P-GM-A00-007

Language: English
Original: English

AFRICAN DEVELOPMENT FUND

PROJECT APPRAISAL REPORT
GAMBIA INCENTIVE-BASED RISK SHARING SYSTEM FOR AGRICULTURAL LENDING (GAMIRSAL) ESTABLISHMENT PROJECT

REPUBLIC OF THE GAMBIA

AFRICAN DEVELOPMENT FUND

GAMBIA

INCENTIVE-BASED RISK SHARING SYSTEM FOR AGRICULTURAL LENDING (GAMIRSAL) ESTABLISHMENT PROJECT

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November 2022

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CURRENCY EQUIVALENTS

Exchange rate effective 8/18/2022

Currency Unit1	Equivalent
1 Unit of Account	USD 1.32
1 Unit of Account	GMD 70.75
1 United States Dollar	GMD 53.45

FISCAL YEAR

1 January 2021 – 31 December 2021

WEIGHTS AND MEASURES

1 Metric ton	2,204.62 Pounds (lbs)
1 Kilogramme (kg)	2.20462 lbs
1 Meter (m)	3.28 Feet (ft)
1 Millimetre (mm)	0.03937 Inch (“)
1 Kilometre (km)	0.62 Mile
1 Hectare (ha)	2.471 Acres

[1] Add any additional foreign or local currencies relevant to the project and their currency equivalents.

ABBREVIATION AND ACRONYMS

ADF	African Development Fund
AfDB	African Development Bank
AG	Auditor General
CBG	Central Bank of The Gambia
COVID-19	Coronavirus disease-2019
CPCU	Central projects coordination Unit
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
ESCON	Environmental and Social Compliance Note
E&S	Environmental and Social
FE	Foreign Exchange
FIRR	Financial Internal Rate of Return
FIs	Financial institutions
FM	Financial Management
IFRs	International financial reporting standards
IPSAS	International Public Sector Accounting Standards
GAMIRSAL	Gambia Incentive-based Risk sharing System for Agricultural Lending
GATP-PPF	Gambia Agriculture Transformation Program-Project Preparation Facility
GIRSAL	Ghana Incentive-based Risk sharing System for Agricultural Lending
GCCI	Gambia Chamber of Commerce and Industry
GDP	Gross domestic product
GHG	Green House Gases
GMD	Gambian Dalasi
IFAD	International Fund for Agricultural Development
IsDB	Islamic Development Bank
ISTS	Integrated Safeguards Tracking System
LC	Local Currency
MFIs	Microfinance institutions
MOA	Ministry of Agriculture
MOFEA	Ministry of Finance and Economic Affairs

MOTIEA	Ministry of Trade, Industry, Regional Integration & Employment
M&E	Monitoring and Evaluation
NACOFAG	National Coordinating Organisation of Farmer Associations in the Gambia
NACCUG	National Association of Cooperative Credit Unions in Gambia
NDP	National Development Plan
NFIS	National Financial Inclusion Strategy
NPV	Net Present Value
OCB	Open Competitive Bidding
PAR	Project Appraisal Report
PCN	Project Concept Note
PCR	Project Completion Report
PEA	Project Executing Agency
PEFA	Public Expenditure and Financial Assessment
PFM	Public Financial Management
PIM	Project Implementation Manual
PSC	Project Steering Committee
PY	Project Year
RAP	Resettlement Action Plan
SDG	Sustainable Development Goals
SMEs	Small and medium enterprises
TOR	Terms of reference
UN	United Nations
UA	Unit of Account
USD	United States dollar

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Project Name	Gambia Incentive-based Risk Sharing System for Agricultural Lending (GAMIRSAL) Establishment Project
Sector	Agriculture
Borrower/Grant Recipient	The Republic of The Gambia
Project Instrument	Grant
Executing Agency	Ministry of Agriculture

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period:	2021 – 2025
Country Strategy Paper Priorities supported by Project:	Single Priority Area: Modernization of agricultural value chains for inclusive growth.
Government Program (PRSP, NDP or equivalent):	National Development Plan (NDP), 2018-2021
Project classification:	Feed Africa Improve the Quality of Life for the people of Africa Industrialise Africa
	SDG1: End poverty in all its forms everywhere SDG2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture SDG8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all SDG10: Reduce inequality within and among countries SDG13: Climate action
	Increase the competitiveness of value chains Expand finance for agribusiness Enhance the agribusiness environment
Country Performance and Institutional Assessment[2]:	3.1
Projects at Risk in the country portfolio:	32%, June 2022

PROJECT CATEGORISATION

Environmental and Social Risk Categorization	Category FI-B
Does the project involve involuntary resettlement?	Not Applicable
Climate Safeguards Categorization:	Category 3
Fragility Lens Assessment:	Yes
Gender Marker System Categorization:	Category 2

[2] Obtain CPIA rating here - Country Policy and Institutional Assessment (afdb.org) (VPN required)

ADF/ADB KEY FINANCING INFORMATION

Interest Rate:	Not Applicable
Service Charge:	Not Applicable
Commitment Fee:	Not Applicable
Tenor:	Not Applicable
Grace Period:	Not Applicable

Source	**Amount (millions)**		**Financing Instrument**
	UA	**[Other currency]**	
African Development Bank	5.00		ADF Grant
Government Counterpart Contribution:	1.41		In cash
Total Project Cost:	**6.41**		

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

Project Development Objective:	Increase access to lending from Financial Institutions (FIs) to actors in agricultural value chains.
Project Components:	Establishment of GAMIRSAL: UA 5.68 million
	Institutional Strengthening: UA 0.16 million
	Project Management: UA 0.57 million

PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval:	17 June 2022
Appraisal Mission:	10-19 August 2022
Planned Board Presentation:	07 November 2022
Effectiveness:	31 December 2022
Project Implementation Period:	1st January 2023 – 31 December 2025
Planned Mid-term Review:	1-30 September 2024
Project Closing Date:	31 December 2025

TABLE OF CONTENTS

1 STRATEGIC CONTEXT

A. Country Context, Strategy and Objectives

1. The Gambia is a small country in West Africa stretching 450 km along the Gambia River, surrounded by Senegal, except for a 60-km Atlantic Ocean front. Since independence in 1965, The Gambia adopted a factor-driven economic growth model, with agriculture, tourism and services being the main drivers. The Gambia's economy has undergone structural change over the last two decades, but it remains undiversified. The gradual structural change is evidenced by the decline in share of the agriculture sector in Gross Domestic Product (GDP) value added (from 28% to 22%) and total employment (from 33% to 29%) between 2000 and 2019. Economic growth has been adversely affected by climate shocks and the COVID-19 pandemic (from 7.2 per cent in 2018 to minus 0.2 per cent in 2020), as well as the recent disruptions of food and input supplies arising from the Russia-Ukraine war and the rise in oil price. The Gambia's adverse business environment hampers private sector growth. Private sector productivity has lagged, and industrial output base remains undiversified and largely dominated by food processing, industrial seafood, and construction materials. The Financial sector remains stable, with well capitalized commercial banks, although they are not financing the agricultural sector. Agriculture receives about 4% of total industry credit due partly to the perceived risks, high interest rates and lack of collateral. Climate change has exacerbated this situation by making agriculture risky and less competitive, and therefore, reducing financial institutions' appetite to lend to farmers and agribusinesses.

2. The Gambia's development objectives and priorities are spelt out in the National Development Plan (NDP) 2018-2021 and driven by the 2030 SDG goals and the African Union's Agenda 2063. The NDP has been extended until end-2022 to run along the COVID-19 recovery plan. The NDP is anchored on eight priorities: governance; macroeconomic stability; agriculture and fisheries, human capital; infrastructure; tourism; youth empowerment; and private sector and trade. The Gambia Incentive-based Risk Sharing System for Agricultural Lending (GAMIRSAL) Establishment Project is aligned with the NDP 2018-2021, by facilitating access to finance for actors in the agricultural sector. This will contribute to achieving the NDP's strategic Priorities 2 (stabilizing economy, stimulating growth, and transforming the economy), 3 (modernizing agriculture and fisheries for sustained economic growth, food and nutritional security and poverty reduction) and 8 (making the private sector the engine of growth, transformation, and job creation). The project is aligned with the SDG 1, SDG 2, SDG 8, SDG 10 and SDG 13 thanks to its positive impact on food and nutrition security, employment, inclusive growth, and climate resilience building, as evidenced in the theory of change. It is also in line with the AU Agenda 2063, particularly with the objective 5 (Modern agriculture for increased productivity and production) and 1 (High Standard of Living, Quality of Life and Well Being for All Citizens).

