

Document:	<u>EB 2013/110/R.22/Sup.1</u>
Agenda:	<u>10(b)(iii)</u>
Date:	<u>6 December 2013</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Enabling poor rural people
to overcome poverty

Republic of Zambia

Rural Finance Expansion Programme

Negotiated financing agreement

Executive Board — 110th Session
Rome, 10-12 December 2013

For: Information

Negotiated financing agreement: "Rural Finance Expansion Programme"

(Negotiations concluded on 27 November 2013)

IFAD Loan Number: _____

Trust Loan Number: _____

Programme Title: Rural Finance Expansion Programme (the "Programme")

The Republic of Zambia (the "Borrower")

and

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

and

The Spanish Food Security Cofinancing Facility Trust Fund (the "Trust")

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

WHEREAS the Executive Board of IFAD at its 100th Session approved the establishment of the Trust and further approved that the Trust, acting through IFAD in its capacity as the Trustee, enters into a Borrowing Agreement with the Kingdom of Spain;

WHEREAS the Kingdom of 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 financing to the Borrower for the purpose of financing the Programme, on the terms and conditions set forth in this Agreement; and

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower for the purpose of increasing the financing in respect of the above referenced Programme, on the terms and conditions set forth in this Agreement.

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special 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 the Trust shall provide a Trust Loan to the Borrower (collectively referred to as the "Financing"), which the Borrower shall use to

implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the IFAD Loan is five million five hundred thousand Special Drawing Rights (SDR 5 500 000).
B. The amount of the Trust Loan is nine million Euro (EUR 9 000 000).
2. The IFAD Loan and the Trust Loan are granted on highly concessional terms which, pursuant to section 5.01 (a) of the General Conditions shall be free of interest but bear a service charge of 0.75% per annum payable semi-annually in the Loan and Trust Loan Service Payment Currency, and have a maturity period of 40 years, including a grace period of 10 years starting from the date of approval of the Loan and of the Trust Loan by IFAD's Executive Board.
3. The Loan Service Payment Currency for the IFAD Loan and the Trust Loan shall be the USD.
4. The first day of the applicable Fiscal Year shall be the 1 January.
5. Payments of principal and service charge shall be payable on each 15 May and 15 November with payments of principal commencing on 15 May 2024.
6. There shall be one Designated Account opened in the Bank of Zambia, for receiving and holding respectively the IFAD Loan and the Trust Loan proceeds in USD.
7. There shall be a Programme Account in Zambian Kwacha for Programme operations in a commercial bank acceptable to the Fund.
8. The Borrower shall provide counterpart financing for the Programme in the amount of two million six hundred and thirteen thousand United States Dollars (USD 2 613 000) to cover all duties and taxes.
9. Each institution participating in the Programme shall provide a contribution thereto the amount of which is expected to total three million two hundred and ninety-six thousand United States Dollars (USD 3 296 000).

Section C

1. The Lead Programme Agency shall be the Ministry of Finance (the "MoF").
2. The following are designated as additional Programme Parties: The Bank of Zambia (the "BoZ") and the Ministry of Agriculture and Livestock (the "MAL") .
3. The Programme Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Programme shall be supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:

- (a) the Designated Account and the Programme Account shall have been duly opened;
- (b) the Programme Steering Committee (the "PSC"), headed by the Permanent Secretary of the MoF, shall have been duly established and adequately staffed;
- (c) the Programme Coordinating Office (the "PCO"), headed by the Programme Coordinator, shall have been duly established and adequately staffed;
- (d) the Memorandum of Understanding (the "MoU") referred to in paragraph 10, Section II Schedule 1 hereto between the MoF and the BoZ shall have been duly executed;
- (e) the Programme Implementation Manual (the "PIM") referred to in paragraph 13, Section II Schedule 1 hereto shall have been submitted to and approved by the Fund; and
- (f) a standard separate financial management software acceptable to the Fund shall have been installed and become operational.

