



ADAPTATION FUND

9 November 2017

Adaptation Fund Board

Accreditation Panel recommendation on accreditation of Banque Agricole du Niger as National Implementing Entity for Niger

Having reviewed the accreditation application of Banque Agricole du Niger (BAGRI), the Accreditation Panel recommended that Banque Agricole du Niger be accredited as a National Implementing Entity (NIE) of the Adaptation Fund.

A summary of the review can be found in Annex I

Accreditation Decision:

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided to accredit Banque Agricole du Niger (BAGRI) of Niger as a National Implementing Entity (NIE) of the Adaptation Fund for five years, as per paragraph 38 of the operational policies and guidelines for Parties to access resources from the Adaptation Fund. The accreditation expiration date is 8 November 2022.

Decision B.30-31/3

ANNEX I

REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF BANQUE AGRICOLE DU NIGER (BAGRI) FOR ACCREDITATION AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND

Organization

The applicant National Implementing Entity (NIE), Banque Agricole du Niger (BAGRI) is a universal bank established in 2010 under the leadership of the Nigerien State with a particular focus on establishing a “system” of agricultural sector financing, combining financial and performance objectives, as well as social and development objectives “namely the fight against food insecurity” and a wide target population that ranges from subsistence farmers to agro-industries. It became fully operational in 2011, and as of the end of 2016 BAGRI had a workforce of 160 and occupied the leading position among local banks in terms of the extent of the banking network in Niger, with 22 agencies across the country. While its initial business was short-term loans to private farmers, the bank's operations, its involvement in managing larger investment projects started in 2014. It has engaged in projects oriented to socio-economic, environmental and cultural development with the Nigerien Government's Investment Fund for Food and Nutrition Security (FISAN) through the High Commission for the 3N (Nigeriens Feeding Nigeriens) initiative, with local farmers' organizations and with Luxembourg, Switzerland, Denmark and IFAD.

Background

This application was received in July 2015, with the initial review completed in June 2016.

The applicant uploaded over 150 documents during its initial application submission, and, after receiving review questions conveyed by the Panel in August 2016, submitted approximately 80 more documents in the period June-October 2017, including in connection with a Panel mission in September 2017.

Over the course of the BAGRI application review, the applicant has strengthened its policies, procedures and track record in applying them in response to reviewer questions; to a point where a conclusion can be reached that supports the Entity's accreditation. During the September 2017 Panel mission, BAGRI's Director General and senior management recognized positively the organizational capacity building effect of the AF application process.

Prior to its application, the bank has also, under Central Bank supervision and Government actions and under a new Board and management, initiated a capital restructuring and strengthened its financial results and position after poor performance under a prior Board and management in its initial years due to an unsustainable level of doubtful debts. The capital restructuring, to address past losses and implement the originally intended transition from majority

state ownership to majority private ownership is at an advanced stage. The bank has regained modest profitability in 2015 and has maintained it through 2016 and mid-2017, at the same time improved its performance against prudential ratios. Some risk reduction mechanisms envisaged at the time of the bank's creation to encourage the bank's lending in the agricultural sector are not yet operational, and the current management of the bank has adjusted operations accordingly.

Although intending to do so in future, BAGRI does not yet have an Internet website where information on its governance, administration, branch network, policies and activities could be accessed by third parties. However this should be considered in perspective – there is still very low Internet access in the country (latest figures available from the ITU – for 2016 - was 4.3%) and the country has a very high rate of illiteracy.

The Fiduciary Standards

Legal Status and Capacity/Authority to Directly Receive Funds

BAGRI is established under Niger's banking laws and has full capacity to enter into agreements with other national and international entities and to engage as plaintiff or defendant in tribunals.

Since 2014 BAGRI has received funding from a number of international development agencies, and it provided, as evidence of its capacity to enter into agreements, copies of contracts with two international development agencies, a Nigerian public entity and several Nigerian NGOs.

Financial Management and Integrity

Financial statements, financial system and external audit

BAGRI prepares its financial statements according to the required Banking Accounting Plan of the West African Economic and Monetary Union (UEMOA), using packaged software developed for the financial sector by an international software provider with a client base in Africa and the Middle East.

The annual financial statements are audited by an Audit Commission comprising two private audit firms whose appointment is subject to the discretion of the UEMOA Banking Commission. BAGRI provided its audited financial statements from 2013 through 2016, all had unqualified opinion, though the 2016 opinion includes emphasis of matters in particular concerning BAGRI meeting minimum liquidity indicators (67.26% v 75%).

