

**PROJECT INFORMATION DOCUMENT (PID)**  
**CONCEPT STAGE**

Report No.: AB6518

<b>Project Name</b>	AGRIBUSINESS DEVELOPMENT PROJECT
<b>Region</b>	AFRICA
<b>Country</b>	Senegal
<b>Sector(s)</b>	Agro-industry, marketing and trade (50%); General finance sector (50%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P124018
<b>Borrower(s)</b>	Republic of Senegal
<b>Implementing Agency</b>	Ministry of Agriculture
<b>Environmental Category</b>	A-Framework
<b>Date PID Prepared</b>	14-Nov-2011
<b>Estimated Date of Appraisal Completion</b>	25-Jun-2012
<b>Estimated Date of Board Approval</b>	13-Dec-2012
<b>Concept Review Decision</b>	06-Oct-2011
<b>Other Decision</b>	

**I. Introduction and Context**

Country Context

From the mid-1990s until 2005, Senegal had one of the best economic performances in Sub-Saharan Africa (SSA). The share of the population that fell below the national poverty line declined from 68 percent in 1994-1995, to 57 percent in 2000-2001, and to 51 percent in 2005-2006, marking the first sustained increase in average per capita growth since independence in 1960.

Starting in 2006, however, several external and domestic shocks have taken a toll on the economy. Agriculture output experienced a sharp decline due to unfavorable rain falls in 2006-07. In addition, the rising oil prices, the surge in food prices in 2007 and the global financial crisis which started in 2008 have weighed heavily on Senegal's open economy. Domestic shocks, including floods in the Dakar region and continued electricity shortages, further contributed to the general slowdown of country's economic activity. By the end of 2008 the government had accumulated domestic arrears to the private sector equivalent to about 3.75 percent of the country's gross domestic product (GDP). A public finance crisis in 2008, related in part to food taxation and rise in fuel prices, led to the accumulation of unpaid bills by the Government to domestic suppliers. These government arrears, which have since been resolved, hurt private sector growth, and undermined the fragile relationship between private and public economic actors.

Senegal's economy has started to recover from the economic slowdown of the past years with real GDP projected to grow from 2.7 in 2009 to 4 percent in 2010. However, the higher growth rate of 7 percent a year targeted by the authorities under the Accelerated Growth Strategy (AGS) is highly dependent on a strong private sector involvement. After being ranked 5<sup>th</sup> best reformer in the World Bank's *Doing Business 2008* report thanks to its good performance in the Trading Across Borders, Starting a Business, and Registering Property categories, and having come up 19 positions in 2008 from 2007, Senegal lost five places in the World Bank's *Doing Business 2010* report, down to 154<sup>th</sup> out of 181 countries. In addition to further improvements in investment climate to attract private sector investments, to achieve higher and sustainable growth rates, Senegal will require transformational changes in the economy, alleviation of bottlenecks, especially in the energy and infrastructure sectors and a continued reduction in food imports.

Promoting a modern and diversified agribusiness sector is a priority for the Government. This was highlighted in the country's Strategy for Accelerated Growth (*Stratégie de Croissance Accélérée* – SCA) which aims at promoting more diversified agricultural exports and increase trade revenues. Since the year 2000, The Government of Senegal has directed a number of actions towards the development of commercial agriculture including making structural investments with donor support such as building specialized infrastructure (post harvest, storage and logistics), improving the judicial framework with the adoption of the investment code and several laws (*Loi d'orientation agro-sylvo-pastorale*, *loi sur la GOANA*<sup>1</sup>, *PNIA*<sup>2</sup> for implementation of NEPAD<sup>3</sup> as well as ECOWAS<sup>4</sup> agricultural markets integration), providing support to the formal organization of several value chains including tomato, horticulture, rice, cassava and maize.

Programs like GOANA (Great National Offensive for Food Self-sufficiency and Agriculture) have put more emphasis on developing commercial agriculture for food security purposes. Others such as PDMAS<sup>5</sup>, an IDA-financed project have focused on the expansion of agribusiness across the country through substantial investments in improved domestic market conditions, support to non-traditional agricultural exports and demand-driven irrigation infrastructure.

