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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed grant to the Republic of Mali for the**

### **Fostering Agricultural Productivity Project in Mali – Financing from the Adaptation for Smallholder Agriculture Programme (PAPAM/ASAP)**

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

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**For: Approval**

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Republic of Mali for the Fostering Agricultural Productivity Project in Mali – Financing from the Adaptation for Smallholder Agriculture Programme (PAPAM/ASAP), as contained in paragraph 27.

## Fostering Agricultural Productivity Project in Mali – Financing from the Adaptation for Smallholder Agriculture Programme (PAPAM/ASAP)

### I. Context and justification

1. The Fostering Agricultural Productivity Project in Mali (PAPAM) was approved by the Executive Board in December 2010 (EB 2010/100/R.14/Rev.2), at a total cost of US\$163.5 million over six years. The original financing sources were IFAD (19 per cent), the World Bank/IDA (43 per cent), the European Union (12 per cent), Global Environment Facility (GEF)/IDA (4 per cent), GEF/United Nations Development Programme (1 per cent), the Government (17 per cent) and beneficiaries (4 per cent), with cofinancing provided in parallel to that of IFAD.
2. A financing agreement for a loan in the amount of SDR 21 million and a grant in the amount of SDR 200,000 was signed on 14 February 2011 between the Republic of Mali and IFAD to finance the PAPAM project.
3. The purpose of this memorandum is to seek approval for additional project financing in the form of a grant for SDR 6.5 million (equivalent to US\$9.9 million) from the Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund.
4. The main objective of PAPAM is to raise the productivity of agricultural smallholders and agro-industrial producers using targeted production systems in the areas of small- and large-scale irrigation, dry cereals and dairy production.
5. Mali has developed a range of action plans, strategies and institutions to strengthen resilience to climate change. Despite these efforts, however, adaptation to climate change is not yet sufficiently taken into account at the national level and in major development programmes.
6. This is the case with PAPAM, which offers a partial approach to the issue of climate change, particularly in its initiatives in support of proximity irrigation. However, promoting resilient agriculture calls for an ecosystemic approach that goes beyond irrigated perimeters to bring together all actors at the territorial level in order to analyse risks and causes of vulnerability and come up with a relevant and concerted response.
7. In this context, the development objective of the ASAP financing is to improve the resilience of smallholders receiving support under PAPAM in the area of small-scale irrigation by providing them with new approaches and technologies, and complementary innovative services.

### II. Project description, project area and target group

8. The ASAP-funded activities will be complementary to those of PAPAM and structured into three components:
9. **Component 1.** Transfer of technology and producer services: The ASAP funding will add new pilot activities to PAPAM in the areas of access to innovative renewable energy, testing various types of biodigesters with or without solar equipment, in

order to alleviate pressures on plant cover. Based on the results obtained in the course of the 18-month test phase, the best performing activities will be scaled up.

10. **Component 2.** Irrigation infrastructure: The ASAP funding will be directed to small-scale irrigation systems and will complement PAPAM interventions with collective investments and approaches based on a participatory diagnostic process at the village level. The target groups will be positioned at the centre of operational arrangements for programme planning, investment and monitoring. This approach will enable climate change adaptation projects to be developed and funded in the areas of watershed management, combating erosion and sand encroachment, irrigated perimeter access and protection, water table regeneration, etc. Support and capacity-building activities will be provided for as well, such as support for land tenure committees and capacity-building for local meteorological assistance groups to disseminate climate information.
11. **Component 3.** Programme approach and sector monitoring: The objective of component 3 of PAPAM is to facilitate government coordination and monitoring and evaluation (M&E) in the agriculture sector and policy dialogue among the various sector actors. The ASAP financing will complement the PAPAM intervention with similar activities structured around climate change adaptation issues. In addition, it will provide support for the preparation and updating of policies and strategies in the area of climate change, for capacity-building of actors, and for data collection to facilitate M&E on the impact of climate change on agricultural productivity and food security. The focus will be on improving knowledge management and dissemination, in a manner fully linked to the M&E system for activities and together with a specific communication strategy.
12. The ASAP-funded activities will take place in the regions of Kayes and Sikasso. PAPAM called for working in small-scale irrigation in the districts of Kita, Bafoulabé and Kéniéba in Kayes and in the districts of Sikasso, Yanfolila and Bougouni in Sikasso. In these districts, 30 communes will be selected based on the presence of hydro-agricultural improvements under PAPAM and additional criteria of poverty, impact of climate change and the existence of other technical and financial partners.
13. The direct beneficiaries of the programme are agricultural smallholders – farmers, livestock breeders and herders – and their organizations. Targeting will be refined to take into account the poorest members of these groups, particularly women and young people. This additional financing will directly benefit at least 65,000 smallholders. Access to renewable energy will benefit 4,000 household members, and 10,000 farmers will have better access to agro-climate information.
14. The programme will also target decentralized territorial collectives to enable them to build climate change into their planning exercises, similar to what was done under the Sahelian Zone Development Fund (FODESA), e.g. communal environmental plans included in local development plans. In addition, deconcentrated government services, the national meteorology service, the Environment and Sustainable Development Agency (AEDD) and the private sector will be targeted to ensure that the supply of goods and services includes measures to adapt to climate change.