3. To tackle Gambia's overarching development challenge, the main objective of the Bank's Country Strategy Paper's (CSP 2021-2025) is to assist the country in laying the foundations for socioeconomic transformation and building resilience. Based on the selectivity approach, the CSP identified a single priority area, namely: Modernization of agricultural value chains for inclusive growth. Already foreseen in the CSP, the GAMIRSAL Establishment Project will contribute to achieving the main strategic outcome 1: Agriculture productivity and increased agricultural value addition. The proposed project is aligned with the Bank's Ten-Year Strategy (2013-2022) by contributing to inclusive and green growth in the Gambia. The Project is consistent with two priorities of the Bank's High 5s vision for Africa's economic transformation: Feed Africa and Improve the

Quality of Life for the People of Africa. Indeed, the project is about mobilizing resources to foster private investment in agricultural value chains for a sustainable transformation of agriculture in the Gambia. In addition, the project is aligned with the Bank's key strategies and initiatives including the Gender Strategy 2021–2025, the Jobs for Youth in Africa Strategy (2016-2025), the Strategy for addressing fragility and building resilience in Africa for the period 2022-2026, the Strategic Framework on Climate Change and Green Growth (2021-2030), and the recently approved African emergency food production facility (AEFPF), by promoting a business-friendly environment, facilitating access to credit particularly for SMEs, and attracting new investments in the sector.

B. Sector and Institutional Context

4. Although the banking system in the Gambia comprises twelve commercial banks and five microfinance institutions, the level of lending from financial institutions (FIs) to the agricultural sector remains very low, at an average of 4%.[3] Access to finance remains a challenge for actors along the agriculture value chains, mainly due to: i) perceived and inherent risks, ii) lack of adequate collateral, iii) lack of relevant risk mitigating instruments, iv) lack of relevant capacities and innovative products to cater for the unique characteristics of agricultural production, v) the mismatch between short-term funds and long-term financing needs, vi) the informal structure of actors along the agriculture value chains, vii) the limited mechanization of agriculture, and viii) the predominance of rainfed agriculture which is extremely vulnerable to climate change risks .

5. There is a strong consensus among the development community that access to finance is a key enabler to reduce extreme poverty and food insecurity, as evidenced by the fact that all agricultural projects have a finance-access component, most often in the form of a matching grant scheme. The Central Bank of The Gambia (CBG) launched in January 2022 a National Financial Inclusion Strategy (NFIS) to build impetus and push forward reforms to reach nationwide financial inclusion. The NFIS is the blueprint for designing policies that are intended to curtail the challenges of accessing finance and aims to effectively onboard 70% of the adult population into the formal financial sector by 2025. The NFIS is based on three pillars: financial innovation, consumer protection and empowerment and financial education and literacy, especially for women and youth.

6. The GAMIRSAL Establishment Project is consistent with the NFIS and will contribute to removing barriers to access to credit for actors along agriculture value chains, through awareness raising, capacity building and use of relevant and innovative financial products and services. The proposed project is a more comprehensive and sustainable solution to address the issue of access to finance in the agricultural sector than the matching grant scheme. On one hand, the proposed project shall benefit from synergy with other projects through the capacity building of actors and, on the other hand, all the projects planned or implemented in the agricultural sector in the Gambia shall benefit from the risk sharing facility (GAMIRSAL) that will be established since their beneficiaries can access credit through the risk sharing mechanism.

C. Rationale for Bank's Involvement

7. Access to finance is one of the most important challenges hampering the progress of agricultural development in the Gambia. Most of the population in the agricultural sector can only access to the informal financing, which probes not to be sustainable, and much less capable of addressing all the

[3] Exposure of total industry volume of commercial banks

needs of agribusinesses. So far, the technical and financial partners' interventions to enhance access to finance remained mainly in the form of matching grant, which is a one-off grant, and therefore not a sustainable source of financing.

8. The rationale for the Bank's involvement in the proposed project rests on its alignment with the current top priority areas of intervention of both the Bank and The Gambia, as outlined above. The GAMIRSAL Establishment Project would address a number of market failures, including: i) difficulties for actors along the agriculture value chains to access suitable financial services and products, due to lack of satisfactory collaterals and risk mitigating instruments as well as prohibitive borrowing cost; ii) reluctance of FIs to finance agriculture despite their high liquidity, due to their lack of knowledge of the agricultural sector, the agriculture perceived and inherent risks including climate risks and the lack of agriculture tailor-made financial products; iii) limited capacity of actors along agriculture value chains to develop bankable business plans and efficiently manage credit and climate change risk. Also, the project fits well into the new policy paradigm for agricultural development promoted by the Bank and the Government, which aims at transforming agriculture, through the Gambia Agriculture Transformation Program.

9. The Bank has a clear comparative advantage for this intervention, given its experience in establishing similar and successful risk sharing institutions in a few African countries (Ghana, Nigeria and Togo) and the fact that the Bank funded the project feasibility study in 2021.

D. Development Partners Coordination

10. In line with the Paris Declaration on Aid Effectiveness, the Government has established an Aid Coordination Directorate at the Ministry of Finance and Economic Affairs (MOFEA), tasked with loan/grant resource mobilization and coordination. A sector working group was established along the lines of the NDP's clusters, but it is not functioning well, presumably because most of the financial and technical partners are not resident in the Gambia. The United Nations Resident Coordinator through the United Nations Country Team (UNCT) coordinates UN activities through the United Nations Development Assistance Framework (UNDAF 2017-2021). In the recent past, the World Bank and the AfDB (2012-2015) have collaborated in Joint programming. The Bank has supported the agricultural sector in the Gambia since 1974, with a total amount of UA 101.168 million in cumulative project approvals. Its knowledge product and financial products have been used to support critical interventions in the country and has evolved as a partner of choice by the government and the sector. Other multilateral financial institutions that are active in the sector are the World Bank Group, IFAD and IsDB. They mainly support rice and vegetable value chains, capacity building, access to markets and resilience to climate change.

11. The project was presented to the Development Partners, including the World Bank, the International Monetary Fund (IMF), the Food and Agriculture Organisation (FAO) and the European Union (EU). They have shown keen interest level in establishing GAMIRSAL, recognising that it would contribute to the success of Development Partners' operations and boost private investments in the sector. In return, ongoing operations in the sector will contribute to the success of the proposed project through the capacity strengthening of actors along the agriculture value chains. The Gambia Inclusive and Resilient Agricultural Value Chain Development Project (GIRAV), funded by the World Bank, has a provision of USD 0.5 million to strengthen the technical, entrepreneurial, and management skills of productive investment subproject promoters to (i) prepare, improve, or finalize their business plans and (ii) successfully implement their investments.

2 PROJECT DESCRIPTION

A. Project Development Objective

12. The project development objective is to increase access to lending from Financial Institutions (FIs) to actors in agricultural value chains. The project specific objectives are : i) increase access of FIs to risk mitigating instruments to crowd in investments in the agricultural sector; ii) improve FIs' knowledge of the agricultural sector and skills in analysing, financing, and managing agricultural project portfolios, including climate risk mainstreaming in investment portfolio; and iii) improve skills of agriculture value chains' actors in business governance (enterprise governance structure, board structuring and oversight, ownership structure, etc.), financial and credit risk management, climate risk management, as well as reporting. The achievement of these objectives will enable project end-beneficiaries gain access to fit-for-purpose financing to increase productivity, generate greater added value and build resilience to climate change. At the national level, this will facilitate agricultural growth, increased exports, greater value addition, as well as improved food and nutrition security.

B. Theory of Change

13. The project will focus on activities that remove barriers to FIs' lending to the agricultural sector. The issues of lack of acceptable collateral, absence of risk mitigating instruments and high interest rates will be addressed by establishing a risk mitigating facility (GAMIRSAL) which shall provide credit guarantee up to a maximum of seventy percent of principal of the loan from FIs to the actors along the agriculture value chains, including women and youth. The issues of poor knowledge of agriculture value chains and lack of agriculture tailor-made financial products and services will be addressed by providing Technical Assistance to FIs to strengthen their capacities and equip them with effective operating models for analysing financing requests, mainstreaming and managing climate change risks in investment portfolios, and managing agricultural project portfolios.

The project will adopt best practices in serving women-led SMEs to ensure that their needs are met and the persistent gender gap in accessing credit is reduced. The issue of weak capacity of actors along the agriculture value chains to develop bankable business plans, mainstream, and manage climate change risks in investment plans and manage credit will be addressed through technical assistance in designing and improving business plans, as well as training of trainers in good governance, financial education, climate risk management, credit management and reporting systems. All other things being equal, access to a risk sharing facility coupled with improved skills of FIs and actors along the agriculture value chains will result, in the medium term, to an increase in lending to agriculture. In the long term, this will promote an increase in agricultural productivity and production, income, food, and nutrition security, building resilience to climate change and help to decrease food imports. Special attention shall be paid to agriculture value chains that are highly vulnerable to the effects of climate change and/or SMEs operating in high climate change hotspots. By establishing a sustainable mechanism for agriculture investment financing, the project will help reduce the country's vulnerability to external shocks that endanger food security, such as COVID-19 and the Russia-Ukraine war. Nevertheless, it should be noted that effective participation of target beneficiaries to the project activities is critical for its success. Therefore, in addition to the consultations carried out during the feasibility study and project preparation and appraisal, project implementation is planned to commence with an awareness raising campaign and beneficiaries will closely be involved until the project completion.

C. Project Components

14. The project is structured around three components: A) Establishment of the risk sharing facility (GAMIRSAL), B) Institutional strengthening and C) Project management.