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

For the Borrower:

The Secretary to the Treasury
Ministry of Finance
Chimanga Road
P.O. Box 50062
Lusaka, Zambia

For the Fund:

Kanayo F. Nwanze
President
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

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.

REPUBLIC OF ZAMBIA

[Authorized Representative]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

SPANISH FOOD SECURITY
CO-FINANCING FACILITY TRUST FUND

Kanayo F. Nwanze
President of the International Fund
for Agricultural Development in its capacity as Trustee
of the Spanish Food Security Co-financing Facility
Trust Fund

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall be national in scope with the geographical areas covered depending on the outreach of the different financial institutions and service providers that will be partnering with the Programme (the "Programme Area"). The main and ultimate target group is the rural poor, in particular the economically active micro and small entrepreneurs and smallholder farmers, especially women and the youth. The Programme shall benefit up to 140,000 households (inclusive of women and youth) in rural areas within the Programme Area.

2. *Goal.* The goal of the Programme is to improve livelihoods of the rural poor through sustainable economic growth.

3. *Objective.* The objective of the Programme is to increase access to, and use of, sustainable financial services by poor rural men, women and youth.

4. *Components.* The Programme shall consist of the following Components:

(a) **Component 1: Strategic Partnerships**

The objective of this Component is to strengthen partner institutions' capacity to facilitate and/or deliver innovative demand-driven financial services to rural communities. Institutional strengthening shall be carried out at the macro, meso and micro levels to include a range of entities that have a significant role in promoting an enabling environment and delivering rural financial services. The support shall be targeted at all three levels, building on the foundations laid and lessons learned under other projects/programmes within the country.

(b) **Component 2: Innovation and Outreach Facility (the "IOF")**

The outcome of this Component is improved efficiency and sustainability of rural financial services. This component aims at increasing the number and value of financial transactions involving the Target Population. Under this component, three matching grant windows shall be proposed, under which selective and well-defined pro-poor interventions can be supported: (i) Community-Based Financial Institution (the "CBFI") Linkage Window; (ii) Agency and Mobile Banking Window; and (iii) Rural Finance Equity and Innovation. Flexibility shall be built under this component to allow institutions with interesting innovative proposals to qualify for spot-support under defined criteria. In a similar manner, ideas that are no longer relevant shall be phased out.

(c) **Component 3: Knowledge Management and Programme Implementation**

This Component comprises two sub-components: Knowledge Management and Technical Support ("KM&T") and Programme Implementation ("PI"). KM&T comprises a range of diverse activities geared towards increasing public and sectorial knowledge and understanding of technical matters related to rural and agricultural finance. PI comprises support services and activities conducted by the PCO to facilitate access to financial services for the rural poor.

