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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the Republic of Mozambique for the**

### **Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors**

#### **Note to Executive Board representatives**

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Executive Board — 106<sup>th</sup> Session  
Rome, 20-21 September 2012

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**For: Approval**

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## **Abbreviations and acronyms**

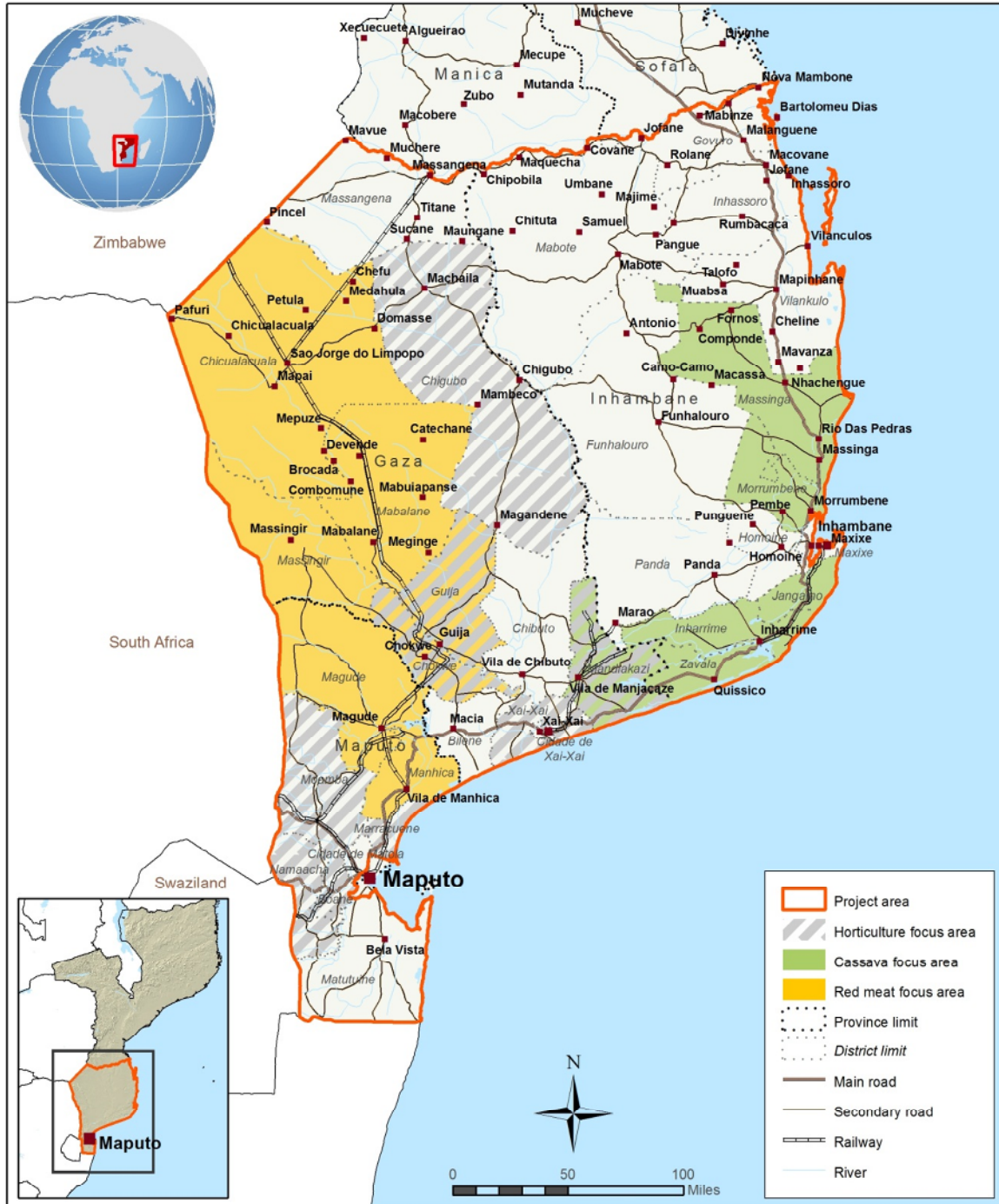
ASAP	Adaptation for Smallholder Agriculture Programme
CEPAGRI	Centre for the Promotion of Agriculture
COSOP	country strategic opportunities programme
MFI	microfinance institution

# Map of the project area

## Mozambique

### Pro-Poor Value Chain Development in the Maputo and Limpopo Corridors (PROSUL)

Design report



13-06-2012



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

## Republic of Mozambique

### Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	Republic of Mozambique
<b>Executing agency:</b>	Centre for the Promotion of Agriculture
<b>Total project cost:</b>	US\$45 million
<b>Amount of IFAD loan:</b>	SDR 10.85 million (equivalent to approximately US\$16.30 million)
<b>Amount of IFAD grant:</b>	SDR 1.01 million (equivalent to approximately US\$1.52 million)
<b>Amount of Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) loan:</b>	EUR 13.3 million (equivalent to approximately US\$16.30 million)
<b>Amount of IFAD Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund grant:</b>	SDR 3.26 million (equivalent to approximately US\$4.91 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Terms of Spanish Trust Fund loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinancier:</b>	United Nations Capital Development Fund (UNCDF)
<b>Amount of cofinancing:</b>	UNCDF: US\$0.14 million
<b>Terms of cofinancing:</b>	UNCDF: grant
<b>Contribution of borrower/recipient:</b>	US\$2.49 million
<b>Contribution of beneficiaries:</b>	US\$1.4 million
<b>Private investors:</b>	US\$1.9 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Mozambique for the Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors, as contained in paragraph 27.

## **Proposed loan and grant to the Republic of Mozambique for the Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. Despite an average annual growth rate above 7 per cent over the last two decades, some 55 per cent of the Mozambican population still live in absolute poverty. The three southern provinces of Gaza, Inhambane and Maputo have above-average poverty rates, largely due to their poorer and more fragile agroecological conditions. Smallholder farmers, who account for 95 per cent of the national agricultural production, eke out a meagre living in these provinces. Nonetheless, good opportunities exist for including these farmers in commercial value chain development. This could enable them to increase their incomes on a sustainable basis.

