

CLIMATE INVESTMENT FUNDS

December 27, 2016

Approval by mail] Burkina Faso: Climate change mitigation and poverty reduction through the development of the cashew sector in Burkina Faso (FIP, PSSA) (AfDB) (XFIPBF503A)

AFDB RESPONSE TO FIP SC COMMENTS

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MDB RESPONSE TO FIP SC COMMENTS

COMMENTS	ANSWERS
UK COMMENTS	
<p>We note that the original proposer of the project – The Wouol Association- does not meet the Bank’s criteria for private sector operations and that the project therefore is now a public sector operation with a private sector objective. Is it usual for this sort of information to be unknown at the time of submitting the project concept?</p>	<p>The project concept note CN of 2013 presented a preliminary assessment of Wouol capacity and project’s feasibility. In developing the CN, the criteria used to characterize the private aspects of the project were based on the fact that: (i) Wouol association is an autonomous, non-state organization that manages its own activities; (ii) Wouol processes and sells cashew products to generate revenue; and (iii) Wouol has the capacity to minimize the risks associated to the loan. The project appraisal is conducted by a multidisciplinary team that carries out a detailed analysis of Wouol’s ability to meet the requirements of a private sector loan. Following a detailed assessment, the private sector department of AfDB has come to the conclusion that Wouol can’t meet the risks management criteria to borrow directly from FIP. Given the importance of the expected results of the project, in particular the potential of poverty reduction and in order not to disappoint the hopes placed by producers and processors that are members of the Wouol association, Government has taken option to guarantee it to the communities by deciding to borrow the loan and to invest it for the development of the cashew value chain in the form of micro-credits through a financial intermediary (RCPB). This is the justification of the project arrangements proposed by the Government of Burkina Faso and African Development Bank.</p>
<p>We would be grateful for clarification on one key area of intervention. This entails the Support Fund known as FIE which plays an important role in the achievement of the project’s objectives. As we understand it, the FIE has so far only operated as a mechanism to award grants. In the Technical Annex (pg 60-61) “heavy shortcomings” associated with the FIE’s onerous process for awarding grants in 2015 is highlighted. There is little explanation of what has improved since then to suggest the project should have confidence in this mechanism now. This strikes us as important given the reliance on this instrument to award the subsidies to promote higher quality planting stock in increased plantation areas, and to on-lend to the RCPB (network of credit unions) which seems critical for the provision of loans to support investment in improved transport and processing technologies.</p>	<p>FIE procedures for awarding grants were reviewed during the appraisal mission in order to improve the mechanism and to reduce transaction costs. The relatively high costs were related to the fact that the FIE was hiring consultants up to date to evaluate the sub - projects. The main measure adopted by project is that the evaluation and monitoring of the financed subprojects will be carried out by regional public technical services.</p> <p>Thus, for grants, an inter-regional committee composed of regional technical services in charge of environment, agriculture, trade, regional chambers of agriculture and producers’ representatives will be established for the examination, evaluation, approval or rejection of requests. The project will only cover the organization costs of the committee’s meeting in accordance with the regulations in Burkina Faso.</p> <p>For the loans, the inter-regional committee will be expanded to representatives of the financial intermediary (RCPB) in order to assess the technical feasibility and the profitability of the loan. Project will pay travel expenses of the committee members to attend the meetings. The role of RCPB is to make the loans available to the beneficiaries and to recover with interest. RCPB's fees will be paid with the interest recovered from the beneficiaries. The agreed maximum interest rate is 7% for the loans.</p> <p>Monitoring of the implementation of the financed subprojects will be carried out by the regional environmental department for the plantations component and the regional agricultural department for the cashew processing component, in line with the framework of their mandated missions.</p>