II. Implementation Arrangements

5. *Lead Programme Agency.* In its capacity as the Lead Programme Agency, the MoF shall have overall responsibility for Programme implementation.
6. *Programme Coordinating Office.* The PCO shall be established within the MoF with responsibility for the daily management and coordination of all Programme components and activities. The PCO shall be headed by a Programme Coordinator who shall supervise and guide the administrative and technical teams. The PCO shall include the following positions: Programme Coordinator, Financial Controller, Procurement Specialist, Monitoring and Evaluation (M&E) Specialist, Knowledge Management Specialist, no less than two Technical/Rural Finance Officers and other staff as appropriate. The staff shall be recruited following a competitive and transparent process and their contracts shall include clear performance targets.
7. *Programme Steering Committee.* A PSC with relevant representation at national level shall provide oversight, policy direction and coordination between key government institutions. The PSC shall be headed by the Permanent Secretary from the MoF, with representatives from MoF, BoZ and MAL as members. The Programme Coordinator shall serve as secretary to the PSC without voting rights.
8. *Programme Vetting Committee (the "PVC").* A PVC shall be established and composed of eight (8) members, including (i) one representative from the BOZ; (ii) one representative from MoF; (iii) one representative of the board of directors of the Bankers Association of Zambia; (iv) one representative of the board of directors of the Association of Microfinance Institutions of Zambia (the "AMIZ"); (v) one representative from the Zambia National Farmers Union; and (vi) three private sector representatives recruited through a tender process, with the Programme Coordinator serving as convenor and secretary, and a representative from the Department for International Development (DfID)-supported Financial Sector Deepening Programme of Zambia as observer. The PVC shall review and approve grant applications for all windows of the IOF based on criteria specified in the PIM. The PVC shall maintain the confidentiality of the grant applications, of the supporting documentation therefor and of the underlying process.
9. *Performance-based Grant Agreements.* The Lead Programme Agency shall enter into a performance-based grant agreement with each grant recipient financed by the IOF facility, as approved by the PVC. Each such agreement shall clearly specify the scope and definition of the work to be undertaken, expected targets, estimated budget for specific activities, as well as clearly defined target indicators. Each agreement shall be prepared and monitored closely by the PCO. The grant agreement shall be submitted to the Fund for its prior approval, and may not be modified without the prior consent of the Fund.
10. *Memorandum of Understanding.* The MoF shall enter into a MoU with each of the BoZ and the Development Bank of Zambia (DBZ) for the implementation of the activities under the Programme assigned thereto. Each such MoU shall clearly specify the scope of the work to be undertaken, expected targets, estimated budget for specific activities, as well as clearly defined target indicators. Each MoU shall be monitored by the PCO and renewed annually based on satisfactory performance. Each MoU shall: (i) be submitted to the Fund for its prior approval; and (ii) specify that the BoZ and the DBZ shall maintain a register of assets acquired with the proceeds of the Financing and that at completion of the Programme implementation, such assets will be transferred to the recipients. Each MoU may not be modified without the prior consent of the Fund.
11. *Subsidiary Agreements.* The Lead Programme Agency shall enter into an agreement/contract for services with each Service Provider for the implementation of the

Programme activities assigned thereto, including, among others, the AMIZ and the SaveNet. Each agreement/contract for services with Service Provider(s) shall clearly indicate the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. These agreements shall be monitored closely by the PCO and renewed annually based on satisfactory performance. Each agreement with a Service Provider shall: (i) specify that the Service Provider shall maintain a register of assets (e.g. goods and equipment) acquired with the proceeds of the Financing and that at completion of the Programme implementation, such assets will be transferred to the Borrower; and (ii) be submitted to the Fund for its prior approval. Each agreement with a Service Provider may not be modified without the prior consent of the Fund.

12. **Mid-Term Review (the "MTR").** A comprehensive MTR shall be conducted midway through the Programme implementation. The MTR shall consider the achievement of Programme objectives and the constraints thereon and make recommendations in the best interests of the Programme.

13. *Programme Implementation Manual.* The MoF shall prepare a draft PIM acceptable to the Fund and submit same for approval to the PSC. When so approved, a copy of the PIM shall be provided by the Lead Programme Agency to the Fund for endorsement. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund. The PIM shall provide a detailed description of the respective partnership arrangements, windows, criteria and procedures for grant application processing and administration, and shall include a model grant agreement and other relevant instruments necessary for Programme implementation.

14. *Implementation of Programme Components.*

14.1. **Component 1 - Strategic Partnership**

At the macro level, the Lead Programme Agency shall cooperate with BoZ to develop and review rural finance policies that are geared towards minimizing entry and operational constraints. In addition, the Programme shall support the creation of a Rural Finance Unit (the "RFU") in order to consolidate and strengthen rural finance sector coordination. At the meso level, the Programme shall support the AMIZ to position itself as a main provider of capacity building to its members and others within the sector. Also, the Programme shall support DBZ to enhance the capacity of its staff in appraising microfinance institutions. Lastly, at the meso level, the Programme shall support the establishment of the SaveNet as an Apex organisation for CBFi promoters. This Apex organisation shall facilitate scaling up of a standardized CBFi model, in addition to undertaking market research on how to improve and streamline systems. At the micro level, the Programme shall support capacity building of Financial Service Providers ("FSPs") through the AMIZ.

