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Investing in rural people

President's report

Proposed loan and grant to the Republic of Mozambique for the Rural Enterprise Finance Project

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For: Approval

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Abbreviations and acronyms

ASCA	accumulative savings and credit association
AWP/B	annual workplan and budget
BNI	Banco Nacional de Investimento (national investment bank)
e-SISTAFE	Online State Financial Management System
MEF	Ministry of Economy and Finance
MFI	microfinance institution
PCR	project completion report
PEDSA	Strategic Plan for Agricultural Development (Plano Estratégico para o Desenvolvimento do Sector Agrário)
PMU	project management unit
PROMER	Rural Markets Promotion Programme
PROPESCA	Artisanal Fisheries Promotion Project
RB-COSOP	results-based country strategic opportunities programme
REFP	Rural Enterprise Finance Project

Map of the project area

Mozambique

Rural Enterprise Finance Project (REFP)

Design 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 | 31-07-2017

Republic of Mozambique

Rural Enterprise Finance Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Mozambique
Executing agency:	Ministry of Economy and Finance
Total project cost:	US\$72.5 million
Amount of IFAD grant:	US\$62.1 million
Contribution of borrower:	US\$4.3 million
Contribution of beneficiaries:	US\$1.1 million
Contribution of private sector	US\$5.0 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 grant to the Republic of Mozambique for the Rural Enterprise Finance Project, as contained in paragraph 53.

Proposed loan and grant to the Republic of Mozambique for the Rural Enterprise Finance Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Mozambique combines high potential in agriculture and fisheries with readily available domestic and regional markets for its produce. It has land and labour, two key factors of production, in abundance: some 799,380 km² of land and 26.5 million people. On the other hand, access to technical support and the availability of adaptive finance for capital to expand and intensify agricultural production have become increasingly critical constraints in recent years. IFAD's target group has raised these issues during several supervision support missions for the following programmes and projects: Rural Markets Promotion Programme (PROMER), Pro-Poor Value Chain Development Project in the Maputo and Limpopo Corridors (PROSUL), Artisanal Fisheries Promotion Project (PROPESCA), and the grant projects Securing Artisanal Fishers' Resource Rights Project (PRODIRPA) and Project for Promotion of Small Scale Aquaculture (PROAQUA).
2. The policy environment in Mozambique is based on the Government Five-Year Plan 2015-2019 (Plano Quinquenal do Governo 2015-2019). This is the key document setting the strategic context for the developmental state. It focuses on creating a balanced and sustainable macroeconomic environment that enables the primary sector to enhance productivity and improve the rural income base. The third priority of the national strategy is an increase in production and productivity of all sectors related to agricultural production. This would be achieved by improving access to finance for agricultural producers, and in particular for smallholder farmers and family-owned farms.
3. However, operational, capacity and liquidity constraints in the financial sector – triggered by a debt crisis in the banking sector – have rendered the sector unable to meet the demand for financial services from smallholder farmers and from agricultural and non-agricultural entrepreneurs in all sectors of the economy, particularly in rural areas. In addition to significant capital demand for large infrastructure projects, the crisis curtailed access to finance for a large section of the population. Thus, as a recovery strategy, the central bank had to adopt unconventional monetary-policy measures to stabilize a rapidly eroding exchange rate with historically high interest rates. These recent developments have substantially reduced lending to smaller rural economic units. The detrimental effects are likely to be felt over the coming years and are not expected to ease until after the national elections in 2019.
4. The Government Five-Year Plan 2015-2019, which defines the macroeconomic enabling environment and provides for policy stability, is supported by agriculture-specific policies. First, the Strategic Plan for Agricultural Development (PEDSA) focuses on turning agriculture into a modern, commercially-driven and inclusive primary sector. PEDSA 2010-2019 cites secure access to sufficient quantities of nutritious food as a fundamental human right. Second, the National Agricultural Investment Plan 2014-2018 (PNISA), an investment instrument aligned with PEDSA, embraces the idea of supporting smallholder farmers in growing a wide

variety of nutritious foods, and of supporting research in, and the introduction and broad dissemination of, biofortified varieties of staple foods.

5. The debt crisis precipitated decline of an already deteriorating economy. Mozambique's GDP growth rate slumped to 3.3 per cent in 2016 from 6.6 per cent a year earlier. The World Bank's growth forecast for 2017 has been downgraded from 5.2 per cent to 4.8 per cent, to factor in the effects of likely fuel shortages and the continuation of a tight monetary policy.
6. However, there are signs that external pressures are easing. The Mozambican currency, the metical (MT), appreciated by 10 per cent against the United States dollar between October 2016 and February 2017, as reduced liquidity and a trade balance adjustment started to take effect. The pace of inflation, driven by exchange rate fluctuations, has also begun to decelerate.