Internal Audit

BAGRI is subject to UEMOA Banking Commission requirements relating to internal audit. BAGRI established an Internal Audit and Inspection Service, with current staffing of three dating from the 2015 re-organization. An internal audit charter dated May 2015, approved by the Audit Committee and Board, includes dual reporting lines to the Board and Management, providing for independence, appropriate scope and access provisions and adopts the IIA-IFACI international standards. This is supplemented by a detailed manual incorporated as part of BAGRI's Administrative and Accounting Manual. BAGRI provided evidence of follow up of past recommendations.

The Internal Audit function prepares six monthly plans and annual reports to the UEMOA Banking Commission. While it may not yet be meeting its full target of coverage, or yet being fully linked to institutional risk maps which BAGRI expects to be completed later in 2017, Internal Audit reports are substantial and appropriately consider risks, exposures and measures to address these. The Internal Audit function has audited large projects and provided a copy of a 2015 report on a donor-funded project as an example. The work of the Internal Audit function is also complemented by that of an Internal Control Unit of three staff that also regularly carries out control compliance reviews as part of BAGRI's "second line of defense" in its internal control framework.

Audit Committee

BAGRI is subject to UEMOA Banking Commission requirements relating to audit committees. BAGRI's Audit Committee was re-established in 2016 after a hiatus associated with the Provisional Administration and re-institution of the Board, with one meeting held in 2016 and one meeting in 2017 is anticipated ahead of the next Board meeting later in the year. BAGRI advised that once additional financial expertise is added to the Committee with Banking Commission approval, it would resume meetings every three months as expected in the Banking regulations.

A mitigating factor for BAGRI is the supervisory function of the UEMOA Banking Commission that, in addition to monitoring implementation of the BAGRI institutional action plan, also receives and monitors annual reports of the internal auditor, the financial statements and results of the external audits. This includes six monthly reports on control reviews and portfolio reviews carried out by the Internal Audit and Inspection Service. BAGRI also reports annually to the Commission on its anti-fraud, money laundering and terrorist financing system.

Control Framework

BAGRI is subject to UEMOA Banking Committee requirements relating to internal control and risk management. BAGRI has submitted, over the period of the Panel's review, a number of documents to evidence the functioning of its control system. The overarching policy document is the Administrative and Accounting Manual that includes an overview of the Internal Control

System. It provides detailed guidance on internal controls over banking operations, incorporating the five COSO Internal Control areas and guidance for their review. This is supplemented by various manuals and procedure documents related to project management (analyzed further under the project cycle criteria).

The 2016 annual Internal Audit report and 2nd semester Internal Control report noted that management had committed to capacity building for managers through the implementation of an internal training plan on procedural manuals. A new Organization chart was adopted in 2014 which provides for four control organs – Audit and Inspection Services (see criterion 2.c above); Compliance (Investigations – see criterion 10.c below) Internal Control (CI); and Management Control (COGES). CI currently comprising three staff carries out, as a “second line of defense” activity, detailed checking of the operations of controls within the Bank, including those for anti-money laundering and anti-terrorist financing. COGES, comprising one senior staff and an assistant, focuses its attention on strategy and its control implications and implementation of the bank’s environmental and social policy.

BAGRI provided various examples of the functioning of the internal control monitoring system including recent internal control reports to the Banking Commission. Risk management functions have been incorporated in the responsibilities of a reorganized Risk and Engagement Unit and institutional risk mapping is in progress, expected to complete by end of 2017.

Payment / Disbursement System

BAGRI’s Procurement Procedures cover the whole Procure to Pay cycle, including disbursements to suppliers and form part of its Administrative Procedures Manual. An elaborate manual was also developed together with the ministry and donor for major development project managed by BAGRI that covers requirements for disbursements made by downstream partners on the project.

Preparation of Business Plans and Budgets and ability to monitor expenditures in line with budgets

BAGRI’s Board-approved corporate governance document requires a 5-year business plan to be prepared and approved by the Board and subject to regular update. The financial projection section of the 2014-2018 business plan was provided and a new 2017-2022 business plan is under development. BAGRI provided documentation to demonstrate its budget implementation oversight. These include its 2015 budget/2014 retrospective presented to the Board in January 2015; a July 2016 institutional budget execution assessment report for 2015; and its 2016 annual budget to the Board. During the Panel mission in September 2017, BAGRI demonstrated how reports from its ORION financial system supported budget monitoring at institutional, account and project levels.

Procurement and Project Management

Procurement

BAGRI's Procurement Procedures for Goods cover the whole Procure to Pay cycle and form part of its Administrative Procedures Manual. The Manual is comprehensive in terms of procurement methods and thresholds, registration of vendors, and the role of a Procurement Committee formally established in early 2015. This addresses a key recommendation of a 2015 internal audit of procurement.

An elaborate manual was also developed together with the ministry and donor for a major development project managed by BAGRI that covers requirements for procurement made by downstream partners on the project, consistent with Nigerien public procurement rules. BAGRI advised that it intends to use the manual for other donor-funded projects in the absence of different donor requirements.