#### **B. Rationale and alignment with government priorities and RB-COSOP**

2. The project builds on the draft National Plan for Agribusiness Development and is fully aligned with government policies, especially the Poverty Reduction Action Plan, the Strategic Plan for Agricultural Development, and the agricultural Extension Master Plan. The project will contribute to all three strategic objectives of IFAD's 2011 results-based country strategic opportunities programme (RB-COSOP), and is also fully consistent with IFAD policies. Through the project learning system, to be developed by the project, linkages will be established and maintained with complementary IFAD-financed projects, such as the Rural Markets Promotion Programme (PROMER), the Rural Finance Support Programme, and a project on community-investor partnerships (ProParcerias).

### **II. Project description**

#### **A. Project area and target group**

3. The project will be implemented in Gaza, Inhambane and Maputo provinces, with a primary focus on 19 districts. The main target group will be economically active poor people involved in production in the project's value chains of cassava, horticulture and livestock. This includes horticulture farmers with an average of 0.6 hectares in and around existing irrigated schemes in seven target zones in Gaza and Maputo provinces; smallholder farmers cultivating on average 0.6 hectares of cassava; and small-scale herders in the semi-arid areas of Gaza and Maputo provinces. A secondary target group includes persons who have the potential to become drivers of change.

#### **B. Project development objective**

4. The project's development objective is improved and climate-smart livelihoods of smallholder farmers in selected districts of the Maputo and Limpopo corridors. Its expected outcome is a sustainable increase in the incomes of farmers producing irrigated vegetables, improved cassava and improved cattle, goats and sheep.

## C. Components/outcomes

5. The project will have five components:
  - (a) **Horticulture:** The project will sustainably boost the incomes of farmers producing irrigated vegetables by increasing their productivity, with higher volumes of better-quality vegetables reaching both traditional and modern markets. It will rehabilitate and improve some 2,100 hectares farmed by 3,800 smallholders; develop institutional and marketing capacities for another 1,000 smallholders farming a rehabilitated 900-hectare irrigation scheme; finance 200 small greenhouses; establish water user associations and seven service hubs that provide basic services such as storage and packaging; and strengthen market linkages.
  - (b) **Cassava:** The project will respond to new marketing opportunities for cassava-based products by establishing proof-of-concept business models for the profitable production and marketing of cassava, thus providing increased sustainable income for farmers. It will reach some 8,000 farmers through outgrower schemes and service hubs, in a phased approach. The project will support the multiplication of drought-resistant planting materials, establish service hubs that will provide inputs and produce cassava chips and flour, and form market linkages.
  - (c) **Red meat:** Increased sustainable income for small-scale cattle, goat and sheep breeders will be generated by improved production and better organized markets. The project will reach some 5,600 herders, 50 per cent of whom women. Activities will foster better production and off-take by empowering herders to form producer organizations that provide essential services and jointly manage water sources, thereby increasing drought adaption capacity. The project will also develop sustainable market access and obtain better prices by organizing cattle fairs, creating meat traders' organizations, developing contracting and outgrower schemes, and setting up a new and climate-smart slaughterhouse near the capital city, Maputo. Land tenure support will lead to better community management of grazing areas.
  - (d) **Financial services:** The project will ensure that value chain stakeholders have access to adequate and affordable financial services provided by sustainable microfinance institutions (MFIs), whose outreach has been expanded through the use of innovative delivery mechanisms. No bank or MFI currently has sufficient resources to provide the entire range of financial services required at affordable rates. To tackle this problem, the project will capitalize an investment fund that will on-lend to MFIs, thus enabling these institutions to offer the full range of services. To ensure that MFIs provide low-cost loans to value chain stakeholders, the investment fund will take an equity position in the share capital of selected MFIs, with an option of also making a long-term deposit in their shareholders' account.
  - (e) **Institutional support and project management:** The project will strengthen the Centre for the Promotion of Agriculture (CEPAGRI), enabling it to deliver project outcomes and outputs according to plans, and build capacities for innovative business models. This includes developing a project learning system, facilitating regional value chain platforms, and mainstreaming gender and climate change adaptation in policy support for the three value chains. It also includes measures to strengthen the land rights of the project's target groups and to improve land use management by farmers' organizations and communities.
6. The Adaptation for Smallholder Agriculture Programme (ASAP) activities are fully integrated throughout the project, and aim to make the three value chains resilient to the expected impacts of climate change – in particular increased rainfall variability and risks of drought and flooding, especially in the south and central

regions of the country. Project implementation is expected to provide many lessons for scaling-up, which is important given the potential to combine the priorities of value chain development and climate resilience across the IFAD-supported portfolio and beyond. Project-funded activities include: (i) project baseline and impact surveys that take into account various aspects of climate resilience; (ii) capacity-building to support the Ministry of Agriculture in climate policy formulation and development planning; (iii) participative formulation and implementation of community-based natural resource management plans; (iv) increasing private-sector uptake of sustainable agriculture techniques that contribute to climate resilience such as intensified cassava production systems that include mixed cropping; (v) strengthening local meteorological stations; (vi) improving water management approaches and infrastructure; and (vii) introducing small-scale infrastructure such as low-cost greenhouses to help farmers produce in the hot season.

### **III. Project implementation**

#### **A. Approach**

7. The project will have a small project management team (PMT) that will outsource most of the implementation responsibilities to service providers. This is consistent with the country programme evaluation's finding that PMTs have proven to be the most effective option for project implementation in Mozambique, provided that linkages are established with the hosting institutions to contribute to institution-building and sustainability. It also takes into account the mandate of CEPAGRI as a facilitating and coordinating body rather than an implementer of large-scale investment projects. Moreover, it is in accordance with the project approach of promoting the development of business relationships between private actors, which requires a mix of public- and private-sector competences, and of promoting innovative approaches to the development of pro-poor value chains, which requires external expertise.