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

7. The nationwide Rural Enterprise Finance Project (REFP) is fully aligned with the Government's national policies and strategies on rural development and poverty eradication, as outlined in the Government's Agenda 2025 policy document. It is also aligned with the results-based country strategic opportunities programme (RB-COSOP), both the current one and the new version being developed. This project is a direct response to issues identified in Agenda 2022: (i) inadequate access to adaptive (appropriate, affordable and innovative) financial capital for smallholder farmers; and (ii) lack of improved technologies, which has hindered rapid development in the agriculture sector. This initiative will contribute to the Government's aim to ensure that rural households generate 80 per cent of their income directly from agricultural activities, with just 20 per cent obtained from economic activities related to other sectors.
8. The current IFAD portfolio in Mozambique has prioritized development of the agriculture and fishery sectors through various area-based value chain projects. Access to adaptive finance remains the key constraint on expanding agriculture, aquaculture and non-farming business. Against this backdrop, and partly as a consequence of concerns raised at the October 2016 National Conference on Microfinance and Rural Finance organized by the Government, recommendations have been that: (i) the Government and other development partners should set up credit lines for financing and refinancing the entire agricultural value chain; (ii) financial literacy is crucial to inclusion of rural populations in the formal financial sector; (iii) dissemination of mobile banking and other innovative technologies should be expanded and intensified in rural areas; and (iv) in the context of climate-change vulnerability, agricultural insurance should be the key to risk-sharing among smallholder farmers in coping with adverse weather events.
9. To this end, the Treasury Directorate of the Ministry of Economy and Finance (MEF) has requested a rural finance project, to which IFAD is responding with the REFP. Project development has involved close collaboration and mutual sharing of experiences by the Fund, the Government and key stakeholders.

II. Project description

A. Project area and target group

10. Although the REFP is a national project, it will be launched initially in provinces/districts where other IFAD projects have generated a potential pool of beneficiaries of financial services. Subsequently, the REFP would then be sequentially expanded into other areas on a demand basis, to ultimately cover all of Mozambique's 10 provinces.

11. The number of direct beneficiaries is estimated at 287,700 individuals engaged in agriculture, fisheries and non-farming/non-fishery micro-, small and medium-sized enterprises.
12. Direct beneficiaries will include low-income men and women and young people. The REFP will implement an inclusive targeting strategy to ensure that benefits are distributed among a large number of low-income smallholder farmers and poorer and more vulnerable members of communities. Women will represent at least 50 per cent of target beneficiaries, and youth no less than 20 per cent (of whom 50 per cent will be young women). The focus on the poor and disadvantaged will ensure that REFP services reach remote, underserved communities and financially excluded groups.

B. Project development objective

13. The project goal is to contribute to improved rural household livelihoods. The development objective is to increase the availability of, access to, and use of adaptive (appropriate, affordable and innovative) inclusive, sustainable financial services and technical support services in rural areas.

C. Components/outcomes

14. Component 1: Improved access to adaptive financial services for rural entrepreneurs. This component offers a menu of alternative financing instruments adapted to beneficiaries' diverse financial capacities and requirements. It consists of three subcomponents. In subcomponent 1.1, a graduation promotion and outreach programme will accelerate the processes of: (i) bringing very poor people to a level at which they are creditworthy and can be integrated into mainstream rural financial services; and (ii) developing digital delivery channels (digital financial services) for agricultural and rural finance products and services. In subcomponent 1.2, the Crowding-in Fund (CIF) will offer tripartite cost-sharing with a matching grant mechanism to enable loan applicants with bankable propositions unable to attract full private-sector financing to obtain partial loan financing under the project. Subcomponent 1.3 will consist of a credit line.
15. Component 2: Capacity-building and support for institutions and rural entrepreneurs. This component will provide training to rural agricultural and non-agricultural entrepreneurs and will support institutions working with them. Its activities will be complementary to those of component 1 and will be organized in two subcomponents. Subcomponent 2.1 will support essential local institutions by: providing skills and knowledge to the staff of financial institutions, to enable them to more effectively serve parts of the rural population that do not have adequate access to financial services; surveying accumulative savings and credit associations (ASCAs); supporting establishment of for-profit ASCA unions; and providing institutional and technical support to the Ministry of Finance and the Bank of Mozambique to enable them to improve their service to the sector. Subcomponent 2.2 will support business development by implementing a systematic planning and capacity-building process – applying business development techniques that open channels for the target group to gain better access to finance provided under component 1.
16. Component 3: Project management. This component will provide for and strengthen capacity at central, provincial and district levels, covering the costs of a central project management unit (PMU) and three regional ones.

III. Project implementation

A. Approach

17. The REFP will build on the experience of the Rural Financial Intermediation Support Project (PAFIR/RFSP), a national rural finance project supported by IFAD and the African Development Bank that closed in 2013. It also builds on emerging lessons

from other IFAD-supported projects implementing rural finance components in their project areas. The REFP will serve as an additional hub for all aspects of development finance in these current IFAD projects; and it has the potential to consolidate and streamline current rural finance activities that at times overlap and duplicate their approaches.

B. Organizational framework

18. The REFP will be integrated into MEF and will operate with a semi-autonomous PMU housed within the Banco Nacional de Investimento (BNI) (national investment bank). Three regional offices will support the functions of the central PMU, which is thought will be located in Maputo. At the provincial level, the REFP will receive support from local and provincial government staff and also from field staff associated with BNI and locally based service providers. It will also provide a structure to bring the multiple funds that exist under IFAD projects under one consolidated umbrella fund in BNI. The fund manager will handle the main technical assistance and support funds under the REFP: (i) diverse types of support to financial institutions, (ii) to sub-borrowers or value-chain actors; and (iii) to ASCAs and their members, but also possibly expanding to other areas such as digital finance, etc. The PMU will be a separate entity from the umbrella fund.
19. A national project steering committee (NPSC) will be created to serve as the project's governing body. It will be chaired by the MEF Permanent Secretary and comprise key stakeholders from public, private and civil organizations. Regional project consultative groups will be set up in each of the project's three regions.
20. The NPSC will provide strategic guidance on achieving the project's objectives and will contribute to higher-level sector policy and strategic goals. The committee will also be responsible for reviewing and approving annual workplans and budgets (AWP/Bs) and annual reports.

