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Investing in rural people

President's report

Proposed loan to the Republic of Angola for the Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces

Note to Executive Board representatives

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For: Approval

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Acronyms and abbreviations

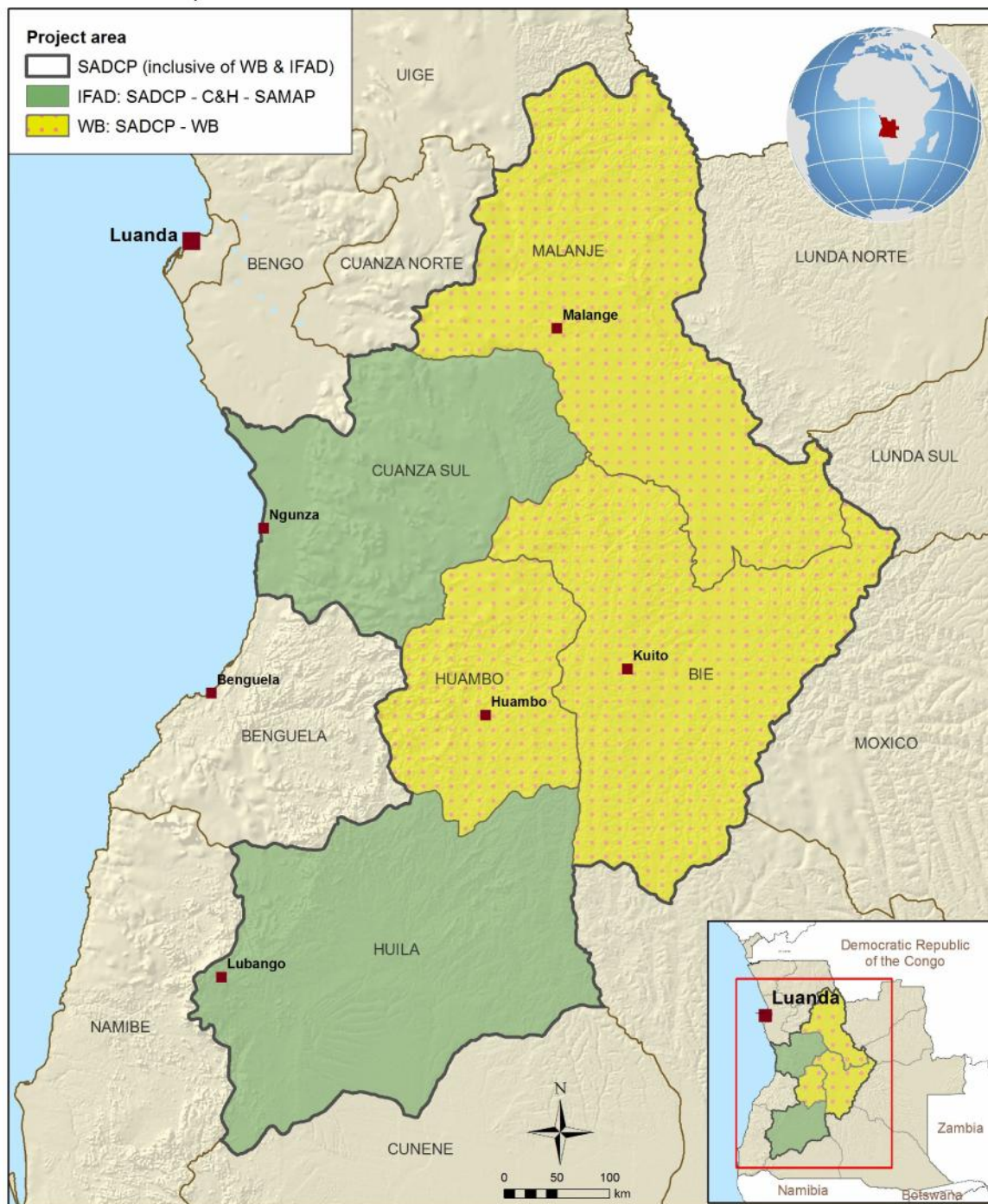
| | |
|----------------|------------------------------------------------------------------------------------------|
| AFAP | Artisanal Fisheries and Aquaculture Project |
| AOA | Angolan Kwanza |
| AWPB | annual work plan and budget |
| BP | business plan |
| ECP | Anti-poverty Strategy |
| EIRR | economic internal rate of return |
| ENSAN | National Strategy for Food and Nutrition Security |
| FFS | farmer field school |
| FM | financial management |
| FO | farmers' organization |
| GAP | good agricultural practice |
| IDA | Instituto de Desenvolvimento Agrário [Agricultural Development Institute] |
| M&E | monitoring and evaluation |
| MINAGRI | Ministry of Agriculture |
| MOSAP | Market-oriented Smallholder Agriculture Project |
| OA | operating account |
| PCC | project coordination committee |
| PFI | partner financial institution |
| PHL | post-harvest losses |
| PIU | project implementation unit |
| PPCC | Provincial Project Coordination Committee |
| SADCP | Smallholder Agriculture Development and Commercialization Project |
| SADCP-CH-SAMAP | Smallholder Agriculture Development and Commercialization Project – Cuanza Sul and Huila |
| SADCP-WB | Smallholder Agriculture Development and Commercialization Project – World Bank |

Map of the project area

Angola

Smallholder Agriculture Development and Commercialization Project (SADCP-C&H-SAMAP)

President's report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 12-04-2017

Republic of Angola

Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces

Financing summary

| | |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Initiating institution: | IFAD |
| Borrower: | Republic of Angola |
| Executing agency: | Ministry of Agriculture |
| Total project cost: | US\$38.2 million |
| Amount of IFAD loan: | US\$28.8 million |
| Terms of IFAD loan: | Ordinary: Maturity period of 18 years, including a five-year grace period , with an interest rate per annum equal to 100 per cent of the IFAD benchmark interest rate |
| Contribution of borrower: | US\$8.2 million |
| Contribution of beneficiaries: | US\$1.1 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to Republic of Angola for the Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces, as contained in paragraph 42.