#### **B. Organizational framework**

8. The project will be implemented by a PMT hosted by CEPAGRI. The implementation of components (a) to (c) will be contracted to three specialized lead service providers. The implementation of the investment fund of component (d) will be the responsibility of the Catalytic Fund of the Beira Agricultural Growth Corridor under a subsidiary financing agreement with the Ministry of Finance and a memorandum of understanding with the PMT. Project oversight will be carried out by a project steering committee, chaired by the Permanent Secretary of the Ministry of Agriculture, and three regional value chain platforms.

#### **C. Planning, monitoring and evaluation, and learning and knowledge management**

9. A project learning system integrating planning, monitoring and evaluation (M&E), and knowledge management will be developed to steer project implementation, support economic decisions and share knowledge. The project learning system will support accountability to project stakeholders and will expand over time. It will be "open" (that is, not restricted to project staff), participatory and focused on analysis and learning connected to CEPAGRI's information systems. Each year, innovation areas in which project stakeholders intend to detect good practices and develop an exchange of knowledge will be identified by the value chain platforms and included in the annual M&E and knowledge management plan. Moreover, learning routes will be organized, when appropriate, to respond to learning needs.

#### **D. Financial management, procurement and governance**

10. CEPAGRI will use country systems for project financial management, including a designated account at the Bank of Mozambique, a treasury single account, the e-SISTAFE payment system (developed by the State Financial Administration System



[SISTAFE]) and involving two project-specific accounts operated by CEPAGRI. In a limited number of cases, payments that cannot be accommodated by country systems will be made through a commercial bank account acceptable to IFAD. Similar arrangements are already in use in the Artisanal Fisheries Promotion Project. Project accounting systems will be consistent with international accounting standards and principles, and with government requirements. Procurement will be carried out in accordance with government regulations, consistent with IFAD Procurement Guidelines, and according to procedures already agreed on for all other IFAD-funded projects in Mozambique. Annual audits will be performed by an external independent auditor acceptable to the Fund and in accordance with the IFAD Guidelines on Project Audits.

## E. Supervision

- The project will be directly supervised by IFAD. To this end, annual implementation support missions, initially followed by short follow-up missions at six-month intervals, will be organized with government (CEPAGRI) participation.

## F. Exceptions to IFAD General Conditions for Agricultural Development Financing

- The following provision of the General Conditions shall be modified in the financing agreement for the project: Section 4.08(a)(i). Eligible expenditures, for the purpose of the financing agreement, shall include equity participation.

## IV. Project costs, financing, benefits

### A. Project costs

- Total costs for the seven-year project, including physical and price contingencies, amount to US\$44.95 million. Costs are disaggregated as follows: horticulture, 29 per cent of base costs; cassava, 9 per cent; red meat, 12 per cent; financial services, 33 per cent; institutional support and project management, 16 per cent. The total costs also include 3 per cent for physical contingencies and 1 per cent for price contingencies.

### B. Project financing

- IFAD will finance 51 per cent of project costs (about US\$22.7 million) through a loan of about US\$16.3 million, a grant of US\$1.5 million and a grant of US\$4.9 million from the ASAP. In addition, the Spanish Trust Fund will provide a loan of US\$16.3 million, and the United Nations Capital Development Fund (UNCDF) will finance US\$0.1 million. The Government's contribution in the form of waiving taxes and duties is expected to amount to US\$2.5 million. The private sector will contribute US\$1.9 million and beneficiaries US\$1.4 million. The project's financing plan is shown in the following table.

#### Components by financiers (Millions of United States dollars)

	IFAD Loan		IFAD Grant		Spanish Trust Fund Loan		ASAP Grant		UNCDF		Private Investors		Beneficiaries		Government of Mozambique		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Horticulture	5.68	42.0	-	-	5.68	42.0	0.56	4.1	-	-	-	-	0.35	2.6	1.26	9.3	13.52	30.1
2. Cassava	1.56	37.5	-	-	1.56	37.5	0.63	15.3	-	-	-	-	-	-	0.40	9.7	4.15	9.2
3. Red meat	1.68	29.4	-	-	1.68	29.4	1.77	31.0	-	-	-	-	-	-	0.58	10.1	5.72	12.7
4. Financial services	5.04	34.6	-	-	5.04	34.6	1.29	8.8	0.14	1.0	1.90	13.0	1.05	7.2	0.10	0.7	14.56	32.4
5. Institutional support and project management	2.34	33.4	1.52	21.7	2.34	33.4	0.66	9.4	-	-	-	-	-	-	0.14	2.0	7.00	15.6
<b>Total PROJECT COSTS</b>	<b>16.30</b>	<b>36.3</b>	<b>1.52</b>	<b>3.4</b>	<b>16.30</b>	<b>36.3</b>	<b>4.91</b>	<b>10.9</b>	<b>0.14</b>	<b>0.3</b>	<b>1.90</b>	<b>4.2</b>	<b>1.40</b>	<b>3.1</b>	<b>2.49</b>	<b>5.5</b>	<b>44.95</b>	<b>100.0</b>

### C. Summary benefit and economic analysis

- The project will directly benefit around 20,350 households, including about 18,400 farming households. The remaining households will benefit indirectly from wages earned in hubs, small cassava processing units, livestock veterinary stores, and at the slaughterhouse. Indirect beneficiaries will also include members of meat trader organizations and about 50 commercial farmers. In the horticulture sector, the

project will support 4,800 farmer households on irrigated plots of less than 0.7 hectares. In the cassava value chain, the project will support 8,000 smallholder households cultivating cassava on plots averaging 0.6 hectares. In the red meat sector, the project will benefit around 5,600 smallholder households breeding cattle, sheep and goats.