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

21. The integrated participatory planning, monitoring and evaluation (M&E), and learning and knowledge management system will be developed within government frameworks and IFAD guidelines. It will have three main objectives: steer project implementation; support economic decisions and policymaking; and share knowledge and scale up good practices.
22. Detailed planning and budgeting of REFP activities will be based on the AWP/B and involve the PMU, BNI and other implementing agencies/stakeholders in a participatory process. The PMU will prepare the AWP/B for the two main components and their respective subcomponents. The PMU of the REFP, in coordination with BNI and MEF, will also be responsible for overall consolidation of the AWP/B.
23. The M&E system will have a three-tier structure consisting of output monitoring, outcome monitoring and impact evaluation. Output monitoring will cover physical and financial inputs, activities and outputs, both planned and actual. Outcome monitoring will assess the use made of the outputs and measure their benefits to beneficiaries. Impact evaluation will assess and measure changes in selected variables between the start and end of the project, or a later chosen date. The main instruments for impact evaluation will be the project baseline survey and project completion report.
24. Learning and knowledge management will be implemented as an integral part of the REFP, as the project will be identifying, testing, demonstrating and disseminating approaches with innovative technologies.

D. Financial management, procurement and governance

25. MEF is the lead project agency, with responsibility for financial management of the project through BNI, which will serve as the implementing agency. BNI does not have experience managing IFAD-financed projects, but has some experience with financing from other donors/development partners, such as the Islamic Development Bank and the Dutch-financed Zambezi Valley project (agribusiness and entrepreneur financing). In addition, the bank is implementing the credit line under the World Bank "Sustenta" project. A stand-alone PMU will be set up at BNI. Project financial management will use the e-SISTAFE online State Financial Management System for high-level reporting and payments. In addition, off-the-shelf accounting software will be purchased for detailed project reporting purposes. This software will generate reports and the necessary documentation for financial accounting and withdrawal applications. The REFP will ensure that complete, accurate and timely reports are produced in accordance with International Public Sector Accounting Standards.
26. The latest Public Expenditure and Financial Accountability assessment (2015) identified shortcomings in procurement practices, which continue to lag behind international best practice. The Transparency International corruption perception index for 2016 gives Mozambique a score of 27 (representing a deterioration relative to the score of 31 in 2015), and ranked it 142nd of 176 countries, putting it in the high inherent risk category.
27. The nationwide geographical coverage of the REFP, in conjunction with the inherent risk associated with microfinance institutions (MFIs), also contribute to the project risk rating. As mitigating measures, BNI will only work with microcredit institutions supervised by the Bank of Mozambique. The latter will conduct annual supervisions as part of the government contribution to the REFP, and findings will be shared with IFAD. In addition, BNI will conduct due diligence on all MFIs selected competitively to on-lend to project beneficiaries prior to engagement. Guidelines will also be issued by PMU/BNI for on-lending to end-beneficiaries. Based on the overall country environment, and taking account of project-specific mitigating actions, the project's financial management risk rating at design is medium.
28. The capacity-building activities envisaged under the project will be provided by contracted service providers.
29. Project funds will flow through e-SISTAFE to pay for day-to-day activities. For this purpose, the PMU will be set up to operate from the single treasury account. IFAD will disburse funds to the designated account in the Bank of Mozambique and, from time to time, the PMU will withdraw funds from this account for transfer to the single treasury account. However, funds falling under the credit line (subcomponent 2.3) will flow outside of e-SISTAFE and will be transferred from the designated account to an account in BNI. The latter will operate as fund manager, with responsibility for wholesaling the funds to eligible MFIs, based on a competitive selection process administered by the PMU. Reflows from the MFIs will be recycled by BNI and re-lent to MFIs.
30. The REFP will be audited by external auditors hired pursuant to IFAD project audit guidelines.
31. Procurement will be governed by the public procurement regulations specified in decree 5/2016 of 8 March 2016. This regulation covers the tendering of public works, supply of goods and provision of services to the state. The decree requires public procurement to satisfy a number of criteria, including legality, public interest, transparency, openness, equality, competitiveness, impartiality and good financial management. Overall responsibility for procurement under the REFP will rest with MEF, with powers delegated to BNI according to the respective thresholds. In accordance with IFAD's Project Procurement Guidelines, international competitive

bidding will be conducted under the World Bank guidelines. As far as practicable, all procurement will be done competitively.

E. Supervision

32. The project will be supervised by IFAD at least once or twice a year. After each supervision mission, risks will be measured and recalibrated. IFAD supervision will include on-site visits to the various project institutions at all levels, including other implementing entities such as service providers. These visits will include a review of the controls and overall operation of the financial management system; an internal audit review involving selected transaction reviews and sample-based verification of the existence and ownership of assets; and reviews of statements of expenditure and follow-up on actions needed.
33. A strategic review of the project's performance will be made through a midterm review. This will enable the Government and IFAD to review and retarget the project (where necessary) to ensure that its development objectives are attained.

