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تمكين السكان الريفيين الفقراء  
من التغلب على الفقر

## مشروع تنمية زراعة أصحاب الصغيرة

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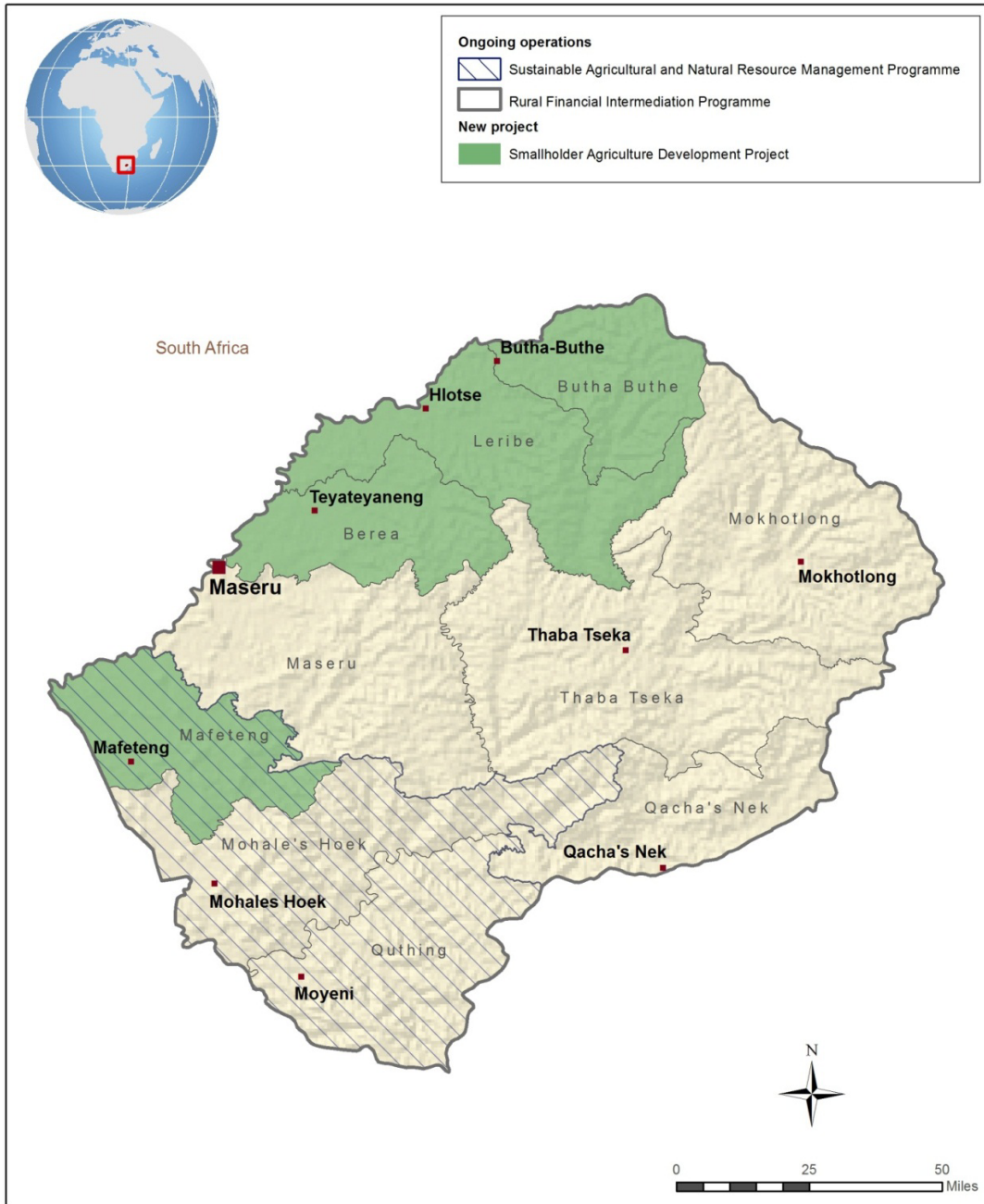
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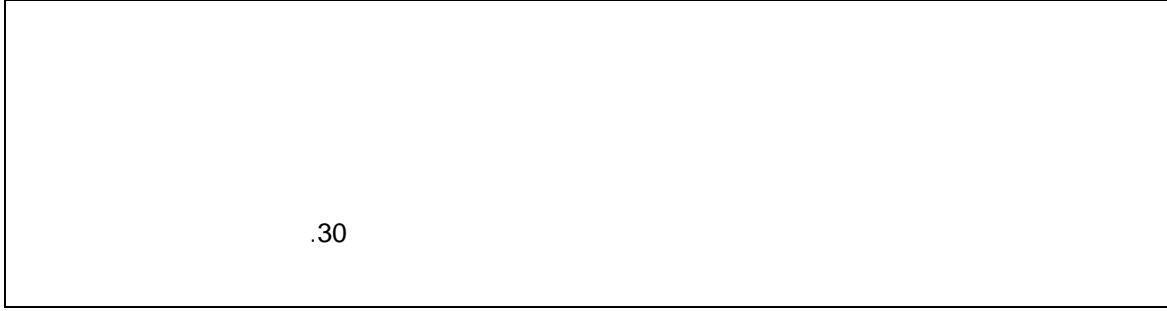
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## Negotiated financing agreement

