

Document:	<u>EB 2018/123/R.8/Sup.1</u>
Agenda:	<u>5(a)(i)</u>
Date:	<u>6 April 2018</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

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Investing in rural people

Republic of Mozambique

Rural Enterprise Finance Project

Negotiated financing agreement

Executive Board — 123rd Session
Rome, 16-17 April 2018

For: Information

Negotiated financing agreement: "Rural Enterprise Finance Project"

(Negotiations concluded on 26 March 2018)

Loan No: _____

DSF Grant No: _____

Rural Enterprise Financing Project (the "Project")

Republic of Mozambique (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 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 Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is thirty one million fifty thousand United State dollars (USD 31 050 000).
B. The amount of the Grant is thirty one million fifty thousand United State dollars (USD 31 050 000).
2. The Loan is granted on highly concessional terms and shall be free of interest but bear a service charge on the principal amount outstanding of three fourths of one per cent (0.75 per cent) per annum, and have a maturity period of forty (40) years.
3. The Loan Service Payment Currency shall be United States Dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge shall be payable on each 1 May and 1 November.
6. 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.
7. 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).
8. The Borrower/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 Loan 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 Borrower/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 Borrower/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 Borrower/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 Borrower/Recipient.

REPUBLIC OF MOZAMBIQUE

(Authorized Representative)
(Name and Title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
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 NSPC 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 Borrower/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 Loan Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan 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	Loan Amount Allocated (expressed in USD)	Grant Amount Allocated in USD (expressed in USD)	Percentage*
I. Vehicles, Equipment & Materials	550 000	550 000	
II. Consultancies	6 500 000	6 500 000	
III. Training & Workshops	3 000 000	3 000 000	
IV. Credit, Guarantee Funds	14 650 000	14 650 000	
V. Salaries & Allowances	2 700 000	2 700 000	
VI. Operating Costs	550 000	550 000	
Unallocated	3 100 000	3 100 000	
TOTAL	31 050 000	31 050 000	

* 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 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 Project:

1. Gender strategy. The Borrower/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.