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Investing in rural people

# Republic of Malawi

# Financial Access for Rural Markets, Smallholders and Enterprise Programme

# Negotiated financing agreement


Executive Board — 122nd Session
Rome, 11-12 December 2017


For: Information

# Negotiated financing agreement: "Financial Access for Rural Markets, Smallholders and Enterprise Programme"

(Negotiations concluded on 21 November 2017)

Loan Number: ___________
DSF Grant Number: __________

Programme Title: Financial Access for Rural Markets, Smallholders and Enterprise Programme ("FARMSE" or "the Programme")

the Republic of Malawi (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), 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 and a Debt Sustainability Framework (DSF) Grant to the Borrower/Recipient (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 Loan is twenty one million US dollars (USD 21 000 000).

   B. The amount of the DSF Grant is twenty one million US dollars (USD 21 000 000).

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 semi-annually 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 United States Dollars (USD).

4. The first day of the applicable Fiscal Year shall be 1 July.

5. Payments of principal and service charge shall be payable on each 1 May and 1 November.

6. There shall be a designated account at the Reserve Bank of Malawi and an operational programme account held in a commercial bank. The operational programme account will not be subject to the Credit Control Authority operational requirements.

7. The Borrower/Recipient shall provide counterpart financing for the Programme in an amount equivalent to approximately nine million six hundred thousand United States dollars (USD 9 600 000), of which approximately three million dollars (USD 3 000 000) will be Government cash transfer and the rest of which will be in the form of exemption of duties and taxes in accordance with the approved Annual Work Plan and Budget.

Section C

1. The Lead Programme Agency shall be the Ministry of Finance, Economic Planning and Development (MoFEPD).

2. The Programme 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 Programme supervised by the Fund.

Section E

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

(i) The Designated Account and Programme Account shall have been duly opened;

(ii) The Programme Management Unit shall have been fully constituted and adequately staffed with key staff including the Programme Coordinator, Monitoring and Evaluation Officer, Procurement Officer, and the Financial Controller;

(iii) An off-the-shelf accounting software will have been procured and coded with the Programme chart of accounts to facilitate generation of reports by component, expenditure category and financier; and

(iv) The Programme Steering Committee (PSC) shall have been established.

2. 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.

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

For the Borrower/Recipient:

The Minister of Finance, Economic Planning and Development
of the Republic of Malawi
Ministry of Finance, Economic Planning and Development
P.O. Box 30049
Lilongwe 3

For the Fund:

The 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/Recipient.

THE REPUBLIC OF MALAWI

____________________
Authorized Representative
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____________________
Gilbert F. Houngbo
President

# Schedule 1

## Programme Description and Implementation Arrangements

## I. Programme Description

1. Target Group. FARMSE will be a nation-wide programme, its geographic coverage will be clustered based on two distinct targeting mechanisms. As such, the Programme will combine localized and national geographic targeting approaches. For activities involving demand driven implementing agencies, particularly Financial Service Providers (FSPs), care will be taken to select partners with a combined geographic footprint as broad as possible. The Programme will adopt two targeting strategies. Total Programme beneficiaries will number more than 432,000, of which, an estimated 30% will be women, and at least 20% will be youth.

2. Goal. The overall goal of the Programme is to reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis.

3. Objective. The Programme's development objective is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises.

4. Components. The Programmes development objective will be achieved through the effective implementation the three technical components:

4.1 Component 1. Ultra-poor graduation model development and testing at scale. The outcomes of this component are: i) the capacity of ultra-poor households to graduate from poverty, obtain food security and secure livelihood opportunities is improved; and ii) the capacity of ultra-poor women headed households and youth graduate from poverty is improved. The objective of the component is to develop and test at scale a cost-effective, replicable model(s) to graduate households from ultra-poverty and food insecurity into sustainable, self-reliant livelihoods. This component is divided into two stages: selection of operational districts, based on existing Government of Malawi poverty statistics, and in collaboration with MoFEPD, selection and assessment of qualifying ultra-poor households; Roll out the graduation process.

