professional unions, set up to forge strong value chains; and (ii) rural micro- and small-scale enterprises (MSEs). Accessibility by the most vulnerable categories was a major criterion for identifying the priority value chains.

### **Targeting approach**

10. The multi-pronged targeting strategy is in line with the IFAD Policy on Targeting and will foster participation, inclusiveness and sustainability by focusing on: (i) areas where IFAD-financed interventions are or have been active; (ii) crops that farmers are familiar with; and (iii) the real constraints of vulnerable groups. Each local community will work out its own strategy for identifying and including local vulnerable groups. Quotas for vulnerable groups (women and young people) will be established. All stakeholders will be involved in periodic self-evaluations of targeting effectiveness and gender and age equity.

### **Participation**

11. Project activities will be guided by village-level demand, the aim being to assist rural producers in building value chains that facilitate their access to support (financial, technical, training, information) and markets. As envisaged by the law on decentralization, infrastructure will be planned and built in collaboration with the local government body representing village-level interests. Strong emphasis is placed on strengthening both the producer organizations at village level and their inter-professional unions, so that all actors (farmers, processors, traders, exporters) are able to influence decision-making within their value chains.

## **D. Development objectives**

### **Key project objectives**

12. The overall development goal is to help create the conditions for sustainable rural economic growth and poverty reduction. The specific objectives are to support: (i) the development of rural agro-based MSEs and income-generating activities, as actors in the priority value chains; (ii) the establishment and strengthening of inter-professional unions able to defend members' interests; and (iii) the construction of rural infrastructure to improve agricultural outputs marketing by the target groups.

### **Policy and institutional objectives**

13. The project is in line with Government's policies and objectives calling for the active involvement of small-scale rural producers, including the most vulnerable, in creating fully integrated agricultural value chains. Capacity-building at the level of both grass-roots organizations and representative inter-professional organizations will enhance producers' influence on policymaking at regional and national levels.

### **IFAD policy and strategy alignment**

14. The project is aligned with two IFAD strategic objectives for 2007-2010: the third objective, to promote access by the rural poor to financial services; and the fifth objective, to promote non-farm employment and entrepreneurship in rural areas. As envisaged by the Fund's country strategic opportunities paper for Benin (2006-2011), it will support local initiatives aimed at improving the incomes and living conditions of the rural poor by: (i) consolidating and expanding their access to

financial services; (ii) supporting rural MSEs and improving marketing; and (iii) strengthening institutional capabilities, especially at the grass-roots level.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The project is fully consistent with several national strategies, including: (i) growth and poverty reduction; (ii) agricultural sector development; (iii) microfinance; (iv) employment of young people and women; (v) gender equity; (vi) value-chain development; (vii) rural MSEs; (viii) intersectoral coordination; and (ix) decentralization and community development.

### **Harmonization with development partners**

16. The project was designed in close collaboration with the cofinanciers (West African Development Bank [BOAD], United Nations Development Programme [UNDP] and Food and Agriculture Organization of the United Nations [FAO]), and with the financiers and stakeholders of ongoing projects financed by IFAD and other Government partners. The African Development Bank (AfDB) has agreed to forge close linkages between PACER and its Livestock Development Project, which is focused on the milk and meat value chains.

## **F. Components and expenditure categories**

### **Main components**

17. The project has two technical components: (i) development of agricultural value chains; and (ii) rural infrastructure.

### **Expenditure categories**

18. The project's expenditure categories are: (i) infrastructure (30 per cent); (ii) equipment, materials and vehicles (1 per cent); (iii) training, studies and technical assistance (12 per cent); (iv) contracts with service providers (6 per cent); (v) value chain support fund (45 per cent); (vi) operating costs and maintenance (2 per cent); and (vii) salaries and allowances (4 per cent).

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. As in the case of the Rural Development Support Programme (PADER), the lead agency for PACER will be the Ministry of Agriculture, Livestock and Fisheries (MAEP), through its Planning and Programming Directorate. Three ministries with crucial contributions (Commerce, Industry, and Microfinance and Employment of Young People and Women) will assign staff as focal points to work closely with MAEP in implementing PACER and other activities under PADER. Other key partners are financial institutions for credit delivery (using their own resources), and service providers (public- and private-sector) as executing agencies.

