### I. BASIC INFORMATION

#### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Task Team Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guinea-Bissau</td>
<td>P127209</td>
<td>Private Sector Rehabilitation and Agribusiness Development (P127209)</td>
<td>Leonardo Iacovone</td>
</tr>
</tbody>
</table>

#### Estimated Appraisal Date: 05-Mar-2012

#### Estimated Board Date: 31-May-2012

<table>
<thead>
<tr>
<th>Managing Unit</th>
<th>Lending Instrument:</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFTFW</td>
<td>Specific Investment Loan</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector:</th>
<th>Theme:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General industry and trade sector (50%), Agro-industry, marketing, and trade (30%), Other industry (20%)</td>
<td>Micro, Small and Medium Enterprise support (25%), Regulation and competition policy (25%), Export development and competitiveness (25%), Other Private Sector Development (15%), Other Financial Sector Development (10%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower/Recipient</td>
<td>0.00</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>10.00</td>
</tr>
<tr>
<td>Total</td>
<td>10.00</td>
</tr>
</tbody>
</table>

**Environmental Category:** B - Partial Assessment

**Is this a Repeater project?** No

#### B. Project Objectives

The proposed development objective of the new operation is to improve business environment, reinforce entrepreneurial capacities and support the development of the cashew agribusiness sector.

#### C. Project Description

**Component 1. Improving Business Environment and Supporting Development of Entrepreneurial Capacities (US$4 million)**

This component addresses cross-sectoral challenges and is composed of two sub-components: (i) Improving Business Environment; and (ii) Developing Entrepreneurial Capacities.

**Sub-component (i). Improving Business Environment (US$2 million).** Consists of three activities:

(a) Business creation and licensing reforms. Technical Assistance and capacity building to support legal and institutional reform to further reduce the time taken and cost for registering a business, streamline licenses and permits, including outreach activities to encourage formalization. Additionally, it will support the establishment of a mobile one-stop-shop in order to reduce costs of creating companies for entrepreneurs out of Bissau (today all entrepreneurs need to visit the one-stop-shop in Bissau).

(b) Simplification of tax administration especially for MSMEs. In coordination with ongoing work of the IMF, this sub-component will provide technical assistance, capacity building and support reforms to the General Directorate for Taxes to make tax administration more transparent, rules based, and less onerous for businesses. Particular emphasis will aim at simplifying the tax regime applicable to micro and small taxpayers with the objective of spurring voluntary compliance and formalization, and broadening the tax base. This sub-component will also aim to increase knowledge of tax obligations among businesses through strategic communications and training with particular focus given to strengthening bookkeeping and accounting capacities with legal requirements in vigor (SYSCOA).

(c) Trade facilitation. Provide technical assistance and capacity building to customs authorities as well as other intervening actors in the import/export procedures (e.g. freight forwarders, port officials, inspectors, etc.) to support the effective implementation of ASYCUDA++, prepare a detailed diagnostic and action plan to further streamline and simplify import and export documentation and procedures. Pilot initial implementation of this action plan, and conditional on simplified and streamlined procedures being adopted, support the design of one-stop-shop for imports and exports additional funding for implementing the one-stop-shop would be required through partnerships with external donors such as ICF (currently considering support for the implementation of a similar project in Sao Tome and Principe). Additionally, in order to tackle two crucial weaknesses of existing companies, (i) very low productivity, and (ii) weak managerial capacities, currently constraining access to credit as banks are unable to find profitable investment projects.

For this sub-component, parallel financing from IFC (US$ 500,000) and EU (approx US$1.5 million) will ensure that the activities are adequately funded. Additionally, this sub-component will be prepared in parallel with the DPL and will provide the technical assistance required to prepare the reforms that can be after incorporated in the policy lending. This complementarity between investment lending and DPL was one of the important lessons from the previous private sector project, and was confirmed by the last three DPL approved in Guinea-Bissau that heavily relied on the
regulatory reforms prepared by the previous private sector development investment project.

Sub-component (ii). Supporting Development of Entrepreneurial Capacities (US$2 million). It will specifically support managerial training for 500 MSMEs. This sub-component complements the reforms supported by sub-component (i) through development of the capacities of local entrepreneurs. Accordingly, this component directly aims at promoting diversification through emergence of local businesses and increase productivity of existing informal MSMEs. In additional to the managerial training, for a subset of the companies the training would be followed by #one-to-one# advisory at the company site (during 3-6 months after the training), support to formalization, and assistance in account keeping, filing taxes and approaching financial institutions. For this sub-component, parallel financing from EU (approx US$1.5 million) that will concentrate on the creation of a Centre to Support Entrepreneurs (#Centro de Atendimento as Empresas#) will ensure that the activities are adequately funded.