IV. Project costs, financing and benefits

A. Project costs

34. Total project costs, including price and physical contingencies, duties and taxes, are estimated at US\$72.5 million. The project will be implemented over a six-year period.

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

Component	IFAD grant		Private sector		Beneficiaries		GoM		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Improved access to adaptive financial services for rural entrepreneurs	43 276	84.2	5 000	9.7	1 100	2.1	2 057	4.0	51 433	70.9
2. Capacity building and support for institutions and rural entrepreneurs	9 352	88.2	-	-	-	-	1 247	11.8	10 599	14.6
3. Programme Management	9 520	90.63	-	-	-	-	985	9.4	10 506	14.5
Total	62 148	85.6	5 000	6.9	1 100	1.5	4 289	5.9	72 537	100.0

B. Project financing

35. The REFP will be financed by: an IFAD grant (US\$62.1 million, 85.6 per cent); (the Government (US\$4.3 million, 5.9 per cent); the private sector, which includes banks and MFIs (US\$5 million, 6.9 per cent) and beneficiaries (US\$1.1 million, 1.5 per cent). Based on IFAD's single currency framework, the IFAD grant will be provided in United States dollars, subject to the availability of United States dollar resources.
36. Indeed, considering the recent International Monetary Fund assessment revising Mozambique's debt distress status from "moderate" to "in debt distress" and the related concerns raised by some Member States, approval of the Executive Board was sought – during the Board session on an exceptional basis – for a revision of the lending terms currently applicable to Mozambique for the REFP, from a 50 per cent highly concessional loan/50 per cent Debt Sustainability Framework (DSF) grant, to a 100 per cent DSF grant.

37. This was consistent with section IV of the Policies and Criteria for IFAD Financing which states that the Executive Board is the competent authority to determine the lending terms applicable to all IFAD developing Member States, based on the criteria defined in the Policies and Criteria. In addition, the Government of Mozambique was in agreement with this proposal.
38. The Government will finance salaries (on a pro rata basis) and other related costs of its own staff participating in and supporting REFP implementation.

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Category	IFAD grant		Private sector		Beneficiaries		GoM		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Equipment and materials	426	100.0	-	-	-	-	-	-	427	0.6
2. Vehicles	776	100.0	-	-	-	-	-	-	775	1.1
3. Consultancies	14 508	75.2	998	5.2	100	0.5	3 686	19.1	19 291	26.6
4. Credit, guarantee funds	32 538	86.6	4 003	10.7	1 000	2.7	-	-	37 540	51.8
5. Training	5 380	100.0	-	-	-	-	-	-	5 381	7.4
6. Workshops	1 282	100.0	-	-	-	-	-	-	1 283	1.8
7. Salaries and allowances	6 018	98.4	-	-	-	-	99	1.6	6 117	8.4
8. Operating costs	1 220	70.8	-	-	-	-	504	29.2	1 723	2.4
Total	62 148	85.6	5 000	6.9	1 100	1.5	4 289	5.9	72 537	100.0

C. Summary benefit and economic analysis

39. The project's overall economic internal rate of return (EIRR) is estimated at 17.2 per cent. The economic net present value (ENPV) is MT 4,101 million, or US\$68.3 million, based on a social discount rate of 10 per cent, in line with the rate used by the World Bank to evaluate its investments. As the ENPV is positive and the EIRR is above the social discount rate (10 per cent), the project is deemed economically viable and acceptable for investment.

D. Sustainability

40. Economic/income sustainability. The REFP's main focus is to strengthen the income-generating base of households targeted by the project, and those targeted by other ongoing IFAD-supported projects, through: (i) provision of external financing to strengthen investments and enable working capital purchases; and (ii) support for capacity-building measures to bring potential sub-borrowers to a level where they can productively absorb external loans and generate more predictable incomes.
41. Environmental sustainability. This depends on: (i) ensuring that financial service providers (FSPs) do not support entrepreneurial activities that degrade the environment and deplete natural resources; and (ii) increasing beneficiary capacity for climate change adaptation practices, risk management and environmental awareness. The REFP's environmental sustainability will be ensured by continuous monitoring of FSP compliance with environmental and social regulations and by giving these service providers incentives to mainstream environmental and social issues in their approach.
42. Institutional sustainability. The REFP supports institutions ranging from the village level (ASCAs) to provincial and central levels. With its focus on financial services, interest rate spreads at the different intermediation levels need to cover

costs and risks. This is ensured by linking lending institution's interest rates to the central bank benchmark rate, so that rates remain positive in real terms, and proper spreads and incomes are generated for all participants in the financial intermediation chain.

E. Risk identification and mitigation

43. The REFP is ambitious in its scope, objectives and orientation towards parts of the rural population comprising the IFAD target group. In a country as large as Mozambique, risks and uncertainties can be related to climate, institutions and the general economic and specific financial-sector environments, and to governance, administrative and infrastructural issues. The first phase of the project coincides with various electoral processes culminating in national elections in 2019. Political considerations may cause undue interference in project implementation. All selected institutions need to be financially and technically robust and to operate on an "arm's-length" basis to avoid political interference.
44. There is also a potential risk of elite capture of project benefits, with the result that poor households may not necessarily benefit. Mitigation measures will include participatory monitoring of the project to ensure that the intended target group actually does benefit. The project will also use biometric registration of beneficiaries as a mitigation strategy.
45. From the graduation promotion and outreach programme of subcomponent 1.1, and after the graduation cycle, the supported household may not succeed in maintaining its income status after graduation and may slip back into extreme poverty once the project-financed investment assets are exhausted. Accordingly, the programme cycle must be sufficiently long (18-24 months), and the service provider sufficiently specialized and experienced, to ensure sustainability of these interventions.

