Republic of Malawi

Transforming Agriculture through Diversification and Entrepreneurship Programme

Negotiated financing agreement
Negotiated financing agreement: "Transforming Agriculture through Diversification and Entrepreneurship Programme"

(Negotiations concluded on 26 November 2019)

IFAD Loan No: __________
IFAD DSF Grant No: __________

Programme name: Transforming Agriculture through Diversification and Entrepreneurship (TRADE) ("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”)

WHEREAS the Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Programme described in Schedule 1 to this Agreement;

WHEREAS, the Programme shall be co-financed by the OPEC Fund for International Development;

WHEREAS, the Fund has agreed to provide financing for the Programme;

NOW THEREFORE, 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 December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan and Grant (the "Financing") to the Borrower/Recipient, 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 thirty seven million fifty thousand Special Drawing Rights (SDR 37 050 000).

   B. The amount of the Grant is thirteen million seven hundred thousand Special Drawing Rights (SDR 13 700 000).
2. The Loan is granted on highly concessional terms and shall be free of interest but shall bear a fixed service charge of three fourths of one percent (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 in United States dollars.

4. The first day of the applicable Fiscal Year shall be 1\textsuperscript{st} July.

5. Principal and service charge shall be payable on each 1\textsuperscript{st} May and 1\textsuperscript{st} November.

6. There shall be one Designated Account (DA) in USD, for the exclusive use of the Programme opened in the Reserve Bank of Malawi managed by the Ministry of Finance, Economic Planning and Development of the Borrower/Recipient. Corresponding operating accounts in Malawian Kwacha (MWK) will be opened in commercial banks.

7. The Borrower/Recipient shall provide counterpart financing for the Programme in the amount of approximately fifteen million three hundred thousand United States dollars (USD 15 330 000) equivalent. These funds will finance the Borrower/Recipient cash contribution, and taxes and duties.

Section C

1. The Lead Programme Agency shall be the Ministry of Local Government and Rural Development (MLGRD) under the overall leadership of the Secretary for Local Government and Rural Development supported by the Directorate of Rural Development.

2. The Additional Programme Parties are described in Schedule 1 paragraph 9.

3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the duly implementation of the Programme.

4. The Programme Completion Date shall be the sixth (6\textsuperscript{th}) anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund in consultation the Borrower/Recipient may designate by notice to the Borrower/Recipient.

5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the Borrower/Recipient’s procurement procedures as per the Public Procurement and Disposal of Assets Act Number 27, 2017, to the extent of their consistency with IFAD Procurement Guidelines and Procurement Handbook. The Malawi Government Public Procurement Regulations of 2004 shall be applicable up until the new Regulations compliant with the new Public Procurement Act and Disposal of Assets go into effect. TRADE shall employ the Desk Instructions for Public Procurement as published by the Public Procurement and Disposal Authority (PPDA) as part of its operational manuals on procurement.

6. MLGRD will procure an independent third party to supervise works under the Programme.
Section D

1. The Fund will administer the Loan and Grant and the Fund and the Borrower/Recipient jointly supervise the Programme.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
   (a) Key Programme staff positions shall have been filled by personnel acceptable to IFAD in accordance with Section II paragraph 8 of Schedule 1 to this Agreement;
   (b) The Borrower/Recipient shall have established a Programme Steering Committee (PSC) as referred to under section II paragraph 7 of Schedule 1 to this Agreement; and
   (c) The IFAD No Objection to the Programme Implementation Manual (PIM) shall have been obtained;

2. The following are designated as additional grounds for suspension of this Agreement:
   (a) The Programme Implementation Manual (PIM) or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that this waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme; and
   (b) The Programme Management Unit (PMU) staff has been appointed, transferred or removed from the Programme without the prior consent of the Fund as referred to Schedule 1.

3. In accordance with the Borrower/Recipient's Public Finance Management Act 2003, the Financing Agreement will be signed by the Minister responsible for Finance and which will be followed by the ratification by the Parliament of the Borrower/Recipient.

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

For the Borrower/Recipient:

Minister of Finance, Economic Planning and Development
Ministry of Finance, Economic Planning and Development
P.O. Box 30049
Capital Hill
Lilongwe 3
Malawi

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 and shall enter into force upon its signature of both Parties on the date of countersignature.

