President’s report

Proposed loan to the Republic of Angola for the
Market-oriented Smallholder Agriculture Project
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Contents

Abbreviations and acronyms ii
Recommendation for approval iii
Map of the project area iv
Loan summary v

I. The project
   A. Main development opportunity addressed by the project 1
   B. Proposed financing 1
   C. Target group and participation 2
   D. Development objectives 2
   E. Harmonization and alignment 3
   F. Components and expenditure categories 3
   G. Management, implementation responsibilities and partnerships 3
   H. Benefits and economic and financial justification 4
   I. Knowledge management, innovation and scaling up 4
   J. Main risks 5
   K. Sustainability 5

II. Legal instruments and authority 5

III. Recommendation 5

Annex
Important assurances included in the negotiated project loan agreement 6

Appendices
I. Key reference documents
II. Logical framework
**Abbreviations and acronyms**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADI</td>
<td>Agricultural Development Institute</td>
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<tr>
<td>PIU</td>
<td>project implementation unit</td>
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<tr>
<td>PPIU</td>
<td>provincial project implementation unit</td>
</tr>
</tbody>
</table>
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Angola for the Market-oriented Smallholder Agriculture Project, as contained in paragraph 35.
Map of the project area

Angola
Market-oriented Smallholder Agriculture Project

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
Republic of Angola

Market-oriented Smallholder Agriculture Project

Loan summary

Initiating institution: World Bank
Borrower: Republic of Angola
Executing agency: Ministry of Agriculture and Rural Development
Total project cost: US$49.48 million
Amount of IFAD loan: SDR 5.25 million (equivalent to approximately US$8.2 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s): World Bank
Japan
Amount of cofinancing: World Bank: US$30.1 million
Japan: US$4.0 million
Terms of cofinancing: World Bank: loan, 35 years, including a grace period of 10 years, with an interest rate of 4 per cent
Japan: Policy and Human Resource Development Fund grant
Contribution of borrower: US$4.1 million
Contribution of beneficiaries: US$3 million
Appraising institution: World Bank
Cooperating institution: IFAD/World Bank
Proposed loan to the Republic of Angola for the Market-oriented Smallholder Agriculture Project

I. The project
A. Main development opportunity addressed by the project
1. After almost three decades of war, peace in Angola has opened the way for reconstruction. The war left the country with one of the highest poverty levels in the world: Angola ranks 161st out of 177 countries on the Human Development Index (2006); 68 per cent of its population fall below the poverty line; and 15 per cent of households live in extreme poverty. Angola has vast mineral wealth and is potentially a rich agricultural country, but the war and lack of investment have severely limited the sector. Although most smallholders are currently producing at the subsistence level, and the incidence of poverty and food insecurity is high, there is significant potential for production increases, both in terms of expanding the average cultivated area per farmer and increasing productivity per unit of labour.

B. Proposed financing
2. Terms and conditions
   It is proposed that IFAD provide a loan to the Republic of Angola in the amount of SDR 5.25 million (equivalent to approximately US$8.2 million) on highly concessional terms to help finance the Market-oriented Smallholder Agriculture Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

   Relationship to the IFAD performance-based allocation system (PBAS)
3. The allocation defined for Angola under the PBAS is US$8.5 million over the 2007-2009 allocation cycle.

   Country debt burden and absorptive capacity of the State
4. In 2005, Angola’s external debt indicators continued to improve dramatically, as a direct result of positive developments in the oil sector. The estimated debt service-to-exports ratio, the key indicator of short-term external liquidity, has now fallen from over 40 per cent in 2001 to just above 10 per cent in 2005, below the 15 per cent policy-dependent debt-burden threshold. At end-2005, the net present value of external debt-to-GDP ratio is estimated to have been about 36 per cent, still above the policy-dependent debt-burden threshold of 30 per cent. The country has serviced its IFAD loans regularly and is expected to continue to do so.

Flow of funds
5. Funds will flow from IFAD, the World Bank and Japan’s Policy and Human Resource Development Fund to separate special bank accounts to be opened by the Ministry of Finance and operated according to standard financial regulations. The project implementation unit (PIU) will directly make payments for some project expenditures that are incurred at central and provincial levels, on the basis of the approved annual workplan and budget. The PIU will advance funds to specific bank accounts in each of the three provinces in respect of expenditures at that level. Transfer to provincial bank accounts will be based on monthly plans to be prepared by each province.