4.2 Component 2. Support to Financial Innovation and Outreach. This component will seek to overcome numerous barriers to financial services to the rural poor. It will support the development of informal and formal financial services best suited to ultra-poor non-labour constrained, poor but food-secure, vulnerable to poverty, and low income but resilient to poverty households, emphasizing savings and credit for on and off farm enterprises. This component has two subcomponents:

4.2.1 Subcomponent 2.1 - Community based financial organization support (CBFO). The outcome of this subcomponent is improved rural financial access through existing, new and innovative informal community based financial organizations and savings and loan products. The objective is to support CBFOs expanded outreach to poor but food secure households, households vulnerable to poverty, and resilient households in rural Malawi.

4.2.2 Subcomponent 2.2 – Innovation and Outreach Facility (IOF). The outcome for this subcomponent is to enhance the capacity of FSPs to deliver demand-driven services in rural areas. The objectives are two: i) increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and micro, small and medium, sized enterprises; and ii) to support the scaling up of proven financial services and delivery mechanisms.

4.3 Component 3. Strategic Partnerships, Knowledge Generation, and Policy. The outcome of this component is to increase the capacity and knowledge bases of rural financial sector support organizations, and has three objectives: i) strengthen macro level regulatory and financial sector policy and institutional capacity; ii) strengthen financial sector organizations; and iii) produce and distribute rural finance sector knowledge products which enhance the outreach and innovation potential of sector stakeholders. The component has two subcomponents:

4.3.1 Subcomponent 3.1 – Support for Poverty graduation Policy and Systems. The activities will support efforts at MoFEPD, in particular in the Division of Poverty Reduction and Social Protection, to develop and implement coordination policy, and capacity related to reviews of graduation models adoption, and dissemination of best graduation practices within the Government and to other stakeholders.

4.3.2 Subcomponent 3.2 – Support for development of broader Rural Finance Policy. The first activity will support rural finance sector development, policy, and research. It will also facilitate formal Government recognition of good rural finance practices This will be done in partnership the MoFEPD, the Reserve Bank of Malawi and industry stakeholders. Other activities would include support for key innovations, lessons, knowledge management, financial training modules, feasibility study for a micro-finance apex fund, and rural financial literacy.

## I. Implementation Arrangements

5. Lead Programme Agency. The lead agency for Programme implementation shall be the MoFEPD. The Programme will be housed in the Pensions and Financial Sector Policy Division (PFSPD).

6. Programme Steering Committee (PSC). A multi-sector stakeholder Programme Steering Committee, chaired by the Secretary to the Treasury or his/her designate, will be established to provide overall Programme oversight, direction, and advice. The PSC will be made up of representatives of key stakeholders including, inter-alia, government ministries, farmer organisations, financial apex bodies, the private sector, and development partners. The PSC would meet on a quarterly basis to review work plans and budgets, financial and progress reports, receive draft annual reports and approve all major Programme decisions. The multi-sectoral composition of the PSC will ensure the Programme's implementation complements rather than duplicates other government interventions and encourages private sector participation, and harmonizes the Programme's contribution with the Government's strategic priorities and development objectives for the sector.

7. The Programme Management Unit (PMU). The PMU will be hosted by the PFSPD, at MoFEPD. It shall be responsible for day to day management, consolidation of Annual Work Plan and Budgets (AWPBs), procurement plans, progress, and financial reports, and will co-ordinate the procurement of goods, works and services. The PMU will be staffed with: (i) a programme coordinator; (ii) a rural finance specialist; (iii) a financial controller; (iv) a procurement officer; (v) a monitoring and evaluation officer (vi) a knowledge management & communications officer; and (vii) an accountant. Additionally, the PMU will have a long-term rural finance Chief Technical Advisor (CTA) contracted to support implementation of Component 2 and 3, paid through the IOF (subcomponent 2.2). The CTA will work closely with the rural finance specialist, and together with the Programme Coordinator, will develop the AWPB for Component 2 and component 3.