16. The main project benefits by component include:
- (a) **Horticulture:** improved productivity and extension of production cycles in irrigation schemes and greenhouses, allowing all-year production and higher prices during off-peak seasons; full smallholder exploitation of 3,000 hectares of improved and rehabilitated irrigated schemes; development of innovative outgrower schemes; service provision from seven multi-service hubs, with services of interest not only to vegetable producers but also to farmers producing other crops; availability of appropriate technical packages to generate higher quality and prices; profitable and autonomously managed farmers' organizations.
  - (b) **Cassava:** improved productivity of cassava production and processing; development of new business models securing new market outlets and increased income for cassava producers and promoting the marketing of cassava-based products; service provision from 24 hubs in support of cassava input provision and processing; development of climate-resilient technical packages to mitigate farmers' risk and to promote higher quality; profitable and autonomously managed farmers' organizations.
  - (c) **Ruminants:** improved productivity and herd management resulting in higher and more regular income; functioning breeding units and improved herd quality through joint ventures between commercial and small farmers; functioning cattle fairs and service provision from seven meat trader organizations facilitating goat and cattle marketing and increasing margins to farmers resulting from reduced transaction costs and from a network of commercially run livestock veterinary stores; profitable and autonomously managed farmers' organizations; functioning of a new slaughterhouse offering a market outlet for breeders and securing better prices through the promotion of higher quality.
17. The project's economic internal rate of return (EIRR) is estimated at 24.6 per cent, with a net present value of US\$39 million. The project's economic viability is robust to adverse changes in project costs, and the project still remains viable with increases in capital and recurrent costs of 50 per cent. The project is also robust to decreases in incremental benefits as its EIRR is still 18.7 per cent if incremental benefits are reduced by 30 per cent.

#### **D. Sustainability**

18. The project is organized as a temporary intervention to develop viable and sustainable business models in the horticulture, cassava and goats/cattle value chains, with a clear objective of developing institutions, mechanisms and capacities that will be able to continue on their own after project completion. This is reflected in the project's private-sector-driven approach, its strong capacity-building support to farmers' organizations, its aim of ensuring sustainable access to financial services based on existing institutions and a commercial approach, its development of climate-resilient technological packages and practices that will pave the way for sustained productivity and quality improvements in the project area's semi-arid environment, its creation of stable multistakeholder platforms, and its use of national institutions and procedures for project management.

#### **E. Risk identification and mitigation**

19. The two key risks and mitigation measures are:

- (a) **Drought:** This risk will be mitigated by promoting and multiplying drought-resistant cassava and vegetable varieties, promoting climate-resilient grazing and feeding, promoting resilient production techniques, and supporting irrigation, low-cost greenhouses and access to water facilities for livestock.
- (b) **Lack of financial capacity and interest on behalf of the private sector to invest in processing:** This risk will be mitigated by providing private investors with matching grants to support investment in innovative and riskier activity, and developing service hubs co-owned by farmers.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

- 20. Project design is compliant with the main IFAD policies and strategies, including with regard to the Mozambique COSOP, targeting and gender mainstreaming, rural finance, rural enterprise development, private-sector development and environment and natural resource management.

### **B. Alignment and harmonization**

- 21. The proposed interventions are fully aligned with government policies, especially the Poverty Reduction Action Plan, the Strategic Plan for Agricultural Development and the agricultural Extension Master Plan. The project will also contribute to implementation of the forthcoming National Plan for Agribusiness Development and the National Adaptation Programme of Action that foresees activities to build resilience, including strengthening farmers' capacities to deal with climate change by reducing crop and livestock losses in drought-prone regions, reducing soil degradation and promoting diversified commercially oriented activities.

### **C. Innovations and scaling up**

- 22. The project will promote innovative rural service provision structures by empowering farmers' organizations to establish hubs that provide essential commercial services for the operation of the cassava value chain. The development of cost-effective climate-resilient packages in all value chains represents another important innovation. The joint ownership arrangements for the new slaughterhouse are innovative for Mozambique, and are expected to be a cornerstone in the pro-poor development of the red meat value chain.

### **D. Policy engagement**

- 23. The project's policy engagement will be in support of the change process that needs to accompany pro-poor, commercially led value chain development in Mozambique. This process will mainly be driven by regional value chain platforms, which will serve as forums for the exchange of experiences between public and corporate representatives and smallholders. Strengthening farmers' organizations so that they can engage actively with partners is a key element in this.

## **VI. Legal instruments and authority**

- 24. A financing agreement between the Republic of Mozambique and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
- 25. The Republic of Mozambique is empowered under its laws to receive financing from IFAD and from the Spanish Trust Fund, acting through IFAD in its capacity as the trustee.
- 26. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

27. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Mozambique in an amount equivalent to ten million eight hundred and fifty thousand special drawing rights (SDR 10,850,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Mozambique in an amount equivalent to one million and ten thousand special drawing rights (SDR 1,010,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the trustee, shall provide a loan on highly concessional terms to the Republic of Mozambique in an amount equivalent to thirteen million three hundred thousand euro (EUR 13,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant under the Adaptation for Smallholder Agriculture Programme to the Republic of Mozambique in an amount equivalent to three million two hundred and sixty thousand special drawing rights (SDR 3,260,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein. Subject to availability of funds in the ASAP Trust Fund, the ASAP grant shall be committed as of, and shall not be disbursed before, the effective date of the Ninth Replenishment of IFAD's Resources (as required by section V(d) of Governing Council resolution 166/XXXV).

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors"**

(Negotiations concluded on 28 August 2012)

IFAD loan Number: \_\_\_\_\_

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

Trust loan Number: \_\_\_\_\_

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

Project Title: Pro-Poor Value Chain Development in the Maputo and Limpopo Corridors (the "Project")

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

and

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

and

The Spanish Food Security Co-financing Facility Trust Fund (the Trust)

and

The Adaptation for Smallholder Agriculture Programme Trust Fund (the ASAP Trust)

(each a "Party" and collectively the "Parties")

### **Preamble**

WHEREAS the Executive Board of the International Fund for Agricultural Development (the "Fund" or "IFAD"), at its 100<sup>th</sup> Session approved the establishment of a Spanish Food Security Co-Financing Facility Trust Fund ("the Trust") and further approved that the Trust, acting through IFAD in its capacity as the Trustee of the Trust, enters into a borrowing agreement with the Kingdom of Spain (Spain);

WHEREAS Spain and IFAD, in its capacity as the Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010;

