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Investing in rural people

President's memorandum

Proposed additional loan and grant to the Republic of The Gambia for the National Agricultural Land and Water Management Development Project

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing in the form of a loan and a grant to the Republic of The Gambia for the National Agricultural Land and Water Management Development Project as contained in paragraph 27 and the modifications to the financing agreement as contained in paragraph 23.

President's memorandum

Proposed additional loan and grant to the Republic of The Gambia for the National Agricultural Land and Water Management Development Project

I. Context and justification

1. The National Agricultural Land and Water Management Development Project (Nema)¹ was approved by the Executive Board in December 2012 (EB 2012/LOT/P.12) at a total estimated cost of US\$64.9 million over seven years.
2. It was originally foreseen that the Nema would be principally financed by IFAD through two grants covering two cycles of the performance-based allocation system (PBAS) in 2010-2012 and 2013-2015, with financing of US\$34.4 million representing 53 per cent of total estimated project costs. The complete finance package underwent IFAD quality enhancement review, followed by quality assurance in October 2012, and was approved with two-tranche financial support from two subsequent PBAS cycles.
3. The first Debt Sustainability Framework (DSF) grant was approved in 2012, amounting to SDR 13.15 million (US\$20.28 million). This represented the 2010-2012 PBAS allocation and 31.25 per cent of overall project financing.
4. A financing agreement was signed on 20 December 2012 between the Republic of The Gambia and IFAD for a grant in the amount of SDR 13.15 million, through which the first part of IFAD financing was allocated.
5. As anticipated in the original project design, which was approved by the Executive Board in December 2012, the second tranche of IFAD financing would be drawn from the 2013-2015 PBAS, already budgeted in total project costs, with no change in the total estimated IFAD financing. The second tranche of IFAD financing amounts to US\$14.13 million, bringing IFAD's total financing to US\$34.4 million as foreseen.
6. This memorandum seeks the Board's approval of the use of the second tranche of IFAD financing from the 2013-2015 PBAS cycle in the amount of approximately SDR 10,050,000 (US\$14,131,532).
7. The remaining funding for the project, as foreseen in the design document, is provided by the Islamic Development Bank (IsDB), with US\$15 million in financing, and the African Development Bank (AfDB),² with a grant of approximately US\$17.7 million.³ The Government contribution is estimated at US\$2.61 million and beneficiaries will contribute US\$1.17 million.

¹ A local Mandikah word meaning prosperity.

² Identified as "other cofinanciers" in EB 2012/LOT/P.12.

³ Equivalent to 11.5 million units of account. AfDB financing was initially estimated at US\$11.75 million, but was later increased to US\$17.7 million.

8. The recent country assessment carried out by the World Bank and the International Monetary Fund and an update of the debt sustainability analysis resulted in a reclassification of The Gambia's grant eligibility from 100 per cent grant financing to a 50 per cent loan on highly concessional terms and a 50 per cent grant. These new financing terms are fully applicable to the financing to The Gambia under the 2013-2015 PBAS cycle. Consequently, the second tranche of IFAD financing, amounting to approximately SDR 10,050,000 (US\$14,131,532) will be split into a loan on highly concessional terms of approximately SDR 5,025,000 (US\$7,065,766) and a grant of approximately SDR 5,025,000 (US\$7,065,766). This brings IFAD's total financing to the Nema to approximately SDR 23.2 million (US\$34.4 million), representing 53 per cent of the overall costs of the project as foreseen at design.
9. Once approved, the second tranche of IFAD financing will be allocated on a proportional basis across all project activities and categories, and will not imply any change in the original project structure. The second tranche will supplement financing of the project's three components: watershed development, agricultural commercialization and project facilitation. The project description, project area and target group will remain unchanged and in line with the document approved by the Executive Board in December 2012.