Supervision arrangements
6. The project will be supervised by the World Bank, with IFAD participation in supervision missions, focusing on implementation support. IFAD will directly supervise the project until the World Bank loan has been negotiated.
Exceptions to IFAD General Conditions for Agricultural Development
Financing and operational policies

7. No exceptions. The project will follow World Bank procurement and financial management procedures as described in the Project Operations Manual. An initial 18-month procurement plan has been prepared.

Governance

8. The challenge of rebuilding Angola is particularly apparent in the areas of governance, transparency and accountability. Reforms have been initiated in these areas, but much more needs to be done, and this will take time and sustained political commitment. Good governance in the project will be assured through competitive bidding for contracts and through transparent administrative and financial procedures. The formats for submitting financial statements, audits and progress reports will be agreed with IFAD and the World Bank before the first disbursement, and will be checked for compliance by supervision missions.

C. Target group and participation

Target group

9. The project area selected consists of 25 comunas in 12 municípios in the provinces of Bié, Huambo and Malanje. Some 126,000 households in the area are expected to be direct project beneficiaries. The smallholder farmers targeted cultivate on average 1-2 hectares of cropland. A large proportion of these households consist of recently returned internally displaced persons who have taken up farming as a means of providing for their livelihoods. A small minority of smallholders cultivate 2-5 hectares, and they are considered to be potential change agents. The most vulnerable are those who farm less than 1 hectare; they are often woman–headed households, which in some villages make up an important part of the overall population.

Targeting approach

10. The selection of the project area has been guided by the following criteria: favourable agro-climatic conditions; significant rural population density; market access; existence of some supporting infrastructure; and potential synergies with other operations. These criteria point at the Central Highlands and transitional zones, an extremely poor area of Angola – with 80 per cent of the total national food-insecure population and 68 per cent of its highly vulnerable population – but also one with significant potential for long-term sustainable development. IFAD’s key file on Target Group Identification, Priority Issues and Potential Responses is included in the appraisal document.

Participation

11. Support to rural communities will be based on community-level participatory planning exercises with a cross section of the population, including women and young people. To increase ownership, the project will adopt a participatory, demand-based approach in the identification of subprojects. The capacity-building component will provide support to communities and farmers’ groups to enable them to participate in the planning, implementation and monitoring of activities.

D. Development objectives

Key project objectives

12. The project’s development objective is to increase the agricultural production of rural smallholders in selected comunas and municípios in the provinces of Bié, Huambo and Malanje. This will be achieved through enhanced agricultural productivity and more efficient agricultural markets.
Policy and institutional objectives

13. Specific policy and strategy planning and formulation units of the Ministry of Agriculture and Rural Development and other relevant institutions will be provided with skills and equipment to carry out their functions and develop an appropriate policy framework for agricultural intensification and marketing.

IFAD policy and strategy alignment

14. The proposed project builds on lessons learned from IFAD initiatives and those of other development partners in Angola. It is in line with the emphasis placed by the IFAD Strategic Framework 2007-2010 on strengthening the capacity of the rural poor and their organizations and increasing their access to markets. It is also in line with IFAD’s overarching goal in Angola as stated in its country strategic opportunities paper: “to ensure food security and increase incomes, particularly among the most vulnerable groups in the food-insecure areas of the central highlands”.

E. Harmonization and alignment

Alignment with national priorities

15. The project is fully aligned with the Government’s policy and strategy documents, including its poverty reduction strategy paper (PRSP) and its Rural Extension and Development Programme. The PRSP highlights rural development as a priority, emphasizing, among other basic principles, a focus on smallholders; the importance of community participation; the concentration of planning, implementation and monitoring at the município level; complementary activities with donors, the private sector and NGOs; and specific targeting of women, including with regard to their access to land.

Harmonization with development partners

16. The project was developed by a joint IFAD/World Bank/Food and Agriculture Organization of the United Nations team, with extensive consultation with other partners involved in agricultural and rural development. It has been presented to the donors in the country, and complementary activities that are under way or planned in the targeted provinces have been identified.

F. Components and expenditure categories

Main components

17. The project has three components: (i) capacity-building; (ii) agricultural investment support; and (iii) project management.

Expenditure categories

18. There are six expenditure categories: civil works; goods and equipment; consulting services; training and workshops; operations and maintenance; and matching grants.

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The Ministry of Agriculture and Rural Development will be responsible for overall project implementation, in full consultation with the other ministries at the national level, in order to ensure that project activities are consistent with national policies. The Ministry will work in collaboration with contracted service providers, including NGOs.