V. Corporate considerations

A. Compliance with IFAD policies

46. The REFP is consistent with IFAD's key policies and strategies: the IFAD Policy on Targeting, Rural Finance Policy, Policy on Gender Equality and Women's Empowerment, Social, Environmental and Climate Assessment Procedures of IFAD (SECAP), and Environment and Natural Resource Management Policy.

B. Alignment and harmonization

47. The project is closely aligned with RB-COSOP priorities and with the Government's policies and strategies on rural development and poverty eradication.

C. Innovations and scaling up

48. The REFP represents the scaling up of successful previous and current IFAD-supported interventions in rural finance in Mozambique, elsewhere in Africa and worldwide. Given the overall satisfactory implementation experiences, such as digital innovations with ASCAs, financial literacy and risk mitigation finance, the proposed scaling up approach is desirable for introducing innovation and drawing lessons for future investments in rural finance in Mozambique and elsewhere.

D. Policy engagement

49. The REFP builds on lessons learned from current and previous IFAD projects in Mozambique and across the globe; and it proposes specific actions that align its interventions with the relevant IFAD and government policies on rural finance, targeting and climate change. The project includes activities to fill some of the gaps identified in the most recent country programme evaluation.

VI. Legal instruments and authority

50. A project financing agreement between the Republic of Mozambique and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the original negotiated financing agreement reflecting the revision of the lending terms and the Government's subsequent acceptance of the 100 per cent Debt Sustainability Framework grant is attached as appendix I.
51. The Republic of Mozambique is empowered under its laws to receive financing from IFAD.
52. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a grant under the Debt Sustainability Framework to the Republic of Mozambique in an amount equivalent to sixty two million one hundred thousand United States dollars (US\$62,100,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

DSF Grant No: _____

Rural Enterprise Financing Project (the "Project")

Republic of Mozambique (the "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 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, except for the provisions identified in Section E paragraph 4 below. 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 Debt Sustainability Framework (DSF) Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is sixty two million one hundred thousand United State dollars (USD 62 100 000).

2. The first day of the applicable Fiscal Year shall be 1 January.

3. There shall be a designated account in USD opened by the Ministry of Economy and Finance (MoF) for the Project at the Central Bank of Mozambique through which the funds from the Financing shall be channelled.

4. There shall be an Operating account to receive funds from the Designated account for the line of credit that will operate outside the e-SISTAFE opened by the Lead Project Agency (LPA) the Banco Nacional de Investimento (BNI).

5. The Recipient shall provide counterpart financing for the Project in an amount of four million three hundred thousand United States Dollars (USD 4 300 000) to cover the salaries of its staff participating in the implementation of the Project and contribute to other project related costs.

Section C

1. The Lead Project Agency shall be the BNI on behalf of the Ministry of Economy and Finance (MEF).
2. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) Key Project Management Unit (PMU) staff have been appointed, transferred or moved from the PMU without the consent of the Fund;
 - (b) The Programme Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional conditions precedent to withdrawal:
 - (a) The PMU and the National Project Steering Committee (NPSC) shall have been established;
 - (b) The PMU key staff as detailed in schedule 1 section 2 paragraph 8.1 shall have been recruited;
 - (c) The designated account shall have been opened;
 - (d) The PIM as described in section II of schedule 1 shall have been prepared in form and substance satisfactory to the Fund;
 - (e) The first Annual Work Plan and Budget (AWPB) shall have received IFAD's non-objection; and
 - (f) An accounting system has been procured and installed to facilitate the preparation of withdrawals applications and the required IFAD's reports.
3. The following are designated as additional specific condition precedent to withdrawal:
 - (a) No funds will be disbursed under Category "Credit, Guarantee Funds" before the LPA and the selected Participating Financial Institutions (PFIs) have entered into a Subsidiary Loan Agreement (SLA) as outlined in section II paragraph of Schedule 1 to this Agreement, in form and substance satisfactory to the Fund.
 - (b) An operating account has been opened by BNI to receive the Credit funds for credit line.

4. The following is designated as an exception to the General Conditions:
 - (a) As an exception to section 11.01 (a) of the General Conditions, the proceeds of the Financing shall cover taxes and duties under the Project to the extent that compliance with the Fund's policy of requiring economy and efficiency in the use of its financing is ensured. Should the amount of any such taxes being excessive, discriminatory or unreasonable, the Fund may notify the Recipient to reduce the percentage of eligible expenditures to be financed under this Financing Agreement.
5. In accordance with section 13.01 of Article XIII of the General Conditions, this Agreement shall become effective subject to the reception by the Fund of a legal opinion issued by the Attorney General or other legal counsel authorized by the Recipient to issue such opinion.
6. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Minister of Economy and Finance
Praça da Marinha Popular
PO BOX 272
Maputo, Mozambique
Fax: 0025821310493

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 Recipient.