### **III. Project costs and financing**

15. The ASAP will complement the financing for PAPAM. The total amount of financing to be provided is US\$11,100,000 and breaks down as follows: a grant under the ASAP Trust Fund in the amount of US\$9,900,000; and additional contributions from beneficiaries in the amount of US\$1,100,000 (10 per cent of total costs).
16. An exception is foreseen to the policy on taxes as contained in section 11.01(c) of the IFAD General Conditions, in that the proceeds of the ASAP grant may be used to finance taxes and duties to the same extent as foreseen by the World Bank.

17. The distribution of costs by component is as follows: component 2, irrigation infrastructure, is the largest at US\$6.4 million, or 57 per cent of base cost; followed by component 3, programme approach and sector monitoring, at US\$2.5 million or 23 per cent; and component 1, transfer of technology and producer services, for US\$2.2 million or 20 per cent. Cost distribution by type of expenditure is provided below.

Table  
**PAPAM (ASAP)**  
**Expenditure accounts by financiers**  
 (Thousands of United States dollars)

Mali PAPAM (ASAP) Disbursement Accounts by Financiers (US\$ '000)											
	The Government		IFAD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
1. Equipment and supplies	0.0	-	1 324.6	73.6	475.7	26.4	1 800.3	16.2	-	1 476.3	324.1
2. Technical assistance	-	-	2 356.4	100.0	-	-	2 356.4	21.3	-	2 356.4	-
3. Civil works	0.0	-	2 675.8	80.0	669.0	20.0	3 344.8	30.2	1 139.8	1 703.3	501.7
4. Workshops and seminars	-	-	2 653.6	100.0	-	-	2 653.6	23.9	-	2 653.6	-
5. Salaries	-	-	754.4	100.0	-	-	754.4	6.8	-	754.4	-
6. Operating costs	0.0	-	177.9	100.0	-	-	177.9	1.6	52.1	90.2	35.6
<b>Total project costs</b>	<b>0.0</b>	<b>-</b>	<b>9 942.7</b>	<b>89.7</b>	<b>1 144.7</b>	<b>10.3</b>	<b>11 087.4</b>	<b>100.0</b>	<b>1 191.9</b>	<b>9 034.1</b>	<b>861.4</b>

18. The ASAP financing will be allocated to the existing expenditure categories to finance activities specific to the ASAP, which will be identified separately in the annual workplans and budgets (AWP/Bs) of PAPAM/ASAP. The granting of ASAP financing will not change the duration of PAPAM.
19. **The IFAD financing is distributed as follows:**

Category	Current IFAD loan for PAPAM (Thousands of SDR)	Current IFAD grant for PAPAM (Thousands of SDR)	ASAP grant for PAPAM to be approved (Thousands of SDR)
Transfer of technology and producer services		8 170	1 000
Irrigation infrastructure		9 500	3 350
Programme approach and sector monitoring		1 230	1 500
Unallocated		2 100	650
<b>TOTAL</b>		<b>21 000</b>	<b>6 500</b>

#### IV. Financial management, procurement and governance

20. **Financial management.** An evaluation of the financial management system for the PAPAM project was conducted to verify compliance with IFAD requirements in terms of fiduciary risk. Financial management will be based on the accounting structure already in place. That structure is considered effective, with good use of accounting software and financial reporting. The auditors issued an unqualified opinion on the PAPAM accounts for fiscal 2012. However, weaknesses were observed, principally as a result of the weak internal control environment. The level of fiduciary risk involved in the ASAP environment is judged moderate overall. This risk will be mitigated by strengthening financial staff at the outset of the ASAP financing, and by recruiting an internal auditor within the PAPAM project to bolster current control measures – e.g. annual audits and supervision. The ASAP funding will be integrated into the PAPAM annual workplan and budget, along with the procurement plan for 2014. The recruitment of additional staff with the exception of drivers, and updating of the PAPAM administrative and financial procedures manual to include the ASAP funding will constitute conditions precedent for disbursement.

21. The provisions applicable to the IFAD loan with respect to financial management – budgeting, accounting, financial reports, audits, eligibility of taxes and tariffs for IFAD financing – remain in effect. The AWP/Bs, procurement plan, and quarterly reports for PAPAM and the ASAP financing will be prepared jointly.
22. **Flow of funds.** The ASAP resources will be made available to the project through a designated account. The designated account will hold an advance and may be replenished on the basis of appropriate supporting documents showing that previous withdrawals were made for authorized expenditures. Subaccounts will be opened in Kita in the region of Kayes, and Bougouni in the region of Sikasso.
23. **Procurement.** The procurement guidelines applicable to the IFAD loan remain in effect.

## **V. Proposed amendments to the financing agreement**

24. Once approved by the Executive Board, the financing agreement will be amended to take into account the supplementary financing granted under the ASAP Trust Fund, acting through IFAD as administrator. This financing strengthens the financing plan initially approved at the time of design and will involve several changes to the project description. No new expenditure category will be created as all the funds from the proposed ASAP grant will be used to strengthen support for IFAD-funded project activities under implementation. Expenditures eligible for ASAP financing will be clearly defined in the financing agreement.

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

25. An amendment to the current financing agreement between the Republic of Mali and IFAD will constitute the legal instrument for extending the proposed financing to the Recipient.
26. The Republic of Mali is empowered under its laws to receive financing from the ASAP Trust Fund, acting through IFAD in its capacity of Trustee of the ASAP Trust Fund.
27. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD financing.

## **VII. Recommendation**

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

RESOLVED: that the Fund shall provide an ASAP grant to the Republic of Mali in an amount equivalent to six million five hundred thousand special drawing rights (SDR 6,500,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President