Component 1: Establishment of GAMIRSAL, UA 5.68 million

15. The objective of the component is to set up a sustainable risk sharing facility that will provide credit guarantee to de-risk lending to agriculture by financial institutions. Titled "Gambia Incentive-based Risk Sharing System for Agricultural Lending (GAMIRSAL)", the facility will be established as a non-bank financial institution incorporated as a limited liability company. It shall be a legal entity separate from its shareholders to ensure independence and sustainability. GAMIRSAL will cover the risk of credit repayment default up to 70 per cent of the amount not reimbursed. The direct target beneficiaries are commercial banks and micro-finance institutions legally registered and authorized to operate in the Gambia. The activities to be carried out under this component are as follows:

- *Sub-component 1.1: Development of the Legal and Regulatory requirements*

The objective of this subcomponent to hire a legal consultancy firm to develop the legal requirements and a detailed roadmap indicating the steps for establishing GAMIRSAL.

- *Sub-component 1.2: Setting up of GAMIRSAL*

The objective of this subcomponent is to set up the credit guarantee scheme and de-risking tools that will be deployed to reduce risks associated with lending to agribusinesses. The activities to be implemented include: i) facilitating provision of pledged seed capital from the Bank and the Government; ii) procuring required equipment for GAMIRSAL (IT, transport, office, etc.); iii) supporting the recruitment of the Board of directors of GAMIRSAL[iv) supporting for GAMIRSAL start-up staffing; v) supporting the development of a climate change and low-carbon strategy; v) providing resources for GAMIRSAL's recurrent costs during its first year of operation including office rent, office consumables, operation and maintenance of vehicles and IT equipment, electricity and water; vi) carrying out annual audit of accounts, annual audit of ESMS, and annual audit of climate change and carbon footprint monitoring; and vii) ensuring project visibility and communication.

The GAMIRSAL's main instrument is a "credit guarantee" up to a maximum of 70% on principal only. The sequence of transactions is as follows: i) the borrower applies for a loan to a financial institution; ii) the financial institution reviews the application in line with its procedures and criteria, taking cognisance of conditions precedent to issuance of the loan being met; iii) once the financial institution approves the loan it applies for guarantee from GAMIRSAL; and iv) GAMIRSAL reviews the guarantee request in line with its procedures/criteria and approves, if all conditions are met and the guarantee issuance fee collected.

- *Sub-component 1.3: Studies (GATP-PPF)*

The objective of this subcomponent is to carry out preparatory studies for the Gambia Agriculture Transformation Programme (GATP). The preparatory studies have been carried out with the advance granted by the Bank to the Government through a Project Preparation Facility (PPF). Per the Bank' rules and procedures relating to the reimbursement of PPF advances, the amount of the advance is included in the financing plan because these preparatory activities have led to the GAMIRSAL Establishment Project, which is funded by ADF.

Component 2: Institutional Strengthening, UA 0.16 million

16. The objective of the component is to provide technical assistance to financial institutions and actors along the agricultural value chains to improve their capacities to lift the constraints pertaining to capacity shortfall, both on the supply and demand sides. The direct target beneficiaries are the financial institutions, producer organisations, training centres, consultancy firms, etc.

- *Sub-component 2.1: Technical Assistance Facility to Lenders*

The objective of this subcomponent is to provide technical assistance to financial institutions to improve their knowledge of the agricultural sector, mainstream and manage climate change risks in investment portfolios, support them develop relevant and innovative financial products and services, and build their capacities in analysing and assessing financing requests, as well as manage project portfolios in the agricultural sector.

- *Sub-component 2.2: Technical Assistance Facility to Borrowers*

The objective of this subcomponent is to raise awareness about the project's activities and strengthen the capacity of actors along the agricultural value chains in developing bankable and climate-proofed business plans, financial literacy, and credit management.

Component 3: Project coordination and management, UA 0.57 million

17. The objective of the component is to ensure swift and proper implementation of the project activities to achieve the objectives stipulated in the two technical components.

- *Sub-component 3.1: Technical assistance to the executing agency*

The objective of this subcomponent is to recruit an international consultant experienced in establishing similar financial institutions, preferably in the Gambia, to support the executing agency in establishing GAMIRSAL. This support is needed given the fact that the risk sharing facility is a new approach in the Gambia. The consultant will provide the required technical expertise in banking and finance, which is missing in the CPCU, while it is necessary for a smooth implementation of the project. He will support CPCU in the buy-in and high-level consultations with key stakeholders, especially the financial institutions. He will ensure proper and prompt project implementation by providing guidance and oversight in the operating model and policy framework of GAMIRSAL, strengthening capacity on the risk sharing facility, monitoring and assessing the performance of consultants and developing specific tools, manuals and guidelines.

- *Sub-component 3.2: Project management*

The objective of this subcomponent is to implement day to day project activities, including coordination, financial management, monitoring and evaluation, procurement, audit, environmental and social management system (ESMS) and climate change and gender mainstreaming.

D. Project Cost and Financing Arrangements

18. The overall project cost, including provisions for physical contingencies and price escalation, is estimated at UA 6.41 million (GMD 457.5 million) net of taxes and custom duties, which is Government counterpart contribution. The base cost stands at UA 6.31 million, whereas provisions for physical contingencies and price escalation are estimated at UA 0.1 million.[4] The total cost comprises UA 5.74 million (89.5%) in local currency and UA 0.67 million (10.5%) in foreign exchange.

19. The proposed sources of funding are an African Development Fund (ADF) grant to the tune of UA 5 million (78%), equivalent to GMD 357.5 million, and the Government of the Gambia counterpart contribution of UA 1.41 million (22%), equivalent to GMD 100 million. ADF shall entirely finance the institutional strengthening and project management. It will also partly finance the establishment of the GAMIRSAL, including seed capital, equipment, recurrent cost for the first year and the cost of studies financed using the Project Preparation Facility (PPF) for the Gambia Agricultural Transformation Programme (GATP). The Government contribution will be fully in cash and entirely for the seed

[4] The contingencies are estimated to be 8% of the base cost on average excluding the cost of seed capital.

capital of GAMIRSAL. The GAMIRSAL's total amount of seed capital (GMD 300 million)[5] will be provided by ADF in an amount of GMD 200 million and by Government to the tune of GMD 200 million. The summary of the project costs by component, source of financing and expenditure category is presented in Tables 1, 2 and 3, respectively.

Table 1: Estimated Cost of the Project by Component

Components	UA			% of Total Project Cost
	Foreign Currency	Local Currency	Total	
Component 1: Establishment of GAMIRSAL	0.45	5.22	5.67	88%
Component 2: Institutional Strengthening	0.03	0.09	0.12	2%
Component 3: Project coordination and management	0.16	0.36	0.52	8%
Total Base Costs	**0.64**	**5.67**	**6.31**	98%
Physical contingencies	0.01	0.02	0.03	1%
Price contingencies	0.02	0.05	0.07	1%
Total Project Costs	**0.67**	**5.74**	**6.41**	100%

Table 2: Project sources of financing

Sources of financing	Costs (UA million)	Costs (GMD million)	% of Total Project Cost
African Development Fund	5.00	357.5	78%
Government of The Gambia	1.41	100.0	22%
Total Project Costs	6.41	457.5	100%

Table 3: Project cost by category of expenditures

Category	(UA million)			% of Base Total Cost	% of Total Project cost
	F.E.	L.C.	Total		
Goods	0.15	0.10	0.25	4%	4%
Services	0.39	0.91	1.30	21%	20%
Operating Costs	0.10	0.42	0.52	8%	8%
Miscellaneous	-	4.24	4.24	67%	66%
Total Base Costs	0.64	5.67	6.31	100%	98%
Physical contingencies	0.01	0,02	0.03	1%	1%
Price contingencies	0.02	0,05	0.07	1%	1%
Total Project Costs	0.67	5.74	6.41	102%	100%

Table 4: Project Expenditure Schedule

Component	(UA million)			
	PY1	PY2	PY3	Total
Component 1**:** Establishment of GAMIRSAL	5.19	0.18	0.30	5.67
Component 2**:** Institutional Strengthening	0.05	0.01	0.06	0.12
Component 3**:** Project coordination and management	0.26	0.14	0.12	0.52
Total Base Costs	5.50	0.33	0.48	6.31
Physical contingencies	0.02	0.00	0.01	0.03
Price contingencies	0.02	0.02	0.03	0.07
Total Project Cost	5.64	3.35	0.52	6.41

[5] The best case scenario as determined by the financial model.

E. Project’s Target Area and Population Beneficiaries and other Stakeholders

20. The project will intervene in all regions of the country, although concentration is expected to be in the Greater Banjul Area (GBA) where most of the commercial banks are currently located. The project is expected to benefit 5,000 direct beneficiaries and 20,000 indirect beneficiaries (50 per cent women and youth). Intermediary beneficiaries consist of commercial banks and microfinance institutions (MFIs), training centres and consultancy firms. All legally registered and authorized commercial banks and MFIs can benefit from the incentives provided by the project’s de-risking tools and technical support to increase their financing to the agricultural sector.

