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Investing in rural people

Republic of Malawi

Programme for Rural Irrigation Development

Negotiated financing agreement

Executive Board — 116th Session
Rome, 16 – 17 December 2015

For: Information

Negotiated financing agreement:

"Programme for Rural Irrigation Development (PRIDE)"

(Negotiations concluded on 2 December 2015)

IFAD Loan Number: [click and insert number]

IFAD DSF Grant Number: [click and insert number]

ASAP Trust Grant Number: [click and insert number]

Programme Title: Programme for Rural Irrigation Development ("the Programme")

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

and

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

and

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

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

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, amended as of April 2014, and 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 and all references to "Project" in the General Conditions shall apply to the Programme. 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 DSF Grant and the ASAP Trust shall provide an ASAP Trust Grant to the Borrower/Recipient (collectively referred to as "the Financing"), which the Borrower/Recipient 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 SDR 19.30 million (USD 26.5 million).
 - B. The amount of the IFAD DSF Grant is SDR 19.35 million (USD 26.5 million).
 - C. The amount of the ASAP Trust Grant is SDR 5.15 million (USD 7 million).

2. The Loan shall be free of interest but bear a service charge of three fourths of one percent (0.75 per cent) per annum and have a maturity period of forty (40) years including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be US dollars.
4. The first day of the applicable Fiscal Year shall be the first of July.
5. Payments of principal and service charge shall be payable on each first of May and first of November.
6. There shall be one Designated Account (DA) operated by the Ministry of Finance, Economic Planning and Development (MoFEPD) for all of the Financing opened in a commercial bank acceptable to the Fund and the Government.
7. The Borrower/Recipient shall provide counterpart financing for the Programme in an amount equivalent to approximately thirteen million United States Dollars (USD 13 million), mainly in the form of exemption of duties and taxes in accordance with the approved Annual Work Plan and Budget (AWPB). The beneficiaries will contribute, in kind, to the Programme in an amount equivalent to approximately seven million two hundred thousand United States Dollars (USD 7.2 million).

Section C

1. The MoFEPD will formally represent the Borrower/Recipient.
2. The Lead Programme Agency (LPA) shall be the Department of Irrigation (DoI) within the MoAIWD.
3. The Programme Completion Date shall be the seventh anniversary (7th) of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) key Programme staff have been appointed, transferred or removed from the Programme without the prior consent of the Fund as referred to schedule 1 section II paragraph A 5.1;
 - (b) the Programme Implementation Manual (PIM) referred to under schedule 1 section II paragraph D hereof, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined such waiver, suspension, termination amendment or modification has had, or is likely to have, a material adverse effect on the Programme.

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

- (a) The Programme Coordination Office (PCO) shall have been duly established and key Programme management positions shall have been filled by personnel acceptable to IFAD, in accordance with schedule 1 section II paragraph A (5) to this Agreement,
- (b) The Borrower/Recipient shall have established a Programme Steering Committee (PSC) as referred to under schedule 1 section II paragraph A(3) to this Agreement,
- (c) An off-the-shelf accounting software shall have been duly procured, installed and implemented in accordance with a comprehensive chart of accounts satisfactory to the Fund;
- (d) The Borrower/Recipient shall have prepared a draft PIM in form and substance satisfactory to the Fund.

3 The following is designated as additional general condition precedent to withdrawal for category 5 "Grants and Subsidies" schedule 2, only: a subsidiary agreement between the Borrower/Recipient and the United Nations Development Programme (UNDP) shall have been established, satisfactory to the Fund, to finance the Malawi Innovation Challenge Fund (MICF) as referred to in schedule 1 component 2.2.

4 In accordance with the Borrower/Recipient's legislation, the Financing Agreement will be signed by a representative of the Borrower/Recipient upon authorization by the Parliament of the Republic of Malawi.

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

For the Fund:

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

For the Borrower/Recipient:

Secretary to the Treasury
Ministry of Finance, Economic
Planning and Development
P.O. Box 30049
Capital City, Lilongwe 3
Malawi

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 [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and the ASAP Trust and one (1) for the Borrower/Recipient.

REPUBLIC OF MALAWI

(Authorized Representative)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

ADAPTATION FOR SMALLHOLDER AGRICULTURE
PROGRAMME TRUST FUND

Kanayo F. Nwanze
President of the International Fund
for Agricultural Development in its capacity as Trustee
of the Adaptation for Smallholder Agriculture Programme
Trust Fund

Schedule 1

Programme Description and Implementation Arrangements

Section I. Programme Description

1. **Target Population.** The Programme will be implemented in two regional clusters in the Northern and Southern regions of Malawi (the "Programme Area"). The selected areas would include approximately 5,200 hectares of irrigated land, and approximately 12,300 hectares of rain-fed land. The Programme will target the poor smallholder farmers of the villages associated with each irrigation scheme, and within this group a specific focus will be placed on women and female-headed households and youth.