Proposed loan to the Republic of Angola for the Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Republic of Angola is one of the African continent's most resource-rich countries, sub-Saharan Africa's second largest oil producer, and the world's fourth largest producer of diamonds. It also possesses other natural resources in abundance, such as minerals, water, arable land, forests and fisheries. Angola covers an area of 1,247,000 km² and is the third largest country in sub-Saharan Africa. The 2014 census estimated its population at 24.3 million people, of whom some 38 per cent are living in rural areas.¹ During four decades of civil war, much of the country's economy collapsed, as infrastructure was destroyed and institutions were crippled. Since the restoration of peace about 14 years ago, the Government has made substantial progress in re-establishing the foundations needed to address these problems. This has resulted in the development and implementation of programmes to restore order and security, revitalize the economy, reinstate basic social services and rehabilitate infrastructure.
2. Although, on average, agriculture only contributes 5.5 per cent of total GDP, it provides jobs for 44 per cent of the country's employed population. Over half of Angola's poor are located in rural areas and depend almost exclusively on subsistence farming for their livelihoods. Women are responsible for 70 per cent of traditional subsistence farming and for 24 per cent of commercial agriculture.
3. Angola partially met its Millennium Development Goal targets; and it ranks low on both human development and business environment indicators. Its institutions remain weak overall, while bureaucratic hurdles and capacity challenges inhibit private-sector growth. Performance in terms of social indicators is mixed: good progress has been made since 2002 on poverty reduction, primary education, and gender equality; but other social indicators remain very poor. For example, maternal mortality is 450 per 100,000 births, and malnutrition is acute, with 30 per cent of children under five years of age suffering from stunting and 16 per cent underweight.
4. Much more needs to be done to reduce poverty as part of the shared prosperity agenda. The proposed Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila provinces (SADCP-C&H-SAMAP) aims to provide a major impetus to the agriculture sector, which will improve the livelihoods of rural poor people, restore the agricultural production capacity of smallholder farmers and develop market linkages.

¹ Government of Angola (2016), *Censo 2014. Resultados definitivos do recenseamento geral da população e de habitação de Angola 2014* [2014 Census. Final results of the general population and housing census of Angola, 2014]. National Institute of Statistics.

B. Rationale and alignment with government priorities and RB-COSOP

5. The Angolan Government asked IFAD and the World Bank to support the Smallholder Agriculture Development and Commercialization Project (SADCP), under parallel financing arrangements. The SADCP represents a significant scaling up of support to a larger number of smallholder farmers, from 50,000 farming families under the Market-oriented Smallholder Agriculture Project (MOSAP) to at least 235,000 farmers under the SADCP, covering five provinces as compared to three under the MOSAP. As requested by the Government, the SADCP will be implemented in two separate regions, each clearly assigned to one development partner. The World Bank-funded segment (SADCP-WB) will support the provinces of Bie, Huambo, and Malanje, while the IFAD-funded project (SADCP-C&H-SAMAP) will do the same in Cuanza Sul and Huila provinces.
6. The SADCP-C&H-SAMAP is designed to address two critical constraints on agricultural development in Angola. First, it will build institutional capacity both nationally and in the project areas. Second, it will upgrade smallholder agricultural production and productivity and subsequently improve market linkages. It will address critical bottlenecks in the agricultural supply and value chains, including extension, irrigation, productivity enhancement, conservation agriculture and climate-change adaptation, post-harvest management, and market linkages for selected crops. All of these initiatives build strongly on the experience gained under the MOSAP.

II. Project description

A. Project area and target group

7. The SADCP-C&H-SAMAP will cover two new provinces, namely Cuanza Sul and Huila.
8. The core target group consists of 60,000 rural households, representing about 300,000 people, including 50,000 farmers, who will benefit through farmer field schools (FFSs), and 10,000 farmers, who will benefit from FFS participation combined with investment support (of whom 1,000 will also benefit from irrigation development). The target group consists of: (i) small-scale farmers with access to less than two hectares of land with potential for production and productivity increases; and (ii) women and youth groups who will be involved in processing, marketing and service provision. Women will comprise at least 50 per cent of the target group, and youth 30 per cent.
9. The targeting strategy is based on: (i) geographic targeting; (ii) self-targeting; and (iii) targeting tools to ensure inclusiveness. These tools include: (i) facilitation and empowering measures; (ii) gender approaches; and (iii) youth outreach activities.

B. Project development objective

10. The project development objective is to "increase smallholder agriculture productivity, production and marketing for selected crops in the project areas".