In addition to a poor investment climate and political stability, key constraints for the development of the cashew agro-processing are limited managerial capacities and access to credit. Furthermore, even if production has been growing year after year, reaching the record production of 170,000 tons in 2011, the agronomic practices used are very poor (i.e. limited or no pruning, insufficient spacing between trees, etc.) and improving them would certainly contribute to better yields and quality of the nuts.

Component 2. Promoting the Development of Cashew Agro-processing (US$4 million)

To tackle the above challenges, this component would focus on the following areas:

Technical assistance to processors to facilitate and attract potential investors to: (i) choose a processing technology and business model well suited to their objectives and capacities; (ii) prepare the investments# detailed technical and financial feasibility studies; (iii) identify potential external buyers for processed products (kernels) and design an appropriate export strategy; (iv) approach financing institutions; (v) establish the facilities (site selection, procurement and installation of equipment, quality monitoring processes), and (vi) select and train the workforce to ensure high labor productivity. This assistance would be provided by one or more suitable advisory service providers with established experience in cashew processing and marketing. The primary option would be to assist a competitively selected service provider, operating under a performance contract, in establishing a service center in Guinea-Bissau (by sharing part of the initial establishment costs). A possible option would be to provide investors with a short list of pre-selected service providers operating in the sub-region. Under both options, the investors would pay all or part (under a suitable matching grant scheme) of the cost of the advisory services requested from the provider, the matching grant being provided by FUNPI.

Technical assistance to manage the FUNPI involve the recruitment of an experienced team of (domestic or international) managers to (i) directly manage the fund for a period not exceeding two years while developing the operational capacities of local managers and (ii) transfer management responsibility to the local managers while acting in an advisory capacity. The management team, recruited competitively under a performance-based contract, would in particular be responsible for reviewing the financial, economic and social viability of activities to be supported by the fund (in cashew production, processing and marketing as well as other eligible activities in other agricultural sub-sectors according to Fund#s mandate) on the basis of agreed upon transparent criteria.

Support to the improvement of the capacities of the existing training centers to provide suitable training to cashew producers and employees of cashew processing facilities.

Support to cashew producers. Producers of cashew have limited information on prices and currently use very poor agronomic practices that are detrimental to the quality of the raw nuts and the resulting processed kernels. The project would provide support for the establishment of an efficient price information system and provide extension services to improve their agronomic and harvest practices.

This component will not address directly the problem of access to finance because it is expected that an IFC operation to finance raw cashew nuts exporters, currently under appraisal, could be expanded to finance also cashew processors. Additionally, it is expected that part of the FUNPI#s resources would directly be used to provide guarantee funds or credit lines to ease the problem of access to finance for cashew processors.

Component 3. Project implementation (US$2 million)

A Project Preparation Advance (PPA) of US$1 is proposed to establish the Project Coordination Unit (PCU) and to provide preliminary technical assistance for the preparation of various preparatory studies (including the preparation of the required safeguards documents) and other required preparatory activities. As agreed with the Government it is crucial that the project would be implemented by a dedicated team competitively recruited. While the cost of PPA may appear high, the importance of setting up a high quality PCU with strong capacity was a key lesson from the previous private sector project to achieve results in a context where institutions are fragile and unstable. It is proposed that, following the process of the PRSP and because of the multi-sectoral nature of this project, the strategic guidance for this project will be provided by the existing PRSP Steering Committee chaired by the Prime Minister and with the Minister of Economy playing the role of Secretariat. The Steering Committee will gather high level representatives of the various institutions and the private sector will be adequately represented as a driving engine of the process. While the Steering Committee will be responsible to set the strategic directions of the project, the day-to-day management of the project will be responsibility of the PCU. At a technical level, various technical focal points, within each one of the stakeholders, will be indentified and nominated by the Steering Committee in order to provide technical inputs and work together with the PCU.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project#s first two components involve technical assistance to improve business environment for and to build entrepreneurial capacity of the private sector in general. The specific focus is on institutional and regulatory reforms, and on capacity building of MSMEs that will be of relevance country wide. Under Component 1, Sub-Component (i) may include some small scale building renovations for the commercial court in Bissau (e.g., roof repair, replastering, painting, etc.). These renovations will not involve land acquisition nor restriction of access to income sources. Given the limited resources, Component 1 Sub-Component (ii) will start as a pilot targeting the areas in and around the city of Bissau. Similarly, Component 2 will pilot the provision of technical assistance specifically to the cashew sector in one region (yet to be identified) of the country.