8. Planning. The main planning tools for the Programme will comprise the logical framework, monitoring and evaluation (M&E) framework including its indicators and targets, and the Results Based Annual Work Plan and Budget (RB-AWPB). The Logframe provides indicators and targets for Programme implementation from output over outcome, development objective to impact levels. The RB-AWPB will break physical targets up by year and attach financial resources to them. The RB-AWPB shall present

financial and physical outputs and outcomes of the Programme for the given year, and report on the accumulative achievements. The execution of the RB- AWPB will be monitored along the M&E framework of the Programme and reported back in regular intervals from quarterly to semi-annuals reports. The cycle of planning, monitoring and reporting is essential for efficient management of the Programme and for achieving the results as agreed.

9. Monitoring and evaluation. The Programme's approach to planning, monitoring and evaluation will be compatible with corresponding Government and IFAD policies and tools. Guided by the Programme's logical framework, the M&E function will systematically record data and performance information of Programme partner performance implementation, as well as household surveys. The system will build on the experience of completed and existing programmes as well as provide information that informs management decision making.

10. Financial Management (FM). The Programme will employ similar financial management systems to a stand-alone accounting software as adaptation of a good lesson learned from the Sustainable Agricultural Production Programme (SAPP) and Rural Livelihoods and Economic Enhancement Programme (RLEEP). It is proposed that TOMPRO accounting software be adopted (as it will be in the new IFAD Programme for Rural Irrigation Development). This will allow for joint trainings, support, and programme knowledge sharing.

11. Audit. The audit of the Programme's financial statements will be supervised by the Auditor General of the Borrower/Recipient in accordance with International Standards and the audit report will be submitted to IFAD within six months after the financial year-end. Supervision missions will review internal audit reports and assess management responses to recommendations.

12. Supervision. The Programme shall be directly supervised by IFAD. Direct supervision would encompass four discrete processes: (i) loan and grant administration; (ii) procurement review; (iii) audit review; and (iv) supervision and implementation support. Direct supervision would be applied as a continuous process which requires on-going communication and engagement with the GoM and the PMU. Key supervision processes include: (i) ensuring fiduciary compliance with the loan and grant administration; (ii) assessing Programme performance; (iii) guidance towards the achievement of the Programme's strategic objectives; and (iv) conducting supervisory missions.

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 references and modalities for the selection of the service providers, to be based on transparent and competitive processes; (vi) detailed modalities of the sub-programmes; (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 and Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the DSF Grant and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category. All expenses are net of taxes and counterpart contributions:

| Category | Loan Amount Allocated (in USD) | DSF Grant Amount Allocated (in USD) |
|---|---|---|
| I. Goods services & Inputs | 10 800 000 | 10 800 000 |
| II. Studies & Consultancies | 6 550 000 | 6 550 000 |
| III. Operations | 300 000 | 300 000 |
| IV. Salaries & Allowances | 1 250 000 | 1 250 000 |
| Unallocated | 2 100 000 | 2 100 000 |
| TOTAL | 21 000 000 | 21 000 000 |

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

"Goods, services and inputs" also includes allocations for vehicles, equipment, and materials.

"Studies and Consultancies" also includes allocations for training & workshops

(c) Start-up costs: Withdrawals in respect of expenditures for start-up costs from the DSF Grant incurred for Programme start-up expenditures before the satisfaction of the additional general conditions precedent to withdrawal shall not exceed USD 200 000.

## 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 Loan Account 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 ensure that gender concerns shall be mainstreamed in all Programme activities throughout the Programme implementation period. The Borrower/Recipient shall also ensure that women beneficiaries shall be represented in all Programme activities and that they receive benefits from the Programme outputs.

2. Tax Exemption. The Borrower/Recipient shall, to the fullest extent possible, exempt the proceeds of the Financing from all taxes. Any taxes which the Programme is nonetheless obliged to pay shall be promptly reimbursed by the Borrower/Recipient.

3. Internal Audit. The Central Internal Audit Unit of the Borrower/Recipient or an independent and qualified internal audit firm acceptable to IFAD will perform Programme internal audits in accordance with an annual risk-based work-plan.

4. Key Programme Staff. The Borrower/Recipient 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/Recipient shall make recourse to a suitably qualified external service provider acceptable to IFAD.