II. Status of project implementation

10. The Nema became effective immediately on Executive Board approval in December 2012, and the first disbursement was made just two months after Board approval, a sign of strong commitment and ownership by the Government of The Gambia, for which the Nema is the key flagship programme in support of the agriculture sector. Following initial implementation challenges related to procurement of contractors for civil works, supervising engineers have been recruited to assist the Project Support Unit (PSU). Implementation support has been provided to strengthen procurement planning so as to ensure that construction work begins during the dry season. Performance-based contracting has been introduced under the Nema for both public- and private-sector service providers, which, after some initial resistance, is now being replicated in other projects.
11. The Nema PSU is the trusted first entry point in providing technical and advisory support to the Government for dialogue with other interested donors in the agriculture sector. For example, the Nema has: (i) supported the development, validation and approval of a National Rice Development Strategy, in collaboration with the Coalition for African Rice Development; (ii) adopted a home-grown financing management system (FinEx) that the Ministry of Agriculture is rolling out to all projects in the agriculture sector; (iii) created a tripartite financing arrangement to cofinance agribusinesses along rice and vegetable value chains by mobilizing private financing institutions, which is being replicated in the AfDB Food and Agriculture Sector Development Project (GAFSP) and the World Bank Gambia Commercial Agriculture and Value Chain Management Project; and, finally, (iv) supported the development and operationalization of the first agriculture-sector monitoring and evaluation (M&E) system as part of the Ministry's M&E framework, which has enabled all projects in the sector to be anchored to one central system. This has proved very useful, and other ministries (Finance, Environment) are being linked to it. The baseline study has been completed and IFAD's partnership with the European Space Agency and the Synthetic Aperture Radar map (Sarmap) has produced a high-resolution national land use cover baseline map. The European Union is providing funding to scale this project up through Sarmap.
12. Overall, performance of the project has been satisfactory. The first project audit was both delivered on time and unqualified, and the Nema was classified "not at risk" in the 2014 annual portfolio performance review. As of February 2015, the disbursement rate is 22 per cent, and is projected to increase swiftly with: the signed contracts and ongoing procurement of additional civil works; scaling up of

functional literacy and farmer-field-school programmes; and start-up of agribusiness activities along rice and vegetable value chains, leveraging cofinancing from domestic financial institutions. Disbursement by category of expenditure is as follows: civil works, vehicles, goods and equipment, 11 per cent; technical assistance, 38 per cent; training, M&E, 31 per cent; capital investment stimulation fund, 0 per cent; staff salaries, 45 per cent; and operating costs, 48 per cent. IFAD is providing effective implementation support, and supervision missions are planned biannually.

13. The Nema has incorporated experiences from previous and ongoing projects, and is building on lessons learned from the IFAD country programme approach in The Gambia. Sensitization and awareness programmes are having the desired impacts on rural communities – an increasing number of farmers are demanding access to project services. Initial project impact includes rapid adoption of improved agricultural practices offered by farmer field schools, and increased functional literacy among trained farmers, the majority of whom are women. Other projects in the agriculture sector are also capitalizing on the Nema's innovative approaches and best practices.
14. Major investments in civil works are being initiated: construction of 160 hectares of tidal irrigation and 1,000 hectares of lowland development (including causeways, footbridges, dykes and spillways).
15. Major project achievements to date include: (i) 130 farmers trained in business and entrepreneurship, of which 52 per cent are women; (ii) 600 people trained in community management and bantaba watershed planning, of which 50 per cent are women; (iii) 827 people trained in functional literacy, of which 83 per cent are women; (iv) 25 farmer field schools formed with 651 trainees, of which 82 per cent are women, and with each farmer mentoring other farmers; (v) 9 tons of assorted rice foundation seed produced through adaptive research, and seed growers contracted for multiplication, certification and dissemination; and (vi) a key strategy developed for knowledge management and communication.

III. Project costs and financing

16. The second tranche of IFAD financing of approximately SDR 10,050,000 (US\$14,131,532 million) – in the form of a loan on highly concessional terms of approximately SDR 5,025,000 (US\$7,065,766) and a grant of approximately SDR 5,025,000 (US\$7,065,766) – will be allocated proportionally across all project activities and categories.
17. Distribution of costs by components and financier is shown in table 1.

Table 1
Nema costs by component and financier
 (Thousands of United States dollars)

<i>Component</i>	<i>IFAD grant A^a</i>	<i>Second tranche IFAD loan^b</i>	<i>Second tranche IFAD grant^b</i>	<i>IsDB & AfDB</i>	<i>Government</i>	<i>Lenders</i>	<i>Beneficiaries</i>	<i>Total</i>
A. Watershed development								
Communal watershed planning	120.49	30.21	30.21	-	0.0	-	-	180.9
Water management for rice cultivation	7 762.57	3 420.21	3 420.21	16 834.6	899.5	-	-	32 337.1
Village vegetable schemes	2 181.52	1 085.92	1 085.92	4 977.8	257.4	-	-	9 588.6
Access roads and market infrastructure	2 381.62	976.96	976.96	4 998.1	239.3	-	-	9 573.0
Subtotal	12 446.20	5 513.30	5 513.30	26 810.6	1 396.2	-	-	51 679.6
B. Agricultural commercialization								
Producer organizations	2 576.65	331.77	331.77	-	-0.0	-	-	3 238.5
Value addition – rice and horticulture	793.10	255.74	255.74	-	0.0	954.3	212.1	2 470.9
Technical support services	1 453.70	235.89	235.89	-	270.9	-	-	2 196.4
Subtotal	4 823.45	823.40	823.40	-	270.9	954.3	212.1	7 905.8
C. Project facilitation								
1. Project management and implementation support	1 730.08	574.20	574.20	-	904.3	-	-	3 782.8
2. Knowledge management, monitoring and evaluation	1 280.28	154.87	154.87	-	41.8	-	-	1 631.8
Subtotal	3 010.35	729.06	729.06	-	946.1	-	-	5 414.6
Total project cost	20 280.00	7 065.77	7 065.77	26 810.58	2 613.25	954.29	212.07	65 001.00

^a DSF grant approved by the Executive Board in December 2012 representing 2010-2012 PBAS allocation.