Agribusiness, horticulture in particular, has strong untapped potential in Senegal. A number of studies have been undertaken on the most promising Agribusiness value chains to inform Senegal's Accelerated Growth Strategy and during the preparation of PDMAS Project as well as by other donors such as USAID and the African Development Bank. Through the preparation of its Accelerated Growth Strategy (SCA) and in particular, the agribusiness sector, the Government of Senegal has identified several (15) growth poles for key promising value chains with high potential growth. The poles were identified based on their climate and adaptation to the production of tropical or tempered climate agricultural products, availability of water, access to land, communication channels and other logistical support. The potential is particularly strong for horticulture with exports having increased from 2,700 tons in 1991 to 31,000 tons in 2010. Exports are primarily directed to Europe and in particular for counter seasonal winter products from December to April. High value products with strong export potential include asparagus, water melon, sweet corn, sweet potato, okra, green pepper, courgettes, egg plant, red pepper, basil, papaya, and strawberry. The products in high demand, either for import substitution or in sub-regional markets are onions, tomatoes, potato, carrots, and bissap. With improved warehousing and varieties, Senegal could compete with imports – e.g. Senegal imports 70,000 tons of potatoes and 90,000 tons of onions. A SWOT analysis of the horticulture sub-sector revealed that Senegal has a comparative advantage in the production of several horticulture products for both the European and domestic/regional markets. Strengths of Senegal horticulture include: (i) favorable climatic and water conditions; (ii) availability of land; (iii) low labor cost; (iv) capacity to supply European markets at a time when others cannot; (v) proximity to European markets with availability of competitive air and rapid sea transport; (vi) privatization of inputs markets allows access to quality inputs; (vii) regulatory environment conducive to private sector investment with little policy distortions and (viii) emergence of competitive players along the horticulture value chains.

The St Louis region has great agribusiness potential, particularly for horticulture. Horticulture production (65% vegetables and 35% fruits) comes from two main production zones: i) the Niayes and ii) the St Louis region (the Delta<sup>6</sup>, the Middle Valley, East and West of Lake Guiers). Other horticulture zones are found in Thiès, Kaolack, Casamance, and Tambacounda. The St Louis region is very attractive both in terms of unused land (the Niayes and Thies regions are becoming saturated) and accessibility (much easier than Casamance). The region around St Louis has the potential to develop more than 70,000 ha of prime irrigated land available which can be devoted to horticulture production (less than 30,000 ha currently). Zones further down the Senegal River are more suitable for rice and are benefiting from significant government and donor support – which is why they were not selected as part of this project (see Appendix 3 for more details). The St Louis region has also great potential in other sectors such as livestock and fish products which could

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<sup>1</sup> GOANA = *Grande offensive agricole pour la nourriture et l'abondance*

<sup>2</sup> PNIA = *Programme National d'Investissement Agricole*

<sup>3</sup> NEPAD = *New Partnership for Africa's Development*

<sup>4</sup> ECOWAS = *Economic Community of West African States*

<sup>5</sup> PDMAS = *Programme de Développement des Marchés Agricoles du Sénégal*

<sup>6</sup> The Ngalam Valley is located in the Delta of the Senegal River.

share some of the same competitiveness platforms in terms of physical and institutional infrastructure.

Despite its potential, several constraints still impede agribusiness development and limit private sector investment in the sector. These constraints have been identified by the authorities and others<sup>7</sup> and described in the SCA, including: (i) lack of secured access to developed land; (ii) structural deficiencies in critical infrastructure, including irrigation, transport, marketing and commercialization infrastructure; (iii) difficult access to finance and in particular to medium- and long-term financing, especially for small and medium enterprises (SMEs); (iv) weak professional organizations; (v) weak technical skills of smallholders and (vi) problematic and erratic agriculture policies (much less an issue in the case of horticulture).

