

Document:	<u>EB 2016/119/R.22/Sup.1</u>
Agenda:	<u>14(a)(ii)</u>
Date:	<u>2 December 2016</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Investing in rural people

Republic of Zambia

Enhanced-Smallholder Agribusiness
Promotion Programme

Negotiated financing agreement

Executive Board — 119th Session
Rome, 14-15 December 2016

For: Information

Negotiated financing agreement: "Enhanced-Smallholder Agribusiness Promotion Programme"

(Negotiations concluded on 28 November 2016)

Loan Number: _____
Grant Number: _____

Programme Title: Enhanced-Smallholder Agribusiness Promotion Programme ("E-SAPP" or "the Programme")

Republic of Zambia (the "the Borrower/Recipient")

and

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

(each a "Party" and both 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) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter 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 Grant to the the Borrower/Recipient (the "Financing"), which the 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 Loan is fifteen million five hundred thousand Special Drawing Rights (SDR 15 500 000).
 - B. The amount of the Grant is seven hundred and forty thousand Special Drawing Rights (SDR 740 000).
2. The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semiannually in the Loan Service Payment Currency, and shall 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 the United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of service charge shall be payable on each 1 May and 1 November.
6. There shall be one Designated Account denominated in USD at the Bank of Zambia to receive the proceeds of the Loan and the Grant.
7. The Borrower/Recipient shall provide counterpart financing for the Programme as foregone taxes and duties in an amount estimated equivalent to about two million United States dollars (USD 2 000 000).

Section C

1. The Lead Programme Agency shall be Ministry of Agriculture (MoA), Policy and Planning Department.
2. The following are designated as additional Programme Parties: the Indaba Agricultural Policy Research Institute (IAPRI) and the Platform for Agricultural Risk Management (PARM).
3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Borrower/Recipient shall have duly opened the Designated Account referred to in Section B.6.
 - (b) An off-the-shelf accounting software able to provide financial reports as per IFAD standards shall have been duly procured, installed and implemented.
 - (c) The Programme Coordination Office (PCO) shall have been duly established and key Programme management positions (a Programme Coordinator; a Financial Controller and Administrator; a Planning, Monitoring and Evaluation Officer, a Procurement Officer and a Matching Grant Manager) shall have been filled by personnel acceptable to IFAD.
 - (d) The Borrower/Recipient shall have established the Programme Steering Committee (PSC) headed by the Permanent Secretary of the MoA.

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

For the Borrower/Recipient:

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

For the Fund:

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

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the the Borrower/Recipient.

REPUBLIC OF ZAMBIA

Authorized Representative
(Name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. **Objective.** The Programme development objective is to increase the volume and value of agribusiness outputs sold by smallholder producers. The Programme shall have a multiple commodity focus and nationwide coverage. The selection of the commodities will define the geographic focus of interventions. The Programme will focus on three commodity groups: (a) legumes (groundnuts, soybeans, beans and cowpeas); (b) small livestock (poultry, goats, sheep and pigs); and (c) rice. These were selected on the following basis: (a) over 70 per cent of smallholders produce these commodities as both food and cash crops; (b) the commodities have significant nutritional benefits; (c) they help fill the seasonal hunger period; (d) they have high potential for commercialization through partnerships with the private sector, efficiency gains and value addition; (e) there is a high level of interest among market intermediaries; and (f) there is potential to deliver quick results. However, the larger grants under the public-private-producer partnerships (4P) facility will not be restricted to the above value chains or regions.

2. **Goal.** The Programme goal is to increase the incomes and food and nutrition security of rural households involved in market-oriented agriculture. This underlines the central importance of food and nutrition in efforts to improve the lives of the rural population, but also the ambition to reach beyond basic needs and increase incomes to enable households to improve dwellings, send children to school and invest in agriculture.

3. **Target group.** The Government classifies Zambia's 1.5 million smallholder farming households in three categories. Category A (subsistence farmers) will form the majority of the target group. Category B (economically active), and Category C (commercially oriented farmers) will also be targeted to help develop the Programme's agribusiness linkages, considering that they are already producing a surplus for the market. The Programme will work with approximately 40,000 Category A, 16,000 Category B and 5,000 Category C households.