21. The project end-beneficiaries are the actors along the agriculture value chains and their organisations. In principle, all segments of the agriculture value chains are eligible, including actors in input business, production, processing, packaging, labelling, transport, storage, and marketing. However, since the entry point for access to credit is the formal banking sector, only the registered actors and of a certain activity level, capable of developing business plans and submitting financing requests to the banks, can effectively benefit. There is no limitation in the size of agribusiness to be eligible, but in the Gambia, the SMEs have between 5 to 49 employees and annual sales between GMD 0.5 million to GMD 10 million.[6] The project will be mindful of high climate vulnerable agriculture value chains and/or SMEs operating in high climate change hotspots. The smallholders can access credit through their registered cooperatives, which will be supported in developing bankable business plans, with priority given to women's groups. Smallholders will also benefit from the project through aggregators/processors, who by expanding their activities will improve access to market for smallholders. Hence, the project will help address two main constraints faced by end-beneficiaries, i.e., access to credit and access to market.

22. The project’s target beneficiaries indicated above have been closely consulted and involved, from the feasibility study to project preparation and appraisal. This participatory approach will continue during project implementation, with the banks and actors along the agriculture value chains being represented in the project steering committee through their umbrella organisations.

F. Bank Group Experience and Lessons Reflected in Design

23. The Bank's ongoing portfolio in the agricultural sector in The Gambia comprises four operations with commitments totalling UA 33.4 million and including: i) Rice value chain transformation program (RVCP); ii) Project 1 of the Program to strengthen resilience against food and nutritional insecurity in the Sahel (P1-P2RS); iii) Africa Disaster Risks Financing (ADRiFi) Program; and iv) Gambia Agriculture and Food Security Project (GAFSp). The closed operations in the sector include i) Gambia Agriculture Transformation Project (GATP), a study completed in March 2021; ii) Food and Agriculture Sector Development Project (FASDEP), closed in June 2020; and iii) Agriculture value chains development Project (AVCDP), closed in December 2021.

24. Lessons learnt from previous Bank’s operations include: (i) enhancing sustainability of Bank’s investments in agricultural value chains and mainstreaming climate change; (ii) encouraging greater financing from the private sector, given the high public debt burden which limits the capacity to finance transformative projects; (iii) applying fragility lenses, given the country’s transitional environment; and iv) necessity to factor in political interference and weak capacity of government institutions to implement projects. In line with these lessons, the proposed intervention will establish a sustainable

[6] The Gambia National Policy for MSME 2019- 2024

mechanism to leverage private sector (FIs) resources for financing of projects in the agriculture value chains, enabling actors along these value chains to access financing in a sustainable way. The project will reduce the need for public financing, while bridging the gap between agriculture and other sectors in terms of access to credit. The fragility analysis carried out shows that the project will address fragility and build resilience to climate change by catalysing private investment and creating the conditions for job creation. GAMIRSAL will be established as an autonomous and independent legal entity to minimize political interference in its management. The project also makes provision to respond to the weak capacity of the executing agency (CPCU/MOA) in implementing the proposed intervention, which is not a typical agriculture project, by providing technical assistance using the services of an experienced international consultant with a track record in establishing similar financial institutions.

3 PROJECT FEASIBILITY

A. Financial and Economic Analysis

25. The project financial and economic analysis has been carried out based on the financial model developed for GIRSAL in Ghana. The project's viability has been assessed through financial and income models, with various scenarios for guarantee pay outs and operating expenses examined to determine the best-case that will meet the overall objectives of the project. The outcome of these scenario analysis formed the basis for determining the critical factors of capital with stability and sustainability being key success factors for GAMIRSAL, namely:

- The size and adequacy of capital;
- Timing of capitalization;
- Cost of capital and prevailing market rates; and
- Guarantee covers to financial institutions.

26. The adequacy of capital was evaluated with different scenarios: worse-case, base-case and best-case, respectively, as follows: The best-case scenario indicates that a minimum capital of GMD300 million is required to cumulatively support the projected incremental lending of 50% at the end of year 5 and a further 50% growth in year 10. The base-case scenario of GMD200 million, which is the minimum capital requirement of commercial banks provides partial guarantee cover, but not up to year ten. The worst-case scenario of GMD100million does not suffice to give the incremental credit guarantee coverage for the period. The GMD300 million capitalization (best-case) to be secured in Year 1 (as opposed to a gradual increase in capital over time); to have the desired effect of growing lending to the agriculture sector and boost the confidence of commercial banks to partake in the scheme.

27. The key underlying assumptions are thus: i) Active participation of at least 6 financial institutions (participating financial institutions); ii) Guarantee cover to a maximum of 70% on loan principal; iii) Agriculture loans projected to increase by 50% in the first 5 years and a further 50% in the subsequent 5 years (year 10) occasioned by a leveraging effect of GAMIRSAL credit guarantees; iv) Probability of default of FI loans to the agriculture sector is projected as 0% in the first 3 years, 5% from year 4 to 6, and 10% in the last 3 years; v) The low default rates are projected to arise due to the resultant effect of improvement in FIs risk management systems; vi) Participating Financial Institutions (PFIs) would increase their risk appetite resulting from their improved assessment of agricultural financing risks; and vii) Correspondingly, the agriculture value chain actors / borrowers would improve their farm management, financial literacy and management skills provided by the Technical Assistance Facility (TAF) and GAMIRSAL interventions.

28. The assumptions are based on various capital scenarios of GMD200 million, GMD300 million and GMD350 million and the corresponding adjusted cash flows, giving rise to the FIRR, EIRR and NPV's over a 10-year period at a 10 % discount rate. Funds mobilization of GMD300 million (best-case scenario) has been secured for GAMIRSAL's seed capital comprising of GMD100 million from the Government and GMD200 million from the AfDB to cater for capitalization, operation expenditure and capital expenditure, respectively. The financial internal rate of return (FIRR) analysis under this capitalization scenario gave rise to a break-even internal rate of return.

29. It is projected that the GAMIRSAL project will have about 5,000 direct beneficiaries along the value chain and 20,000 indirect beneficiaries to support the government's drive for agricultural transformation and poverty reduction. Loans are expected to be availed at lower interest rates (compared to the traditional high and punitive rates to agriculture value chain actors) with the prescribed rate under the scheme being policy rate (currently 11%) plus a margin of 1-7%). The economic analysis was conducted using the same scenario approach, taking cognisance of potential funding gaps. The IRR projections are likely to increase with additional capitalization of GAMIRSAL over the 10-year horizon. An IRR of 9% is projected at an increased capitalization of D350 million and 15% at an increased capitalization of D400 million over the same horizon.

Table 5: Key economic and financial figures (for cost benefit analysis)

FIRR (base case)	2%
EIRR (best case)	11%
NPV, (discount rate)	GMD14.1 million,10%

Additional Positive Effects

30. The additional positive effects of the project include: i) mobilisation of private sector investment; ii) climate resilience and adaptive capacity enhancement; iii) capacity building initiatives; and (iv) technical assistance.

B. Environmental and Social Safeguards

Environmental

31. The project is classified as category B according to the National Environmental Management ACT, Cap. 72.01 Laws of the Gambia, 2009 and Environmental Impact Regulation 2014 Schedule B determining the fundamental principles of environmental assessment in the Gambia. Also, this category corresponds to FI-B according to the Bank Group's Integrated Safeguard System (ISS). The categorization has been approved in ISTS and SAP on August 28, 2022. All subprojects to be financed by FIs with the guarantee of GAMIRSAL will belong only to this category. GAMIRSAL will be established at the end of the second year of project implementation, and its operation will start from the beginning of the third (and final) year of project implementation. For this purpose, the Borrower is not required to prepare any study or document prior to the appraisal phase. However, an Environmental and Social Management System (ESMS) will be established as an activity line during project implementation, to comply with the Bank's Integrated Safeguard System (ISS) requirements. The terms of reference (TOR) for the preparation of the ESMS will be submitted to the Bank for review and approval, as will the ESMS documents. The Policy and procedures of the ESMS will be approved and disclosed both at the national and Bank level, in accordance with the relevant national procedure, while ensuring wide dissemination among the stakeholders of the project (GAMIRSAL's website, MOFEA, FIs/Banks, etc.). The Borrower will authorize the Bank to disclose said components of the ESMS access to information policy. By the last year (year 3) of project implementation, the following E&S

due diligence actions will have been completed by GAMIRSAL; this is: (i) High level E&S policy Statement approved by the GAMIRSAL's Senior Management; (ii) Institutional capacity (existence of clear E&S unit/function) in the GAMIRSAL's organigram, including skilled and appropriate staffing commensurate to the E&S challenges; and an adequate sustainable financing (permanent budget line) for the operation of the E&S unit/function; (iii) Production of the quarterly ESMS implementation report. For this purpose, within year 3 of project implementation, four (04) quarterly reports will be submitted to the Bank for review and approval; (v) Realization of an annual E&S compliance audit at the end of year 3 of project implementation. This Audit will be undertaken by an independent consultant recruited by the Borrower. The TOR and report of the audit will be submitted to the Bank for review and approval. Furthermore, GAMIRSAL will sign a master agreement with each of the partner FIs/Banks in the Gambia, ensuring ESMS compliance commitment are part of the agreement. The other ESMS requirements will be put in place progressively during the operation of GAMIRSAL. The Project Executing agency (PEA) will have an Environmental and Social Safeguard Specialist within the team in charge of day-to-day project management. He will ensure the follow-up of the preparation of the ESMS and its implementation by end of year 3 of project implementation. It is worth noting that Gambia's National environment agency (NEA) has no experience with financial intermediaries (FIs), and this underscores the importance of building the capacity of NEA in monitoring of environmental and social safeguards during project implementation.