The proposed Agribusiness Development Project (ADP) seeks to remove a critical mass of these constraints in the St Louis region. The project will deploy physical and institutional infrastructure in the form of public goods through a flexible private sector driven approach involving Rural Communities. The proposed agribusiness operation will consolidate and expand the achievements of the PDMAS which has performed successfully in export promotion of high value commodities and has helped establish key resource exports infrastructures (e.g. Feltiplex) and FOS (*Fondation Origine Sénégal*) to promote Senegal label and quality.

#### Relationship to CAS

The project is consistent with the Senegal 2007-2010 Country Assistance Strategy (CAS) which will soon give way to a new strategy. The CAS for Senegal was approved by the Board on June 20, 2007 and designed to support the Government of Senegal (GoS) Poverty Reduction Strategy Paper (PRSP), with an articulation around three pillars: (i) fostering economic growth through support to private sector development; (ii) improving human development through better delivery of social services, notably to the most vulnerable groups; and (iii) enhancing rural and urban synergies. Consistent with the first pillar of the CAS, the project will focus on (i) promoting a competitive investment climate; (ii) fostering the private sector competitiveness and contribution to growth; (iii) promoting a modern and diversified agricultural sector; and (iv) developing skilled labor and use of technology. The project is therefore fully aligned with the Bank's approved CAS. The activity fits well the CAS (FY11-FY13) in preparation, which will include a spatial and integrated approach to development issues and a strong focus on agribusiness.

The project is also fully consistent with the new World Bank Africa Strategy as it relates directly to its first pillar "Competitiveness and Employment".

## II. Proposed Development Objective(s)

### Proposed Development Objective(s)

The proposed Project Development Objective (PDO) is to promote growth and employment through increased productive private investments in the selected agribusiness value chains in the St Louis region.

This will be done through the provision of physical public goods (e.g. irrigation in the Ngalam Valley and around Lac de Guiers) as well as institutional public goods and related technical assistance as to provide opportunities to private investors (including smallholders) all along the selected value chains.

### Key Results

Key PDO related performance indicators include: (i) number of jobs in the agribusiness value chains supported by the project in the St Louis region; (ii) level of private investments in the agribusiness value chains supported by the project in the St Louis region; (iii) value of agribusiness exports from the St Louis region in the agribusiness value chains

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<sup>7</sup> Studies by USAID and the African Development Bank

supported by the project, and (iv) average revenue of smallholders in the Rural Communities supported by the project;

Intermediate key outcome indicators will include: (i) amount of hectares of land developed and made available for domestic and foreign private sector investments; (ii) number of beneficiaries from the technical assistance (including smallholders and women) provided by the project and (iii) strengthened institutions supported by the project (especially at the regional level).

Results indicators will be refined during project preparation based on realism and selectivity. A project performance framework will also be available to measure and monitor the impact of the project.

### III. Preliminary Description

#### Concept Description

The project design builds on similar work done by the Bank with growth pole and value-chain approaches in other countries as well as a number of studies carried out on the agribusiness sector in Senegal. The project will concentrate implementation of its activities on one growth pole to maximize impact and reduce complexity.

In response to the demand of the authorities, and in keeping with the priorities defined in the Accelerated Growth Strategy to support the Government's growth agenda, the project will focus its activities in the St Louis region (particularly the Ngalam Valley and around the Lac de Guiers) which has been identified as among the best areas for agribusiness, horticulture in particular, in Senegal. Developing the competitiveness of the main value chains in this pole will also benefit from what already exists from past Government and private sector investments – it will also leverage and complement the PDMAS and MCA projects which are developing 2,500 hectares in the Middle Valley and 3,000 hectares in the Ngalam Valley respectively. The final choice of the specific locations (we expect about 10,000 ha to be developed with the support of the project) will be determined based on land made available by Rural Communities and investor demand.

The *Ngalam Valley and Lac de Guiers in the St. Louis region* have several attractive features and advantages that the project can leverage and build on including:

(i) Strong demand from private sector as agro-ecological conditions are highly suitable for horticulture (cooler climate due to marine breeze in the Ngalam Valley, sandy soils in both zones, easy access to water around the Lac de Guiers). The region has potential beyond horticulture (e.g. dairy, meat processing and fisheries).