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

4.1. **Component 1. Enabling environment for agribusiness development.** The Component will help to establish an enabling policy and institutional environment for commercially oriented agriculture and rural development. It will advance the capacity-building work initiated by SAPP and help to address risk management issues. In addition, subsector policies will be reoriented to integrate climate risk management.

4.2. **Component 2. Sustainable agribusiness partnerships.** This Component will build the capacity of smallholders and their service providers to compete for, and implement, matching grants. This is a key success factor to facilitate the integration of smallholder farmers within value chains, promote their engagement in the MGF process and improve their productivity, incomes and nutritional outcomes. This will be achieved through nutritional education and training on farming as a business, as well as extending and strengthening SAPP's MGF experience within a 4P framework. There will be three MGF windows: linkage of graduating subsistence farmers to markets; enhancing micro, small and medium agro enterprise (MSME) development; and facilitating pro-smallholder agribusiness partnerships. They will support interventions on the supply and demand sides alike to increase output, productivity, quality and resilience.

4.3. Component 3. Programme implementation. The Component will be conducted through a Programme Coordination Office (PCO). The Programme will finance the PCO costs, office equipment, office consumables, and vehicles and associated maintenance costs. It will provide PCO staff salaries, training and technical assistance to address specific needs. The PCO will be responsible for coordinating and monitoring Programme activities, including: financial management and reporting; procurement; the preparation of annual work plans and budgets (AWPBs); and monitoring and evaluation (M&E)/knowledge management. The PCO will conduct annual AWPB review meetings, annual outcome surveys, biannual implementation reviews and annual knowledge-sharing workshops. Results and learning-oriented reporting will be based on inputs from beneficiaries and implementing partners.

II. Implementation Arrangements

5. Lead Programme Agency. The Ministry of Agriculture (MoA) will be the executing agency and delivery systems will be fully integrated into decentralized government structures. Implementation arrangements will build on the mechanisms employed by SAPP, enabling a seamless transition from SAPP to E-SAPP. The MoA Policy and Planning Department will be responsible for administration and coordination, and supported by a programme steering committee chaired by the Permanent Secretary of MoA or his/her nominee.

6. PCO. The PCO will be charged with the overall responsibility of coordinating and monitoring implementation of Programme activities, including: (a) financial management and reporting; (b) coordination of all procurements for goods and services; (c) preparation and coordination of Annual Work Plans and Budgets (AWPBs); and (d) monitoring and evaluation of Programme activities and undertaking knowledge management. The PCO will conduct annual AWPB review meetings, annual outcome surveys, biannual implementation progress reviews and annual national stakeholders' knowledge sharing workshops. Results and learning-oriented progress reporting will be based on inputs from beneficiaries and implementing partners using appropriate technologies. Monitoring results will be part of the six monthly progress reports and assessment/evaluations of the Programme will be an essential element of all reviews.

7. Matching Grant Facility. The Matching Grant Facility (MGF) will be managed by a service provider selected on the basis of relevant experience, working under the supervision of the PCO. Community mobilization and training will also be outsourced. The matching grants will be replenished after each disbursement to grantees, not once grantees have fully utilized the grants. A performance-based payment schedule will be included in contracts, and grants will be regularly monitored. Procedures will be included in the grant manual to guarantee transparency and minimize the risk of malpractice. After allocation of the grants under their respective windows, the Borrower/Recipient shall ensure that audits of the grant allocation process, approval and use of grant funds are carried out by an independent service provider acceptable to IFAD. Withdrawals from the grants category may only be made on condition that IFAD has determined that such audits are satisfactory.