32. The project aims to contribute to and finance "agriculture productivity and increased agricultural value addition". All other things being equal, access to a risk sharing facility coupled with improved skills of FIs and actors along the agriculture value chains will, in the medium term, result in an increase in lending to agriculture, and in the long term, in an increase in agriculture productivity and production, with consequences such as increase in waste production and use of chemical products. This could lead to land and water-based impacts in the medium to long term. All mitigation measures shall be documented in the ESMS and managed by the PEA through an Environmental and Social Safeguard Specialist.

Involuntary Resettlement

33. There are no physical or economic displacements by the project within the three years of implementation. Hence, no Resettlement Action Plan (RAP) will be prepared for the project.

34. ***E&S compliance***. Based on the foregoing, the project is considered compliant with the E&S requirement and readiness for approval, as confirmed by the ESCON. The financing agreement will reflect these necessary provisions which are binding over the implementation phase.

Climate Change and Green Growth

35. The project is classified as Category 3 under the Bank's Climate Safeguards System. This means that the project is not vulnerable to climate risks, given that it is a facility to support establishment of an institution (GAMIRSAL) to specifically increase the skills of agriculture value chains actors in financial education and credit management. The project will develop and implement a risk sharing instrument (GAMIRSAL) to de-risk lending by financial institutions to agriculture, which is a highly climate vulnerable sector. The operation is, therefore, expected to improve access to credit and other financial services for SMEs operating in sectors climate vulnerable vis a vis financial services provision, and hence, contribute to build their resilience to climate change risks. To ensure that GAMIRSAL takes into account risks from climate change and its impact on targeted SMEs, the project

will provide technical assistance to financial institutions and other relevant actors along agricultural value chains to improve their knowledge on mainstreaming and investment portfolio management.

36. Targeting "excluded actors" by FIs, GAMIRSAL will pay particular attention to high climate vulnerable agriculture value chains and/or SMEs operating in high climate change hotspots, given that businesses involved in high climate vulnerable value chains (e.g., staple food crops) and/or climate change hotspots face a disproportional access to financial services, compared those operating in less climate vulnerable value chains. The project will also support GAMIRSAL to develop a climate change and green growth strategy to guide the management of the investment portfolio and ensure alignment with the Bank's policy on climate change and green growth (2021-2030). In its updated Nationally Determined Contribution (CDNs), the Government of The Gambia has planned to mobilize efforts to further incentivize and institutionalize sources of finance to address emerging climate risks and build longer-term resilience. The GAMIRSAL Establishment Project aligns well with CDNs of The Gambia and will contribute to the intended efforts of the Government to address climate risk and build longer-term resilience in climate vulnerable sectors.

C. Other Cross-cutting Priorities

Poverty reduction, Inclusiveness and Job Creation

37. Implementation of an incentive-based risk sharing system for agricultural lending under GAMIRSAL will enable agriculture value chain actors / agribusinesses to access credit to invest in food processing plants, agro-inputs, and fertilizers, as well as the mainstreaming of agricultural technologies. This will help boost the quantity and quality of local production and increase supply of produce such as rice, groundnuts, beans, horticulture, poultry, meat, and aquaculture. The proposed Bank intervention will support the government's efforts of reducing food insecurity from 37.2 per cent in 2021, to 20 per cent in 2025 and reducing rural poverty incidence from 69.5 per cent in 2021 to 40 per cent by 2025. By proposing to target 5,000 direct beneficiaries and 20,000 indirect beneficiaries (50 per cent women and youth), the project will contribute to job creation in The Gambia, where agriculture employs 46 per cent of the labour force, generates 33.4 per cent of total exports, and accounts for 66 per cent of income of poor households.

38. The project aims to contribute to and finance "Agriculture productivity and increased agricultural value addition". The working conditions of the beneficiaries could be an issue during implementation of the subprojects. However, the expected social impact could consist of: (i) elite capture, as landowners, land brokers, community heads could influence lending process of beneficiaries especially the marginalization of women as group of beneficiaries. If effective and participatory stakeholder engagements are undertaken, these negative impacts could be mitigated and could lead to empowerment of project beneficiaries, especially women.

Opportunities for Building Resilience

39. Agriculture is an important sector of The Gambian economy but is highly affected by a plethora of vulnerabilities mainly climate change, environmental degradation, lack of proper policies and management in the sector, low financial and technical capacity of actors in the agriculture value chain, gender inequality in access to resources, poor irrigation systems, limited organization of farm-to-market value chains, poor farming equipment, and the economic impact of the COVID 19 pandemic. All these vulnerabilities affecting the sector gives the perception of an erratic and risky sector which further limits the average lending from financial institutions. Added to these are the challenges of

adequate collateral demanded by financial institutions, the informal structure of actors along the agriculture value chains and a lack of relevant risk mitigating instruments.

40. Within the framework of this operation, resilience will be strengthened through the development of the technical capacities of both the financial institutions and the agricultural value chain to reduce barriers pertaining to capacity inadequacies through specific activities related to improving the knowledge of financial institutions on the, build their capacities in analysing and assessing financing requests, as well as manage project portfolios in the agricultural sector. Similarly, the capacity of actors along the agricultural value chains will be strengthened in developing bankable and climate-proofed business plans, financial literacy, and credit management. More importantly, the creation of a sustainable risk sharing facility, providing credit guarantee to de-risk lending to agriculture by financial institutions will help to reduce food insecurity and extreme poverty as this will promote much needed sustainable growth along the agricultural value chain. The risk sharing facility will specifically target youths and women as key beneficiaries and prioritise methods adapted to women-led businesses. This will improve economic and social inclusion and strengthen social cohesion. Moreover, to further strengthen resilience in the sector, institutional capacity in national research system needs to be improved by building technical capacity to generate innovative technologies geared at improving soil fertility and increasing agricultural productivity by prioritizing the use of improved varieties. Similarly, actors across the agricultural value chain need to be sensitized and supported in changing from informal to formal structures, the use of modern farming and improved seed varieties. The fragility note is presented in annex 3.2.

Gender Equality and Women's Empowerment Promotion

41. This project is scored as GEN III on the AfDB's Gender Marker System. It is aligned with the Bank's Gender Strategy (2021-2025) specifically on increasing women's access to finance and financial information. It is in line with the gender mainstreaming provisions of the Gambia Agriculture and Natural Resources Policy (2017-2026) and the National Financial Inclusion Strategy (2022-2025). The Gambia is ranked 43rd out of 51 countries on the 2019 Africa Gender Index and scores well in the social dimension. In 2017, 42.4% of female employment was in agriculture, against 21.7% of male employment. Men in the Gambia manage 53.3% of farms, against women at 46.7%. Although women comprise over half of the agricultural labour force, they produce only 40% of the total output. The lower productivity of female farmers is mainly due to limited control and ownership of productive resources. The proportion of enterprises with female participation in the ownership is 21.3%, which further explains the gender gap observed at the economic level. In the Gambia, 7 out of 10 women, or 69.6% of women, contribute to the country's economy. Majority of these women are involved in informal or micro business with many engaged in selling agricultural produce, engaged in cross-border trade, or employed as domestic workers. Access to finance affects a large proportion of the Gambian population, but a gender-neutral approach by financial institutions increases barriers to women access to credit.

42. A gender analysis and gender action plan has been developed for the project (Technical Annex 3-3). Under Component 1 establishment of GAMIRSAL, the project will adopt gender diversity principles in the selection of board members, integrate gender analysis in the TORs of the studies to be undertaken and develop a gender policy for GAMIRSAL. Under Component 2 institutional strengthening, the project will support financial institutions to review credit policies from a gender perspective and implement strategies to increase access to credit for women's agri-businesses; undertake capacity building of women in agri-business as agriculture value chains actors; and support the creation of a network of women's agri-businesses to share information and experiences, as well as a

forum to provide regular feedback to GAMIRSAL. The project will also actively participate in the Gender Inclusive and Youth Financing Working Group formed to support implementation of Gambia's National Financial Inclusion Strategy. Under Component 3 project management, the project will ensure collection of gender disaggregated data on borrowers under GAMIRSAL, ensure that functional mechanisms to prevent and respond to sexual exploitation, abuse and harassment are in place and ensure that gender diversity principles are adopted in project staff recruitment. To support implementation of the gender action plan, a gender focal point in the CPCU will be appointed.

4 IMPLEMENTATION

A. Institutional and Implementation Arrangements

43. The project Executing agency (EA) is the Ministry of Agriculture (MOA) which initiated and commissioned the project feasibility study. The MOA will delegate the project management responsibility to its Central Projects Coordination Unit (CPCU) which will be backed up by a solid technical assistance.