(ii) High potential for irrigation throughout the year

(iii) Sizable stock of land (10,000 – 15,000 ha) available in the Ngalam Valley, more than 40,000 ha around Lac de Guiers

(iv) Fair road linkage with Dakar with the national road passing through Gandong-Rao-Fass-Mpal and the roads around the Lac de Guiers being rehabilitated (with the support of the EU and MCA).

(v) A modern agro processing facility –“Agropole” - constructed in 2007. It has classification chains already in place for onions, sweet potato and melon, storage and cold-chain chambers, packaging facilities, as well as a slaughterhouse. The facility has been poorly utilized because it was disconnected from the main production areas (an issue which will be addressed by the project).

The project is proposed for six years and to be financed with US\$80 million IDA credit that will leverage Government, other donors and private sector resources. The interventions of the project will be focused on removing specific constraints standing in the way of the main opportunities. The adoption of a growth pole's approach will also foster the realization of synergies within and across value chains (product lines) and locations – e.g. the sharing of physical and institutional infrastructure. The project will help put in place the

conditions necessary to attract strategic private investors in the development of agri-business in a way that it ensures inclusive participation of smallholders and SMEs through local sourcing, contract farming or any other relevant scheme. The aim being to leverage to the maximum strategic private investors with respect to their access to high value markets, technology, skills and financing capacity. The Principles for Responsible Agro-investments will be applied at design to better leverage smallholders/large-scale-growers participation. Project activities will be funded through a Specific Investment Loan (SIL) via the following two technical components and one administrative component:

### **Component 1: Public infrastructure to support agribusiness in the Ngalam Valley and around Lac de Guiers (US\$60 million)**

To address the biggest constraint faced by private investors (lack of secured access to developed land), the project will contribute to the financing of critical public infrastructure (mostly primary and secondary irrigation systems) in the Ngalam Valley and around Lac de Guiers as to make around 10,000 hectares of prime land available for private investors who will be expected to contribute to the financing (Senegal has a good PPP framework). These investments will be determined based on investor demand and the needs of the Rural Communities.

The project will provide technical assistance to Rural Communities in the two zones to help them identify, on the basis of a resource and land user right mapping, the land to be developed (e.g. irrigated and connected via access roads) with the support of the project. The project will leverage and extend the technical assistance being provided through the PACR project (French Cooperation) to help Rural Communities develop detailed inventories of user rights (Rural Communities are responsible for allocating land user rights in Senegal and design local master plans for future development. This will be done through an inclusive and transparent process (Presidents of Rural Communities are elected officials in Senegal) to ensure that future public and private investments yield the greatest possible benefits to be shared across all members of the Rural Communities. Such a process will start during project preparation and will lead to the creation of a continuously updated consolidated database of land available for private investors.

The project will provide technical assistance to APIX (the investment promotion agency) to help it identify, engage and facilitate investments by world class strategic investors in the growth pole. This will include engaging potential investors to assess their demand, specific requirements and possible contributions to infrastructure development (to be started during project preparation), which will carry benefit beyond their venture (e.g. irrigation canals and roads which would also benefit smallholders in the Rural Community). In the cases of large land areas, international tenders might be relied upon to maximize benefits to the Rural Communities. Support provided under the project will be guided by the principles for responsible agro-investments. The project will monitor the outcome and implementation of the contracts between these investors and the Rural Communities to ensure that the interest of the later is fully preserved.

The project will contribute to the financing of irrigation investments in the priority areas chosen by the Rural Communities and the strategic investors. As mentioned above, the project will seek to maximize private sector participation for such investments. It should be noted that large canals are already being financed by private investors around the Lac de Guiers. It is expected that the project will provide significant support to tertiary irrigation investments by smallholders who have difficulties to access finance for such investments. The project will support the increase provision of water into the Ngalam Valley leveraging the MCA project. A preliminary master plan for the irrigation of land around the Lac de Guiers has been completed as part of the on-going PDMAS project. Based on this master plan and past experience (e.g. PDMAS), the project could develop an area of about 10,000 hectares, leveraging private sector participation – the master plan study for the Lac de Guiers shows internal economic rates of returns in excess of 30%.

