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Enabling poor rural people  
to overcome poverty

**Republic of Mozambique**  
**President's memorandum**  
**PRONEA Support Project**  
**Amendment to the loan agreement**

**Note to Executive Board representatives**

Focal points:

Technical questions:

**Claus Reiner**  
Country Programme Manager  
Tel.: +39 06 5459 2797  
e-mail: c.reiner@ifad.org

Dispatch of documentation:

**Deirdre McGrenra**  
Head, Governing Bodies Office  
Tel.: +39 06 5459 2374  
e-mail: gb\_office@ifad.org

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**For: Approval**

## Recommendation for approval

The Executive Board is invited to approve the request to amend the loan agreement for the Agricultural Support Programme as contained in paragraph 8.

### President's memorandum

### PRONEA Support Project

### Amendment to the loan agreement

#### I. Background

1. At its eighty-seventh session in April 2006, the Executive Board approved a loan of SDR 13.85 million (equivalent to approximately US\$20.0 million) to the Republic of Mozambique, on highly concessional terms, to help finance the Agricultural Support Programme (ASP), known in Mozambique as *Programa Nacional de Extensão Agrária* (PRONEA). The programme was in line with IFAD's intervention strategy, as outlined in its country strategic opportunities programme approved in September 2004. The rationale for the Agricultural Support Programme emerged from the Government's Vision for Agricultural Development, proposals of the Action Plan for the Reduction of Absolute Poverty (PARPA), advances made in the country's decentralization process and governance system, and progress achieved under the National Programme for Agricultural Development (PROAGRI II, 2006-2011) a sector-wide approach (SWAp) financed through PROAGRI's Common Flow of Funds Mechanism (CFFM) and the Government's general budget. In 2008, the Executive Board approved an exception to IFAD's General Conditions for Agricultural Development Financing in recognition of the fact that for this programme, which operated as a SWAp with a basket funding arrangement, "the World Bank specifically permits the financing of taxes and duties which it deems to be reasonable overall" (EB 2008/93/R.28, paragraph 2). The exception was made therefore "to permit the loan proceeds to be used to finance taxes and duties to the same extent as applied by the World Bank" (EB 2008/93/R.28, paragraph 3) for the ASP.
2. **Key programme objectives.** The programme constituted a core part of PROAGRI II in support of the PARPA action plan's principles and targets; it specifically sought to contribute to the attainment of the government objective of maintaining agricultural sector growth at or above the level of 7 per cent per year estimated to be required to ensure achievement of the Millennium Development Goals. The ongoing goal was to contribute to absolute poverty reduction and improve the quality of life of rural Mozambican men and women. The development purpose was to increase returns and improve the household food security of subsistence farmers, particularly among woman-headed and disadvantaged households, through a steady rise in production efficiency. The key supporting objectives were to ensure: wider access to effective technical support services, better organized producer groups influencing the supply of services, and demand-driven delivery of support services.
3. **Programme costs and financing.** The programme costs were estimated over a period of eight years as an integral part of PROAGRI's wider operations and, accordingly, they reflected the projected government funding for public-sector extension services under the revised extension master plan. The original estimated programme cost amounted to US\$50.82 million. The programme was financed by an IFAD loan of approximately US\$20.0 million, a government contribution of

US\$30.07 million and contributions by enterprises and beneficiaries under matching grants of US\$0.76 million. The Government contribution comprised US\$3.01 million in duties and taxes and US\$27.6 million in the form of recurrent salaries and operating costs of the public extension service, with some limited additional investment in capacity-building. It also comprised all government resources for extension under PROAGRI II other than the IFAD loan, including funds contributed as general budget support and allocated by the Government to the Ministry of Agriculture for extension, as well as funds provided by other donors for extension through the Common Flow of Funds Mechanism. The IFAD contribution was targeted at pluralistic service provision for provinces and districts, and support for farmers' empowerment and related private-sector (including NGO) development. So far, only 10.7 per cent of the IFAD funds have been disbursed, reflecting the poor progress of the programme within the PROAGRI framework.

## II. Amendment to loan agreement

4. The programme's midterm review (MTR), held in September 2011, identified four main constraints as being responsible for the poor functioning of PRONEA: (i) insufficient capacity and commitment to manage a complicated sector-wide programme, with the attendant planning, budgeting, implementation and M&E requirements; (ii) unclear arrangements among the coordination structures at district, province and central level; (iii) an inadequate accounting and financial management structure, reflecting flaws in the design; and (iv) an inadequate disbursement system, resulting in liquidity constraints at the local level. As a result of these difficulties, which many PROAGRI programmes were facing, PROAGRI II was discontinued in December 2011.
5. Based on the above assessment, the key agreement during the MTR was to discontinue work within the PROAGRI framework and transform the programme into a stand-alone operation supporting the national framework programme, PRONEA. In the process, the name would change to **PRONEA Support Project** (PSP), and the National Directorate for Agricultural Extension (DNEA) would become the implementing agency. This would provide a viable operational structure for incorporation into the national extension framework with the goal of making the extension master plan operational by testing and piloting some relatively innovative approaches in a limited number of districts for eventual scaling up in the context of PRONEA. This is the rationale behind the shift to a project modality.
6. The Government of Mozambique has requested that the loan agreement be amended to reflect the midterm review recommendations as follows:
  - (a) Change from a programme within PROAGRI II to a project supporting PRONEA - the PRONEA Support Project;
  - (b) Limit the project area to 42 districts;
  - (c) Establish a dedicated project management team;
  - (d) Extend the completion date by two years to 31 December 2017 and the loan closing date to 30 June 2018;
  - (e) Reflect the financing of the project as follows: an IFAD loan of approximately US\$20.0 million, a government contribution of approximately US\$8.4 million and contributions by enterprises and beneficiaries of approximately US\$416,000. The Government contribution would include US\$6.3 million spent under the PROAGRI framework and about US\$2.1 million to cover duties and taxes and other payments after the MTR. Beyond the project, Government would also bear the costs of the larger National Agricultural Extension Programme.
  - (f) Change the flow of funds to disburse through the single treasury account and the government electronic public finance budgetary and reporting system e-SISTAFE; and

- (g) Introduce new loan categories and allocate amounts according to the table below.

<i>Category</i>	<i>Loan amount allocated (SDR)</i>
I. Vehicles, equipment and materials	780 000
II. Training and workshops	3 050 000
III. Technical assistance and contracts for service provision	5 000 000
IV. Matching grants	950 000
V. Operation and maintenance	1 350 000
VI. PROAGRI Forex account	1 486 200
Unassigned	1 233 800
<b>Total loan</b>	<b>13 850 000</b>

Of the above total, SDR 1,486,206 previously disbursed under the original programme included the payment of taxes.

### **III. Justification**

7. The amendments proposed in paragraph 6 will facilitate the smooth implementation of activities to support the extension system in Mozambique at all levels, thereby enabling the attainment of the project's stated objectives.

### **IV. Recommendation**

8. I recommend that the Executive Board approve the proposed amendment in terms of the following resolution:

RESOLVED: that the Fund shall approve an amendment to the loan agreement for the Agricultural Support Programme, upon the terms and conditions presented herein.

Kanayo F. Nwanze  
President