C. Components/outcomes

11. The project development objective will be achieved through two technical components.
12. Component 1: Capacity-building and institutional development will strengthen technical, organizational and managerial skills among smallholder farmers and support a policy and enabling environment that are conducive to smallholder agriculture. Support to government will ensure that adequate capacity is built for enhancing productivity and for conducting farming as a business. The component has three subcomponents: (i) strengthening the capacity of smallholder farmers and farmers' organizations (FOs) through FFS; (ii) strengthening the institutional capacity of local, provincial, and national units of the Ministry of

Agriculture (MINAGRI); and (iii) strengthening capacity and global knowledge to address emerging research problems. The component outcomes will be: (i) strengthened technical, organizational and managerial skills among smallholder farmers and FOs; (ii) a policy and enabling environment that are more conducive to smallholder agriculture; and (iii) enhanced government capacity to support smallholder agricultural production and commercialization.

13. Component 2: Support for increased production and commercialization will strengthen smallholders' capital and market linkages through support for FOs' investment subprojects to improve agricultural productivity, market access and value added. The component consists of two subcomponents: (i) provision of technical support; and (ii) provision of investment support. The expected outcome is increased investment in agricultural production and post-harvest management.
14. Component 3: Programme management contains two subcomponents: (i) project management; and (ii) monitoring and evaluation (M&E). It will support MINAGRI and the Agricultural Development Institute (IDA) in managing the project effectively, in accordance with its objective, fiduciary procedures and guidelines. The project will use the same governance and oversight bodies as its World Bank-funded counterpart, both at the national and at the provincial levels, thereby strengthening their complementarities, synergies and coherence. A separate project implementation unit (PIU) will be set up to manage the SADCP-C&H-SAMAP.

III. Project implementation

A. Approach

15. The implementation approach recognizes that: (i) MINAGRI/IDA has limited project implementation capacity; (ii) many FOs have little technical, organizational or commercial capacity; (iii) government approaches to smallholder agriculture development have mostly relied on unsustainable mechanisms, such as providing farmers with free inputs; and (iv) pro-community socioeconomic policies, such as local empowerment, targeting and promoting gender equity, are weak.
16. The project will therefore adopt a phased approach, focused initially on farmer education and subsequently on investment support based on learning by doing, and relying on service providers to implement activities outside IDA's core competencies.

B. Organizational framework

17. Project oversight and coordination. MINAGRI will be the executing agency; and delivery systems will be fully integrated into decentralized government structures. Implementation arrangements will build on the mechanism used by the MOSAP and the SADCP-WB. MINAGRI/IDA will be responsible for administration and coordination. MINAGRI will be supported by the project coordination committee (PCC) which will be chaired by the Minister of Agriculture. There will be a provincial project coordinating committee (PPCC) in each province, chaired by the corresponding Director of Agriculture and consisting of the IDA provincial director, NGOs, and representatives of beneficiaries and private-sector operators. To ensure that PCC decisions are executed in a timely manner, the PCC will appoint a project implementation subcommittee consisting of the MINAGRI/IDA Director-general, the project manager and the financial manager.
18. Project management structures. A PIU will be created in Luanda, staffed by a coordinator, a financial management specialist, a procurement specialist, an M&E and knowledge management specialist and support staff. In each participating province, there will be a provincial project implementation unit (PPIU), staffed by an area coordinator, an accountant and key-support staff. Both the PIU and the two PPIUs will be tasked with the day-to-day implementation of the project, including

management, technical supervision, planning, fiduciary management, reporting, etc.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. The logical framework will be used as a planning and M&E tool to ensure that necessary information is available for management decision-making and to facilitate reporting to the Government, IFAD and stakeholders. The planning process will be decentralized, starting at the district level with the preparation of annual plans which will then be aggregated into a project-wide annual work plan and budget (AWPB).
20. The M&E system will build on the experience of the MOSAP and provide information that supports management and reporting, including IFAD's Result 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 include: (i) baseline and end-project surveys; (ii) regular data collection on project activities, outputs, outcomes and impacts; and (iii) special studies. A project database will be created to store the baseline and endline survey data, as well as all data associated with the implementation of project activities directly linked to outputs.
21. Based on IFAD's experience in the region, knowledge gained in other countries will be shared with the project. Results from the implementation of FFSs will enable the project to learn how best to equip smallholders with knowledge and practical tools to apply good agricultural practices; adapt to climate change; improve their marketing, resilience, literacy and business skills; raise their nutritional awareness and status, and progressively move into commercial agriculture.

D. Financial management, procurement and governance

22. Financial management. In the absence of any recent Public Expenditure and Financial Accountability (PEFA) assessments for Angola, reference has been made to project-specific assessments made by the World Bank and the Transparency International Corruption Perceptions Index. Public financial management and procurement systems remain relatively weak, and the inherent risk is considered "high". Safeguard measures will therefore be put in place to reduce this risk rating to "medium" once implemented. The SADCP-C&H-SAMAP will employ similar financial management systems to those used under the MOSAP and SADCP-WB, including use of the PRIMAVERA accounting software. Both the PIU and the two PPIUs will include accounting staff. Given the parallel financing arrangement, IFAD financial management procedures will be followed as specified in the project implementation manual.
23. Angola is on ordinary lending terms, and the loan will be denominated in United States dollars. Funds will be managed through a designated account that will be opened solely to receive project funds from IFAD. Project accounts (PAs) will be maintained in both dollars and kwanzas. The project's dollar account will be used for paying suppliers for contracts denominated in dollars and any cost incurred in foreign currency.
24. Audit. The project's financial statements will be audited by an independent private firm of auditors, pursuant to International Standards on Auditing (ISA). The audit report will be submitted to IFAD within six months after the financial year-end. The costs of the audit will be borne by the project. The terms of reference of the audit will focus particularly on the matching grant process.
25. Procurement. All procurements will be carried out in accordance with IFAD Procurement Guidelines and the Fund's Policy on Preventing Fraud and Corruption in Activities and Operations. MINAGRI/IDA will be responsible for all procurements, which will be executed only against the approved AWPB. This aligns with the