The project will contribute to the financing of the rehabilitation/construction of tertiary and access roads within and around the two selected zones to expand and connect production areas with transformation centers – in particular the “Agropole” of Fas. The government, with the support of the European Union and the MCA, is rehabilitating the primary and secondary roads within and around the two selected zones.

Other public infrastructure investments which might be supported by the project include the extension of the runway at the St Louis airport (which would benefit both the export of high value agriculture produces as well as the development of other industries such as tourism) and the development of wind and solar energy (as cheaper alternatives to the fuel powering the water pumps).

## **Component 2: Institutional infrastructure and technical assistance to support the private sector (US\$15 million)**

To address the other critical constraints (lack of marketing and commercialization infrastructure, difficulties to access finance, weak professional organizations and weak technical skills of smallholders), the project will provide technical assistance to the private sector and key supporting institutions all along the main value chains<sup>8</sup>.

The project will provide technical assistance to the following key supporting institutions:

- As discussed earlier, the Rural Communities in the two selected zones and APIX (including the development of its St Louis Agency) to facilitate strategic private investments and maximize their benefits to the Rural Communities. With that aim, support will also be provided to the DASP and DGID, respectively the PPP and Land Directorates of the Ministry of Finance.
- Business associations (“interprofessions”) to improve coordination among actors along the main value chains – e.g. facilitating out-grower schemes, investments in key specialized infrastructure along the value chains (e.g. warehouses and cold storage at the port) and policy advocacy to improve the business environment.
- *Fondation Origine Sénégal* (the public private partnership created with the support of the PDMAS project) and Minister of Commerce, which are responsible for promoting the adoption of high quality standards to enable exports. The project will support in particular the development of metrology and testing infrastructure as well as the development of a proactive trade information system – e.g. “Products ID Cards” featuring detailed market information, recipes for product development, protocols for compliance with standards, relevant equipment, technical information for industrial process plant development and layout, skills profiles, etc.
- ANCAR (the recently revamped agriculture extension services) and the Horticulture Directorate of the Ministry of Agriculture to improve the technical skills of smallholders in the Rural Communities supported by the project.
- ISRA (agriculture research) and research departments of Universities to promote applied research (including on post harvest topics such as packaging) in partnership with the private sector and world class international institutes.
- The Gaston Berger University of St Louis which is developing several agribusiness curricula and other specialized vocational training institutes.

The project will provide technical assistance to the private sector through a matching grant (the Agribusiness Competitiveness Fund) managed by a competitively recruited team and which will operate following best practice governance principles to be specified during project preparation. The fund will co-finance: (i) business and technical skill development for SMEs (including smallholders), (ii) the purchase of business development services, (iii) feasibility studies for new products, (iv) testing of new varieties, (v) quality certification, (vi) the setting up of agribusiness desks at selected financial institutions. (vii) development of agribusiness insurance

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<sup>8</sup> This component will in particular put in place a Minimum Integrated Trade Expansion Platform (MITEP) – first deployed in the Benin Competitiveness and Integrated Growth Opportunity Project (CIGOP).

products and (viii) the development of business plans and loan applications.

### Component 3: Project Coordination and Monitoring (US\$5 million)

A Steering Committee presided by the Minister of Agriculture will be responsible for the preparation and implementation of the project. The Steering Committee will include other key ministries (e.g. Ministry of Industry and Ministry of Transport) as well as representatives of the private sector and the St Louis Region.

The Project will be managed on a day-to-day basis through a Project Coordination Unit (PCU), initially housed within the PDMAS which has developed strong technical and project management capabilities. Financing to be provided for the PCU may include: equipment; consultant compensation; operating costs; organizational and systems development; training, capacity building; and technical assistance.

#### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04	X		
Forests OP/BP 4.36		X	
Pest Management OP 4.09	X		
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37	X		
Projects on International Waters OP/BP 7.50	X		
Projects in Disputed Areas OP/BP 7.60		X	

#### V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	80.00
Total	80.00

#### VI. Contact point

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