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Enabling poor rural people  
to overcome poverty

## **Republic of Mozambique**

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

#### **Negotiated financing agreement**

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

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For: **Information**

## **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.