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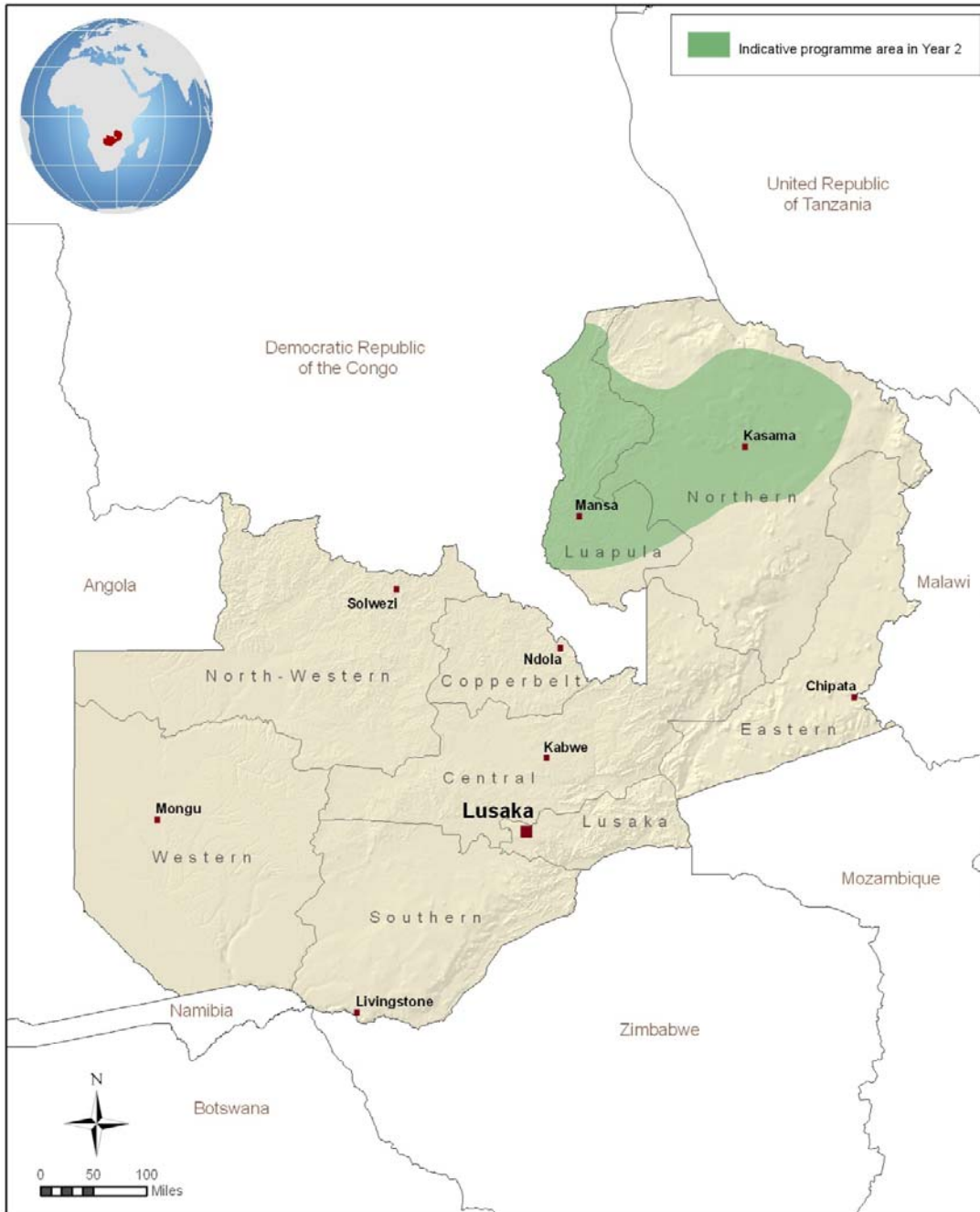
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## Negotiated financing agreement: "Smallholder Productivity Promotion Programme"

(Negotiations concluded on 8 September 2011)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Programme Title: Smallholder Productivity Promotion Programme (the "the Programme")

The Republic of Zambia (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

### Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenant (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provision identified in Section E paragraph 4 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.
4. The Grant shall be provided from the proceeds of supplementary funds provided to the Fund by the Republic of Finland.

### Section B

1.
  - A. The amount of the Loan is SDR 15.45 million
  - B. The amount of the Grant is Euro 4.787 million.
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the US Dollar.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and service charge shall be payable on each 1 June and 1 December.