procurement plans, specifying items to be procured, responsibility for the procurement and the appropriate procurement methods. All IFAD-funded procurements will be tax and duty-free.

E. Supervision

26. The project will be supervised by IFAD, in close collaboration with the Government and IDA. Two supervision missions will be undertaken each year. Implementation support missions will focus on technical issues, planning, gender and targeting, procurement, financial management, M&E, partnerships, the integration of activities within the evolving governance framework, and monitoring of outputs and outcomes. IFAD and the World Bank will coordinate their missions to ensure human resources are used effectively.

IV. Project costs, financing, and benefits

A. Project costs

27. Total SADCPC&H-SAMAP project costs, over the seven-year implementation period and including physical and price contingencies, are estimated at US\$38.2 million. Component 1 represents 40 per cent of the total cost, component 2 represents 39 per cent and component 3 accounts for 21 per cent. The summary of project costs by component is shown below.

Table 1
Summary of project costs by component and financier
(Thousands of United States dollars)

| <i>Component</i> | <i>IFAD loan</i> | <i>Borrower/ counterpart</i> | <i>Beneficiaries</i> | <i>Total</i> |
|-----------------------------------------------------------------------------------------|------------------|----------------------------------|----------------------|---------------|
| | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> |
| 1. Capacity-building and institutional development | | | | |
| i. Capacity strengthening for smallholder farmer organizations through FFSs | 4.5 | 2.2 | - | 6.7 |
| ii. Institutional strengthening of local, provincial and national units of MINAGRI | 3.0 | 4.8 | - | 7.8 |
| iii. Strengthening of capacity and global knowledge to address emerging research issues | 0.2 | 0.8 | - | 1.0 |
| Subtotal: | 7.7 | 7.8 | - | 15.5 |
| 2. Support for increased production and commercialization | | | | |
| i. Provision of technical support | 6.5 | 0.0 | - | 6.5 |
| ii. Provision of investment support | 7.1 | 0.0 | 1.1 | 8.2 |
| Subtotal: | 13.6 | | 1.1 | 14.7 |
| 3. Project management | 7.6 | 0.4 | - | 8 |
| Total project cost | 28.8 | 8.2 | 1.1 | 38.2 |

B. Project financing

28. SADCPC&H-SAMAP will be funded by: (i) an IFAD loan of US\$28.8 million (75.5 per cent of the total project cost); (ii) a Government contribution equivalent to US\$8.2 million (21.6 per cent of total cost), to cover duties and taxes as well as some operational costs of the public outreach and agricultural research services; and (iii) a beneficiary contribution equivalent to US\$1.1 million (3 per cent of total cost) to cofinance subprojects under subcomponent 2.2. Details are given in the table below.

Table 2

Financing plan - Project costs by expenditure category and financier

(Thousands of United States dollars)

| <i>Expenditure Category</i> | <i>IFAD loan</i> | | <i>Borrower/counterpart</i> | | <i>Beneficiaries</i> | | <i>Total</i> |
|---------------------------------|------------------|-------------|-----------------------------|-------------|----------------------|------------|---------------|
| | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> | <i>Amount</i> | <i>%</i> | <i>Amount</i> |
| 1. Works | 1.6 | 86.4 | 0.1 | 2.9 | 0.2 | 10.7 | 1.9 |
| Subtotal: | 1.6 | 86.4 | 0.1 | 2.9 | 0.2 | 10.7 | 1.9 |
| 2. Goods and equipment | | | | | | | |
| i. Vehicles | 0.6 | 83.0 | 0.1 | 17.0 | - | - | 0.8 |
| ii. Equipment | 0.3 | 83.0 | 0.1 | 17.0 | - | - | 0.4 |
| Subtotal: | 1.0 | 83 | 0.2 | 17 | - | - | 1.2 |
| 3. Consulting services | | | | | | | |
| i. Individual consultancy | 2.3 | 99.5 | 0 | 0.5 | - | - | 2.3 |
| ii. Firm – NGO Consultancy | 11.9 | 99.8 | 0 | 0.2 | - | - | 11.9 |
| Subtotal: | 14.2 | 99.8 | 0 | 0.2 | - | - | 14.2 |
| 4. Training and workshops | | | | | | | |
| i. Local training and workshops | 0.6 | 100 | 0 | 0 | - | - | 0.6 |
| ii. International trainings | - | - | - | - | - | - | - |
| Subtotal: | 0.6 | 100 | 0 | - | - | - | 0.6 |
| 5. Operating costs | 1.1 | 12.5 | 8.0 | 87.5 | - | - | 9.1 |
| 6. Salaries and allowances | 5.2 | 100 | - | - | - | - | 5.2 |
| 7. Grants and subsidies | 3.9 | 81.3 | - | - | 0.9 | 18.8 | 4.8 |
| 8. Credit | 1.2 | 100 | - | - | - | - | 1.2 |
| Total project cost | 28.8 | 75.5 | 8.2 | 21.6 | 1.1 | 2.9 | 38.2 |