Implementation responsibilities

20. The project will be implemented at four levels: national, provincial, municípios, and comunas/local. At the specific request of the Ministry of Agriculture, the PIU will be established within the Agricultural Development Institute (ADI) and provincial project implementation units (PPIUs) will also be established. Through project coordination committees in each province, there will be strong coordination and
consultation mechanisms with the relevant government stakeholders and authorities. In each município, the local Agricultural Development Office of ADI will be responsible for project implementation, in coordination and consultation with the município administration.

**Role of technical assistance**

21. Technical assistance will be available to the PIU and to the different departments within the Ministry of Agriculture and within the provincial and municipal authorities that will have responsibilities in project management and implementation. The capacity-building component presents a unique opportunity to strengthen public-sector financial management, monitoring and evaluation, and procurement systems; it will also introduce participatory approaches in service provision.

**Status of key implementation agreements**

22. In addition to the financing agreements, a set of contracts to service providers will be prepared during the project. Drafting of terms of reference was also initiated during project preparation.

**Key financing partners and amounts committed**

23. The total project cost will be US$49.48 million over six years. The sources of financing are IFAD (US$8.2 million, or 16 per cent), the World Bank (US$30.1 million, or 61 per cent), Japan (US$4.0 million, or 8 per cent), the Government (US$4.1 million, or 9 per cent) and the beneficiaries (US$3.0 million, or 6 per cent, in cash or kind).

**H. Benefits and economic and financial justification**

**Main categories of benefits generated**

24. The project will extend capacity-building (including group formation and strengthening) and basic agricultural and marketing knowledge to about 126,000 smallholder households (an estimated 830,000 beneficiaries). Some 24,000 smallholders (120,000 beneficiaries) will benefit directly from productive investment subprojects.

**Economic and financial viability**

25. Depending on location and levels of benefits, the financial net return per smallholder household day of on-farm labour will increase from US$1.5-US$2.4 in the situation without the project to US$2.6-US$6.4 with the project. Annual increases of smallholder household incomes range from US$47 to US$890. The economic rate of return is 21 per cent.

**I. Knowledge management, innovation and scaling up**

**Knowledge management arrangements**

26. The project includes município- and provincial-level workshops, exchange visits and study tours to share lessons in project implementation in the different target areas. A communication strategy will also be put in place. Experience gained during implementation will inform the capacity-building activities of the policy and strategic planning units of the Ministry of Agriculture.

**Development innovations that the project will promote**

27. Innovations in the context of Angola include the establishment of community-driven participatory processes to identify local needs for small-scale agricultural investments, which will be funded through matching grants; capacity-building of private-sector service providers and improved linkages with other development, interventions, particularly those supporting decentralization. Gender-sensitive design includes budgeting for childcare to enable women to attend training courses.
Scaling-up approach

28. The project will promote a participatory approach to small-scale agricultural investments. It has been specifically designed to include only a limited geographical area. Successful elements will have the potential to be adopted in other municípios and provinces. A key element of the capacity-building will be the farmer field school methodology, which can also be scaled up if successful.

J. Main risks
Main risks and mitigation measures

29. One risk faced by the project is the implementing agency’s lack of previous experience in procurement and contract management procedures. This will be mitigated by recruiting a procurement specialist and by focusing on training PIU/PPIU and ADI staff. Another risk is related to the management of the matching grants. This will be mitigated by establishing low ceilings, decentralizing decision-making to provincial level, not granting funds to individuals, involving beneficiaries in decision-making (including in the choice of subprojects), and providing effective supervision and monitoring to ensure that benefits reach the intended target group.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. Priority will be given to capacity and institutional strengthening of community-based and farmers’ organizations and of private-sector operators, as well as local government institutions. Project investments are demand-driven and the capacity of project beneficiaries will be strengthened to manage them, including by providing short-term technical assistance where necessary. Since most project activities will be demanded, owned and managed by project beneficiaries, the prospects are good that they will be sustained after project completion.

II. Legal instruments and authority

32. A loan agreement between the Republic of Angola and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

33. The Republic of Angola is empowered under its laws to borrow from IFAD.

34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

35. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Angola in various currencies in an amount equivalent to five million two hundred and fifty thousand special drawing rights (SDR 5,250,000) to mature on or prior to 15 November 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President
Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 23 November 2007)

Gender
1. The Government of the Republic of Angola (the Government) will ensure that implementation modalities will be gender sensitive and that the project parties will apply this principle in their activities. The Government will ensure that women beneficiaries are equally and fully represented in all project activities and that they receive appropriate benefit from the project outputs. Gender training and the assistance of gender experts will be provided under the project.