6. There shall be an Operations Account for the benefit of the Programme Management Unit in a Commercial Bank.

7. The Borrower/Recipient shall provide counterpart financing in the form of exemptions for the Programme to cover all duties and taxes in the amount of approximately US\$ 6.1 million.

### **Section C**

1. The Lead Programme Agency shall be the Ministry of Agriculture and Cooperatives (MACO).

2. Additional Programme Parties include but are not limited to service providers and institutions mentioned in Schedule 1.

3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

### **Section D**

The Loan and Grant will be administered and the Programme supervised by the Fund.

### **Section E**

1. The following are designated as additional grounds for suspension of this Agreement: the Programme Manager shall have been removed from the Programme without the prior concurrence of the Fund.

2. The following is designated as an additional general condition precedent to withdrawal: the Borrower/Recipient shall have opened an account designated for the purpose of receiving advance withdrawals from the Loan and Grant Accounts denominated in US dollars in a bank acceptable to the Fund.

3. The following is designated as an additional specific condition precedent to withdrawal: disbursement under sub-component 2.1 will commence only once operational procedures for the identification, design, approval and management of Local Agricultural Investments satisfactory to the Fund have been approved.

4. As an exception to Section 4.01 of the General Conditions, amounts shall be credited to the Grant Account only when they have been received from the Republic of Finland.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

Kanayo F. Nwanze  
President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Borrower/Recipient:

Situmbeko Musokotwane  
Minister of Finance and  
National Planning  
PO Box 50062  
Chimanga Road  
Lusaka, Zambia

This agreement, dated \_\_\_\_\_, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

\_\_\_\_\_  
For the Fund

\_\_\_\_\_  
For the Borrower/Recipient

## Schedule 1

### *Programme Description and Implementation Arrangements*

#### I. Programme Description

1. *Target Population.* The Programme shall benefit 60,000 smallholder farming families in three provinces of Zambia (the "Programme Area").
2. *Goal.* The goal of the Programme is that income levels, food and nutrition security are sustainably improved for poor agricultural households in the target areas.
3. *Objectives.* The objectives of the Programme are that the crop production, productivity and sales of smallholder farmers in the target areas are sustainably increased.
4. *Components.* The Programme shall consist of the following Components:

##### i. Sustainable smallholder productivity growth

*Sub-component 1.1:* Strengthening farmer organizations and their federations, which seeks to strengthen membership-based farmers associations and cooperatives, and their federations at camp and district level, to improve and diversify the offer of services to farmers;

*Sub-component 1.2:* Pluralistic participatory extension systems, which aims to improve the access, quality and sustainability of advisory services available to smallholders in the target areas

*Sub-component 1.3:* Agricultural research for development, to complement on-going initiatives to strengthen strategic on-station and on-farm research capacities and so broaden the technology options for increased smallholder productivity.

##### ii. Enabling environment for productivity growth

*Sub-component 2.1:* Local agricultural investments, which should improve access to markets, increase labour productivity, reduce post-harvest losses, improve land and water management, or facilitate access to knowledge

*Sub-component 2.2:* Support to the policy and planning framework, supporting MACO's Policy and Planning Department to manage flows of information and communication and undertake policy reviews, and providing opportunities to learn from relevant experience

*Sub-component 2.3:* Programme management, monitoring and evaluation.

#### II. Implementation Arrangements

5. The Programme shall be overseen by a Programme Steering Committee (PSC), managed by a Programme Management Unit (PMU), and implemented by MACO and a variety of non-government partners and service providers.
6. The same PSC that has already been established for the Smallholder Agribusiness Promotion Programme (SAPP) will provide overall policy and and technical direction and guidance to the Programme. Chaired by the Permanent Secretary MACO, it includes representatives of the relevant MACO departments; Ministry of Finance and National Planning (MFNP); Ministry of Commerce, Trade and Industry (MCTI); Ministry of Local Government and Housing (MLGH); Farmers Organizations (such as the Zambia National



Farmers Union, ZNFU) and Industry Organizations (such as the Cassava Sub-sector Committee), relevant to the selected commodities or sectors. Its main responsibilities shall include: (a) to review and approve the annual work plan and budget, large agricultural investments proposed for financing under the programme, progress reports, the annual financial statements and the external auditor's report; (b) to provide policy and strategic guidance to the PMU and implementing agencies (within and outside government); (c) to monitor implementation progress and impact; and (d) to make specific recommendations for follow-up, which the Programme Management Unit (PMU) shall be accountable for delivering. The PSC shall meet at least quarterly.