C. Summary of benefits and economic analysis

29. The project will improve the livelihoods and nutritional status of 60,000 beneficiary households, create employment at farm/FO level and facilitate the development of agricultural value chains.
30. The main benefits will be: (i) increased agricultural production and higher productivity stemming from: adoption of improved technologies; enhanced access to water and more efficient water use; (ii) increased cash income for participating smallholders; (iii) improved food and nutrition security and reduced vulnerability to external shocks, notably climate change; (iv) lower transaction costs and post-harvest losses, through bulking and marketing by FOs and other value-chain actors, and greater smallholder access to finance; (v) increased value added by smallholders and FOs; (vi) strengthened bargaining power, understanding of markets and the management capacity of smallholders and their organizations; (vii) improved natural resource conservation, enhanced biodiversity and climate-change resilience ; and (viii) improved institutional capacity of MINAGRI and IDA at the central, provincial and municipality levels.

Economic analysis

31. The project is expected to yield an economic internal rate of return (EIRR) of 18 per cent and a net present value (NPV) of US\$28.3 million, making it highly attractive from an economic standpoint. The incremental economic benefit from year eight onwards is estimated at approximately US\$6.7 million per annum.²

² The EFA performed for the SADCP-WB reported an EIRR of 19 per cent and an NPV of US\$50 million (at a 10 per cent discount rate).

D. Sustainability

32. Sustainability is built into the project through: (i) the FFSs which will produce large numbers of trained farmer-facilitators, who will continue to provide technical assistance to their peers long after the project has ended; (ii) with investment support, smallholder farmers and their organizations will generate higher incomes; have stronger links with traders, input suppliers, agroprocessors and financial institutions; be more creditworthy and bankable; accumulate capital; and increase their social and marketing thrust and thereby become less dependent on external support; and (iii) enhanced institutional capacity of public services. The support provided to government institutions will greatly enhance policy, research, outreach and implementation capacity and will ensure greater project sustainability.
33. The project's exit strategy relies on: building capacity at different levels, including farmers and FOs, as well as public services and value-chain actors; linking smallholders/FOs to value-chain actors (buyers/traders, input suppliers) and growing their assets, business profile, and creditworthiness; and helping smallholders to progressively move into commercial farming.

E. Risk identification and mitigation

34. The overall risk of the SADCP-C&H-SAMAP is assessed as substantial, owing to weak implementation and fiduciary management capacity. The main risks and the proposed mitigation measures are given below.

| Main risks | Implementation arrangements chosen to mitigate risk |
|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Weak institutional capacity, including procurement and governance | The SADCP-C&H-SAMAP will be implemented mainly by service providers with proven experience in the areas for which they will be recruited, e.g. FFSs will be subcontracted to the Food and Agriculture Organization of the United Nations (FAO), as also envisaged under the SADCP-WB. Capacity-building will be provided to IDA staff at the provincial and municipality levels, in project design, coordination, monitoring and oversight. Despite the relatively high recurrent costs, professional staff turnover is a risk in a very competitive job market with high demand and low supply. |
| Slow start-up of activities | Hiring a project expeditor for a six-month period to support IDA in: (i) setting up the PIU and PPIUs; (ii) preparing terms of reference and advertisements for the recruitment of PIU and PPIU staff; (iii) preparing tendering documents, launching tenders and producing guidelines for the selection of service providers; (iv) preparing contracts with project staff and service providers; (v) setting up provincial offices; and (vi) making sure start-up financing is available under the loan. |
| There are a few service providers with the required knowledge and experience in the project area | Procure experienced service providers in other provinces, in the region and internationally, to be lead service providers and encourage partnerships and training with local ones. Recruiting service providers jointly with the World Bank is likely to attract interest from competent consultants in contract tenders. |
| Weak institutional and fiduciary management capacities | A qualified finance manager, supported by accountants, will be appointed to the PIU/PPIUs for financial management (FM) including the development of a financial management and information system under IFAD rules and regulations; preparation of project financial management procedures to be included in the project implementation manual; training for provincial FM staff, and reporting. |

V. Corporate considerations

A. Compliance with IFAD policies

35. The project design is aligned with IFAD's policies on targeting; gender equality and women's empowerment; and IFAD's Social, Environmental and Climate Assessment Procedures (SECAP). The project is also aligned with IFAD's Environmental and

Natural Resource Management Policy and Climate Change Strategy. Moreover, the project's nutrition focus is aligned with IFAD's commitment to nutrition-sensitive actions and nutrition mainstreaming. Reflect those key aspects of IFAD policies that are relevant and how they will be or have been dealt with in the project design. This section will include a compulsory subsection on gender to report on compliance with new gender policy and a compulsory subsection on environmental risk summarizing the findings of IFAD's environmental assessment process and listing the mitigation measures required during implementation.