REPUBLIC OF MOZAMBIQUE

(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 Population. The primary target group of the Project shall consist of poor and disadvantaged rural households involved in agriculture, fisheries and Micro, Small and Medium Enterprises (MSMEs) including men, women head of household and youth. The Project is expected to benefit approximately to 287.700 direct beneficiaries.

2. Project Area. The Project shall have a national scope and shall be implemented in all 10 rural provinces of the country starting with the provinces with presence of ongoing projects financed by the Fund as well as areas with potential for MSMEs. Selection criteria for geographic targeting shall focus in provinces with high level of poverty to sequentially move towards other areas on a demand basis.

3. Goal. The goal of the Project is to contribute to rural household livelihood improvement.

4. Objectives. The specific Project Development Objective of the Project is to increase the availability of, access to, and use of adapted (appropriate, affordable, and innovative) inclusive sustainable financial services, and technical support services in rural areas.

5. Components. The Project shall consist of the following two Components:

5.1 Component 1. Improved access to adaptive financial services for rural entrepreneurs. This component aims at providing different and novel routes of providing funding in order to accelerate the development of agriculture and fishery smallholders, agricultural and non-agricultural entrepreneurial sector in rural communities through the implementation of the following sub-components:

5.1.1 Sub-component 1.1: Graduation Promotion and Outreach Project (GPO). This sub-component shall focus on providing a graduation promotion programme to very poor households to accelerate their access to finance services inter alia through (i) combining intensive handholding and technical training and innovative digital financial delivery channels for agricultural and rural finance products and services.

5.1.2 Sub-component 1.2: Crowding In Fund (CIF). This sub-component aims at improving access to finance by offering a tripartite cost-sharing scheme based on matching grants mechanism in order to facilitate to the access to finance services to smallholders.

5.1.3 Sub-component 1.3: Line of Credit (LOC). A LOC shall be set-up in order to improve the availability of loan finance for small scale investors in the capacity to expand and intensify their farming, fisheries and non-agricultural rural businesses. This credit facility will be implemented as a demand-based rural financing instrument for leveraging funds of selected commercial banks and Micro Finance Institutions (MFIs) for on-lending activities.

5.2 Component 2. Capacity building and support for institutions and rural entrepreneurs. This component aims at supporting institutions and rural entrepreneurs through the implementation of the following sub-components:

5.2.1 Sub-component 2.1: Support to essential local institutions. This sub-component aims at providing capacity building to the financial institutions staff in order to

support and address the financial needs of rural enterprises and MSMEs particularly those owned by women and youth.

- 5.2.2 Subcomponent 2.2: Business Development Support (BDS). This sub-component aims at supporting capacity development strategies to increase access to financial and business development services to smallholders inter alia through (i) the implementation of a systematic planning and (ii) capacitating process and market linkages.

II. Implementation Arrangements

A. Organisation and Management

6. Lead Project Agency (LPA). The BNI shall be the LPA implementing the Project on behalf of the MEF. As such the BNI will ensure the day to day oversight of the Project.

7. National Project Steering Committee (NPSC).

7.1 Establishment and composition. A NPSC chaired by the Permanent Secretary of MEF shall be established to serve as the governing body of the Project. The NPSC shall be composed of representatives of different Ministries (Agriculture, Fisheries, Industry and Trade and Labour); Confederation of Business Associations (CTA) of Mozambique representing the private sector, civil society organizations and National Union of Farmers representatives, Bankers Association and MFIs representatives and any other relevant organisations working for the achievement of the Project's objectives.

7.2 Responsibilities. The NPSC shall provide strategic guidance towards the achievement of project objectives and contribute to the higher-level sector policy and strategic goals. It will also be responsible for review and approval of AWPBs, and annual reports.

8. Project Management Unit (PMU).

8.1 Establishment and composition. A PMU managed by a Project Coordinator and composed of a team of individual consultants contracted through a competitive process and performance based agreements shall be established at BNI. In addition to the Project Coordinator, the key staff of PMU shall mainly consist of (i) a finance manager, (ii) a procurement officer, (iii) an accountant, (iv) a M&E/ Knowledge Management specialist, (v) a rural finance specialist and any other individuals as required and described in the PIM. The PMU shall be organised in one National Project Management Unit (NPMU) and three (3) regional project management units (RPMUs).

8.2 Responsibilities. The PMU shall be responsible for overall Project implementation. The main responsibilities of the PMU shall include inter alia: (i) preparation of the AWPB and submission to the Fund's no-objection; (ii) financial management; (iii) procurement, including contracting of service providers; project facilitation in the three regions; and (iv) reporting, monitoring, evaluation and knowledge management.

B. Programme implementation

9. Regional Project Management Units (RPMUs). The RPMUs shall be responsible for identifying project investments opportunities as well as monitoring activities during implementation. These units shall also have the responsibility for developing mechanisms for ensuring complementarity of donor supported rural finance activities in the region.

10. Regional Project Consultative Groups (RPCGs). A RPCG shall be established in each of the three regions as essential resource body to allow the PMU and BNI confront issues, debate constraints affecting the Project, reviewing Project approaches, strategies and AWPBs, and act as a forum for coordinating financial service institutions, government bodies, and other parties and organizations operating in the Project area. Each RPCG will be chaired by the Provincial Head of the MEF or a representative.