WHEREAS IFAD has agreed to extend a loan and a grant to the Borrower/Recipient for the purpose of financing the PROSUL Project, on the terms and conditions set forth in this Agreement;

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower/Recipient for the purpose of increasing the financing in respect of the above referred Project, on the terms and conditions set forth in this Agreement;

WHEREAS the Executive Board of the International Fund for Agricultural Development (the "Fund" or "IFAD"), at its 105<sup>th</sup> Session approved the establishment of the ASAP Trust;

WHEREAS, on the basis of the above and other considerations, the ASAP Trust has agreed to extend an ASAP Grant to the Borrower/Recipient for the purpose of increasing the financing in respect of the above referred Project, on the terms and conditions set forth in this Agreement;

WHEREAS, subject to availability of funds in the ASAP Trust, the ASAP Grant shall be committed as of, and shall not be disbursed before, the effective date of the Ninth Replenishment of IFAD's Resources (as required by GC Resolution 166/XXXV Section V(d));

NOW THEREFORE, the parties hereto hereby agree as follows:

## **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (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. 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, the ASAP Trust shall provide an ASAP Grant, and the Trust shall provide a Trust Loan to the Borrower/Recipient (collectively referred to as "the Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

## **Section B**

1.
  - A. The amount of the IFAD Loan is ten million eight hundred and fifty thousand Special Drawing Rights (SDR 10 850 000).
  - B. The amount of the IFAD Grant is one million and ten thousand Special Drawing Rights (SDR 1 010 000).
  - C. The amount of the Trust Loan is thirteen million three hundred thousand Euro (EUR 13 300 000).
  - D. The amount of the ASAP Grant is three million two hundred and sixty thousand Special Drawing Rights (SDR 3 260 000).
2. The IFAD Loan is granted on highly concessional terms as determined in Article 5.01 (a) of the General Conditions, being free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of the approval of the Loan by the Fund's Executive Board.
3. The Trust Loan is granted on highly concessional terms as determined in Article 5.01 (a) of the General Conditions, being free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of the approval of the Loan by the Fund's Executive Board.

4. A. The Loan Service Payment Currency for the IFAD loan shall be United States Dollar.  
B. The Loan Service Payment Currency for the Trust Loan shall be the Euro.
5. The first day of the applicable Fiscal Year shall be 1 January.
6. Payments of principal and service charge of the IFAD loan shall be payable on each 1 May and 1 November.
7. Payments of principal and service charge of the Trust loan shall be payable on each 1 May and 1 November.
8. There shall be a Project Account (the "Advance Account") for the benefit of the Centre for the Promotion of Agriculture (CEPAGRI) in a bank acceptable to the Fund.
9. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of USD 2 490 000 in foregone tax revenues (approximately equivalent to 5.5% of the total Project cost).

### **Section C**

1. The Lead Project Agency shall be CEPAGRI, under the Ministry of Agriculture of the Borrower/Recipient (MINAG).
2. The following are designated as additional Project Parties: Lead Service Providers (LSPs), the National Road Authority (ANE), and the Beira Agricultural Growth Corridor (BAGC) Catalytic Fund.
3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

### **Section D**

The IFAD Loan, the IFAD Grant, the Trust Loan, and the ASAP Grant will be administered and the Project supervised by the Fund.

### **Section E**

1. The following are designated as additional grounds for suspension of this Agreement:
  - (a) The Project Coordinator or the Financial Manager shall have been removed from the Project Management Team (PMT) without prior concurrence of the Fund;
  - (b) The Subsidiary Financing Agreement between PROSUL and the Government of Mozambique, which governs operations of the Catalytic Fund, has been suspended or cancelled; or
  - (c) The Memorandum of Understanding (MOU) between the PMT and the Catalytic Fund has been suspended or cancelled.
2. The following are designated as additional conditions precedent to withdrawal:
  - (a) General conditions precedent to withdrawal:

- (i) The Project Coordinator, the Financial Manager, the Monitoring and Evaluation (M&E) and Knowledge Management Officer, and the Agribusiness Officer of the PMT have been recruited in accordance with Schedule 1;
  - (ii) The Project Steering Committee (PSC) has been assembled;
  - (iii) The Advance Account has been duly opened; and
  - (iv) The draft Project Implementation Manual has been submitted to IFAD.
- (b) Specific conditions precedent to withdrawal from Category I:
- (i) Expenditures related to road rehabilitation: The agreement between CEPAGRI and ANE as a project party responsible for the implementation of the Project, shall have been approved by the Fund in draft, and a signed copy of such agreement shall have been delivered to the Fund;
- (c) Specific conditions precedent to withdrawal from Category V:
- (i) The Financial Services Expert of the PMT has been recruited in accordance with Schedule 1; and
  - (ii) The Subsidiary Financing Agreement for the Catalytic Fund and an MOU between the PMT and the Catalytic Fund have been signed, and a signed copy of such agreements shall have been delivered to the Fund.

3. The following provision of the General Conditions shall be modified for this Agreement: *Section 4.08(a)(i)*. Eligible expenditures, for the purpose of this Agreement, shall include equity participation.

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

For the Borrower/Recipient:

Minister of Finance  
Av. 10 de Novembro, 928  
Caixa Postal 272  
Praça da Marinha Popular  
Maputo, Mozambique

For the Fund:

President of the International Fund for Agricultural Development  
International Fund for Agricultural development  
Via Paolo di Dono 44  
00142 Rome, Italy



For the Spanish Food Security Co-Financing Facility Trust Fund

President of the International Fund  
for Agricultural Development in its capacity as Trustee  
of the Spanish Food Security co-Financing Facility Trust Fund  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Adaptation for Smallholder Agriculture Programme Trust Fund

President of the International Fund for Agricultural Development in its capacity as  
Trustee of the Adaptation for Smallholder Agriculture Programme Trust Fund  
Via Paolo di Dono 44  
00142 Rome, Italy

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/Recipient.