B. Alignment and harmonization

36. The project design is aligned with the Government's policies, including: (i) the 2005 Anti-Poverty Strategy; (ii) the 2009 the National Strategy for Food and Nutrition Security; and (iii) the 2010 Integrated Municipal Programme for Rural Development and Fight against Poverty. The project has been developed in consultation with partners engaged in improving agricultural production, productivity and market linkages.

C. Innovations and scaling

37. The project builds on IFAD/World Bank experience with the MOSAP, aiming to reduce rural poverty by stimulating rural economic development and turning smallholder subsistence producers into profitable small-scale commercial farmers. It seeks to improve the effectiveness of policies and practices to accelerate the growth of farming as a business among Angolan smallholder households. The project will enhance the focus on women and young people as priority target groups in its FFSS; and it will support the mainstreaming of nutrition-sensitive agriculture/agribusiness by providing investment support.

D. Policy engagement

38. The project will support the Government in establishing an enabling policy and institutional environment, firstly to increase the production and productivity of smallholder farmers, and secondly to support commercially driven agriculture and rural development. The project will help put structures in place to address agricultural risk management issues.

VI. Legal instruments and authority

39. A project financing agreement between the Republic of Angola and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached in appendix I.
40. The Republic of Angola is empowered under its laws to receive financing from IFAD.
41. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Angola in an amount of twenty-eight million eight hundred thousand United States dollars (US\$28,800,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hounbo
President

Negotiated financing agreement: "Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces (SADCP-C&H-SAMAP)"

(Negotiations concluded on 6 April 2017)

Loan Number: _____

Project Title: Smallholder Agriculture Development and Commercialization Project in Cuanza Sul and Huila Provinces (SADCP-C&H-SAMAP) ("the Project")

The Republic of Angola (the "Borrower")

and

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

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

WHEREAS, the Borrower has requested financing from the Fund and the International Bank for Reconstruction and Development (IBRD) for the Project; and

WHEREAS, the Borrower has entered into a Loan Agreement with IBRD (the "IBRD Agreement") for this purpose.

NOW, THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project 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 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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is twenty-eight million eight hundred thousand United States Dollars (USD 28 800 000).

2. The Loan is granted on ordinary terms, and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of five (5) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.
3. The Loan Service Payment Currency shall be the US Dollar.
4. The first day of the applicable Fiscal Year shall be 1st January.
5. Payments of principal and interest shall be payable on each 15 May and 15 November.
6. There shall be one Designated Account denominated in USD and two Operational Accounts, one denominated in USD and the other in AOA, for the benefit of the Lead Agency.
7. The Borrower shall provide counterpart financing for the Project in an amount equivalent to eight million two hundred thousand United States Dollars (USD 8 200 000).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture (MINAGRI).
2. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional specific conditions precedent to withdrawal:
 - (i) The Designated Account shall have been duly opened;
 - (ii) The Project Coordination Committee (PCC) headed by the Minister of Agriculture or his representative shall have been duly established;
 - (iii) The Project Implementation Unit (PIU), headed by the Project Coordinator shall have been established;
 - (iv) An off-the-shelf accounting software able to provide financial reports as per IFAD standards shall have been duly procured, installed and implemented;

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

For the Borrower:

Minister of Finance
Ministry of Finance
Largo da Mutamba
Caixa Postal 1235
Luanda
Angola

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 Borrower.

REPUBLIC OF ANGOLA

(Authorized Representative
Name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Hougbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Group. The Project shall be implemented in Cuanza Sul and Huila Provinces. The Project shall benefit up to 60,000 rural households, representing about 300,000 people. The target group is the small farmers, rural women and youth.
2. Goal. The Project development goal is to diversify the economy, generate revenue and improve livelihoods and food security of poorer households.
3. Objective. The Project objective is to increase smallholder agriculture productivity, production and marketing for selected crops.
4. Components. The Project shall consist of the following components:
 - 4.1 Component 1: Capacity Building and Institutional Development. The component will strengthen smallholder farmers' technical, organisational and managerial competencies and support a more conducive policy and enabling environment for smallholder agriculture. Support to government will ensure that adequate capacity is built for farming as a business and enhance commercialisation and value addition.
 - 4.2 Component 2: Support for Increased Production and Commercialisation. The component will strengthen smallholder capital and market linkages through support on a priority basis for investment sub-projects for farmers' organisations (FOs) to improve their agricultural production and productivity. For market access and commercialisation the Project will first develop business models and test pilot them before any rolling out activities as of third year of implementation. The Project will promote provision of matching grants and short and medium term credit to be extended by PFIs (banks and non-bank microcredit institutions).
 - 4.3 Component 3: Project Management, Monitoring and Evaluation. The component is comprised of two subcomponents: (i) Project management; and (ii) Monitoring & Evaluation (M&E). It will support IDA in managing the Project effectively and in accordance with its objective, procedures and fiduciary guidelines and M&E system-to be established. The Project will use the same governance and oversight bodies as World Bank funded Sister Project (SADCP-WB), both at the national and the provincial levels. This will strengthen the complementarities and synergies between the two parallel-funded projects.