11. Umbrella Fund. A consolidated Umbrella Fund within the BNI will manage through a fund manager the main Technical Assistance and support funds under the Project inter alia to financial institutions and Accumulating Savings and Credit Association (ASCAs). The implementation of CIF activities under component 1 will be managed by this Umbrella Fund.

12. Service Providers. Service providers will be sourced through a competitive tendering process to undertake the graduation activities under component 1.

13. Subsidiary Loan Agreements (SLAs). The implementation of the LOC will require the participation of Participating Financial Institutions to fulfill the objectives of the Project. The facility will be managed by BNI as the apex financial institution with on-lending to PFIs. To do so, the BNI shall enter into SLAs with the PFIs, selected in close collaboration with PMU, to determine the terms and conditions of the sub-loans.

C. Monitoring and evaluation (M&E)

The M&E system will have a three-level structure, consisting of output monitoring, outcome monitoring and impact evaluation. The PMU M&E under the supervision of the Project Coordinator will have the lead responsibility for the coordination of all the M&E activities of the Project. The PMU in collaboration with the LPA will be responsible for collecting and storing key M&E data on their activities.

D. Mid-Term Review (MTR)

A MTR will be conducted at the end of third year of project implementation, to assess the progress, achievements, constraints and emerging impact and likely sustainability of programme activities and make recommendation and necessary adjustments for the remaining project period. The MTR will be carried out jointly by the LPA/government and IFAD.

E. Programme implementation Manual (PIM)

14. Preparation. The LPA shall prepare a draft PIM acceptable to the Fund. The PIM shall include among other arrangements: (i) institutional coordination and day-to-day execution of the Project; (ii) Project budgeting, disbursement, financial management, procurement, M&E, reporting and related procedures; (iii) detailed description of implementation arrangements for each Project component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

15. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for no objection. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Recipient shall carry out the Project in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

Schedule 2

Allocation Table

1. Allocation of Grant Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the 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:

Category	Grant Amount Allocated in USD (expressed in USD)	Percentage*
I. Vehicles	700 000	100%
II. Equipment & Materials	400 000	100%
III. Consultancies	13 000 000	100%
IV. Training	4 850 000	100%
V. Workshops	1 150 000	100%
VI. Credit, Guarantee Funds	29 300 000	100%
VII. Salaries & Allowances	5 400 000	100%
VIII. Operating Costs	1 100 000	100%
Unallocated	6 200 000	100%
TOTAL	62 100 000	

Percentage* All the costs are 100% eligible inclusive of taxes but exclusive of counterpart funds

2. Start-up costs. Withdrawals in respect of expenditures for start-up costs under categories consultancies, training and workshop to be incurred before the satisfaction of the General Conditions precedent to withdrawal shall not exceed an aggregate amount of USD 500 000.

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 Recipient to request withdrawals from the Grant Account if the 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 Project:

1. Gender strategy. The Recipient ensures that a gender and social inclusion strategy shall be established in order to give equal chances to women and men of different ages and socioeconomics categories, including youth to participate in the Project activities.

Logical framework

Results Hierarchy	Indicator Name ¹	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	Assumptions
Goal: To contribute to rural household livelihood improvement	Proportion (per cent) of rural households with improvement in asset ownership index (RIMS/ORMS 3 rd level)	TBD	20 per cent	60 per cent by YR6	National statistics, impact surveys, baseline and PCR	Baseline and PCR	National implementing institutions and PMU	The economy will continue to grow and the political enabling environment will remain stable
Development Objective: to increase the availability of, access to, and use of adapted (appropriate, affordable, and innovative) inclusive sustainable financial services, and technical support services in rural areas	Number of direct beneficiaries accessing adapted financial services	TBD	120,000	287,700 direct beneficiaries of which 57,540 are youth (28,770 male and 28,770 female) and 230,160 are both male (115,080) and women (115,080) by Yr 6	Project progress reports, impact surveys, baseline and PCR	Baseline, Project progress reports and PCR	National implementing institutions and PMU	Economic and weather conditions prevail favourable Macro-economic indicators will remain favourable
Component 1: Improved access to adapted financial services for rural entrepreneurs								
Outcome 1: Increased accessibility to diverse inclusive financial products and services has improved the livelihoods and resilience of rural smallholder farmers, agro-entrepreneurs, non-agricultural entrepreneurs and enterprises.								
	viii. per cent of persons/ households reporting using rural financial services	TBD	50 per cent	100 per cent	Project progress reports	Semi-annual, Annually	PMU, fund manager	Rural entrepreneurs willing and participate actively in implementation of financial services
Output 1.1. Graduation Promotion and Out-reach Programme established and operational	Number of persons in rural areas who have completed the graduation programme and are actively involved in income generating activities (RIMS/ORMS)	0	4,000 direct beneficiaries	20,000 direct beneficiaries of which 4,000 youth (2,000 male and 2,000 women), and 16,000 are both male (8,000) and female (8,000)	Financial Institutions reports, Supervision Mission reports	Semi-annual, Annually	PMU, IP	Ultra-poor people able and willing to participate in the programme

¹ Indicators refer to Project area.