(Negotiations concluded on 21 September 2011)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Project Title: Smallholder Agriculture Development Project (SADP) (the "Project")

The Kingdom of Lesotho (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:

WHEREAS, the Borrower/Recipient and the International Development Association have entered into a Financing Agreement [of even date] (the "IDA Financing Agreement") to provide financing (the "IDA Financing") for the Project.

### Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended 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 and the terms defined in the IDA Financing Agreement 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, together with the IDA Financing and its own counterpart financing, to implement the Project in accordance with the terms and conditions of this Agreement.

### Section B

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  - A. The amount of the Loan is SDR 3 150 000.
  - B. The amount of the Grant is SDR 3 150 000.
- 2 The Loan is granted on highly concessional terms, as such is defined in the General Conditions.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 1 April.

5. Payments of principal and service charge shall be payable on each 15 January and 15 July.

6. The Borrower/Recipient shall provide counterpart financing for the overall Project for an approximate total amount equivalent to USD 3 500 000 in accordance with the approved annual work plan and budget of the Project.

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture and Food Security of the Borrower/Recipient.

2. The following are designated as additional Project Parties: the Ministry of Finance and Development Planning, the Ministry Trade and Industry, Marketing and Cooperatives, the Ministry of Forestry and Land Reclamation, and the Ministry of Local Government and Chieftainship.

3. The Project Completion Date shall be 31 March 2018.

### **Section D**

The Loan and Grant shall be administered by IDA as the Cooperating Institution. The Project shall be supervised jointly by IDA and the Fund.

### **Section E**

1. The following is designated as an additional ground for suspension of this Agreement: the IDA Financing Agreement shall have been suspended.

2. The following is designated as an additional ground for cancellation of this Agreement: the IDA Financing Agreement shall have been cancelled.

3. The following is designated as an additional general condition precedent to withdrawal: the IDA Financing Agreement shall have become effective.

4. The following provisions of the General Conditions shall not apply to this Agreement:

- (a) Section 2.01 (Financing Closing Date): The Financing Closing Date shall be four months after the Project Completion Date or such later date as the Fund may designate by notice to the Borrower.
- (b) Sections 7.05 (Procurement): All goods, works and consultants services required for the Project and to be financed out of the proceeds of the financing shall be procured in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" (dated January 2011), the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" (dated January 2011) and the provisions stipulated in Section III, Schedule 2 of the IDA Financing Agreement.
- (c) Section 7.01 (b) (ii) and Article 8 (Implementation Reporting and Information): The Borrower/Recipient shall monitor and evaluate the progress of the Project and prepare Reports in accordance with Section II.A.1 in Schedule 2 of the IDA Financing Agreement, as well as Annual Workplans and Budgets (AWPBs), in accordance with Section I.B.2 in Schedule 2 of the IDA Financing Agreement, provided that the

Borrower/Recipient shall simultaneously provide copies of all reports submitted to IDA to the Fund.