Project Cycle Management – Overall Observations

BAGRI implements the project approach in the framework of the implementation of its activities. The Bank has developed a number of manuals and other policies, which cover the management of the project cycle, whether for credits to smallholders for small-scale activities or more significant projects, engaged with local authorities, cooperatives and other groups. In the case of larger donor-funded projects managed by BAGRI, the projects have both loan and grant elements plus small self-funded elements by the investors, consistent with the approach of FISAN.

The overarching document is the June 2015 Project Management Manual wherein BAGRI has adopted a system consisting of a cycle of five steps: identification; development; funding; implementation; monitoring and evaluation; and project closure. This has been supplemented with a June 2015 Project Monitoring & Evaluation Manual, June 2015 Environmental and Social Policy, and more recently (May 2017) a set of Project Formulation Procedures. BAGRI's internal capacity has developed in conjunction with its partnerships with international donors. It has set up an Agricultural Financial Services Unit (SCREPA) to manage the project cycle with staff having operational, financial and agronomic/engineering expertise. Other internal expertise relevant to project management is the Legal Division, and other elements of the Engagements and Risks Division of which SCREPA is part. BAGRI's internal capacity has developed in conjunction with its partnerships with international donors, and its national agency network; its partnerships with national, regional and local agencies with technical, planning and other expertise; and its experience with managing, as coordinating entity, significant donor-funded projects in Niger are elements it presents in support of its candidacy.

Project identification and appraisal

These elements are covered in BAGRI's identification and development steps. BAGRI collaborates with promoters and beneficiaries in a participatory manner to develop projects, so appraisal is not treated in a distinct step in its project management cycle. Documentation provided in the initial phase of the application illustrated donor-funded projects that were well described with proper identification of partners, goals, budgets and the range of impacts envisioned under the

AF criterion, with project design developed by external entities. BAGRI's involvement in such cases has helped build its own capacity.

During the September 2017 Panel mission BAGRI demonstrated how it has worked more recently under the 2017 procedures with local applicants to develop small-scale projects for financing. For larger projects, BAGRI's Agricultural Financial Services Unit would, when necessary, work with external resources to scale up the application of its 2015 policies and 2017 procedures as an approach to capacity building.

Project Risk Assessments

BAGRI's Project Management Manual establishes a risk management framework for projects, classifying risks into environmental/social risks that may be caused by the project; internal risks to project implementation and quality; external risks to project implementation. Those with more than low likelihood are to be included in project logical frameworks and in mitigation plans. This is supplemented by (a) BAGRI's June 2015 Environmental and Social Policy which provides detailed guidelines for analysis and mitigation of risks (environmental, social, technical, financial, etc.) for programs/projects to be financed through the bank; and (b) BAGRI's May 2017 Project Formulation procedures which provides that project planning documentation should include a risk analysis and mitigation plan as well as an environmental impact study and plan for managing environmental and social risks.

In the initial phase of its application BAGRI provided examples of thorough environmental and social impact studies for donor-funded projects where the work was carried out by third parties. During the September 2017 Panel mission, BAGRI demonstrated how it has worked more recently to undertake risk assessments of small-scale projects submitted for financing. For larger projects, BAGRI's Agricultural Financial Services Unit would, when necessary, work with external resources to scale up the application of the risk assessment elements of its 2015 policies and 2017 procedures.

Project Implementation Planning and Quality-at-entry Review

BAGRI's 2015 Project Management Manual refers to quality at entry criteria during project pre-evaluation and pre-funding stages. Implementation is the responsibility of the Engagements and Risk Division, in particular the Agricultural Financial Services Unit. BAGRI has the internal financial capacity to support development or review of project budgets.

Project Monitoring and Evaluation during Implementation

During the September 2017 Panel mission, BAGRI demonstrated how it has worked more recently under its 2015 and 2017 procedures to oversee projects and coordinate supervisory elements (e.g. engineering, planning) from local government or other parties partnering on projects. Site visits to the Dosso region confirmed good working relationships with relevant national and local agencies. For larger projects, including those triggering environmental and social safeguard requirements, BAGRI's Engagements and Risk Division, in particular the Agricultural Financial Services Unit would, when necessary, work with external resources to scale up the application of the risk assessment elements of its 2015 policies and 2017 procedures.

BAGRI has adequate guidance in place for flagging projects with problems in progress. During the Panel mission, BAGRI also demonstrated its current information systems that allow it to track and identify such cases as they arise. BAGRI has been recognized in a 2016 project final report for a major donor-funded program as capably conducting supervision using its own systems, simplifying validation processes for the donor and ensuring continuous monitoring of progress.