Results Hierarchy	Indicator Name ¹	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	Assumptions
Output 1.2 Crowding-in Fund established and operational	Number of rural Entrepreneurs supported by the Crowding-in Fund disaggregated by gender with at least 50 per cent women and 20 per cent youth (RIMS/ORMS)	0	4,000 direct beneficiaries/ entrepreneurs	20,000 direct beneficiaries/entrepreneurs of which 4,000 are youth (2,000 male and 2,000 female) and 16,000 are both male (8,000) and women (8,000)	Financial Institutions reports, Supervision Mission reports	Semi-annual, Annually	PMU, IP	Rural entrepreneurs willing and attracted by the available Crowding-in fund
Output 1.3 Line of credit established	Number of rural Entrepreneurs accessing targeted credit lines (RIMS/ORMS)	0	30,000 direct beneficiaries	169, 400 direct beneficiaries of which, 33,880 are youth (16,940 male and 16, 940 female), and 135,520 are both male (67,760) and female (67,760).	Financial Institutions reports Supervision Mission reports	Semi-annual, Annually	PMU, IP	Rural entrepreneurs willing and attracted by the available LoC
Component 2: Capacity building and support for institutions and rural entrepreneurs Sub -component 2.1 : Support to essential local institutions								
Outcome 2: Institutional capacity enhanced of FIs delivering sustainable and appropriate financial support for rural smallholder farmers, agro-entrepreneurs and non-agricultural entrepreneurs.	(Number) percentage of partner financial service providers with financial self-sufficiency above 100 per cent (RIMS/ORMS)	0	25 per cent	75 per cent	Financial Institutions reports	Annually	PMU, IP	MFIs are interested in extending services in rural
Output 2.1.1 Capacity building on financial literacy and business planning training provided ⁱⁱ	Number of persons in rural areas trained on financial literacy (RIMS/ORMS)	7.469 million (77 per cent) of the rural adults are financially excluded ²	20,000 direct beneficiaries in financial literacy training	100,000 direct beneficiaries of which 20,000 are youth (10,000 male and 10,000 female) and 80,000 are both male (40,000) and female (40,000)	Financial Institutions reports	Annually	PMU, IP	MFIs are interested in extending services in rural

² FinScope study of Mozambique (2014)

Results Hierarchy	Indicator Name ¹	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	Assumptions
Output 2.1.2 Financial institutions strengthened	Number of financial institutions supported (RIMS/ORMS)	TBD	15	40 FIs	Financial Institutions reports	Annually	PMU, IP	MFIs are interested in extending services in rural
Output 2.1.3 Sustainable ASCAs strengthened	Number of active/ functional ASCAs with leadership disaggregated by gender RIMS/ORMS	20,292 ³	22,292 (an incremental of 2,000 ASCAs)	27,292 ASCAs (an incremental of 7,000 ASCAs)	Project progress reports and Annual Survey report	Annually	PMU	Rural entrepreneurs willing and attracted by the available services
Output 2.1.4 Community based institutions (ASCAs members) strengthened on climate resilient technology and nutrition related activities	Number of ASCA group members supported to sustainably manage natural resources and climate-related risks	0	2,000 ASCAs members ⁱⁱⁱ	7,000 ASCAs members	Project progress reports and Annual Survey report	Annually	PMU	Member of ASCAs and rural entrepreneurs willing and attracted by the available information services
	Number of persons/households provided with targeted support to improve their nutrition	0	2,000 ASCAs members	7,000 ASCAs members	Project progress reports and Annual Survey report	Annually	PMU	Member of ASCAs and rural entrepreneurs willing and attracted by the available information services
Subcomponent 2.2: Support to business development services and market linkages								
Output 2.2.1: Study on Business Development Services	Reporting on number of Business Development Services (BDS) activities being undertaken by Development partners and GoM (RIMS/ORMS)	TBD	1	1 Status of BDS in Mozambique Survey report	DFIs, IPEME, Financials Institutions, other survey reports	Once-off	PMU	DFIs and Financial Institutions willing to share information and activities within BDS
Output 2.2.2: Business Development Services (BDS) Support/ non-financial services provided to Target Beneficiaries, in partnership with PROMER, PROSUL, PROPESCA and BAGC	Number of agri-enterprises, aqua-enterprises & non-agricultural enterprises accessing facilitated non-financial services (RIMS/ORMS)	TBD	24,000	63,370	Project progress reports and Annual Survey report	Bi-Annually	PMU	Identification of Rural entrepreneurs willing and attracted by the available non-financial services

³ Facts on FSDMoç Saving Groups Study shared with FARE as per July 2017.

Results Hierarchy	Indicator Name ¹	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	Assumptions
Output 2.2.3: Identification of target group members to participate as incubate start-up agri-entrepreneurs and non agri-entrepreneurs	Number of target beneficiaries with incubated start-up agri- and non-agri entrepreneurs.	TBD	2,500	5,000	Project progress reports and Annual Survey report	Bi-Annually	PMU	Target beneficiaries are interested in becoming incubated agri-entrepreneurial and non- agri-entrepreneurial trainees
Component 3: Project Management								
Outcome 3 : Capacity of PMU strengthened at central, provincial and district levels	Number of central and regional PMUs established <input type="text"/>	0	1 central PMU and 3 regional PMUs	1 central PMU and 3 regional	Project progress reports, food survey and Supervision Mission reports	Annually	PMU	

ⁱ Women (heads of households, wives and young women) will account for at least 50% of the target. The youth will also account for at least 20% of the target.

ⁱⁱ An individual is likely to be trained in more than one topic

ⁱⁱⁱⁱ Average size of ASCA is 10 members