REPUBLIC OF MOZAMBIQUE

\_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_

## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Target Population.* The Project shall benefit the emergent smallholder farmers , particularly women, in the target value chains. Secondary target groups will include commercial farmers, traders, private investors, livestock breeders and staff hired by the enterprises supported by the Project. The Project will be implemented in the provinces of Gaza, Inhambane and Maputo (the "Project Area"), with a focus on nineteen (19) districts. The focus districts are: Chicualacuala, Chibuto, Chokwe, Guija, Mabalane, Manjakaze, Massingir, and Xai Xai in Gaza; Inharrime, Jangamo, Massinga, Morrumbene, and Zavala in Inhambane; and Boane, Manhica, Magude, Marracuene, Moamba, and Namaacha in Maputo. The expected number of beneficiary families is approximately 20 350.
2. *Goal.* The goal of the Project is to improve livelihoods of smallholder farmers, including strengthened climate adaptation.
3. *Objective.* The objective of the Project is to achieve sustainable increased returns to smallholder farmers in the target value chains by promoting increased production volumes and quality, improved market linkages, efficient farmer organisation and higher farmers' share over the final added value.
4. *Components.* The Project shall consist of the following Components:
  - 4.1 Component 1 – Horticulture
    - a) *Sub-component 1 – Rehabilitation and expansion of approximately 2,100 ha of existing irrigated perimeters,* including (i) design, construction, and operations and maintenance of civil works; (ii) strengthening of water users' associations; and (iii) institutional support to irrigation staff.
    - b) *Sub-component 2 – Strengthening linkages between value chain stakeholders,* including (i) facilitating outgrower schemes; (ii) setting up service hubs in connection with seven target irrigation clusters; (iii) offering technical assistance through joint teams of experts; (iv) promoting farmers' organisations, access to markets, and innovative practices; and (v) monitoring and knowledge management.
  - 4.2 Component 2 – Cassava
    - a) *Sub-component 1 – Strengthening linkages between value chain stakeholders,* including (i) establishing service hubs in each target district; (ii) encouraging installation of small processing units; (iii) assisting development of outgrower schemes and farmers' organisations; and (iv) promoting innovative agricultural practices and access to markets.
    - b) *Sub-component 2 – Value chain environment,* including (i) establishing a regional value chain platform; (ii) establishing multi-stakeholder innovation platforms; (iii) monitoring and knowledge management; and (iv) supporting development of a conducive policy and legislative environment.

#### 4.3 Component 3 – Red Meat

- a) *Sub-component 1 – Value chain environment*, including (i) establishing a regional value chain platform; (ii) establishing innovation platforms; (iii) monitoring and knowledge management; and (iv) supporting development of a conducive policy and legislative environment.
- b) *Sub-component 2 – Production improvement*, including (i) strengthening livestock producers' organisations; (ii) promoting innovative practices; and (iii) promoting services such as technical assistance, financial, and animal health services.
- c) *Sub-component 3 – Market linkages*, including (i) improving cattle fairs; (ii) facilitating formation of meat traders' associations; (iii) facilitating outgrower schemes; and (iv) building a new slaughterhouse near Maputo.

#### 4.4 Component 4 – Financial Services

- a) *Sub-component 1 – Financial services*, including (i) equity and debt financing of microfinance institutions (MFIs) and the PROSUL supported slaughterhouse; and (ii) grant financing of construction of other PROSUL investments (i.e., 30% of the cost of construction for the slaughterhouse, horticulture hubs, cassava processing hubs and livestock vet stores).
- b) *Sub-component 2 – Capacity building*, for (i) MFIs participating in PROSUL; (ii) small and medium enterprises created under PROSUL; and (iii) other loan beneficiaries.

#### 4.5 Component 5 – Institutional Support and Project Management

- a) *Sub-component 1 – Institutional support*, including (i) capacity building in CEPAGRI and its Gaza Delegation; (ii) promoting climate change adaptation in policy; (iii) providing technical and legal assistance for innovative contractual arrangements; and (iv) incorporating agricultural education institutions.
- b) *Sub-component 2 – Land tenure security*, including (i) mapping information on land titles; (ii) analysing tenure security issues; and possibly (iii) supporting community land delimitation.
- c) *Sub-component 3 – Project management*, including the planning, budgeting, contracting, supervising, managing and monitoring of project activities.

## **II. Implementation Arrangements**

1. The Project shall come under the auspices of the Ministry of Agriculture, with CEPAGRI designated as Lead Project Agency. ANE shall partner with CEPAGRI and be involved in Project implementation.
2. The Director of CEPAGRI shall have overall responsibility for coordination and oversight of PROSUL. However, line responsibility for day-to-day programme implementation will be delegated to the Project Coordinator, who will carry it out in close collaboration with the CEPAGRI Delegate for the southern provinces in Xai Xai (Gaza), and with support from the PMT.
3. The PMT shall be composed of individuals recruited through a competitive bidding process open to both MINAG and external candidates, whose selection shall be submitted

to the Fund for no objection. Except for financial and administrative positions, prior experience with gender mainstreaming is strongly desirable. All staff recruited through a competitive process shall be appointed for a 2-year period with possibility of renewal subject to a good performance evaluation by CEPAGRI, confirmed by the Fund. Civil servants selected for any of the professional posts in the PMT should either resign or obtain leave without pay from the Government and be hired on a contract basis. The PMT shall have overall responsibility for planning, implementation, management and monitoring of Project activities. It shall also have overall responsibility for contracting and procurement, coordination with Project partners, and promotion of inclusive approaches.

4. Key staff of the PMT shall include a Project Coordinator, a Financial Manager, an M&E and Knowledge Management Officer, an Agribusiness Officer, and a Financial Services Expert.

5. The implementation of components 1 through 3 will be carried out by three specialised LSPs. LSPs' responsibilities will include but not be limited to preparation, implementation, and monitoring of Value Chain Action Plans and related Annual Work Plan and Budget (AWPB) sections; contracting and procurement; coordination among Component partners; setting up and supporting Regional Value Chain Platforms and Innovation Platforms; supervision, monitoring and evaluation, and knowledge management, under PMT guidance; preparation of progress reports; and recruitment of specialised service providers to implement component activities.