Project staffing and management
2. The participation of women on an equal basis will be sought in the PIU. The selection and appointment of key project staff will be conducted in a gender sensitive manner. In the recruitment of project staff, all things being equal, preference will be given to female candidates.

Pest management practices
3. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the project do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

Environmental and social measures
4. The Government will agree and coordinate with the subproject beneficiaries all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets, or of income or means of livelihood, temporarily or permanently as a result of the implementation of the agricultural investment support component of the project. Prior to initiating the implementation of this component, the Government will provide evidence demonstrating that it has: (i) complied with the provisions of the resettlement policy framework; and (ii) complied with the environmental mitigation measures; natural habitat protection procedures; pest management mitigation and protection measures; cultural property protection guidelines; forests protection actions; safety of dams procedures; international waterways procedures; institutional strengthening; overall safeguards monitoring and evaluation procedures; and other environmental measures set forth in the environmental and social management framework.

Taxes
5. The Government will ensure that the proceeds of the loan are not used to pay taxes, including (but not limited to) any taxes levied on the importation, procurement or supply of any goods, civil works or services financed by the loan.

Agricultural investment subprojects
6. Upon approval of the corresponding annual action plan by IFAD, the Government will, through the Ministry of agriculture and rural development (MINADER or the lead project agency), enter into separate agreements or amend existing separate agreements (the agricultural investment subproject agreements), on terms and conditions satisfactory to IFAD, with each subproject beneficiary.

Insurance of project personnel
7. The Government will insure project personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.
Use of project vehicles and other equipment

8. The Government will ensure that:

(a) All vehicles and other equipment procured under the project are allocated for project implementation;

(b) The types of vehicles and other equipment procured under the project are appropriate to the needs of the project; and

(c) All vehicles and other equipment transferred to or procured under the project are dedicated solely to project use.

Recruitment of project staff

9. The project coordinator, the financial manager, the provincial project coordinators, the financial accountants, the monitoring and evaluation officers, the procurement officers, the agronomist, the agribusiness specialist and the rural infrastructure specialist will have a graduate education or equivalent relevant experience and best practice knowledge of the relevant technical and management areas. Professional staff of the PIU and the PPIU will be recruited on a competitive basis in accordance with procedures approved by IFAD. The selected candidates will be approved by IFAD prior to the issuance of contracts. Upon approval by IFAD, candidates will be offered an initial two-year contract renewable yearly on the basis of performance. PIU and PPIU support staff will be recruited on a competitive basis and be given a contract for one year renewable based on performance.

All PIU and PPIU staff performance appraisal will be conducted on a yearly basis in consultation with MINADER and IFAD.

Fraud and corruption

10. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the project of which it has knowledge or becomes aware.

Suspension

11. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account, upon the occurrence of any of the following events:

   (i) The project coordinator has been removed from the project without the prior concurrence of IFAD.

   (ii) IFAD, after consultation with the Government, has determined that the material benefits of the project are not adequately reaching the target group, or are benefiting persons outside the target group to the detriment of target group members.

   (iii) The right of the Government to withdraw the proceeds of the financing of other co-financiers has been suspended, cancelled or terminated, in whole or in part, or the financing has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.

   (iv) The project implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the project.

   (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD.
(vi) Procurement has not been or is not being carried out in accordance with the project loan agreement.

(b) Notwithstanding the above, if the audit required by the project loan agreement has not been satisfactorily concluded within twelve months of the financial reporting date set forth therein, IFAD will suspend the right of the Government to request withdrawals from the loan account.

Conditions precedent to withdrawals

12. (a) No withdrawals will be made in respect of expenditures under all the categories:
   (i) until the Government will have made the initial deposit of counterpart funds equivalent to USD 484,300 into the project account; and
   (ii) until the lead project agency has established a financial management and accounting system, including a Chart of Accounts for the project, which is to be implemented within 120 days from loan effectiveness.

(b) No withdrawals will be made in respect of expenditure incurred or to be incurred in the provinces of Huambo and Malanje until the World Bank financing agreement becomes effective.

(c) Under the matching grants category, as the first two subprojects for each of the three categories defined require IFAD’s prior non objection of the eligibility criteria, this should be obtained before submission of withdrawal applications to IFAD.

Conditions precedent to effectiveness

13. The project loan agreement will become effective subject to the fulfilment of the following conditions precedent:

(a) The project loan agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by the Council of Ministers.

(b) A legal opinion, issued by the Attorney General of the Republic, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

(c) The PIU and the PPIU have been duly established.

(d) The project coordinator, the provincial project coordinator and the financial manager have been selected with prior approval of IFAD.