- (d) Article 9 (Financial Reporting and Information): The financial reporting system of the Borrower/Recipient shall be in accordance with Section II (B), Schedule 2 of the IDA Financing Agreement, provided that the Borrower/Recipient shall simultaneously provide copies of all reports submitted to IDA to the Fund.

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

For the Fund:

The President  
International Fund for Agricultural  
Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Borrower/Recipient:

Minister of Finance and  
Development Planning  
P.O. Box 395  
Maseru 100  
Lesotho

This agreement, dated \_\_\_\_\_, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

\_\_\_\_\_  
For the Fund

\_\_\_\_\_  
For the Borrower/Recipient



## Schedule 1

### *Project Description and Implementation Arrangements*

#### I. Project Description

1. *Objective.* The objective of the Project is to increase marketed output among Project beneficiaries in the Borrower/Recipient's smallholder agriculture sector.

2. *Components* The Project shall consist of the following parts:

#### 2.1 Part A: Increasing Agricultural Market Opportunities.

- (i) *Promotion of innovative agri-business initiatives.* Provision of Sub-Grants to support the introduction, testing and demonstration of new business initiatives and technological innovations.
- (ii) *Market linkage development.* Provision of support to targeted farmer groups (including commodity-based farmer associations, district and local apex associations, registered farmer cooperatives, informal farmer organizations or producer interest groups, market intermediaries, agri-businesses, input suppliers and other market participants) with the goal of developing and strengthening links between agricultural producers and markets, reducing market transaction costs and aligning production decisions with business and market opportunities, including through:
  - (a) the development of an upgraded public market information system by the carrying out training, and sub-sector and commodity studies, and the introduction of IT-supported data and information exchange;
  - (b) support of agricultural trade fairs at district level;
  - (c) support of round-table meetings with farmer groups and traders/processors; and
  - (d) provision of mentoring services providing direct technical field support, such as food safety and product handling, to producer groups and associations.

#### 2.2 Part B: Increasing Market-oriented Smallholder Production.

- (i) *Preparation and implementation of Agricultural Investment Plans (AIPs)* through:
  - (a) Provision of technical assistance to prepare the AIPs that identify and prioritize training and technical assistance needs, along with key resource management activities and productive investments;
  - (b) support for the implementation of the AIPs by carrying out of training to increase the capacity of service providers in support of the preparation and implementation of the AIPs;
  - (c) carrying out of civil works for the rehabilitation and refurbishment of the Recipient's Department of Livestock Services training facility in Maseru and provision of training and veterinary kits to training participants; and

- (d) allocation of Sub-Grants for the implementation of approved activities identified in the AIPs.
- (ii) *Technology Packages for Smallholders*. Support for the introduction, further development and dissemination of new and improved technologies and training activities.

### 2.3 Part C: Project Management

The establishment of an effective Project management and administrative system to ensure sound Project implementation, coordination between the Project and other initiatives and national institutions in the sector.

## II. Implementation Arrangements

### 1. Project Management Committee

- (a) The Borrower/Recipient shall maintain the Project Management Committee (PMC) throughout the implementation of the Project, with functions and resources satisfactory to the Fund.
- (b) Without limitation to the provisions of paragraph (a) above, the PMC will be responsible for overseeing and providing guidance for overall Project implementation and ensuring compliance with national policies, strategies and procedures.
- (c) Without limitation to the provisions of paragraph (a) above, the PMC shall be chaired by the Director of Planning and Policy Analysis of the Ministry of Agriculture and Food Security (MAFS) and be comprised of sector director level representatives of, *inter alia*, the Ministry of Finance and Development Planning (MFDP), MAFS, Ministry of Forestry and Land Reclamation (MFLR), Ministry of Trade & Industry, Cooperatives and Marketing (MTICM) and Ministry of Local Government and Chieftainship (MLGC).