Project Closure and Final Evaluation

BAGRI has project closure procedures in place and the essential elements in place, in particular the M&E Manual, to guide final evaluations. BAGRI has internal capacity, including the Risk and Engagements Division, in particular the Agricultural Financial Services Unit, and the Legal Division, to assess impact of the technical, financial, economic, and legal aspects of projects. Its experience participating in donor-initiated evaluations and its own internal capacity now present in the Agricultural Financial Services Unit is considered sufficient for it to meet this criterion.

Transparency, Self-investigative powers, and Anti-corruption Measures

Anti-fraud and investigation capacity

Being subject to Banking regulations which place much emphasis on anti-fraud (as well anti-money laundering and anti-terrorism financing), BAGRI has impressive manuals in place, including a Code of Ethics and Conduct, supervised by an internal Ethics Committee; a Policy and Procedures Manual for Prevention and Fight against Fraud; and a Whistleblower Protection Policy. In addition to being publicized to staff by circular, the manuals are also now available to all staff on BAGRI's intranet.

BAGRI provided a statement signed by the Director General confirming BAGRI's zero tolerance to fraud, mismanagement and other forms of malpractice by BAGRI staff and external sources associated directly or indirectly with BAGRI's activities. This is reinforced in BAGRI's Policy and Procedures Manual for Prevention and Fight against Fraud and Corruption that includes an explicit statement of zero tolerance. Anti-fraud analysis and control testing is regularly carried out as part of both Internal Audit and Control Unit reviews. BAGRI also has Procedures for Investigation and Sanctions that confirms the obligation of Bank staff to report acts of fraud, corruption, misconduct and other punishable offenses and establishes a Discipline Committee that proposes sanctions in staff cases.

The Compliance Unit, currently comprising two staff, carries out investigations in accordance with the above Procedures. BAGRI confirmed during the September 2017 mission that budget would be made available for external resources to assist with investigations if needed. Sanctions statistics provided indicated that the last fraud cases reported were in 2013, with terminations resulting. Other cases since then have involved non-fraud behaviors. In the absence of a BAGRI public website, and taking into account the very low internet access and literacy levels in Niger, BAGRI takes other measures to provide channels for reporting concerns by third parties, including

concerns about fraud and corruption. These include community meetings during project development and implementation, notices in community locations, and suggestion boxes in its agency offices. BAGRI has prepared internal procedures for handling complaints.

Environmental and Social Policy and Gender Policy

Commitment to Compliance with the AF's Environmental, Social and Gender Policies

BAGRI's top management indicates in a July 2015 statement that it is highly committed to abide by the AF environmental and social policy standards and to make it part of the strategy and culture of the Bank and communicate this to internal and external stakeholders. BAGRI also provided a June 2015 Environmental and Social Policy applicable to its lending operations throughout the project cycle, which "reflects the will of BAGRI to align national and international standards for environmental and social safeguards". It contains gender elements and essentially adopts the language of the Equator Principles, an international risk management framework adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects.

The E&S Policy was communicated to staff in January 2016 and is now available to all staff on BAGRI's intranet. BAGRI has identified institutional responsibilities and provided examples of E&S and gender requirements being applied over 2015-2017 in larger donor-funded projects and during the September 2017 Panel mission also showed how these were being applied in simplified form in small scale projects.

Complaint Mechanism for Environmental, Social and Gender Issues

BAGRI's E&S policy provides that, for all projects /programs, BAGRI requires the setting up of a grievance management mechanism related to environmental and social performance, focusing on affected communities, to collect the concerns and facilitate their resolution, and proportionate to the risks and impacts of the project. The client will inform the affected communities about the existence of this mechanism during the stakeholder engagement process. BAGRI has also developed its own simple general Grievance Mechanism aiming to serve as an avenue for the public to submit complaints. This mechanism consists of two avenues: Complaints can be formulated to the Direction de l'Environnement et des Etablissements Classés (DEEC), a national agency responsible for receiving and processing complaints related to environmental and social impacts of projects/programs, and to the Compliance Unit of BAGRI by email, fax, courier or hand delivered. BAGRI's internal process within BAGRI includes, after screening of the complaint by the Compliance Unit, the involvement of its Environmental and Social Management Unit and DEEC.

As for reporting concerns about fraud and other financial management, in the absence of a BAGRI public website, and taking into account the very low internet access and literacy levels in Niger, BAGRI takes other measures to provide channels for reporting concerns by third parties. BAGRI has prepared internal procedures for handling complaints. There have not been any cases so far under the E&S Policy.

Conclusion: Accreditation Panel's recommendation on the accreditation of Banque Agricole du Niger, Niger

Having reviewed the accreditation application of Banque Agricole du Niger (BAGRI), the Accreditation Panel recommended that Banque Agricole du Niger be accredited as a National Implementing Entity (NIE) of the Adaptation Fund.