An estimated 19,500 smallholder households live in the Programme area, of which a total of 17,500 households representing 87,500 persons are assumed to directly benefit from the Programme's interventions.

2. **Goal.** The Programme's goal is to enhance the resilience of rural communities to food insecurity, the effects of climate change and economic shocks.

3. **Objective.** The Programme's objective is that smallholder farmer households increase their income and improve their nutrition through sustainable agricultural production.

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

Component 1: Irrigation development and catchment management. The objective of this component is to develop climate-resilient land and water management systems for smallholder households on both rain-fed and irrigated land.

Sub-component 1.1: Land and Water Governance

The Programme will support the preparation for and management of about 15 irrigation schemes, through (i) preparation of investment agreements with the targeted communities, and (ii) the establishment and strengthening of Water user associations (WUAs) for the management, operation and maintenance of the irrigation schemes for appropriate land and water governance. These measures will be co-funded by the ASAP Trust Grant.

Sub-component 1.2: Irrigation System Development

The Programme will support the establishment of irrigation schemes, including the use of water storage for the cultivation of a second and third annual crop, and to enhance agricultural productivity in smallholder farms.

Sub-component 1.3: Soil and Water Conservation

The Programme will support the restoration of soil cover on vulnerable grounds, erosion control, reforestation of slopes and protection of river buffer zones. These measures will be co-funded by the ASAP Trust Grant.

Component 2: Agriculture and market linkages. The objective of this component is to promote environmentally and economically sustainable agricultural production systems to be adopted by smallholder households on both rain-fed and irrigated lands.

Sub-Component 2.1: Good Agricultural Practices

The Programme will support the efficient knowledge transfer to smallholder farmers through trials and demonstrations, combined with better information from the private sector on market potential and opportunities. The component will promote climate-smart good agricultural practices (GAPs), including the use of weather and climate information services, irrigation optimization, application of integrated pest management, and reduction of post-harvest losses. The Programme will also support adaptive research on GAPs and adaptive mechanisation in smallholder farms. These measures will be co-funded by the ASAP Trust Grant.

Sub-Component 2.2: Market Linkages

The Programme will promote market linkages through value chain analyses to identify the suitable crops, provide farmer training mainly through farmer business schools, promote farmer groups and commodity platforms to gather all actors in a value chain. A value chain start-up facility will promote specific investments that help improve the value chain.

The Malawi Innovation Challenge Fund (MICF) is currently managed by the United Nations Development Programme (UNDP) and the Department for International Development (DFID). The Programme will pilot a dedicated irrigation window under the MICF with the private sector, where the latter will provide farmers with modern irrigation equipment such as drip irrigation and facilitate marketing of their produce.

Sub-Component 2.3: Mainstreaming Nutrition

The Programme will mainstream nutrition in most of its activities such as the choice of crops or value chain commodities and support with the following measures: (i) integrating a nutrition perspective in all GAPs promoted; (ii) promoting diversified and improved nutritional production and consumption (integrated homestead food production); and (iii) supporting the introduction of improved cooking stoves combined with nutrition education. The Programme will support extension and training on nutrition and may engage other service providers to complement the capacity of the government system. These measures will be co-funded by the ASAP Trust Grant.

Section II. Implementation Arrangements

A. Programme management

1. The Ministry of Finance, Economic Planning and Development (MoFEPD)

The MoFEPD will be responsible for the financing and the monitoring and evaluation of the Programme, more specifically for the (i) receipt and disbursement of funds from IFAD; and (ii) monitoring budget performance.

2. The Lead Programme Agency (LPA)

The LPA shall be the DoI within the MoAIWD, which shall have to coordinate the Programme activities. The DoI shall oversee the day to day coordination of programme activities.

3. Programme Steering Committee (PSC)

3.1 Composition. The PSC shall be composed of senior representatives of concerned Ministries, including the MoAIWD and the Agriculture Sector Wide Approach, the Ministry of Local Government and Rural Development (MoLGRD), the Ministry of Lands, Housing and Urban Development, the Ministry of Natural Resources, Environment and Mining; and chaired by the MoFEPD.

3.2 Responsibilities. The PSC shall provide the strategic oversight of the Programme ensure alignment of the Programme with ongoing programmes and activities, as detailed in the PIM, including (i) provide strategic guidance to the Programme management; (ii) have a fiduciary responsibility to ensure the eligibility of Programme expenditures; (iii) approve the AWPB and Procurement Plan, financial and technical progress reports; (iv) initiate follow-up actions on lessons and findings from the Programme; and (v) establish an audit and oversight committee that will review and report to the PSC any matter raised by the auditors/or other reviews.