<p>In the main document, pg 12 – p 4.1.3. FIE is due to provide grants to support the planting of improved cashew plantations. It is not clear if this is a 100% subsidy or not. In the technical annex there is a suggestion that it is not, but could you clarify?</p>	<p>The development of new plantations includes the following activities: (i) land clearing, ii) supply and transport of seedlings on sites and (iii) picketing and planting of seedlings. These activities unit costs (see Annex B5) are:</p> <ul style="list-style-type: none"> • land clearing = 35000 FCFA/ha = 70 USD • supply and transport of seedlings = 13250 FCFA / ha = 26.50 USD / ha • picketing / hole / seedlings grounding = 14250 FCFA / ha = 28.50 USD/ha <p>The project will subsidize only the supply and transport of seedlings on the sites i.e. 26.50 USD / ha equivalent to 21.2%. The producer / beneficiary will cover the costs of land clearing as well as all planting activities for a total of 98.50 USD/ha i.e. 79.8%.</p>
<p>Paragraph 4.1.4 it is not clear what the nature of the relationship will be between FIE and the RCPB. Based on the description in the technical annex, FIE has had no experience of lending. It would be helpful to know more about the nature of the lending arrangements between FIE and RCPB for on-lending to farmer associations etc.</p>	<p>In the design of the project, loans are to be provide to sub - project promoters through a micro - finance instrument. Since FIE has no experience in credit management, it will sign a contract with a financial intermediary (Réseau de caisses populaires du Burkina Faso, RCPB), who will be in charge of making micro-credits (loans) available to producers and processors and of recovering of capital and interest. There is no FIE loan to RCPB that will act as a provider whose fees will be paid out of the interest recovered from the beneficiaries. RCPB will produce periodic reports to the FIE of resource management and recovery (debit and credit).</p>
<p>On page 16 – paragraph 4.4 there is a reference to the FIE as potentially being accredited as an implementing agency for the GCF in Burkina Faso. This suggests that the cashew project is a way to test FIE as a new instrument. In this regard it would be helpful to understand what oversight is in place, how FIEs performance will be monitored, particularly considering the shortcomings highlighted in the technical annex. The process for assessment of proposals set out currently seems burdensome and could result in approvals getting bogged down.</p>	<p>The Environmental intervention fund (FIE) was set up by the Government of Burkina Faso in 2015 with the technical and financial support of Luxembourg and Sweden. Its main tasks are to mobilize national and international resources for the benefit of the environment sector, to monitor and evaluate the use of these resources.</p> <p>For this mandate, FIE has put in place and operationalized different tools (TOMPRO a financial management software, manual of procedures and a monitoring and evaluation system) and governance bodies (board of directors, finance committee, risks management committee and regional committees). FIE is subject to periodic controls by the Government (management control, internal control, financial inspection and audit office).</p> <p>From 2015 to 2016, the FIE has managed a budget of 8 million USD in the form of subsidies granted for the implementation of projects relating to the protection of environment. PADA / REDD + project will test, operationalize and evaluate the loan window of FIE.</p> <p>For the preparation to the GCF accreditation, an evaluation of FIE system, management and organizational capacity will be conducted by a consultant during the first quarter of 2017 and will be financed by Swedish cooperation. The objective of this mission is to evaluate FIE past and ongoing operations including the PADA / REDD+ arrangements, its' management capacity and to propose a two-year action plan (2017 and 2018) to address GCF requirements. The implementation of the action plan will funded by Sweden, Luxembourg, European Union and Government.</p> <p>PADA / REDD + project will finance the preparation of the FIE technical request for GCF accreditation in 2019 as an executive agency Burkina Faso.</p>
<p>US COMMENTS</p>	
<p>We would appreciate a better understanding of what (presumably, non-FIP) grants are being used</p>	<p>Two categories of activities will be subsidized by PADA / REDD + project.</p>