### 2. Project Management Unit (PMU)

- (a) The Borrower/Recipient shall maintain the Project Management Unit within the Ministry of Agriculture and Food Security, throughout the implementation of the Project, with functions and resources satisfactory to the Fund.
- (b) Without limitation to the provisions of paragraph (a) above, the PMU shall have responsibility for the day-to-day coordination and management of the Project, including overall responsibility for, *inter alia*: (i) ensuring timely implementation in accordance with the PIM; (ii) preparing Annual Work Plans and Budgets and annual procurement plans; (iii) overseeing Project activities under its direct responsibility and of those under the responsibility of other agencies involved in Project implementation; (iv) managing Project finances; (v) maintaining consolidated Project accounts; (vi) ensuring adherence to the Safeguard Documents of all agencies involved in the implementation of the Project; (vii) developing and maintaining a system of monitoring the Project key performance indicators; (viii) ensuring coordination among stakeholders as needed; (ix) regularly

updating the PMC on Project progress and key issues; and (x) review and approve AIPs at the national level.

- (c) Without limitation to the provisions of paragraph (a) above, the PMU shall be headed by a Project manager, who shall be assisted by a team comprised of, *inter alia*, (i) a Project accountant; (ii) a procurement officer; (iii) a monitoring and evaluation officer; (iv) an agribusiness and marketing officer; (v) an agricultural investment planning officer; (vi) a Sub-Grant officer; and (vii) a field officer in each Project district; all of whom shall have qualifications and experience acceptable to the Fund.

### 3. Project Implementation Manual (PIM)

- (a) The Borrower/Recipient shall carry out the Project in accordance with the Project Implementation Manual; provided, however, that, in the event of any conflict between the provisions of the PIM, and those of this Agreement, this Agreement shall prevail.
- (b) Except as the Fund shall otherwise agree, the Borrower/Recipient shall not amend or waive any provision thereof if, in the opinion of the Fund, such amendment or waiver may materially and adversely affect the implementation of the Project.

### 4. Annual Work Plans and Budgets

The Borrower/Recipient shall prepare and adopt, not later than February 15 of each year during the implementation of the Project, or such later date as the Fund may agree, an annual work plan and budget ("Annual Work Plan and Budget"), in form and substance satisfactory to the Fund, containing a description of all activities (and associated budgeted costs) to be carried out in the following Fiscal Year, except that for the first year of implementation of the Project it will cover the period from Effective Date (as such is defined in the IDA Financing Agreement) through the end of Fiscal Year 2012/13.

### 5. Sub-Projects

- 5.1 Under Parts A(i) and B(i)(d) of the Project, the Borrower/Recipient shall make Sub-Grants to Sub-Grant Beneficiaries for the purpose of financing Sub-Projects in accordance with eligibility criteria, Sub-Grant amounts and contributions, and procedures acceptable to the Fund and further described in the Project Implementation Manual. Sub-Grant Beneficiaries are small and medium agro-based businesses, rural entrepreneurs, farmer associations and farmer groups which have been chosen to receive Sub-Grants.
- 5.2 The Borrower/Recipient shall make each Sub-Grant under a Sub-Grant Agreement with the respective Sub-Grant Beneficiary in the form of the model agreement attached to the Project Implementation Manual and on terms and conditions described in more details in the Project Implementation Manual, which shall include, *inter alia*, the following:
- (i) the Sub-Grant shall be made on a non-reimbursable grant basis;
- (ii) the Borrower/Recipient shall obtain rights adequate to protect its interests, including the right to:

- (A) suspend or terminate the right of the Sub-Grant Beneficiary to use the proceeds of the Sub-Grant, or obtain a refund of all or any part of the amount of the Sub-Grant then withdrawn, upon the Sub-Grant Beneficiary's failure to perform any of its obligations under the Sub-Grant Agreement;
- (B) require each Sub-Grant Beneficiary to:
  - (1) carry out the Sub-Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Fund,;
  - (2) provide, promptly as needed, the resources required for the purpose of the Sub-Project;
  - (3) procure the goods, works and services to be financed out of the Sub-Grant in accordance with the provisions of this Agreement;
  - (4) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Fund, the progress of the Sub-Project and the achievement of its objectives;
  - (5) enable the Borrower/Recipient and the Fund to inspect the Sub-Project, its operation and any relevant records and documents;
  - (6) prepare and furnish to the Borrower/Recipient and the Fund all such information as they shall reasonably request relating to the foregoing; and
  - (7) promptly inform the Borrower/Recipient and the Fund of any condition which interferes or threatens to interfere with the progress of the Sub-Project, or the performance by the Sub-Grant Beneficiary of its obligations under the Sub-Grant Agreement.