6. The BAGC Catalytic Fund will be responsible for implementation of component 4. Arrangements will be consigned in a Subsidiary Financing Agreement signed by the Catalytic Fund and the Ministry of Finance (with prior IFAD no objection). The responsibilities of the Catalytic Fund will include but not be limited to the creation of an adequately staffed department for PROSUL activities; preparation of AWPBs and implementation of related activities; monitoring of participatory microfinance institutions and other Small and Medium enterprises (SMEs); quarterly reporting; and provision of technical assistance to microfinance institutions and other SMEs in which it holds equity. An MOU between the Catalytic Fund and the PMT will further detail the roles and responsibilities of each.

6.1 *Microfinance Institutions.* The Catalytic Fund will take a minority equity participation in up to three MFIs, subject to approval of the MFI board and Catalytic Fund Board and to IFAD no objection, and will have a seat on the Board of Directors of the MFI(s). Dividends earned from equity participation in MFIs will be used to cover Catalytic Fund operating costs.

6.2 *Slaughterhouse LLC.* The Catalytic Fund will take an equity participation in the Slaughterhouse LLC to be created by PROSUL. The equity position will be held on behalf of livestock producers organisations (LPOs). The Catalytic Fund will have a seat on the board of the Slaughterhouse LLC, which will be transferred to LPOs when the shares owned by the Catalytic Fund will have been purchased by them. Dividends earned by the Catalytic Fund will be split in two equal parts: (i) one part will be kept by the Catalytic Fund to cover its operating expenses; and (ii) the other part will be transferred to LPOs to increase their income and incentivize their participation in the investment. LPOs will be allowed to purchase the shares of the Catalytic Fund once they have paid back their portion of the investment loan.

7. A Land Tenure Service Provider (LTSP) will carry out all activities related to land tenure security. Additionally, if deemed necessary, a part-time Land Tenure Advisor may be contracted to help identify and supervise the LTSP's inputs.

8. A Project Learning System (PLS) integrating planning, monitoring and evaluation (M&E), and knowledge management (KM) will be developed to steer project implementation, support economic decisions and share knowledge. The PLS will be open (that is, not restricted to project staff), participatory, growing, focused on analysis and learning connected to CEPAGRI's information systems and supporting accountability to project stakeholders. Every year, innovation areas in which project stakeholders intend to detect good practices and to develop an exchange of knowledge will be identified by the Value Chain Platforms (VCPs) and included in the annual M&E and KM plan.

9. *Project oversight.* Project oversight will be carried out by a Project Steering Committee (PSC) chaired by the Permanent Secretary of MINAG, and three Regional VCPs. The latter will provide overall project guidance and identify issues to be addressed at a policy level. Based on this overall dialogue, VCPs will also be responsible for approving component AWPBs prior to submission to the PSC. The PSC will assess management effectiveness, decide on corrective measures where appropriate, review lessons learned, approve AWPBs, review progress reports, and provide overall guidance to Project implementation.

## Schedule 2

### Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR 000s)	Grant Amount Allocated (expressed in SDR 000s)	Trust Fund Loan Amount Allocated (expressed in EUR 000s)	ASAP Grant Amount Allocated (expressed in SDR 000s)	Percentage
I. Civil Works	2 330		2 860	620	100% net of taxes
II. Vehicles, Equipment and Materials	620		760	190	100% net of taxes
III. Training, TA and Studies	2 250	910	2 760	1 350	100% net of taxes
IV. Contractual Services	1 000		1 220		100% net of taxes
V. Financial Services	2 700		3 310	770	100% net of taxes
VI. Recurrent Costs	860		1 060		100% net of taxes
Unallocated	1 090	100	1 330	330	
<b>TOTAL</b>	<b>10 850</b>	<b>1 010</b>	<b>13 300</b>	<b>3 260</b>	

(b) The terms used in the Table above are defined as follows:

Financial Services shall include investment Funds to the Catalytic Fund, from which equity investments and long-term deposits may be made.

Recurrent Costs shall include salaries, allowances and incremental operating and maintenance costs).

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (in Categories II, III, IV and VI) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 800 000 equivalent.

3. *The ASAP Grant.* Disbursement of the ASAP Grant shall commence upon the effective date of the Ninth Replenishment of IFAD's Resources.

### **Schedule 3**

#### *Special Covenants*

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the IFAD Loan Account, the IFAD Grant Account, the Trust Account, and the ASAP Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project.

1. Insurance of project personnel. The Borrower/Recipient, through CEPAGRI, shall insure PMT personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.
2. Maintenance of road infrastructure. The Borrower/Recipient shall ensure that the maintenance of roads rehabilitated under the Project is carried out throughout the Project Implementation Period, continues after the Project Completion Date and that it shall provide the financing necessary for such maintenance at the appropriate level.
3. Project Learning System. The Borrower/Recipient shall ensure that the Project Learning System as described in Schedule 1, Section II, paragraph 8 is established within 12 months from the date of entry into force of this agreement.
4. Land Tenure Security. The Borrower/Recipient shall ensure that the necessary mechanisms are in place for supervising the LTSP in the implementation of Component 5, sub-component 2.