<p>for. Paragraph 4.1.3 says that a support fund in the form of grants will be used to help farmers and cooperatives for new plantations. Can we have more information on what, precisely, will be funded under this component? Why would creation of new plantations be funded by grants and not loans?</p>	<p>Support for the development of 25 000 ha of new agroforestry plantations (see component 1.2, annex B.3) will be subsidized at 21.2% from resources of FIP and Government. The project will provide the seedlings to beneficiaries in the form of a grant. The beneficiaries will contribute for 78.8% by paying labor for the preparation of land and planting of the plants. The total cost of plantations is estimated at US \$ 3.0 million, including US \$ 2.4 million from beneficiaries, US \$ 0.37 million from FIP and US \$ 0.23 million from Government (see Annex B5).</p> <p>The main Government's reasons for granting subsidies to plantations are: (i) the FIE has so far financed under 90% subsidy the new plantations in the country; and (ii) the Cashew plantations do not start producing before 5 to 6 years. Under these conditions producers will not be motivated to borrow to finance new plantations.</p> <p>Capacity building of producers (component 1.2) and processors (component 2.1) and project management (component 3) will be funded in the form of grant for a total amount of USD 2.48 million from AfDB and FAPA grants, and Government</p> <p>FIP contributes in the subsidy of plantations for carbon sequestration benefit.</p>
<p>Paragraph 4.1.4 on the terms of the credit line to be set up for cashew producers is not very clear. On what terms and over what period will loans be provided to the producers? How significant a subsidy do these terms represent compared to other sources of financing? Will such loans be secured in any way? Has this been designed to be replicable without FIP financing? If so, how?</p>	<p>The credit line to be implemented by the project will finance two loan categories:</p> <ul style="list-style-type: none"> - Short-term credit (working capital) for a duration of 6-12 months; - Medium term credit (investments) over a period of 5-7 years. <p>To ensure that the loans will be competitive comparing to the market, the ceiling interest rate agreed with the financial intermediary is 7% while current market rates vary from 10 to 15%. This interest rate will cover the various transaction and management fees. The project financing manual to be developed in the first quarter of 2017 will define, inter alia, the categories of guarantees to be provided by producers and processors to guarantee loans and the terms and conditions of reimbursement.</p> <p>Loan repayments will feed a Cashew development fund to be established by the FIE to continue and expand project activities throughout the country.</p>
<p>The FIP documentation says that new plantations will be located on degraded savanna. How degraded is this savanna? Has the project calculated the loss of trees due to conversion to plantation in its carbon sequestration scenarios?</p>	<p>As indicated in Annex B.4, PADA / REDD+ project will not fund plantations that involve clearing forests or cutting trees. The plantations will be done with zero trees cutting. There will be no loss of trees or carbon emissions because of the new plantations. Compliance with this measure must be evidenced by the production of a certificate provided by the competent authorities. Plantations will be done on degraded and abandoned land due to their low agricultural productivity or to reinforce existing plantations. The agroforestry plantations will therefore aim to achieve a dual objective of (i) restoring soil fertility for agricultural activities and (ii) increasing cashew production through improved yield plantations. To guarantee cohabitation between agricultural activities and the cashew production, the density of agroforestry plantations will be 25 m between the planting lines and 7 m between the plants i.e. 57 plants / ha. This density, which is already adopted in plantations by producers in the region, allows planters to cultivate interlining throughout the life of the plantation with annual production (ginger, hibiscus, sesame, pea, peanut) and thus not to create additional land pressure.</p>
<p>Both the technical annexes and the main project document include references to risk of disputes over land, including disputes due to loss of grazing land and resulting pressure on protected</p>	<p>The mitigation measure foreseen by the project's environmental and social management framework (ESMF, annexes B4 and B10) is that it will not fund plantations in protected areas or in grazing areas. It will finance only plantations on demand and on degraded lands that</p>

areas. These seems like significant risks that deserves more discussion, both with respect to conflict and (potential) economic losses for non-cashew farmers in new plantation areas, as well as potential for increased pressure on protected areas. Are these protected areas forests, and if so, has increased pressure on forest outside the area as a results of the project been included in the project's carbon sequestration calculations? Would loss of grazing lands trigger the need for compensation for some communities? We would like to see more discussion of this risk and how it will be mitigated.

were once used for agricultural activities but abandoned because of their low productivity or to reinforce existing plantations. The project's agroforestry planting system will provide intercropping and cashew production. The project will not so create additional pressure on protected or grazing areas and will not result in economic loss due to plantations either for beneficiaries or for non-beneficiaries.

The land conflict risk is related to the case of beneficiaries who plant on land that does not belong to them or is subject of litigation. The mitigation measure foreseen by the project is that it will finance plantations only on land whose beneficiaries have produced a land ownership certificate (APFR) or a provisional land certificate, in accordance with the Land Law of Burkina Faso. This will avoid any misunderstanding over land use rights and / or ownership rights. The project will support beneficiaries in the preparation of technical files for obtaining the land ownership certificates