### **Implementation responsibilities**

20. A small project management unit will guide and supervise the work of a range of service providers as direct implementers of project-financed activities under performance-based contracts: (i) multifunction operating partners for community-level work, group formation, training, and information, education and communication; (ii) specialized operating partners to provide advisory services and training for financial services associations and training for village literacy teachers; (iii) works managers for construction design, tendering and supervision (*"maîtrise d'ouvrage déléguée"*); and (iv) specialized expertise to provide advisory services to MSEs and in connection with income-generating activities on demand. NGOs are likely to be hired as multifunction operating partners; individuals, companies or agencies, both private and public, will be selected through competitive bidding for the other functions. Public agencies are expected to be involved in food and agricultural technologies, marketing and information on markets and prices, quality control of exports and agricultural production.

### **Role of technical assistance**

21. Short-term technical assistance will play a minor role, mostly for addressing specific issues such as access to financial services, markets and marketing. Assistance to be provided will be specified in annual work programmes and budgets.

### **Status of key implementation agreements**

22. Agreements in principle have been reached on: (i) close collaboration with the AfDB-financed Livestock Development Project in PACER concentration zones; (ii) focal points from other ministries within MAEP to improve intersectoral coordination; and (iii) creation of a small technical committee to support the steering committee.

### **Key financing partners and amounts committed**

23. The total project cost is US\$47.78 million over six years. The sources of financing are IFAD (37.5 per cent), BOAD (19 per cent), UNDP (6.4 per cent), FAO (1 per cent), participating financing institutions (20.8 per cent), Government (9.2 per cent), and beneficiaries (6.1 per cent).

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

24. The quantifiable benefits include: (i) appreciably higher incomes for over 70,000 direct beneficiaries undertaking the growing, processing and trading of cassava, rice, vegetables and pineapples; (ii) lower transaction costs due to better roads and access to markets; and (iii) reduced vulnerability as a result of a broader range of cash crops. The non-quantifiable benefits include: (i) spin-off benefits to other producers as local economies become more dynamic; (ii) enhanced access to food, health care and education, inputs supply and advisory services; and (iii) greater capacity and bargaining power at the grass-roots level (organizations, apex bodies).

### **Economic and financial viability**

25. Although financial viability was a major criterion in identifying priority value chains, profitability will be verified systematically during business plan preparation. Economic analysis was based on: (i) reduced losses due to better roads and marketing infrastructure; (ii) incremental rice and vegetable output; and (iii) the profitability of the new businesses and income-generating activities. The internal rate of return has been calculated at 19 per cent over 20 years. It remains satisfactory at 8 per cent for the worst case scenario (incomes lower by 30 per cent).

## **I. Knowledge management, innovation and scaling up**

### **Knowledge management arrangements**

26. Plans call for: (i) an intense programme for sharing information and experiences between partners and interested persons, both in-country and elsewhere in the region; (ii) consultations on harmonizing the procedures and management of PADER and PACER support funds; (iii) steering committee meetings at regional and national levels and frequent stakeholder meetings; (iv) setting up and managing a broad database of interest to implementers and beneficiaries; (v) active involvement in policy dialogue through participation in intersectoral committees; and (vi) training for farmers, processors and traders in how to improve product quality and adapt to the requirements of the job market.

### **Development innovations that the project will promote**

27. The main innovations include: (i) application of the umbrella programme concept to all IFAD-financed interventions in Benin; (ii) continued support for consolidating and expanding the IFAD-initiated network of financial services associations; (iii) implementation through delegated responsibility (*faire-faire*); and (iv) introduction of the "push-pull" concept of market-driven support for production.

### **Scaling-up approach**

28. As experience is acquired, other value chains and areas may be incorporated.

## J. Main risks

### Main risks and mitigation measures

29. The main risks are linked to: (i) cumbersome works tendering procedures; (ii) poor governance and management within the microfinance sector; (iii) competition on world markets; and (iv) weak mechanisms for intersectoral coordination. These risks will be addressed by: (i) hiring experienced works managers; (ii) close monitoring by the Government of developments within the microfinance sector; (iii) expanding the range of markets (local, national, regional, global); and (iv) coordination by MAEP focal points, and the special unit recently set up, of exchanges of information and experiences on value chain development.

### Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact. The positive effects of micro- and small-scale activities are likely to outweigh any negative effects. Close monitoring of environmental impact will make it possible to detect and address any negative impact quickly.

## K. Sustainability

31. Sustainability will be enhanced by: (i) helping MSEs improve their creditworthiness with the financing institutions; (ii) fostering permanent committees to screen proposals for support; (iii) developing a capillary network of service providers to work with rural MSEs; (iv) strengthening rural producers' organizations as members of strong interprofessional unions for value chains; (v) helping public technical services to perform their regulatory role under a programme approach; and (vi) building ownership by all actors in supported value chains through dialogue and participatory planning and action.