14.2. **Component 2 Innovation and Outreach Facility**

The PCO shall seek the approval of the PSC and the no-objection of IFAD to make the necessary changes to the matching grant windows and to develop the eligibility and operating criteria. The PCO shall closely collaborate with partners involved in value chain development. To ensure orderly support to target groups, sequencing of activities shall ensure that the necessary capacity building of individuals and institutions, and standardisation of practices is done in consultation with potential financiers.

14.3. **Component 3 Knowledge Management and Programme Implementation**

Under this Component, in addition to the Programme implementation arrangements, contributions shall be made to the generation and dissemination of knowledge about

innovations and new approaches for uptake by stakeholders and the general public. In this regard, the Programme shall recruit a Knowledge Management Specialist who will be located in the RFU. It will also identify and promote key areas needing additional technical expertise so as to advance the case for the rural poor through agricultural and rural finance initiatives. An international technical advisor shall be recruited for this purpose to effectively support national players. All Technical Assistance (the "TA") shall be procured on a need basis following the IFAD Project Procurement Guidelines. Performance of TA shall be assessed against contract-specified deliverables.

Schedule 2

Allocation Table

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

Category	IFAD Loan Amount (in SDR '000)	Spanish Trust Loan Amount (in EURO '000)	Percentage of Eligible Expenditures (net of taxes and contributions by beneficiaries and participating institutions)
I. Equipments and Materials	180	160	100%
II. Training	1 320	470	100%
III. Consultancies	560	3 000	100%
IV. Grants	2 470	1 800	100%
V. Operating Expenses	420	2 670	100%
Unallocated	550	900	
TOTAL	5 500	9 000	

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

Category I "Equipments and Materials" includes Eligible Expenditures for Vehicles;

Category II "Training" includes Eligible Expenditures for Workshops;

Category III "Consultancies" includes Eligible Expenditures for Technical Assistance and Studies;

Category IV "Grants" includes Eligible Expenditures for CBFJ Linkage, Agency/Mobile Banking and Rural Equity Innovations Grants;

Category V "Operating Expenses" includes Eligible Expenditures for remuneration and allowances of PCO staff and allowances only for RFU staff.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs in all Categories before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of three hundred thousand United States dollars (USD 300 000).

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 to request withdrawals from the IFAD Loan Account and of the Trust Loan Account if the Borrower 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 Programme.

1. *Gender.* The Borrower shall ensure that gender concerns shall be mainstreamed in all Programme activities throughout the Programme Implementation Period. The Borrower shall also ensure that women beneficiaries shall be represented in all Programme activities and that they receive appropriate benefits from the Programme outputs.

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

3. *Selection of Partners.* The Borrower shall ensure that partnerships under Component 1 shall undergo rigorous pre-assessment, including due diligence and analysis of the needs and most effective means of addressing such needs. An initial scoping survey shall be conducted by two experts engaged to oversee the Programme implementation. The FSP applicants shall be assessed by the PCO in conformity with the criteria set forth in the PIM.

4. *Financial Statements of Service Providers.* The Borrower shall ensure that the agreement/contract of services of each Service Provider shall specify that the Service Providers will make available to the Borrower, through the PCO, the statements of sources and uses of funds related to Programme activities under their respective responsibility in respect of each Fiscal Year within two (2) months of the end of each Fiscal Year. The PCO shall attach such statements of sources and uses of funds to its own financial statements for subsequent submission to the Fund.

5. *Audit of Service Providers.* The Borrower shall ensure that each agreement/contract of services of each Service Provider referred to in Schedule 1, Section II, paragraph 11 shall specify that the Service Providers will appoint an external independent auditor to audit their financial statements relating to the Programme. These audit reports shall be submitted to the Borrower, through the PCO, within five (5) months after the end of each Fiscal Year for subsequent submission to the Fund.

6. *National and International Technical Advisors.* The Borrower shall ensure that both a national and an international technical advisor shall be recruited following a transparent competitive process respectively within six (6) and nine (9) months of fulfilment of the general conditions precedent to withdrawal specified in Section E 1 hereto.