44. The project strategic oversight role and orientation function will be played by an effective Project Steering Committee (PSC). As with other projects under the MOA, the steering committee will be chaired by the Permanent Secretary (PS) of MOA or his designated representative. The PSC will comprise i) Permanent Secretary of MOA; ii) Permanent Secretary of MOFEA; iii) Permanent Secretary of MOTIEA; iv) Executive Secretary of GCCI; v) Executive Secretary of the Bankers' Association; vi) Executive Secretary of the Insurance Association; vii) Representative of Agribusiness Associations; viii) President of NACOFAG; and ix) General Manager of NACCUG. As the project highest governing and decision-making body, the PSC will oversee project implementation and provide strategic direction and policy guidance. The PSC will ensure timely and effective execution of Project's activities and provide solutions to implementation challenges as they emerge during project implementation. The PSC shall select the GAMIRSAL's Board of Directors, based on their qualifications, experience, and integrity. With project support, the Board of Directors of GAMIRSAL will carry out the recruitment, on a competitive basis, of the Chief Executive Officer and management team of GAMIRSAL.

45. The project's day-to-day activities will be implemented by the Central Projects Coordination Unit (CPCU). The CPCU will be responsible for coordination, financial management, procurement of goods and services, monitoring and evaluation, environment, and social safeguards, as well as gender mainstreaming. The project will be managed by a dedicated Operations Director who shall be recruited on a competitive basis. Moreover, a professionally qualified accountant will be recruited on a competitive basis to be directly in charge of the financial management of the project, under the control and supervision of the CPCU's Financial Controller. All other project staff will be assigned by CPCU, which is experienced in implementing Bank financed projects (procurement, monitoring an evaluation, E&S safeguards, gender mainstreaming). The CPCU will prepare annual work plans and budgets, quarterly and annual reports detailing the progress made, as well as quarterly E&S safeguard implementation reports during the project's third year when GAMIRSAL becomes fully operational. The CPCU will support and report on the operation of GAMIRSAL during the overlapping (third) year.

46. To be on the safe side, the CPCU will be supported by an experienced international consultant with a track record in establishing similar financial institutions, preferably in the Gambia. His/her support shall be degressive over the three-year project implementation period: 9 months during the first

year, 6 months during the second year and 3 months during the third year. He/she will be based at the CPCU, and report to the project Director.

B. Procurement

47. Procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the "Procurement Policy and Methodology for Bank Group Funded Operations" (BPM), dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, Procurement would be carried out as follows:

48. **Bank Procurement Policy and Methodology (BPM):** Bank standard PMPs, using the relevant Bank Standard Solicitation Documents (SSDs), will be used for Open Competitive Bidding (OCB) and Limited Competitive Bidding (LCB) contracts for both goods and works and acquisition of Consulting Services, as indicated in the procurement plan.

49. **Procurement Risks and Capacity Assessment (PRCA):** The assessment of procurement risks at Country, Sector and Project levels, as well as the procurement capacity at the project Executing Agency (EA), were undertaken for the project and the findings informed the decisions on the procurement regime being used for transactions under the project. The appropriate risk mitigation measures have been factored in all procurement arrangements of the project.

C. Financial Management, Disbursement, and Audit

50. **Financial management:** MOA's CPCU has been specifically set up for the overall coordination, supervision and monitoring of all donor-funded projects and programmes executed by the MOA. The CPCU will use its existing financial management system (budgeting, Treasury Management- including Disbursement and Funds Flow, Internal Control, Accounting, Financial Reporting and External Audit) to implement the project. To cope with the workload and ensure adequate segregation of duties, a professionally qualified accountant will be hired to be directly in charge of the financial management of the project and report to the CPCU's Financial Controller. He will be assisted by an Accounts Clerk (to be assigned), who shall oversee basic primary entries and filing of accounting records. The project will adopt the existing CPCU FinEx accounting software, chart of accounts and projects financial management manual as well as International Public Sector Accounting Standards (IPSAS) Cash Basis (for project accounting and financial reporting in harmony with other CPCU managed donor financed projects).

On a quarterly basis, the Project Accountant will generate from the FinEx accounting package, un-audited interim financial statements (IFRs) which must be reviewed and approved by the CPCU's Financial Controller before submission to the Bank. CPCU is familiar with the content of the IFRs, and this shall be further discussed and agreed during project launch. At the end of each financial year, the Project Accountant will prepare, using the FinEx accounting software, annual project financial statements, in line with IPSAS Cash Basis, which must be subjected to external audit and the audit reports submitted to the Bank no later than six (6) months after the year being audited. The assessment further recommends that the existing CPCU project implementation manual (PIM) be customized and adopted to guide project operations and implementation. A project steering committee (PSC) shall be constituted with membership drawn from key stakeholder entities/ associations (chaired by the Permanent Secretary of the MOA), to provide strategic direction and oversight guidance as well as approve key documents including, annual workplans, budgets and procurement plans before submission for the Bank's 'no-objection'. The existing internal control procedures of CPCU managed projects shall be implemented by the project to strengthen the control environment. The Internal Auditor of CPCU will provide internal checks and periodically review project operations to strengthen the overall control environment. The internal audit reports shall be submitted to the PSC, which will ensure timely implementation of recommendations.

51. **Disbursement arrangement:** Four (4) disbursement methods are used by the Bank in disbursing funds to its projects: (i) Direct payments; (ii) Special Account (SA); (iii) Reimbursement; and (iv) Reimbursement guarantee methods. Bank financed projects managed by CPCU have generally made use of Direct payment and Special account methods. The Direct payment method will largely be used for payments to suppliers/contractors/vendors and consultancy services, whose contracts have been signed between the CPCU and suppliers/vendors/consultants. A dedicated special account (SA) in USD will be opened at the Central Bank of The Gambia to receive advances from the Bank for payments of administrative expenses or operating costs. The other disbursement methods (Reimbursements and Reimbursement guarantee) shall also be made available to the project should the need arise during project implementation. All disbursements under the project shall follow the disbursement procedures outlined in the Bank's Disbursement Handbook, 2020.

52. **External audit arrangement:** The Auditor General (AG) of the Gambia will audit the proposed project accounts on an annual basis, in line with the AG's legal mandate. However, as discussed and agreed with the AG, (and in line with his legal mandate), in instances where the AG is not able to carry out the audit due to workload or capacity constraints, the AG will lead the recruitment of a private independent external audit firm through a competitive process acceptable to the Bank. The audit terms of reference shall be agreed with the Bank. The audit reports (comprising the audited financial statements with the auditor's opinion and accompanying management letter) must be submitted to the Bank no later than six (6) months after the end of each financial year being audited.

53. **Overall Conclusion:** The assessment concluded that the overall FM risk is rated substantial, and to mitigate it further, CPCU will ensure that the project: (i) adopts the existing CPCU FM system, chart of accounts, FM manual and internal control procedures (ii) customize and adopt the existing CPCU PIM; (iii) appoint key project staff including a project director and project accountant; and (iv) fully implement the FM action plan.

D. Monitoring and Evaluation

54. Project monitoring and evaluation (M&E) will be done by the CPCU, which has substantial experience in managing projects funded by the Bank and other donors in the agricultural sector. The Ministry of Finance, through the Aid Coordination Directorate, would on quarterly basis monitor project activities to assess the level of implementation. The type of M&E system to be used is mainly the result monitoring (determine if the project is on the right track towards its intended results) and the outcome evaluation (measure of the effects of the project on the target beneficiaries). The CPCU's Monitoring and Evaluation Specialist will oversee setting up and managing the project M&E system. He/she will ensure that requisite data and information are gathered timely for the M&E system to fully operate and inform the indicators retained in the result framework to the satisfaction of the Bank and the Executing agency, in keeping with their reporting systems. The CPCU will be responsible for reporting on the project progress and results, including the quarterly and annual reports, the environmental and social compliance reports, and data for drafting implementation progress reports (IPR) following each Bank supervision mission.

55. The outcome and output indicators retained in the project's result framework derive from the project's theory of change. The key indicators include: i) increase in financial institutions' lending to

agriculture; ii) master agreements signed between the Risk sharing facility and the FIs; iii) turnaround time for loan processing and approval; iii) part of unsuccessful loan applications; iv) risk sharing facility established and operational; v) ESMS implemented and operational; vi) agriculture desks established in FIs; vii) financial institutions' staff trained in different modules; viii) innovative agriculture finance products developed by financial institutions; ix) loan applications submitted to GAMIRSAL; and x) applications approved by financial institutions. Wherever appropriate, these indicators will be disaggregated by gender and value chains when finalizing the monitoring and evaluation system and establishing the project baseline. Emphasis will be placed on monitoring of socio-economic (disaggregated data for women and youth) and environmental impacts (disaggregated data for sustainable agricultural production and services). A baseline survey will be conducted at the beginning of project implementation to ensure that required and reliable data is gathered for sound assessment and monitoring of project impacts. The exercise will involve direct collection of data from Financial Institutions and value chains' actors, as well as use of secondary data from other sources.