REPUBLIC OF MALAWI

____________________
Authorised Representative name
Authorised Representative title

Date: ____________

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

___________________
Gilbert F. Houngbo
President

Date: ________________
I. Programme Description

1. **Goal.** The goal of the Programme is to improve sustainable livelihoods of rural people in Malawi.

2. **Objectives.** The development objective is “Increased value chain commercialisation and resilience of rural poor and smallholder producers”. The development objective will be achieved through a holistic approach to addressing the agriculture commercialisation challenge. TRADE will seek to: (i) increase production and productivity by smallholder farmers, (ii) functionally upgrade smallholder farmers and the rural poor to undertake new functions such as processing, storage, packaging to capture more value, (iii) improving horizontal linkages by strengthening the capacities of cooperatives to provide market access functions to smallholder farmers, and (iv) improve vertical linkages between stakeholders at different functional levels of the commodity chain, including private sector. TRADE will also support rural entrepreneurs, focusing on youths and women to develop and sustain their agribusiness enterprise opportunities and ensuring that commodities are nutrition sensitive.

3. **Components.** TRADE will be implemented through three inter-linked components: (1) Sustainable producer–private partnerships; (2) Enabling environment for smallholder commercialisation (3) Institutional support and Programme management and coordination.

   **Component 1: Sustainable Producer-Private Partnerships.** The objective of this component is to support smallholder farmers to improve productivity and commercialisation, and to strengthen private sector engagement in the target commodities. The component foresees significant efforts to strengthen smallholder farmers' productive capacity to be able to participate in the commercialization of targeted commodities. Through this component state and on-state service providers will be contracted to strengthen producer organizations and farmer groups and develop smallholders' skills to run farming as business. The Agricultural Commercialization Innovation Fund (ACIF) will be set up to support viable investments to enhance productivity and strengthen commercial activities through 4P or similar arrangements. In this regard ACIF will finance business plans of producer organizations. TRADE support in this component will be through two sub-components: (i) Sustainable intensification and commercialization; and (ii) Capacity development of farmers and Farmer Based Organizations (FBOs).

   **Component 2: Enabling Environment for Smallholder Commercialization.** This component seeks to improve commercial environment for TRADE supported commodities. It is comprised of two sub-components: (i) Enabling environment for commercial agriculture which will focus on three activities: (a) support to commodity platforms to improve their skills in negotiation, policy lobbying and advocacy (b) legal and regulatory support to strengthen commercial partnerships between smallholders and private sector, and (c) market information and market intelligence; and (ii) construction and rehabilitation of basic, need-based public infrastructure essential for promotion of commercial agriculture for the TRADE supported commodities.

   **Component 3: Institutional Support and Programme management.** The objective of this component is to strengthen the capacity of smallholder farmers to participate in commercial relationships under component 1 by developing an eco-system of services that will create inclusive and equitable arrangements. This will be achieved through two sub-components: (i) Capacity building and value chain governance; and (ii) Programme management and knowledge management. Activities include: (a) capacity building for public sector and non-state actors; and (b) programme management and knowledge management.
4. **Target Population.** TRADE is expected to reach a total of about 300,000 households (approximately 1.3 million people), of which about 127,000 households will be direct beneficiaries of TRADE support. About 173,000 households will benefit indirectly from access road construction and employment opportunities generated by commercial activities and infrastructure construction. The programme will focus on rural households with potential to improve their participation in the commercialisation of selected commodities and graduate from poverty. TRADE will target at least 55% women and 50% youth between 18 and 35 years.

5. **Programme area.** TRADE will initially cover eleven (11) districts during the first and second year of implementation, building on the achievements of RLEEP Project. The aim is to optimize RLEEP’s impacts, consolidate and scale up successes and good practices in the eleven districts while bringing in additional commodities, which may lead to expansion to additional districts. The interventions for the seven (7) commodities will be based on the gap analysis conducted at completion of RLEEP which identified critical gaps to realization of optimum impacts and sustainability of RLEEP investments. The selection of new commodities in the third year will be guided by domestic and export market opportunities and potential for commercial partnerships between smallholder producers and private sector. The new districts will be selected based on the following criteria: (i) concentration of households engaged in production of selected commodities; (ii) potential for reaching critical mass of ultra-poor and transient poor smallholders in the respective commodity; (iii) social and demographic trends, including poverty levels; (iv) suitability of the particular production systems and local conditions, labour availability, and (v) connectivity to market and existence of commercial partners. The scope of expansion will be determined by available financial resources, implementation capacity and programme timeframe of six (6) years.