I. Implementation Arrangements

5. Lead Project Agency. In its capacity as the Lead Project Agency, the MINAGRI shall have overall responsibility for Project implementation.
6. Project Coordination Committee (PCC). A PCC with relevant representation at national level shall provide oversight, policy direction and coordination between key government institutions. The PCC shall be headed by the Minister of MINAGRI. At provincial level, there will be a Provincial Project Coordinating Committee (PPCC) which will be chaired by the Provincial Vice Governor for Economic Affairs, and composed of the

Provincial Agriculture Director, the IDA Provincial Chief, NGOs, representatives of beneficiaries and of private sector operators. To ensure that the decisions of PCC are executed in a timely manner, the PCC will appoint a Project Implementation Sub-Committee (PISC) consisting of the MINAGRI/IDA Director General, the Project Manager and the Financial Manager.

7. PIU. The Project Implementation Unit (PIU) will be established in Luanda; it will be staffed by a coordinator, a financial management specialist, a procurement specialist, an M&E and knowledge management specialist and support staff. In each participating province, there will be a provincial implementation unit (PPIU) which will be staffed by an area coordinator, an accountant and key-support staff. Both the PIU and the two PPIUs will be entrusted with the day to day implementation of the Project including management, technical supervision, planning, fiduciary management, reporting, etc.

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. To ensure a smooth transition of implementation from year to year, the final AWPB draft will be distributed to all SADCW implementing agencies by 31st December of every year. The timeframe and process of AWPB preparation, review and approval will follow the same as that of the SADCW-WB in order to ensure harmonisation of national-level activities under components 1 and 2.

9. Monitoring and evaluation. The M&E system will build on the experience of Market-oriented Smallholder Agriculture Project (MOSAP) and provide information that informs management decision-making and reporting, including data for IFAD's Results and Impact Management Systems (RIMS). Monitoring will focus on the activities defined 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 (FM). The Project will employ similar financial management systems to those used under MOSAP and SADCW-WB, including use of the PRIMAVERA accounting software. Both the PIU and the two provincial PIUs will include accounting staff. Given the parallel financing, IFAD financial management procedures will be followed as articulated in the Project Implementation Manual (PIM).

11. Audit. The Project's financial statements will be audited by independent auditors in accordance with International Standards on Auditing and the audit report will be submitted to IFAD within six months after the financial year-end. The arrangements for the appointment of the external auditors of the Project financial statements shall be in accordance with the IFAD Project Audit Guidelines. Supervision missions will review internal and external audit reports and assess the implementation status of recommendations.

12. Supervision. IFAD and the Government will conduct supervision missions annually. Supervision and implementation support missions by the World Bank and IFAD will be as much as possible synchronised. Implementation support will focus on technical issues, planning, gender and targeting, procurement, financial management, M&E, partnerships, the integration of activities within the evolving governance framework; and monitoring of outputs and outcomes.

13. Project Implementation Manual (PIM). The Project shall be implemented in accordance with the approved AWPB and the PIM, the terms of which shall be adopted by the Lead Project 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 Project staff and consultants; (ii) Project operating manuals

and procedures; (iii) monitoring and evaluation systems and procedures; (iv) a detailed description of implementation arrangements for each Project component; (v) Terms of references (TORs) and modalities for the selection of the service providers, to be based on transparent and competitive processes; (vi) detailed modalities of the sub-projects; (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 Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

| Category | Loan Amount Allocated (expressed in USD) | Percentage |
|-------------------------------|---------------------------------------------|-------------------|
| I. Goods, Services and Inputs | 17 400 000 | 100% net of taxes |
| II. Grants and Subsidies | 3 900 000 | 100% net of taxes |
| III. Credit, Guarantee Funds | 1 200 000 | 100% net of taxes |
| IV. Operating Costs | 1 100 000 | 100% net of taxes |
| V. Salaries and Allowances | 5 200 000 | 100% net of taxes |
| TOTAL | 28 800 000 | |

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

- (i) "Goods, Services and Inputs" includes: Works; Goods and Equipment; Consulting Services; and Training and Workshops.
- (ii) "Grants and Subsidies" consist of matching grants under Component 2.
- (iii) "Credit, Guarantee Funds" consists of short and medium term credit to be extended by PFIs (banks and non-bank microcredit institutions) under Component 2.

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 300 000 and shall be incurred only for expenses related to pre-implementation start-up activities under Categories I, IV and V above.

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 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 Project:

1. Gender. The Borrower shall ensure that gender concerns shall be mainstreamed in all Project activities throughout the Project Implementation Period. The Borrower shall also ensure that women beneficiaries shall be represented in all Project activities and that they receive benefits from the Project outputs.
2. Tax Exemption. The Borrower shall, to the fullest extent possible, exempt the proceeds of the Financing from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Borrower.
3. Internal Audit. The National Inspectorate of Finance or an independent and qualified internal audit firm acceptable to IFAD will perform Project internal audits in accordance with an annual risk-based work-plan.
4. Key Project Staff. The Borrower shall ensure that key staff are recruited and in the event of turnover they are replaced on a timely basis. Should the recruitment process be prolonged, where appropriate the Borrower shall make recourse to a suitably qualified external service provider acceptable to IFAD.