E. Governance

56. Governance and public sector reforms on critical sectors necessary for unlocking growth have progressed satisfactorily since the democratic transition in 2016. The Gambia was singled out in the Mo Ibrahim Index of African Governance (IIAG) 2020 report as having one of the most improved overall governance performances, with a nine (9) percentage point increase between 2016 (46.9) and 2020 (55.9). The democratic transition has enabled and renewed the fight against corruption, leading to an improvement in the Corruption Perception Index (CPI) score from 26/100 in 2016 to 37/100 in the 2020 assessment, indicating an 11-percentage increase over a five-year period. The incidence of poverty improved slightly, but is still high, at 48.6 percent of the population, according to the last integrated household survey of 2015, with wide regional disparities between rural (70%) and urban (30%) areas.

57. The critical governance issues include i) consolidating the democratic gains made during the past five years, while transitioning into a mature democratic state with independent institutions. Successful elections held in 2017 and 2022 manifest a maturing multiparty democracy. The increasing independent role of the judiciary and legislature signifies improvement in governance; ii) advancing Public Financial Management (PFM) reforms to ensure an inclusive and participatory budgetary cycle and an effective public expenditure management and financial control systems. The government is undertaking a Public Expenditure and Financial Assessment (PEFA) exercise to assess the performance of the PFM systems and provide a base line for new PFM reforms. The last PEFA exercise was done in 2015; iii) strengthening the integrity and independence of the oversight and anti-graft institutions such as external audit, anti-corruption agencies and parliamentary oversight, to ensure proper checks and balances of PFM systems. The government has put in place a robust anti-corruption strategy that is inclusive and includes other anti-graft fighting agencies such as civil society, the judiciary and law enforcement; and iv) deepening the transparency and accountability landscape though an active citizens and civil society engagement. The Post Jammeh era, civil society and citizens participation in the governance process has improved, leading to a relatively transparent state. There is, however, room for improvement. Reforms that need to facilitate implementation of the project include supporting State-Owned Enterprises (SOE) in the agriculture sector and ensuring that the business environment is conducive for attracting investment in the agriculture landscape.

F. Sustainability

58. The ambitious objective of the Government to provide financial access to 70% of adults by 2025 bears ample witness to its commitment to curtail the challenges of accessing finance. With support from the Bank, the Government conceptualized the need to design and set-up a risk sharing facility as a vehicle to accelerate FIs' lending to the agriculture sector in the Gambia. The country ownership of the project is evidenced by putting in place a technical team to develop the project and the commitment to provide one third of the seed capital of GAMIRSAL in an adverse economic context of rising prices of fuel, fertilizers, and foodstuff. To ensure their buy-in and account for their needs, the financial institutions and agricultural actors were involved from the beginning of the design process and will be involved in the overall management of the project through their participation in the project steering committee.

59. GAMIRSAL will be set up as a non-bank finance institution (NBFI) and function as an autonomous and independent legal entity to facilitate the transformation and growth of agribusiness in the Gambia. Another key contributor to the sustainability of GAMIRSAL is the fact that it will be capitalized with GMD300 million (best-case scenario) and adequately funded from Year 1 to have the desired effect of growing lending to the agriculture sector, boosting the confidence of commercial banks to partake in the scheme and meeting its operational commitments with a start-up operating budget that would be sufficient to fund its annual recurrent budget. The financial model shows that within three to five years of operation, GAMIRSAL will be able to self-fund itself, using a combination of its fee income and drawdowns from its investment portfolio. The anticipated default and pay-out levels in the formative years also support the sustainability expectation. Moreover, GAMIRSAL will have its ESMS and an environmental and social safeguard specialist to ensure environmental sustainability of its operations.

60. Another key factor vital for project sustainability is the capacity building that will be undertaken both for the financial institutions and actors along the agriculture value chains. The project aims to sustainably improve the FIs' knowledge of the agriculture sector and their capacity to design suitable financial products and services. On the other side, the aim is to enhance the financial literacy of actors in the agriculture sector and avail at local level service providers capable of satisfactorily supporting them in elaborating bankable business plans and managing credit and businesses.

G. Risk Management

61. The main foreseeable risks to project success include i) lack of interest / incentive from FIs to the risk sharing facility and project activities; ii) loan repayment default due to lack of incentive of FIs to recover loans and beneficiaries to pay back; iii) political interference, lack of independence, diverted and non-performing loans; iv) environmental and social issues; v) low productivity and income due to adverse weather conditions, post-harvest losses and limited access to markets; and vi) weak capacity of the project executing agency, giving the fact that the proposed operation is not a typical agricultural project.

62. The risk of lack of interest from FIs will be mitigated by the attractiveness of the risk sharing instrument, technical assistance, adequate capitalization, and involvement of FIs throughout the design and overall management of the project. The risk of high loan repayment default will be mitigated by the following : i) the guarantee shall be partial, ii) the signing of a master agreement with each participating FI with clear commitments to approve sound projects and to recover loans to the extent possible, iii) the fact that the financing requests are submitted to the FIs which should screen it properly through their own assessment tools and procedures, and iv) the capacities building for both the supply

and demand sides. The risk of political interference and poor management of GAMIRSAL will be mitigated by the fact that GAMIRSAL will be: i) set up as an autonomous legal entity separate from its shareholders, ii) oversight and governed by an independent Board of Directors with the highest standards of competence and integrity, iii) managed by a competent team recruited on a competitive basis, and iv) not located in the shareholder's premises. The risk pertaining to E&S safeguards will be mitigated by endowing GAMIRSAL with an ESMS and an E&S unit/function to implement it. The risk of low productivity and income will be mitigated by the fact that the project will promote investments in reducing the dependence of output to weather conditions (irrigated instead of rainfed agriculture), in capacity building, in increasing access to more productive input and equipment and in broadening market outreach. The risk of weak capacity of the implementing entity will be mitigated by the recruitment of a consultant experienced in establishing similar financial institutions.

H. Knowledge Building

63. The knowledge that is expected to emerge from the implementation of the project includes, on the supply side, the FI's knowledge of the agriculture sector, specifically how to process financing requests from the agricultural sector in a timely and efficient manner, to design innovative and relevant financial products and services for the agriculture sector and to efficiently manage portfolios in the agricultural sector. On the demand side, the project is expected to strengthen knowledge of actors along the agriculture value chains in business management, financial and credit risk management, as well as reporting. The envisaged capacity building of service providers will provide better support to financial institutions and actors in the agriculture value chains.

64. The Technical Assistance (TA) will provide capacity / knowledge building based on the evolving concept of risk sharing systems, strengthen FI's risk management systems, help understand how to process agriculture loan files to reduce the likelihood of loan default, up-date FIs and value chain actors on best practices and support them in developing bankable business plans, among others. The TA will serve as a source of innovative knowledge and information sharing learning tools that are geared towards empowering farmers and other actors along the value chains, to train their peers, as well as share knowledge and experiences. To complement coaching and direct training, GAMIRSAL will also provide a Knowledge and Innovation Centre (KIC), which is an online platform/portal for agriculture and agribusiness financing information resources and tools. The TA support will introduce and consolidate knowledge and skills, facilitate technology and skills transfer at all levels of the agriculture value chains. It is expected that this will significantly increase the number of value chain actors having access to knowledge and information disseminated to improve their capacities and performance.

65. Knowledge will be captured and shared through periodic supervision missions and impact assessments, field exchange visits of the stakeholders within and outside the production clusters.

5 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal Instrument

66. The legal instrument for the Project will be an ADF Protocol of Agreement between the Republic of The Gambia (the "Recipient") and the African Development Fund (the "Fund") for an amount of UA 5 million (the "Grant Agreement").

B. Conditions Associated with Fund's Intervention

67. **Condition Precedent to Entry into Force.** The Grant Agreement shall enter into force upon signature by the respective parties.

68. **Conditions Precedent to First Disbursement.** The obligation of the Fund to make the first disbursement of the Grant shall be conditional upon entry into force of the Grant Agreement and the fulfilment by the Recipient of the following condition, in form and substance satisfactory to the Fund:

(i) The submission of evidence of the recruitment or designation of key staff for the Project Coordination Unit within the Central Projects Coordination Unit with qualifications and terms of reference acceptable to the Fund, as follows: (i) Operations Director; (ii) Project Accountant; and (iii) Procurement Officer.

69. **Other Conditions**

(i) The Recipient shall make available the amount of UA 1.41 million in local currency equivalent as its counterpart contribution (the "Counterpart Contribution") towards the costs of the Project and to this end, shall submit to the Fund, satisfactory evidence indicating that the Counterpart Contribution has been deposited in a dedicated account in a Bank acceptable to the Fund within twelve (12) months of the first disbursement of the Grant or such later date as may be approved by the Fund.