7. MACO, and specifically its Policy and Planning Department (PPD), shall be the Lead Programme Agency. This role shall involve: (a) taking overall implementation responsibility; (b) convening the PSC; (c) managing changes in Programme direction; (d) chairing the Country Programme Management Team (established as the Programme Development Group during the design phase), to offer a platform for technical advice, guidance and knowledge management, and provide an opportunity for the PMU to engage with key ministries, representatives of farmers' organizations and the private sector; (e) recruiting the staff of the PMU; and (f) ensuring coordination with other on-going Development Partner support in the sector.

8. A dedicated PMU, located within PPD, shall be responsible for managing the Programme. It shall be led by a Programme Manager who shall report to the Director PPD, and shall include a Financial Management Specialist; a Procurement and Contracts Specialist; a Planning, Monitoring and Evaluation/Knowledge Management/Communication Specialist; a Research for Development Specialist; an Extension Methodology Specialist; one Facilitator in each of the three Programme provinces; and a Local Agricultural Investments Manager. The PMU staff shall be appointed by MACO, subject to prior approval by the Fund, for an initial two-year period with possibility of renewal subject to satisfactory performance evaluation by MACO and the Fund. All staff shall be recruited through a competitive process conducted in accordance with procurement guidelines, with posts open to qualified candidates from the public and private sector. If a civil servant is selected, he/she must either resign or obtain a leave without pay from the Government and be hired on a contract basis through direct recruitment following open competition procedures. Employment contracts should include a clause enabling termination due to unsatisfactory performance.

9. The PMU will draw on management procedures that will be documented in a Programme Implementation Manual (PIM). A complete draft of the PIM shall be prepared prior to Programme start-up, and it will be finalised by the PMU during the first quarter of Programme Year 1. Among other things, the PIM shall define the criteria for selecting the districts and camps to be covered under the programme (which are then reflected in the AWPBs); it shall include detailed operational guidelines and procedures for the Local Agricultural Investments; and it shall also include a gender strategy, which defines the operational measures to be taken to promote gender mainstreaming and women's empowerment under the programme.

**Schedule 2***Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage (All amounts net of taxes)
I. Equipment and material	2 390 000	753 000	100%
II. Civil works	180 000	57 000	100%
III. Grant Financing for Local Agricultural Investments	3 370 000	1 063 000	100% net of contribution by beneficiaries and districts
IV. Services: TA and studies	5 205 000	1 641 000	100%
V. Training and workshops	3 180 000	1 002 000	100%
Unallocated	1 125 000	271 000	
TOTAL	15 450 000	4 787 000	

2. *Apportionment of Expenditures.* Eligible expenditures in categories I to V shall be apportioned pro rata between the Loan and the Grant amounts allocated above.

3. *Definition.* "Unallocated" means proceeds retained to cover physical and price contingencies.

4. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (in Categories I, IV and V) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of SDR 500 000.

5. *Grant Account.* Withdrawals may be made from the Grant Account only to the extent that funds have been received by the Fund. If at any time the amounts available in the Grant Account are not adequate to implement the Programme in accordance with the Table above, the Fund shall reallocate and reduce the amounts in the Table in accordance with Section 4.07 of the General Conditions as required.

### **Schedule 3**

#### *Special Covenant*

1. *Tax Exemption.* The Borrower/Recipient shall, to the fullest extent possible, exempt the proceeds of the Loan and Grant from all taxes. Any taxes which the Programme is nonetheless obliged to pay shall be promptly reimbursed by the Borrower/Recipient.

## Key reference documents

### Country reference documents

Zambia Comprehensive Africa Agriculture Development Programme Compact to support the successful implementation of the National Agricultural Policy and the Vision 2030 through National Development Plans, January 2011

Sixth National Development Plan, 2011–2015 “Sustained Economic Growth and Poverty Reduction” January 2011

National Agricultural Policy (2004–2015), Ministry of Agriculture and Cooperatives, October 2004

2011–2013 Medium Term Expenditure Framework and the 2011 Budget; Green Paper, Ministry of Finance and National Planning, August 2010