8. Planning. The Logical Framework will be used as a tool for planning and M&E, to ensure that necessary information is available for management decision-making, and to facilitate reporting to the Government, IFAD and stakeholders. Planning will be a decentralized process, starting at the district level with the preparation of commodity-specific plans, which will be aggregated into a Programme-wide AWPB. To ensure a truly aligned portfolio, AWPBs for all IFAD programmes will be harmonized to capitalize on comparative advantages, minimize duplication, encourage linkages between them and ensure the optimal use of resources.

9. Monitoring and Evaluation. The M&E system will build on the experience of SAPP and provide information that informs management decision-making and reporting, including data for IFAD's Results and Impact Management System (RIMS). Monitoring will focus on the activities defined in the AWPB, and on creating a cumulative overview of results/outputs. The M&E system will be decentralized under the oversight of a planning/M&E officer and a knowledge management officer. Knowledge management will ensure a continuous learning process in which data are compiled, analysed and disseminated as lessons learned, along with thematic studies and stories from the field. Information-sharing within the aligned portfolio will receive particular attention.

10. Financial management. The Programme shall employ similar financial management systems to those used under SAPP, including the accounting software. Strong training and technical assistance will be provided to ensure that the Programme will be in full compliance with the government's and the Fund's financial requirements. Coverage of biannual internal programme audits will be included in the audit plan of the MoA Internal Audit Department. All internal audit reports and action plans to implement audit recommendations will be shared with IFAD.

To address the risk of delayed justification of expenditures by districts: transfers to districts will be made on the basis of activity-tagged advances that must be retired before subsequent releases; a system for monitoring advances to districts will be included in the accounting software; and agents/assistants will be recruited at the provincial level to follow up and facilitate the justification process and to ensure expenditure reports and supporting documentation from the districts are collated and submitted to the PCO on a timely basis.

11. Audit. The Office of the Auditor General of Zambia will conduct an external audit of the Programme annually or will have the discretion to appoint an independent private audit firm acceptable to IFAD. Internal control systems at the PCO level will be established and MoA will maintain oversight through its Internal Audit Department. Supervision missions will review internal audit reports and assess management responses to recommendations.

12. Supervision. IFAD and the Government will conduct supervision missions, normally every six months, to assess achievements and lessons learned and reflect on ways to improve performance. There will also be a Mid-Term Review after three years of Programme implementation. Implementation support will focus on planning, procurement, financial management, M&E and the provision of technical assistance. The most important skills to be provided include: value chain analysis; financial management and procurement; M&E; poverty and gender analysis and targeting; and project management. Key issues likely to require the attention of the missions will include: M&E, learning and knowledge management; implementation and reporting delays; procurement; partnerships, beneficiaries and the private sector; and capacity-building interventions.

13. Programme Implementation Manual (PIM). The Programme shall be implemented in accordance with the approved AWPB and the PIM, the terms of which shall be adopted by the Lead Programme Agency 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; (v) Terms of Reference (TORs) and modalities for the selection of service providers, to be based on transparent and competitive processes; (vi) detailed modalities of the MGF (Matching Grant Facility); (vii) 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 (viii) the good governance and anti-corruption framework.

Schedule 2

Allocation Table

1. Allocation of Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant with the allocation of the amounts of the Loan and Grant to each expense Category. All amounts are 100% net of taxes.

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)
I. Consultancies	770 000	350 000
II. Equipment and material	450 000	
III. Training	1 110 000	320 000
IV. Goods, services & inputs	2 710 000	
V. Grants & subsidies	7 000 000	
VI. Salaries & allowances	3 270 000	
Unallocated	190 000	70 000
TOTAL	15 500 000	740 000

(b) For the Loan, the category "Equipment and material" includes vehicles; the category "Training" includes workshops and the category "Salaries & allowances" includes operating costs. For the Grant, the category "Training" includes workshops.

(c) Category "Grants & subsidies" mainly includes expenses for capacity building of smallholders and their service providers to compete for, and implement, matching grants from E-SAPP: pro-Smallholder Market Pull Agribusiness Partnerships matching grants and Agro-MSME Agribusiness Development matching grants.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred 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 USD 100 000 and shall be incurred only for expenses related to Categories II, III, IV, VI.