^b Planned second-tranche financing in accordance with original design.

Table 2
Nema costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Categories of expenditure</i>	<i>IFAD grant A^a</i>	<i>Second tranche IFAD loan^b</i>	<i>Second tranche IFAD grant^b</i>	<i>IsDB & AfDB</i>	<i>Government</i>	<i>Lenders</i>	<i>Beneficiaries</i>	<i>Total</i>	<i>%</i>
I. Civil works, vehicles, equipment and goods	13 191.58	5 527.8	5 527.8	26 810.60	1 931.00	-	-	52 988.80	81.5
II. Technical assistance	959.59	89.1	89.1	-	0	-	-	1 137.70	1.8
III. Training, monitoring and evaluation	3 218.93	703.9	703.9	-	0	-	-	4 624.90	7.1
IV. Capital investment stimulation fund	543.99	221.1	221.1	-	0	954.3	212.1	2 152.50	3.3
V. Staff salaries	1 052.97	457.4	457.4	-	584.5	-	-	2 552.30	3.9
VI. Operating costs	1 312.92	66.5	66.5	-	97.7	-	-	1 543.80	2.4
Total	20 280.00	7 065.77	7 065.77	26 810.60	2 613.30	954.3	212.1	65 001.00	100

^a DSF grant approved by the Executive Board in December 2012 representing 2010-2012 PBAS allocation.

^b Planned second-tranche financing in accordance with original design.

18. The funds will be allocated in accordance with the project design to the categories of expenditure as indicated in table 2.

IV. Financial management, procurement and governance

19. Country context and risk rating. The inherent risk is rated high. The Corruption Perceptions Index for The Gambia, published by Transparency International, has decreased from 3.4 in 2012 to 2.9 in 2014. The first public expenditure and financial accountability assessment will be undertaken in the near future; this will provide more information on the country's public financial management systems. The financial management arrangements for the proposed second tranche of IFAD financing will be aligned with the arrangements already in place for the original IFAD financing, which have been deemed adequate in accordance with IFAD guidelines.

20. Financial management. As with the original IFAD financing, the responsibility for the project's financial management will rest with the PSU, which will maintain a full set of accounts according to IFAD's requirements and internationally recognized accounting standards. The PSU will prepare periodic interim financial reports and annual project financial statements in accordance with accounting standards acceptable to IFAD. All financial management arrangements are detailed by the PSU in a financial procedures manual to be updated and approved by IFAD.
21. Accounts. IFAD funds will be transferred from the IFAD loan and grant accounts to a designated account denominated in United States dollars at the central bank, using a 50/50 arrangement. Withdrawal of funds will follow IFAD's disbursement procedures, and transfers will reflect the requirements of project implementation.
22. External audit arrangements. The project will be audited annually by independent auditors acceptable to IFAD under terms of reference approved by IFAD and in line with the IFAD Guidelines for Project Audits. An audited annual consolidated financial statement for the entire project, together with a management letter on audit observations on internal controls, shall be submitted to IFAD within six months of the end of the fiscal year.

V. Proposed amendments to the financing agreement

23. Once approved by the Executive Board, the financing agreement will be amended to take into account the second tranche of IFAD financing – in a 50 per cent grant and 50 per cent loan ratio. This financing completes the financing plan initially approved on project design and will not involve changes to the project description, project area or target group. No new expenditure category will be created, and all funds will be allocated on a proportional basis across all project activities and categories.

VI. Legal instruments and authority

24. An amendment to the current financing agreement between the Republic of The Gambia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient.
25. The Republic of The Gambia is empowered under its laws to receive financing from IFAD.
26. I am satisfied that the proposed second tranche of IFAD financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD financing.

VII. Recommendation

27. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that IFAD shall provide a loan on highly concessional terms to the Republic of The Gambia in an amount equivalent to approximately five million and twenty-five thousand special drawing rights (SDR 5,025,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that IFAD shall provide a grant to the Republic of the Gambia in an amount equivalent to approximately five million and twenty-five thousand special drawing rights (SDR 5,025,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President