5.3 Except as otherwise agreed in writing with the Fund, the Borrower/Recipient shall, in the case of Sub-Grants financed under Part B(i)(d) of the Project, ensure that: (A) the contribution of the Sub-Grant to the cost of the proposed Sub-project shall not exceed the maximum amount indicated in the Project Implementation Manual for the relevant type of Sub-projects; and (B) the balance of the cost of the proposed Sub-project shall be provided by the Sub-Grant Beneficiary in the form of the Sub-Grant Beneficiary's contribution, whether in cash or in kind.

5.4 The Borrower/Recipient shall exercise its rights under each Sub-Grant Agreement in such manner as to protect its interests and to accomplish the purposes of the Financing. Except as the Fund shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-Grant Agreement or any of its provisions.

6. Prior Review

- 6.1. The Borrower/Recipient shall provide to the Fund for its prior review and no-objection: (i) the first 30 Sub-Projects' proposals recommended under Part A(i) of the Project; and (ii) the first 20 AIPs under Part B(i)(d) of the Project.

7. Mid-Term Review

The Borrower/Recipient shall:

- (a) no later than thirty-six (36) months after the date of entry into force of this Agreement carry out a mid-term review of the progress made in carrying out the Project;
- (b) assess, in consultation with the Fund, during the mid-term review, *inter alia*: the: (i) overall progress made during the implementation of the Project and (ii) the results of the monitoring and evaluation activities; and
- (c) no later than thirty days after the completion of the mid-term review, start to implement the recommendations of the mid-term review as agreed with the Fund.

## Schedule 2

### Allocation Table

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
I. Goods, works, non-consulting services, and consultants' services and Training	1 150 000	1 150 000	50%
II. Operating Costs for the Project	375 000	375 000	50%
III. Goods, works, non-consulting services, and consultants' services and Training under Sub-Grants	1 350 000	1 350 000	50% of amounts disbursed
IV. Offset of Preparation Advance	275 000	275 000	100%
TOTAL	3 150 000	3 150 000	

2. Withdrawal applications for eligible expenditures shall initially be charged against Category IV, up to a limit of the total amount disbursed by IDA to the Borrower/Recipient prior to the date of effectiveness of the IDA Financing Agreement in accordance with the agreement between the Borrower/Recipient and IDA dated 9 February 2011. All subsequent withdrawal applications shall be charged against the applicable category or categories and shall be apportioned by IDA as Cooperating Institution between IDA and the Fund in the ratio of 1:1. The Fund's share of each withdrawal application (including the initial applications) shall be apportioned by IDA as Cooperating Institution between the Fund Loan and Grant in the ratio of 1:1.

# Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions
Goal: Reduce rural poverty and enhance rural economic growth on a sustainable basis	<ul style="list-style-type: none"> <li>Improvements in household asset index</li> <li>Number of households with improved food security</li> </ul>	Baseline and impact surveys; qualitative analysis, including gender equality and poverty targeting	
PDO: Increase marketed output among project beneficiaries in Lesotho's smallholder agriculture sector	<ul style="list-style-type: none"> <li>Household commercialization level (value of produce and products sold as percentage of total value of produce and products)</li> <li>Number of direct project beneficiaries (66,000 and &gt; 50% women)</li> </ul>	Baseline and impact surveys; project M&E records	Careful selection of farmers, commodities and investments will ensure a focus on profitable and competitive products.
<b>Component 1: INCREASING AGRICULTURAL MARKET OPPORTUNITIES</b>			
Outcome 1. Agricultural market opportunities in the project area increased	<ul style="list-style-type: none"> <li>Percentage of targeted beneficiaries recording better access to markets (50%)</li> </ul>	Baseline and impact surveys; qualitative performance assessment	The proposed information and training activities will ensure that businesses and groups understand the grant project procedures, and prepare adequate proposals.
Output 1.1 Innovative and viable agricultural business initiatives demonstrated	<ul style="list-style-type: none"> <li>CGP grants approved and implemented (164)</li> <li>Value of CGP investments and matching grant support (US\$ 2.37 million)</li> <li>Innovative and viable agricultural businesses initiatives demonstrated with a minimum satisfactory rating (120)</li> <li>Number of persons trained (men/women) and duration of training, by type of training (11,200 training days in total, 50% women/days)</li> </ul>	Project M&E records; grant evaluation reports	Capacity building under the project will sufficiently address implementation capacity constraints.  Provision made to train service providers and, if needed, source regionally, will be sufficient to overcome capacity constraints.
Output 1.2 Linkages between agri-businesses and farmers improved	<ul style="list-style-type: none"> <li>Number of enterprise-producer exchange events held (400)</li> <li>Number of trade partnerships between farmer groups and enterprises established (100)</li> </ul>	Project M&E records; baseline and impact surveys	The selection process, with approval at several levels, including various public and private sector representatives, and widely publicizing the results, will ensure a transparent process.
Output 1.3 Access by farmers to market-related information improved	<ul style="list-style-type: none"> <li>Percentage of farmers and traders in project districts who directly access public market information (50%)</li> </ul>	Baseline and impact surveys	
<b>Component 2: INCREASING SMALLHOLDER MARKET-ORIENTED PRODUCTION</b>			
Outcome 2. Productivity and quality of market-focused crops and livestock from smallholders in the project area increased	<ul style="list-style-type: none"> <li>Incremental net value of marketed production in the project area (US\$ 3.6 million)</li> <li>Targeted beneficiaries who have adopted improved technologies/farming practices in targeted areas (7,000 persons, at least 50% women)</li> </ul>	Baseline and impact surveys; qualitative performance assessment	The project design will clearly define roles and responsibilities. The national task force, technical working group and PMU will improve interagency coordination.  Adequate support for transparent and efficient management of public resources will be available.
Output 2.1 Investments in productivity-enhancing technologies and NRM completed	<ul style="list-style-type: none"> <li>Number of AIPs completed with satisfactory rating (72)</li> <li>Number of group-based investments completed as per agreement (400)</li> <li>Value of AIP investments and matching grant support (US\$ 7.56 million)</li> <li>NRM activities completed by type (90)</li> <li>Number of persons trained (men/women) and duration of training, by type of training (4,000 men, 4,000 women / 160,000 training days)</li> </ul>	Project M&E records; AIP evaluation reports; qualitative assessment of effectiveness of training; direct observation of status of natural resources	Outsourcing and capacity building under the project in combination with a strong PMU will secure sufficient implementation capacity.  Government will adhere to commitments and strategy documents that encourage outsourcing some activities to private sector partners, which will work closely with government the extension service.
Output 2.2 Capacity of farmers to take a business approach to agriculture increased	<ul style="list-style-type: none"> <li>Number of people in market-related groups supported (6,000 men and 6,000 women)</li> <li>Number of persons trained (men/women) and duration of training, by type of training (3,000 men, 3,000 women /100,000 training days)</li> <li>Percentage of targeted beneficiaries who use market information in making production decisions (50%)</li> </ul>	Project M&E records; qualitative assessment of effectiveness of training	Surveys on existing potential and the use of clear objective criteria will result in appropriate selection.
Output 2.3 Improved capacity of agricultural service providers to support market-oriented production	<ul style="list-style-type: none"> <li>Number of persons trained (men/women) and duration of training, by type of training (300 men, 150 women / 9,000 training days)</li> <li>Demonstrations of innovative technology packages conducted (40)</li> <li>Percentage of targeted clients (businesses and groups) satisfied with capacity of agricultural service providers (50%)</li> </ul>	Project M&E records; qualitative assessment of performance	