(e) The project implementation manual and the project administrative, financial and accounting manual, all in form and substance satisfactory to IFAD, have been adopted.

(f) A Special Account, a project account and a provincial project account A for Bié, have been opened by the Government.
Key reference documents

Country reference documents
Environmental and Social Management Framework
Resettlement Policy Framework
Estratégia de Combate à Pobreza, 2004

IFAD reference documents
Angola COSOP 2005

Other miscellaneous reference documents
Japan PHRD Technical Assistance Program – Application for Project Co-financing for Institutional Capacity Building Grant – Angola MOSAP

Working Papers
Detailed Cost Estimates, Financial and Economic Analysis
Fertilizer Market Improvement Pilot
Capacity Building

Study Reports
Socio-Economic Baseline Survey
Land Tenancy and Natural Resources Management
Rural Markets (in Portuguese)
Rural Financial Institutions (in Portuguese)
Rural Infrastructure
Fertilizer Market Improvement
## Logical framework

### Narrative Summary

<table>
<thead>
<tr>
<th>Goal</th>
<th>Performance indicators</th>
<th>Means of Verification</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>To ensure food security and increase incomes, particularly among the most vulnerable groups in the food-insecure areas of the Central Highlands.</td>
<td>Number of households with improvement in household (HH) assets ownership index. Reduction in the prevalence of child malnutrition (weight for age)</td>
<td>Multiple Index Cluster Surveys and WFP reports, disaggregated by district National statistics, including monitoring of PRSP/ECP</td>
<td>• Continued Government commitment to peace and political stability • Free and fair elections are held peacefully. • The Government proceeds with the implementation of the ECP and involves civil society in the monitoring process. • General budget allocation to social sectors and agriculture increases</td>
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</tbody>
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### Objective

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance indicators</th>
<th>Means of Verification</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase the agricultural production of rural smallholders in selected communes and municipalities of targeted Provinces including Bié, Huambo and Malanje.</td>
<td>% increase in agricultural production based on crop production index of participating smallholder farmers (based on the production quantities of the main agricultural commodities produced in the project area, weighted by average national commodity prices in the base year and summed for each year).</td>
<td>MINADER/ FAO/WFP production and marketing data from project areas Baseline, mid-term and final surveys in project area Municipal government records</td>
<td>• Improved knowledge on rural poverty is used to influence local and national policy agenda. • Funds which are allocated to the social sectors will be disbursed to rural areas and the decentralization project results in decision making taking place at provincial, município and comuna levels. • There is political will in the project area to support demand-led approaches. • Weak capacity may result in slow implementation</td>
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### Outputs

<table>
<thead>
<tr>
<th>Component 1: Capacity building</th>
<th>Performance indicators</th>
<th>Means of Verification</th>
<th>Assumptions and risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Improved technical and managerial skills of beneficiary stakeholders involved in agricultural production</td>
<td>% of project participants who benefited from capacity building support that are applying the new knowledge/skills in their day-to-day activities increased from 0 to 70%.</td>
<td>Project M&amp;E system EDA Information system Participatory monitoring and evaluation reports Local government registers</td>
<td>• Vulnerable groups and areas identified and baselines established • Staff of relevant calibre available recruited &amp; motivated</td>
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<tr>
<td>- Improved participation of smallholder farmers in farm organization</td>
<td>% of participating smallholder farmers in the target project areas who belong to farmers’ organizations increased from 10 to 60%.</td>
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<tr>
<th>Component 2: Agricultural investment support</th>
<th>Performance indicators</th>
<th>Means of Verification</th>
<th>Assumptions and risks</th>
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</thead>
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<tr>
<td>- Enhanced agricultural productivity</td>
<td>% increase in agricultural yield for the major crops (maize, cassava, beans and potato, etc.) of participating smallholder farmers as compared to the base year.</td>
<td>Project M&amp;E system EDA information system</td>
<td>• Effective supervision and monitoring to ensure that the benefits are going to the intended target group.</td>
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<td>- More efficient agricultural marketing</td>
<td>% increase in share of agricultural products marketed by participating farmers as compared to the base year.</td>
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<th>Component 3: Project Management</th>
<th>Performance indicators</th>
<th>Means of Verification</th>
<th>Assumptions and risks</th>
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<tr>
<td>Project planning activities implemented on time Accounting and M&amp;E reports produced on timely basis (quarterly and annual reports)</td>
<td>Project M&amp;E system</td>
<td></td>
<td>• Adherence to transparent procurement and fiduciary practice</td>
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