4. Technical Advisory Team

4.1 Composition. The Technical Advisory Team will represent the departments concerned with the programme implementation, including the Department of Land Resources, Extension, Research (under MoAIWD), as well as the Department of Land (under Ministry of Lands, Housing and Urban Development), the Environmental Affairs Department (under Ministry of Natural Resources, Environment and Mining), the Debt and Aid Department (under MoFEPD), and others as needed. The Technical Advisory Team shall be chaired by a senior representative of the LPA.

4.2 Responsibilities. The Technical Advisory Team will assist the PCO through technical guidance and oversight of the Programme.

The Technical Advisory Team will report regularly to the PSC and PCO and will meet at least twice a year before the PSC meeting.

5. Programme Coordination Office (PCO)

5.1 Composition. The PCO is staffed by highly qualified personnel recruited from government or from the labour market. Recruitment of key staff shall require prior consent from the Fund. The PCO key staff shall include a Programme Coordinator, a Procurement specialist, a Financial Management specialist, an Environmental Coordinator, and a specialist for Planning, Monitoring, Evaluation and Knowledge Management. Additional staff in the PCO shall include a Water User Association specialist, a Gender and Targeting specialist, an Irrigation Engineer, an Agricultural Extension specialist and a Value Chain specialist. Separate facilitation offices staffed by one coordinator each will be established in the northern and southern regions.

5.2 Responsibilities. The PCO is responsible for overall Programme implementation and coordination, including, inter alia: (i) preparation of AWPB; (ii) financial management; (iii) procurement; (iv) Programme monitoring and evaluation; (v) knowledge management; (vi) preparation and consolidation of Statement of Expenditures, financial statements and withdrawal application; (vii) Programme reporting; (viii) coordination of all Programme implementation partners; and (ix) ensure the Environmental and Social Management Framework (ESMF) and, the Resettlement Action Framework (RAF) are adhered to in the development of each Environmental and Social Impact Assessment (ESIA) and Resettlement Action Plan (RAP) for the irrigation schemes including obtaining the free, prior and informed consent of the target beneficiaries.

B. Programme coordination

1. At scheme cluster and village level. The Programme will coordinate its entry in an area with traditional authorities and with existing structures such as the Village Development Committees (VDC). The traditional authorities and VDCs, shall provide oversight for the activities under the Programme and involving communities. A Combined Village Committee (CVC) shall engage at the initiation stage and in reviewing Programme progress. The CVC shall interact with WUAs, representing all households benefitting from the irrigation system. The WUA supervision committee will liaise with the contractor to maintain irrigation activities during the construction period and expediting completion of the works. The WUAs will participate in construction supervision and final certification, and be trained to monitor the construction activities, identify and resolve problems which may arise.
2. All plans developed at the village level will be submitted through the Area Development Committee (ADC) to the District Executive Committee for approval and will provide the basis for preparing the annual work plan and budget.
3. At regional level. The scheme cluster areas are concentrated in a northern and a southern hub. The Programme will facilitate the services of agencies represented there; and may engage additional service providers as needed. The PCO will closely collaborate with local offices of MoAIWD and district coordination structures of MoLGRD.

C. Programme planning, monitoring and evaluation, supervision

1. Planning. The main planning tools for the Programme comprise the logical framework combined with the overall programme budget, and the AWPB. Every year, a decentralised, inclusive and demand-driven planning process will be undertaken to develop the AWPB. The consolidated AWPB will be presented to the PSC for approval and submitted to IFAD for concurrence. Implementation of the AWPB will be monitored through the Programme's Monitoring and Evaluation (M&E) system along semi-annual reports.
2. Monitoring and Evaluation. The Programme M&E will be built around IFAD's results and impact management system (RIMS). The Programme will conduct baseline and follow-up surveys combining the collection of basic demographic and socio-economic data with application of multidimensional poverty assessment tool. The latter will assist tracking changes in resilience to climate change. The baseline and follow-up surveys will employ the women empowerment in agriculture index, which measures the changes in women's empowerment levels as a result of an intervention. In addition, the PCO will be responsible for the monitoring of the Environmental and Social Management Plan (ESMP)/RAP implementation for each irrigation scheme.
3. Learning and sharing knowledge. Will be based on the Programme's M&E system and supported by the Knowledge Management specialist particularly on reviews and participatory assessments of lessons learned during implementation. These will translate into factsheets that will contribute to the wider policy debate in the smallholder agriculture sector. Dissemination will take place through the Programme's and MoAIWD websites or relevant institutions such as research agencies, and results will be presented at national workshops on key programme themes.
4. Supervision. Supervision and implementation support missions shall normally be carried out twice a year. The Borrower/Recipient shall conduct mid-term review towards the third year of Programme implementation period in accordance with the Terms of Reference to be agreed by the Fund and the Borrower/Recipient.