## II. Legal instruments and authority

32. A project financing agreement between the Republic of Benin and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. Important assurances included in the negotiated agreement are attached as an annex.
33. The Republic of Benin is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

## III. Recommendation

35. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Benin in various currencies in an amount equivalent to six million special drawing rights (SDR 6,000,000) to mature on or prior to 15 March 2049 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant under the DSF to the Republic of Benin in various currencies in an amount equivalent to six million special drawing rights (SDR 6,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## Important assurances included in the negotiated project financing agreement

(Negotiations completed 15 April 2009)

### 1. **Pest management practices**

The Government of the Republic of Benin (the Government) will comply with the Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the project do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

### **Monitoring and evaluation**

2. The monitoring and evaluation (M&E) system is already in operation at the MAEP level and allows development programmes in the sector to be closely monitored. The M&E officer of PADER actively participates in the MAEP M&E unit and regularly provides the data necessary for monitoring achievements.
3. The PADER M&E system will be organized as follows:
  - (a) **Regional support unit (URA) level.** The integration of the project into the PADER will entail a reallocation of duties within the URAs. The assistant recruited to monitor project interventions will monitor the activities of service providers managing MSEs and supporting the value chains (e.g. in terms of training for MSEs, advisory services and support activities provided, funding obtained and investments realized by MSEs, producers' associations organized and established by type, infrastructure realized and people mobilized). The URA officer will monitor multifunctional and specialized operating partners implementing activities aimed at target villages and groups. The data collected will be forwarded each month to the PCU with a status report.
  - (b) **At the PCU level.** Data will be entered in the database and collated by the M&E assistant who will prepare dashboards for use by the M&E specialist in drafting reports and analysing project status. The PADER database can be adapted as necessary. The parameters will be defined and manuals updated before project start-up.

### **Insurance of project staff**

4. Project staff will be insured against health and accident risks in accordance with applicable mandatory practices in the territory of the Government.

### **Recruitment**

5. PADER officers – namely the coordinator, the financial administrative officer, the M&E officer and assistant, the procurement officer, the two accountants and the officer assigned to each component – will be recruited by national competition published in the national press, in accordance with currently prevailing government procedures and on the basis of renewable fixed-term contracts. The recruitment of key staff, and any decision to terminate their contracts will be undertaken in agreement with IFAD. These officers will be subject to annual performance evaluations. Their contracts may be terminated based on the results of such evaluations. The recruitment and management of support staff will be conducted in accordance with currently prevailing government procedures, as stipulated in the implementation manual.

### **Equality**

6. Discrimination on the basis of sex, age or ethnic or religious affiliation is inadmissible with respect to the recruitment of project staff, pursuant to legislation in effect in the territory of the Government. Nevertheless, all other factors being equal, the Government undertakes to give priority to female candidates particularly for technical positions relating to the project.

**Agreements**

7. The Government undertakes to negotiate agreements with partner national funds and local financial institutions.

**Fraud and corruption**

8. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the project.

**Suspension**

9. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and the grant account if:
  - (a) The financing agreement has not become effective by the stipulated date or such other date as may be set for such purpose;
  - (b) The counterpart funds are not available under conditions satisfactory to IFAD;
  - (c) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD;
  - (d) The project implementation manual, or any of its provisions has been suspended, revoked in whole or in part or in any other way amended without prior agreement by IFAD. IFAD deems that such events have had or are likely to have a material adverse effect on the project.

**Suspension in the event of non-compliance of audit requirement of the Government**

10. IFAD will suspend the right of the Government to request withdrawals from the loan account and the grant account if it has not received the audit reports within six month period stipulated in the financing agreement.

**Conditions precedent to withdrawal**

11. No withdrawal will be made for any category until such time as the following conditions have been fulfilled:
  - (a) A draft for the first annual workplan and budget, including a procurement plan for the first 18 months, has been duly approved by MAEP (the lead project agency) and by IFAD;
  - (b) The special account for the loan and the grant has been opened by the Government;
  - (c) The manuals have been amended.

**Conditions precedent to effectiveness**

12. The financing agreement will become effective upon the fulfilment of the following conditions precedent:
  - (a) The Government has delivered to IFAD a favourable legal opinion, acceptable in form and substance, issued by the authority having competence within the territory of the Government;
  - (b) The ministerial decrees establishing the PCU, the regional steering committees and the national orientation and monitoring committee have been amended;
  - (c) The coordinator, the financial administrative officer, the M&E officer and assistant, the procurement officer, the two accountants and the officer assigned to each component have been selected;

The PADER loan agreement has been amended to incorporate new information to reflect the integration of the project.