Logical framework

| Results Hierarchy | Indicators | | | | Means of Verification | | | Assumptions (A) / Risks (R) |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| | Name | Baseline | Mid-term (YR4) | End Target | Source | Frequency | Responsibility | |
| Goal: To diversify the economy, generate revenue and improve livelihoods and food security of poorer households | 1. Increased asset index for 60,000 households | Baseline data | 10 per cent increase (from baseline) | 25 per cent increase (from baseline) | Baseline, mid-term and end of project surveys | Yr1, Yr4, Yr7 | Service provider | |
| | 2. Decrease in chronic malnutrition among children under 5 years | Cuanza sul (34.3 per cent); Huila (33.7 per cent) | 2.5 per cent reduction from baseline | 5 per cent reduction from baseline | Baseline survey, nutritional assessments | Yr1, Yr4, Yr7 | Service provider | |
| Development Objective: To increase smallholder agriculture productivity, production and marketing for selected crops in the Project areas. | 3. Number of beneficiaries reached 3a. of which women (per cent) 3b. of which youth (per cent) 3c. of which FFS beneficiaries receiving nutrition education | 0 | 20.000 50 per cent 30 per cent 30 per cent | 60.000 50 per cent 30 per cent 60 per cent | Reports of implementing entities and IDA records | 6-monthly | PIU, PPIU, IDA, service providers | Substantial policy, governance and macroeconomic risks (R) Weak institutional capacity of project implementation (R) |
| | 4. Average crop yields | Baseline data | | | Surveys of the FFS/FBS participants and sub-project beneficiaries | Yr1, Yr4, Yr7 | PIU IDA, service provider | |
| | Maize (MT/ha) | 0.5 | 1.0 | 2.1 | | | | |
| | Beans (MT/ha) | 0.3 | 0.55 | 0.9 | | | | |
| | Onion (MT/ha) | 8.0 | 12.0 | 14.0 | | | | |
| | Irish potato (MT/ha) | 9.0 | 10.0 | 12.0 | | | | |
| | Cassava (MT/ha) | 7.0 | 9.0 | 13.0 | | | | |
| | 5. Proportion of targeted smallholder production marketed (per cent) | 15 | 20 | 25 | Surveys of the FFS/FBS participants and sub-project beneficiaries | Yr1, Yr4, Yr7 | PIU IDA, service provider | |
| Outcome 1: Smallholder farmers' technical, organizational and managerial competence improved | | | | | | | | Delays in setting up PIU and PPIUs and signing of contracts with service providers |
| Output 1.1: Smallholder farmers' technical, organizational and managerial competence improved | 6. Number of farmers having completed FFS training (of which 50 per cent women/ 30 per cent youth) | 0 | 20,000 | 60,000 | IDA records | 6-monthly | IDA, service provider | |
| Output 1.2: Supported smallholder farmers' organizations and cooperatives (FOs) functioning | 7. Percentage of FOs operational | 0 | 30 per cent | 60 per cent | Reporting service provider | 6-monthly | PIU, IDA | |
| Outcome 2: More conducive policy and enabling environment for smallholder agriculture | 8. Appropriate smallholder agricultural policies included in national & sectoral development plans | 0 | 1 | 3 | National Development Plans/sector Strategy Reports/ Surveys of the FFS/FBS participants | Yr1, Yr4, Yr7 | PIU, IDA, service provider | Slow start-up of activities ® Weak capacity of public service® (R) |

| | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|------------|-------------|-------------|----------------------------|-----------|----------|----------------------------------------------------------------|
| Output 2.1: MINAGRI staff that benefitted from training | 9. Number of MINAGRI/IDA/ICA staff having completed training course | 0 | 100 | 150 | Reporting service provider | 6-monthly | PIU, IDA | |
| Output 2.2: Registration of farmers' associations and cooperatives (including Water User Associations) streamlined and supported | 10. No. of registered entities (with membership data disaggregated by gender) | 0 | 50 | 165 | Registrar | Annual | MINAGRI | |
| Outcome 3: Government capacity to support climate resilient smallholder agricultural production and commercialization enhanced | 11. Percentage of beneficiaries of FFS that adopted at least 2 new technologies | 0 per cent | 80 per cent | 80 per cent | Ex-post evaluation | Yr7 | PIU | Weak capacity of public serv@s (R) |
| Output 3.1: Institutional capacity of national and provincial-level agricultural research system strengthened | 12. Number of recommended technology packages for project crops and target groups developed | 0 | 5 | 10 | IIA & IDA | Annual | | Sufficient capacity of IIA& IDA to prepare technology kits (A) |
| Output 3.2: Number of climate resilience technologies demonstrated in project area | 13. Number of adapted climate resilience technologies applied | 0 | 8 | 20 | Reporting IDA | 6-monthly | IDA | |
| Outcome 4: Investments in agricultural production and post-harvest management increased | | | | | | | | Slow start-up of ac@ities (R) |
| Output 4.1: Sub-projects (SP)/Business plans (BP)' technical, economic, financial, social, environmental and climate resilience feasibility proven | 14. Number of SPs/BPs approved for financing and implemented, of which: | 0 | 50 | 150 | IDA reporting | Annual | PPIUs | |
| | SP for production enhancement | 0 | 40 | 120 | | | | |
| | SP for value addition and commercialization ³ | 0 | 3 | 30 | | | | |
| Output 4.2: Financial products for farmers organizations and rural businesses introduced | 15a. Number of farmers accessing project financial services | 0 | 1,000 | 5,000 | PFI & IDA reporting | Annual | PIU | |
| | 15b. Amount of PFI credit mobilized (USD million) | 0 | 0.3 | 1.2 | PFI reporting | Annual | PIU | |

³ SPs mainly dealing with marketing/commercialization will be tested and piloted during the first two years before taken to scale.