Poverty Trends Report, 1996–2006, Central Statistical Office, July 2010

Taxation in Zambia: An Overview; Zambia Revenue Authority, 2009

OECD-DAC Joint Venture on Procurement; Country Pilot Programme Zambia “Assessment Of Public Procurement System”; Zambia National Tender Board 2007

### IFAD reference documents

S3P project design report (PDR) and key files

SAPP PDR and key files

Draft COSOP, 2011-2015

Draft Programme Completion Report Validation, Smallholder Enterprise and Marketing Programme, December 2010, Independent Office of Evaluation

Forestry Resource Management Project, Project Completion Report, Ministry of Tourism, Environment and Natural Resources, 2008

### Other miscellaneous reference documents

Capacity of the Ministry of Agriculture and Cooperatives (MACO) and the Ministry of Livestock and Fisheries (MLF) and their Provincial and District structures in Luapula - *Final Draft Report*; Tim Cammack & Dan Nicolau, for FCG Finnish Consulting Group, 28th February 2010

2009 In-Depth Vulnerability and Needs Technical Assessment Report, The Zambia Vulnerability Assessment Committee, June 2009

Agriculture Support Programme 2003 – 2008 End of Programme Report; Ramboll / SIDA

Programme for Luapula Agriculture and Rural Development, Project Completion Report, February 2011

Programme For Luapula Agricultural And Rural Development, Programme Document Phase II 2011–2015, September 2010

## Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions
<b>GOAL:</b> Income levels and food and nutrition security sustainably improved for poor agricultural households in project area	Up to 48,000 smallholder farmers (80% of direct beneficiaries) achieve at least one of: increase in HH asset ownership; increase in HH savings; reduction in prevalence of child malnutrition; reduction in food insecurity	RIMS; baseline, and completion surveys; Zambia Central Statistical Office	
<b>DEVELOPMENT OBJECTIVE:</b> Production, productivity and sales of smallholder farmers in target areas sustainably increased	Yields of selected crops of 30,000 farmers increased >30%; quantities of selected crops marketed by 40,000 smallholder HHs increased >20%; vulnerability to climatic variation of 10,000 farms reduced	MACO/CSO surveys; baseline and end of programme surveys	Stable prices; effective targeting includes poorer households
<b>OUTCOMES</b>			
<b>Component 1: Sustainable Smallholder Productivity Growth</b>			
Targeted smallholder farmer groups and organizations informed, organized and empowered to respond to market and agricultural development opportunities	20,000 farmers (M/F) actively involved in farmer groups, cooperatives, etc; 100 farmer groups linked to financial service providers; 30% of leadership positions held by women	MACO M&E data; S3P reports, surveys and impact assessments studies; ZARI reports	Agricultural technologies offer opportunities to sustainably increase production and productivity
Smallholders in target areas have improved access to more pertinent and effective advisory services delivered by MACO and/or private sector	80% farmers participating in PEA/FFS-type groups satisfied with advisory services; 80% FFS participants adopting improved seed, planting material and/or cultural practices; 5 public-private partnerships established in target areas	MACO M&E data; S3P reports, surveys and impact assessments studies; ZARI reports	SAPP operating effectively and successfully on key agricultural value chains
Agricultural research and seed multiplication services respond to farmer needs, with: improved crop varieties, land and crop management practices, and labour saving tools/equipment	45,000 farmers adopting improved crop varieties; 30,000 farmers adopting conservation agriculture, agro-forestry and/or improved cropping practices; 5,000 farmers and their families adopting labour saving equipment	MACO/CSO surveys; baseline and end of programme surveys; ZARI and SCCI reports	Research - extension link operational
<b>Component 2: Enabling Environment for Productivity Growth</b>			
Improved agricultural and rural infrastructure and improved access to productivity enhancing works/equipment	40 operational district-level agricultural investments; 350 operational community-level agricultural investments; 500 group-level agricultural investments	S3P annual reports; SNDP reports	Districts, communities and groups willing/able to co-finance agricultural investments
Improved public policy and planning environment for sustainable productivity growth and expanded farmer integration in agricultural markets	3 changes in policies resulting from policy reviews and studies, related workshops and lessons learning visits	Policy reviews and studies	Policy processes driven by technical as well as political considerations
Effective implementation capacity, knowledge management, programme coordination, results measurement and reporting	Unqualified financial and technical audits; timeliness and adequacy of annual work plans, budgets and reports; disbursement rate <10% variance from profile	Audit reports; S3P periodic reports	PMU adequately staffed and supported