D. Programme Implementation Manual (PIM)

The Programme shall be implemented in accordance with the approved AWPB and Procurement Plan and the PIM, the terms of which shall be adopted by the LPA subject to the Fund's prior approval. The PIM shall include, among other things: (i) terms of reference, implementation responsibilities and appointment modalities of all Programme staff and consultants; (ii) Programme operating manuals and procedures; (iii) monitoring and evaluation systems and procedures; (iv) a detailed description of implementation arrangements for each Programme component with special reference to the ESMF/ RAF and the ESIAs/RAPs that will be required; (v) modalities for the selection of service providers to be based on transparent and competitive processes; (vi) financial management and reporting arrangements including accounting, approval of payments, financial reporting, internal controls, fixed asset management, as well as internal and external audit; and (vii) the good governance and anti-corruption framework.

Schedule 2

Allocation Table

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

Category	IFAD Loan Amount Allocated (expressed in SDR)	IFAD DSF Grant Amount Allocated (expressed in SDR)	ASAP Trust Grant Amount Allocated (expressed in SDR)	Percentage
1. Works	9 120 000	9 120 000	680 000	100%
2. Equipment and Materials	500 000	60 000	920 000	100%
3. Consultancies	1 060 000	2 190 000	1 510 000	100%
4. Trainings	680 000	3 730 000	920 000	100%
5. Grants and Subsidies	-	1 640 000	-	100%
6. Salaries and Allowances	6 010 000	670 000	610 000	100%
Unallocated	1 930 000	1 940 000	510 000	
TOTAL	19 300 000	19 350 000	5 150 000	

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

- (i) All the above amounts are net of taxes, and Borrower/Recipient and beneficiaries contributions;
- (ii) "Equipment and Materials" includes Vehicles;
- (iii) "Consultancies" includes Studies;
- (iv) "Salaries and Allowances" includes Operations and Maintenance;
- (v) "Grants and Subsidies" includes contributions for the Malawi Innovation Challenge Fund with DFID/UNDP.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred in accordance with the provisions of the Programme Design Report before the satisfaction of the General Conditions precedent to withdrawal but after the date of entry into force shall not exceed an aggregate amount of SDR 408 113 (equivalent to USD 560 000).

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/Recipient to request withdrawals from the Financing Accounts 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 Programme:

1. **Gender.** The Borrower/Recipient shall develop a gender strategy for the Programme to ensure that gender concerns shall be mainstreamed in all Programme activities throughout the implementation period, in order to offer equal opportunities under the Programme to men, women, women headed households, youth and other disadvantaged groups.
2. **Counterpart Funds.** The Borrower/Recipient shall ensure that counterpart funds are clearly identifiable in the financial management system and all financial statements.
3. **Land and Water Access.** The Borrower/Recipient shall ensure that smallholder farmers have full access to land and water as per Land and Water Agreements agreed upon under the Programme. A prerequisite to the signature of such agreements shall be the prior formal establishment of the WUAs.
4. **Environmental and Social Due Diligence.** The Borrower/Recipient assures that the ESMF and RAF as required by IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) have been adopted and that the Programme will be carried out in accordance with the aforementioned documents.

The Borrower/Recipient shall ensure that prior to carrying out any construction of irrigation facilities and related items, a full ESIA/ESMP and a RAP, will be duly completed, where it is required, with adequate budget for their implementation, so that to confirm the full social and environmental sustainability of the construction foreseen.

5. **Implementation.** The Programme will be implemented in compliance with the main IFAD policies, strategies and procedures, inter alia, with (i) IFAD's Natural Resources Management Policy, Climate Change Strategy and SECAP, (ii) IFAD's Policy on Improving Access to Land and Tenure Security, and other policy tools such as (i) the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests; and (ii) the Framework and Guidelines for Land Policy in Africa. Before supporting any intervention that might affect the land access and use rights of communities, the Programme will ensure that their free, prior and informed consent has been solicited through inclusive consultations based on full disclosure of the intent and scope of the activities planned and their implications.
6. **Environmental Audit.** The development of measures to mitigate social and environment impacts and the implementation will be reported upon annually and the report will be subject to an independent annual audit that will be submitted to IFAD and the PSC.
7. **Transparency.** The Terms of Reference of the external audit shall include a specific review of IT control system financial reporting.