**II. Implementation Arrangements**

6. **Lead Programme Agency.** The lead implementing agency for TRADE is MLGRD.

7. **Programme Steering Committee.** The Programme oversight will be provided by a Programme Steering Committee (PSC) comprising both the public and private sector, chaired by the Secretary for Local Government and Rural Development. Members of PSC will be the (1) Secretary for Local Government and Rural Development; (2) Secretary to the Treasury; (3) Secretary for Agriculture, Irrigation and Water Development; (4) Secretary for Industry, Trade and Tourism; (5) Secretary for Youth, Sports and Culture; (6) Secretary for Gender, Children, Disability and Social Welfare; (7) Secretary for Transport and Infrastructure; (8) Malawi Bureau of Standards; (9) Civil Society Agriculture Network (CISANET); (10) Malawi Union of Savings and Credit (MUSSCO); (11) National Smallholder Farmers Association of Malawi. The PSC will be supported by a Technical Committee of which membership will be drawn from the technical professionals from institutions that form the PSC. The structure, operational modalities and Terms of Reference for the Technical Committee will be defined in the ACIF manual to be approved by IFAD.

8. **Programme Management Unit.** The day-to-day implementation and coordination of the programme will be undertaken by a dedicated Programme Management Unit (PMU) headed by a National Programme Coordinator (NPC) reporting to the Secretary for Local Government and Rural Development. The PMU will be granted authority to undertake all financial and procurement management activities, lead and supervise programme implementation and provide specialist technical inputs. The recruitment and contract renewal of key PMU staff will require prior consent from IFAD. Key PMU staff includes the NPC, Finance Manager, and Procurement Manager.
9. **Implementing partners.** MLGRD will work closely with a wide range of stakeholders from public institutions and the private sector, such as Ministry of Agriculture, Irrigation and Water Development (MoAIWD); Ministry of Industry, Trade and Tourism (MITT); Ministry of Gender, Children and Community Development; Ministry of Information, Civic Education and Technology; Ministry of Gender, Children, Disability and Social Welfare; Ministry of Transport and Public Infrastructure; Ministry of Youth, Sports and Culture; Ministry of Finance, Economic Planning and Development; Farmers Union of Malawi; Malawi Investment and Trade Centre; Malawi Bureau of Standards; CISANET; commodity platforms, commodity up takers and other institutions supporting agri-business in Malawi.

10. **ACIF Review Committee.** A committee of experienced experts in agribusiness will be set up to review the proposals or business plans for ACIF (matching grants) eligibility. The structure, operational modalities and ToRs for the committee will be defined in the ACIF manual to be approved by IFAD.

11. **Monitoring and Evaluation (M&E).** M&E: The Programme Monitoring and Evaluation (M&E) system will support data collection, collation and data analysis at different levels. This will allow programme managers to identify implementation bottlenecks, make informed decisions and take timely corrective actions to improve programme performance. An M&E plan will be developed during the start-up workshop to define M&E concepts, roles and responsibilities.

12. **Knowledge Management (KM).** The Programme will support KM interventions to improve generation of knowledge/innovations, sharing and learning. The Programme will develop a knowledge management and communication strategy to outline systems, processes and responsibilities to ensure that the Programme will generate, capture, analyse, document, package and disseminate knowledge and lessons learnt through various KM activities.