E. Borrowers Institutional Capacity for Safeguard Policies

Guinea Bissau, with assistance from a recently closed World Bank, GEF and EU financed Coastal and Biodiversity Management project (CBMP), has put in place the basic framework and capacity for implementation of environmental and social safeguards. A national EIA Law, in line with
international good practice, was promulgated in July 2010. Implementation of this law is overseen by the Cell for Environmental Impact Assessment (CAIA), created under the Office of the Prime Minister, in collaboration with sectoral focal points appointed within each of the technical ministries. Sectoral environmental assessment technical guidelines were prepared for nine sectors including inter alia agriculture, industry, and infrastructure. CAIA’s staff and the sectoral focal points received environmental and social safeguard training under the CBMP, and CAIA itself has five years of practical experience in the application of the CBMP World Bank project Environmental and Social Management Framework and Resettlement Policy/Process Framework (RPF/PF) policies and procedures. In addition, with support from other donors, a series of trainings on environmental and social assessment more generally have been provided to members of the government, NGOs and civil society. Nevertheless, these institutional structures are young and their capacity limited.

More specifically, implementation of the proposed project will involve several different ministries, namely, Ministry of Commerce, Ministry of Industry and Energy, Ministry of Agriculture, Ministry of Finance and Ministry of Justice, as well as the future staff of FUNPI. For this reason, following the process of the PRSP, an inter-ministerial Steering Committee, gathering high level representatives of the various institutions, including CAIA, will be established to guide the strategic direction of the project. Day-to-day project management will be delegated to a professional and competitively recruited Project Coordination Unit (PCU). CAIA will be represented both on the inter-ministerial Steering Committee as well as providing a technical focal point to work directly with the PCU on project implementation thus bringing its previous experience to bear.

F. Environmental and Social Safeguards Specialists on the Team

Yves Andre Prevost (AFTEN)
Tanya Lisa Yudelman (AFTEN)
Cheikh A. T. Sagna (AFTCS)
Upulee Iresha Dasanayake (AFCSN)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>X</td>
<td></td>
<td></td>
<td>The project is proposed as a Category B. It will primarily finance technical assistance and capacity building activities, and some limited physical infrastructure rehabilitation. The direct environmental and social impact of project financing is likely to be low; however, there are potential risks that the project may induce negative environmental and social impacts through the expansion of cashew agro-processing and/or activities financed through FUNPI. With regard to the risks of induced impacts posed by the technical assistance for management and capacity building of FUNPI and for improving cashew production and processing activities, it is proposed that a Strategic Environmental and Social Assessment (SESA) of the cashew sector is prepared as an outcome of the project by Government during its initial period of implementation. Specifically, the SESA will examine inter alia potential risks posed to natural habitats, forests, physical cultural resources, and those related to pest management, access to land and resettlement, as well as the institutional, policy and legal framework and capacity in place to address these. TORs for this SESA will be prepared and publicly disclosed prior to project appraisal. Similarly, an agreement will be reached with the government on environmental and social guidelines for the management of FUNPI. TORs for developing these guidelines will be prepared and publicly disclosed prior to project appraisal. With regard to the direct project footprint, other than OP 4.01, the specific safeguards policies triggered by the project depend on the type and extent of the infrastructure rehabilitation works. The anticipated works comprise small-scale renovations (e.g., roof repairs, re-plastering, painting) of existing buildings, for which it is expected that a simplified environmental management plan addressing worker safety and waste management concerns need only form part of the works contract. Public disclosure prior to appraisal for this will not be required. In the event that the infrastructure works prove to be more extensive, a simplified Environmental Assessment and Management Plan will be prepared, reviewed, approved and disclosed in-country and at the infoshop prior to appraisal.</td>
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<tr>
<td>Natural Habitats OP/BP 4.04</td>
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<td>Forests OP/BP 4.36</td>
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<td>Pest Management OP 4.09</td>
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<td>Physical Cultural Resources OP/BP 4.11</td>
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<td></td>
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<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>X</td>
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</tbody>
</table>
Safeguard Policies Triggered | Yes | No | TBD | Explanation
--- | --- | --- | --- | ---
Involuntary Resettlement OP/BP 4.12 |  | X |  | The policy is not triggered because the proposed works under Component 1, comprising mainly of rehabilitation of existing structures, will not involve any land acquisition nor restriction of access to income sources.
Safety of Dams OP/BP 4.37 |  |  | X |  |
Projects on International Waterways OP/BP 7.50 |  | X |  |  |
Projects in Disputed Areas OP/BP 7.60 |  | X |  |  |

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 18-Jan-2012
B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS:

TORs for this SESA will be prepared and publicly disclosed prior to project appraisal. Similarly, an agreement will be reached with the government on environmental and social guidelines for the management of FUNPI. TORs for developing these guidelines will be prepared and publicly disclosed prior to project appraisal.

IV. APPROVALS

Signed and submitted by:

Task Team Leader: Name: Jacqueline Beatriz Veloz Lockward Date: 26-Oct-2011

Approved By:

Regional Safeguards Coordinator: Name: Alexandra C. Bezeredi (RSA) Date: 28-Oct-2011

Comments:

Sector Manager: Name: Ismail Radwan (SM) Date: 28-Oct-2011

Comments: I made some minor editorial changes and it is read to go now.

1 Reminder: The Bank’s Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.