## **Key reference documents**

### **Country reference documents**

Poverty reduction strategy paper

United Nations Development Assistance Framework 2009-2013

### **IFAD reference documents**

Country strategic opportunities programme (2005)

Project design document and key files

Administrative Procedures for Environmental Assessment

## Logical framework

Narrative description	Objectively verifiable indicators (RIMS)	Sources of information	Risks/Assumptions
<b>1. OVERALL GOAL</b>			
Help create the conditions for sustainable economic growth and poverty reduction in rural areas	<ul style="list-style-type: none"> <li>▪ Changes in household goods ownership index in beneficiary villages<sup>1</sup></li> <li>▪ Changes in women's living conditions in beneficiary villages</li> <li>▪ No. of households reporting greater food security<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Baseline survey by PADER in the 20 new villages covered by PACER</li> <li>▪ Impact surveys: at village level for income-generating activities; representative samples for MSEs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government gives priority to PACER in the framework of its poverty reduction strategy paper and PAP 2007-2009, and in its policy for supporting employment for young people</li> </ul>
<b>2. SPECIFIC OBJECTIVES</b>			
A. Support the promotion of rural MSEs within four well integrated, profitable agricultural value chains that can assure their access to appropriate, self-sustaining local support services and thereby contribute to rural economic growth	<ul style="list-style-type: none"> <li>▪ No. of stable jobs created by the MSEs (by gender/age)</li> <li>▪ Changes in incomes generated by MSEs (value added)</li> <li>▪ % of viable income-generating activities in supported villages</li> <li>▪ Changes in volume of value chain products marketed on national/ international markets</li> <li>▪ % of positive outcomes of MSE applications for medium-term credit</li> <li>▪ Changes in number of operational producers' organizations at commune level, by value chain</li> </ul>	<ul style="list-style-type: none"> <li>▪ Surveys and diagnostic work on supply and demand for services</li> <li>▪ Reports on mid-term and impact surveys</li> <li>▪ Project activity reports</li> <li>▪ Statistical data (from Chamber of Commerce and Industry and apex)</li> <li>▪ Statistical data (from National Institute of Statistics and Economic Analysis)</li> <li>▪ Reports by M&amp;E unit of MAEP</li> <li>▪ Financial statements of MSEs</li> <li>▪ Reports by inter-professional unions of value chains</li> <li>▪ Reports on quality control by DANA and DPQC</li> </ul>	<p><b>Hypotheses</b></p> <ul style="list-style-type: none"> <li>▪ Macroeconomic climate is favourable for developing rural MSEs in priority value chains</li> <li>▪ Government supports PACER and the private sector as envisaged in its strategy for relaunching the agricultural sector</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>▪ Competition from imports may block entry by rural MSEs into profitable markets</li> <li>▪ Regulations may continue to hamper exports to certain world markets</li> <li>▪ The financial system may not be able to respond to demand for medium-term credit by rural MSEs</li> </ul>
B. Improve access by rural producers to the infrastructure needed to support agricultural production, storage, processing and marketing	<ul style="list-style-type: none"> <li>▪ Area of lowlands developed and still in production after three years</li> <li>▪ % reduction of transport costs in newly opened up areas</li> <li>▪ No. of stable jobs created in road maintenance</li> <li>▪ No. of markets and storage centres still operating after three years</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reports on mid-term review and impact surveys</li> <li>▪ Reports by joint supervision missions</li> <li>▪ Periodic project reports</li> <li>▪ Reports by regional and national unions of producers' organizations</li> <li>▪ Reports by M&amp;E unit of MAEP</li> <li>▪ Reports by Ministry of Transportation</li> </ul>	<p><b>Hypotheses</b></p> <ul style="list-style-type: none"> <li>▪ Land issues do not block the construction of infrastructure</li> <li>▪ Infrastructure planning (roads, markets) by local administrations (<i>communes</i>) is based on needs at village level</li> </ul> <p><b>Risks</b></p> <ul style="list-style-type: none"> <li>▪ Construction companies may not be able to carry out the works effectively</li> </ul>

<sup>1</sup> The criteria for evaluating the index will be drawn from INSAE statistical data and household surveys (reference and impact surveys)

<sup>2</sup> Although PACER does not address food security issues per se, this indicator reveals whether or not its economic growth objectives are being attained