13. **Programme Implementation Manual.** The Programme shall be implemented in accordance with the approved Annual Work Plan and Budget (AWPB), and Procurement Plan and the PIM, the terms of which shall be adopted 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) modalities for the selection of service providers to be based on transparent and competitive processes; (vi) 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 (vii) the good governance and anti-corruption framework.
## Schedule 2

### Allocation Table

1. **Allocation of IFAD Loan and DSF Grant Proceeds.** (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the IFAD 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>IFAD Loan Amount Allocated (expressed in SDR)</th>
<th>IFAD DSF Grant Amount Allocated (expressed in SDR)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>7,700,000</td>
<td>2,900,000</td>
<td>100% net of OFID, Beneficiaries and Government Contribution</td>
</tr>
<tr>
<td>2. Equipment and Materials</td>
<td>1,000,000</td>
<td>400,000</td>
<td>100% net of OFID, Beneficiaries and Government Contribution</td>
</tr>
<tr>
<td>3. Consultancies</td>
<td>7,900,000</td>
<td>2,900,000</td>
<td>100% net of Government and other co-financiers contribution</td>
</tr>
<tr>
<td>4. Training</td>
<td>3,500,000</td>
<td>1,300,000</td>
<td>100% net of Government contribution</td>
</tr>
<tr>
<td>5. Credit, Guarantee Funds</td>
<td>9,500,000</td>
<td>3,500,000</td>
<td>100% net of Private Sector and Beneficiaries contribution</td>
</tr>
<tr>
<td>6. Salaries and Allowances</td>
<td>3,700,000</td>
<td>1,400,000</td>
<td>100% net of Government contribution</td>
</tr>
<tr>
<td>Unallocated</td>
<td>3,750,000</td>
<td>1,300,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>37,050,000</strong></td>
<td><strong>13,700,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

(i) “Consultancies” includes studies, workshops, meetings, technical assistance;

(ii) “Equipment and Material” includes vehicles;

(iii) “Salaries and Allowances” includes operating expenditures.
2. **Disbursement arrangements**

(a) *Retroactive financing.* As an exception to section 4.08(a) (ii) of the General Conditions, specific eligible expenditures incurred as of 1st November 2019 until the date of entry into force of this Agreement shall be considered eligible up to an amount equivalent to two hundred thousand United States dollars (USD 200 000) for activities relating the selection and contracting of a specialized agency to facilitate the recruitment of TRADE key staff. Activities to be financed by retroactive financing and their respective category of expenditures and source of financing will require prior no objection from IFAD to be considered eligible. Pre-financed eligible expenditures shall be reimbursed to the Borrower once additional conditions precedent to the first disbursement of funds specified in Section E.1 are fulfilled.
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 Financing Accounts 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. Within six (6) months of entry into force of the Financing Agreement, the Programme will procure and install a customized accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.

2. Within six (6) months of entry into force of the Financing Agreement, the Lead Programme Agency will enter into Memorandum of Understandings (MoU) with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.

3. Planning, Monitoring and Evaluation. The Borrower/Recipient shall ensure that a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.

4. Targeting and Social Inclusion Plan. The Lead Programme Agency shall develop a social inclusion plan for the Programme to ensure that gender concerns shall be mainstreamed in all Programme activities throughout the implementation period, in order to offer equal opportunities under the Programme to men, women, women headed households, youth and other disadvantaged groups.

5. Compliance with the Social Environmental and Climate Assessment Procedures (SECAP). The Borrower/Recipient through the Lead Programme Agency shall ensure that the Programme will be implemented in compliance with IFAD’s SECAP.

6. Environment and Social Safeguards. The Borrower/Recipient shall ensure that: (a) all Programme activities are implemented in strict conformity with the Borrower/Recipient’s relevant laws/regulations; (b) all Programme activities give special consideration to the participation and practices of ethnic minority population in compliance with IFAD’s Policy on Indigenous Peoples (2009), as appropriate; (c) proposals for civil works include confirmation that no involuntary land acquisition or resettlement is required under the Programme. In the event of unforeseen land acquisition or involuntary resettlement under the Programme, the Borrower/Recipient shall immediately inform the Fund and prepare the necessary planning documents; (d) women and men shall be paid equal remuneration for work of equal value under the Programme; (e) recourse to child labour is not made under the Programme; (f) the measures included in the Targeting and Social Inclusion Plan prepared for the Programme are undertaken, and the resources needed for their implementation are made available, in a timely manner; and (g) all necessary and appropriate measures to implement the Targeting and Social Inclusion Plan to ensure that women can participate and benefit equitably under the Programme are duly taken.

8. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower/Recipient and the Programme Parties shall ensure that the Programme is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.