70. **Undertakings.** The Recipient undertakes to:

(i) To cause the establishment and maintenance of a Project Steering Committee (PSC) throughout Project implementation period to inter alia: (a) provide strategic oversight and policy guidance to the Project; (b) ensure timely and effective execution of Project activities; and oversee selection of the GAMIRSAL's Board of Directors based on qualifications, experience, and integrity;

(ii) To deliver to the Fund Project quarterly reports and any other reports in form and substance acceptable to the Fund;

(iii) To cause implementation of measures and to meet requirements for Project financial management as required by the Fund;

(iv) To submit to the Fund of a certified copies of (1) GAMIRSAL's certificate of incorporation and (2) memorandum and articles of association;

(v) To submit to the Fund a legal opinion issued by a legal counsel acceptable to the Fund confirming, inter alia, that GAMIRSAL has been duly established and has the requisite power and authority to undertake the functions and obligations under the Project;

(vi) To submit to the Fund evidence of the approval by regulators of the operating license required within The Gambia for the exercise of GAMIRSAL's functions and obligations under the Project;

(vii) To submit to the Fund evidence of the constitution of the GAMIRSAL's Board of Directors with composition, mandate and responsibilities satisfactory to the Fund;

(viii) To submit to the Fund evidence of the appointment of the Chief Executive Officer of GAMIRSAL with terms of reference and qualifications satisfactory to the Fund;

(ix) To ensure that GAMIRSAL shall maintain in effect at all times an operating license from the its regulator and all such other consents, licenses, approvals, authorizations and exemptions required under the laws of The Gambia for GAMIRSAL to perform its obligations under the Project; and

(x) To take all appropriate measures and actions necessary to ensure that the proceeds of the Grant are not be used to finance any of the activities under on the Fund's Negative List (Annex 4-9).

C. Compliance with Bank Policies

☒ This project complies with all applicable Bank policies.

☒ There are exceptions to Bank policies.

African Development Bank Group Independent Recourse Mechanism

71. Communities and individuals who believe that they are adversely affected by an African Development Bank Group (AfDB) supported project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Recourse Mechanism (IRM). The IRM ensures project affected communities and individuals may submit their complaint to the AfDB's Independent Recourse Mechanism, which determines whether harm occurred, or could occur, because of AfDB non-compliance with its policies and procedures. To submit a complaint or request further information please contact: IRM@afdb.org or, visit the IRM website www.irm.afdb.org. Complaints may be submitted at any time after concerns have been brought directly to the AfDB's attention, and Bank Management has been given an opportunity to respond before reaching out to the IRM.

6 RECOMMENDATION

72. Management recommends that the Board of Directors approve the proposed ADF Grant not exceeding the amount of UA 5 million to the Republic of The Gambia for the purposes and subject to the conditions stipulated in this report.

7 RESULTS FRAMEWORK

VII. RESULTS FRAMEWORK					
A PROJECT INFORMATION					
PROJECT NAME AND SAP CODE: ESTABLISHMENT OF RISK SHARING FACILITY FOR AGRICULTURAL LENDING IN THE GAMBIA - P-GM-A00-007			COUNTRY/REGION: THE GAMBIA/WEST AFRICA		
PROJECT DEVELOPMENT OBJECTIVE: To increase access to lending from Financial Institutions to actors in agricultural value chains.					
ALIGNMENT INDICATOR (S):	Net agricultural trade balance[7]				
	Access to finance (% adult population) ♀				
	% of rural population below the poverty line (USD 1.25 per day)[8]				
B RESULTS MATRIX					
RESULTS CHAIN AND INDICATOR DESCRIPTION	**RMF/ADOA INDICATOR**	**UNIT OF MEASUREMENT**	**BASELINE (2022)**	**TARGET AT COMPLETION (2026)**	**MEANS OF VERIFICATION**
OUTCOMES					
OUTCOME 1. INCREASED FINANCIAL INSTITUTIONS' LENDING TO AGRICULTURE VALUE CHAINS					
1.1 Increase in financial institutions' lending to agriculture	☐	%	0	30%	Project quarterly report
OUTCOME 2. INCREASED ACCESS OF FINANCIAL INSTITUTIONS TO RISK MITIGATING INSTRUMENTS					
2.1 Master agreements signed between the Risk sharing facility and the	☐	Number	0	6	Project quarterly report

[7] This is a level 1 indicator under the High Five Priority – Improve the quality of life for the people of Africa

[8] This is a level 1 indicator under the High Five Priority – Improve the quality of life for the people of Africa

FIs					
OUTCOME 3. IMPROVED KNOWHOW IN AGRICULTURE SECTOR LOAN APPRAISAL					
3.1. Turnaround time for loan processing and approval	☐	Weeks	4	2	Project quarterly report
OUTCOME 4. IMPROVED QUALITY OF AGRICULTURE LOAN APPLICATIONS					
4.1. Part of unsuccessful Loan applications	☐	%	75	25	Project quarterly report
OUTPUTS					
COMPONENT 1: FORMATION OF RSF INSTITUTION					
OUTPUT 1: GAMIRSAL IS ESTABLISHED					
The risk sharing facility is established and operational	☐	Number	0	1 (RSF)	Project quarterly report
ESMS implemented and operational	☐	Number	0	1 (ESMS)	Project quarterly report
COMPONENT 2: PROMOTING DE-RISKING INSTRUMENTS FOR THE AGRICULTURE SECTOR					
OUTPUT 2: CAPACITY OF CBG AND FINANCIAL INSTITUTIONS IN AGRICULTURE VALUE CHAINS DEVELOPED					
Agriculture Desks Established in FIs	☐	Number	0	5	Project quarterly report
CBG & PFs staff trained in different modules ♀	☐	Number (sex disaggregated)	0 (0)	30 (10)	Project quarterly report
Agriculture Innovative Finance Products developed by Financial Institutions	☐	Number	0	3	Project quarterly report
OUTPUT 3: CAPACITY OF AVC ACTORS DEVELOPED TO ACCESS FUNDS FROM FINANCIAL INSTITUTIONS					
CRG Applications submitted to GAMIRSAL♀	☐	Number (sex disaggregated)	0 (0)	96 (32)	Project quarterly report
CRG applications approved ♀	☐	Number (sex disaggregated)	0 (0)	72 (24)	Project quarterly report
COMPONENT 3: PROJECT MANAGEMENT, MONITORING AND EVALUATION					
OUTPUT 3.1: ENSURE EFFECTIVE PROJECT IMPLEMENTATION					
AWP&B and PP submitted timely	☐	Number	0	3	Project annually report

Annual audit reports submitted timely	☐	Number	0	3	Project annually report
Annual environmental and social audit reports submitted timely	☐	Number	0	1	Project annually report (year 3)
Annual Prog. Reports submitted timely	☐	Number	0	3	Project annually report
Quarterly report submitted timely	☐	Number	0	12	Project quarterly report
Quarterly environmental and social implementation report submitted timely	☐	Number	0	4	Project quarterly report (year 3)
MTR report submitted timely	☐	Number	0	1	Project MTR report
PCR report submitted timely	☐	Number	0	1	Project completion report

8 ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

A. Basic Information[9]	
Project Title: Incentive-Based Risk Sharing System for Agricultural Lending Establishment (GAMIRSAL)	**Project ''SAP code''**: P-GM-A00-007
Country: The Gambia	**Lending Instrument**[10]: DI ☐ FI ☒ CL☐ BS☐ GU☐ RPA☐ EF☐ RBF☐
Project Sector: Agriculture	**Task Team Leader**: Ibro MANOMI
Appraisal date: 10/08/2022 to 19/08/2022	**Estimated Approval Date**: 27/10/2022
Environmental Safeguards Officer: Richmond ANTWI-BEDIAKO / CHEUMANI NOUDJIEU Charlotte	
Social Safeguards Officer: xxxx	
Environmental and Social Category: FI-B; **Date of categorization**: 26/08/2022	**Operation type**: SO ☒ NSO ☐ PBO ☐
Is this project processed under rapid responses to crises and emergencies?	Yes ☐ No ☒
Is this project processed under a waiver to the Integrated Safeguards System?	Yes ☐ No ☒
B. Disclosure and Compliance Monitoring	
B.1 Mandatory disclosure	
Environmental Assessment/Audit/System/Others (specify): Components of the GAMIRSAL's ESMS (E&S Policy and Procedures)	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[dd/mm/yy]
Resettlement Action Plan/Framework/Others (specify): NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[dd/mm/yy]
Vulnerable Peoples Plan/Framework/Others (specify): NA.	
Was the document disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[dd/mm/yy]
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: The Risk Sharing System (GAMIRSAL) will be established only in year 3 of project implementation, where the ESMS will be prepared and established.	
B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes ☒ No ☐ NA ☐
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes ☐ No ☐ NA ☒
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, *effectively mobilized and secured*?	Yes ☐ No ☐ NA ☒
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes ☒ No ☐ NA ☐
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes ☒ No ☐ NA ☐
C. Clearance	

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board? Yes ☒ No ☐

[9] **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*
[10] **DI**=Direct Investment; **FI**=Financial Intermediary; **CL**=Corporate Loan; **BS**=Budget Support; **GU**=Guarantee; **RPA**=Risk Purchase Agreement; **EF**=Equity Financing; **RBF**=Results Based Financing.

Prepared by:	***Name***	***Signature***	***Date***
Environmental Safeguards Officer:	CHEUMANI NOUDJIEU Charlotte / Richmond ANTWI-BEDIAKO		06/10/2022
Social Safeguards Officer:	xxxx		/
Task Team Leader:	Ibro MANOMI		06/10/2022
Submitted by:			
Sector Director:	Vincent CASTEL OiC for Martin FREGENE		10/10/2022
Cleared by:			
Director SNSC:	Maman-Sani ISSA		11/10/2022