## LOGICAL FRAMEWORK

Narrative summary	Key Indicators and Targets by June 2019	Means of Verification	Assumptions
<b>GOAL AND DEVELOPMENT OBJECTIVE</b>			
GOAL: Improved and climate resilient livelihoods of smallholder farmers in selected districts of the Maputo and Limpopo corridors.	<ul style="list-style-type: none"> <li>• Increased asset index for 13,700 participating households (RIMS)</li> <li>• Reduced child malnutrition (RIMS)</li> <li>• 60,000 poor smallholder household members whose climate resilience has increased due to ASAP (ASAP)</li> </ul>	Project baseline & impact surveys, reality checked against national statistics	<ul style="list-style-type: none"> <li>• Favourable economic environment</li> </ul>
DEVELOPMENT OBJECTIVE: Sustainable increased returns to smallholder farmers from increased production volumes and quality in target value chains, improved market linkages, efficient farmer organisation and higher farmers' share over the final added value.	<ul style="list-style-type: none"> <li>• % of final price accruing to small-scale producers in the three value chains</li> <li>• 20,350 households (50% women) receiving project services (RIMS 1.2.5)</li> <li>• Number of farmer organisations extending productions support and marketing service to members (COSOP)</li> </ul>	<ul style="list-style-type: none"> <li>• Project surveys</li> <li>• Service hubs' reports</li> <li>• Farmers' organisations statistics</li> <li>• Value Chain Platform reports</li> </ul>	<ul style="list-style-type: none"> <li>• Continued government commitment to improve returns to farmers in agricultural value chains</li> </ul>
<b>OUTCOMES</b>			
OUTCOME 1: Increased sustainable income for smallholder farmers producing irrigated vegetables in project areas through increased productivity, volumes and quality of vegetables reaching both traditional and modern market segments.	<ul style="list-style-type: none"> <li>• 1,305 ha improved and 796 ha rehabilitated irrigated schemes operational (19 schemes)</li> <li>• 4,800 farmers (50% women) accessing support services (RIMS 1.2.5, COSOP) through 7 service hubs (20 schemes)</li> <li>• 3,840 farmers (50% women) adopting recommended climate-resilient technologies (RIMS 2.2.2, COSOP and ASAP) (20 schemes)</li> <li>• Annual volume of produce sales by hubs (COSOP)</li> <li>• All WUAs granted DUATs and with documented rules for regulating members' parcel access and use</li> </ul>	<ul style="list-style-type: none"> <li>• DNSA and INIR</li> <li>• LSP M&amp;E system</li> <li>• Project surveys</li> <li>• Service hubs' reports</li> <li>• Farmers' organisations statistics</li> <li>• Value Chain Platform reports</li> </ul>	<ul style="list-style-type: none"> <li>• Private investors interested in investing in outgrower schemes/hubs along conditions proposed by IFAD</li> </ul>
OUTCOME 2: Increased sustainable income for smallholder farmers in project areas from improved cassava production, based on proof-of-concept business models for the profitable production and marketing of cassava-based products.	<ul style="list-style-type: none"> <li>• 8,000 farmers (50% women) accessing support services (RIMS 1.2.5 and COSOP) through outgrower schemes and service hubs</li> <li>• 4,800 farmers (50% women) adopting recommended technologies (RIMS 2.2.2, COSOP)</li> <li>• Average cassava yield by participating households increased from 6.5 t/ha to 11.0 t/ha (+70%)</li> <li>• Annual volume of cassava purchased by processing units (COSOP)</li> <li>• Increase by 2,880 ha of land managed under best practices (ASAP)</li> </ul>	<ul style="list-style-type: none"> <li>• Project surveys</li> <li>• LSP M&amp;E system</li> <li>• Service hubs' reports</li> <li>• Farmers' organisations statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Private investors interested in investing in processing units, outgrower schemes and hubs along conditions proposed by IFAD</li> </ul>



<p>OUTCOME 3: Increased sustainable income for small-scale cattle, goat and sheep breeders in project areas through improved production and better organised markets</p>	<ul style="list-style-type: none"> <li>• 5,600 herders (50% women) accessing animal health services (RIMS 1.2.5 and COSOP)</li> <li>• 3,360 herders (50% women) adopting recommended technologies (RIMS 2.2.2 and COSOP)</li> <li>• Off-take rate of livestock (increased from current 5% to 10%)</li> <li>• Annual number of animals sold by LPOs by project year 3 (separate for cattle and shoats)</li> <li>• # increase in hectares of land managed under best practices (ASAP)</li> </ul>	<ul style="list-style-type: none"> <li>• Project surveys</li> <li>• LSP M&amp;E system</li> <li>• Farmers' organisations statistics</li> <li>• Value Chain Platform reports</li> </ul>	<ul style="list-style-type: none"> <li>• Private investors interested in investing in slaughterhouse at PROSUL conditions</li> <li>• Prospect of higher and regular income induces herders to develop commercially-oriented herd management</li> </ul>
<p>OUTCOME 4: Selected value chain stakeholders have a timely and adequate access to a diversified range of affordable financial products, through existing or to be created financial and non-financial service providers</p>	<ul style="list-style-type: none"> <li>• Number of rural clients (50% women) receiving a loan (COSOP)</li> <li>• At least 75% of participating farmers (50% women) access financial services (by type of client, service, financial/non-financial service provider), loan portfolio</li> <li>• Portfolio at risk of MFI loans to participating farmers</li> <li>• Number and volume of working capital loans extended by microfinance institutions to SMEs and repayment rate, by year</li> <li>• Average interest rates charged to project-supported SMEs, farmers' organizations and farmers;</li> <li>• Dividends earned by the Catalytic Fund from MFIs and SMEs (by type) and return on investment;</li> <li>• Yearly amount of PROSUL equity held by Catalytic Fund in SMEs</li> <li>• Number of staff of MFIs/SMEs trained in financial and management subjects (RIMS) (50% women)</li> </ul>	<ul style="list-style-type: none"> <li>• Catalytic Fund and MFIs M&amp;E systems</li> </ul>	<ul style="list-style-type: none"> <li>• MFIs are interested in extending services in rural areas along conditions affordable for agricultural activities</li> </ul>
<p>OUTCOME 5: CEPAGRI, and specifically its delegation for the southern provinces, has and uses systems and tools for supporting inclusive value chain development and for promoting new business models</p>	<ul style="list-style-type: none"> <li>• Systems and tools for planning and budgeting public support to value chains and for monitoring value chain performance are operational and implemented</li> <li>• Linkages with relevant institutions (particularly MICOA and INGC) and with the Strategic Programme for Climate Resilience co-financed by the World Bank and AfDB established and maintained (ASAP)</li> <li>• 10 CEPAGRI and project staff received training and exposure to issues related to the broader national and regional climate agenda (ASAP)</li> </ul>	<ul style="list-style-type: none"> <li>• Project reports and publications</li> </ul>	