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Enabling poor rural people
to overcome poverty

The Republic of Seychelles

Competitive Local Innovations for Small-scale Agriculture Project

Negotiated financing agreement

Negotiated financing agreement: "Competitive Local Innovations for Small-scale Agriculture Project"

(Negotiations concluded on 26 March 2013)

Loan Number: _____

Project Title: Competitive Local Innovations for Small-Scale Agriculture Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Republic of Seychelles (the "Borrower")

(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, 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. 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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is SDR 1 980 000.
2. The Loan is granted on ordinary terms with a maturity period of 15 years including a grace period of three (3) years.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Principal and interest shall be payable on each 15 May and 15 November.
6. There shall be a Designated Account for the benefit of Ministry of Finance, Trade and Investment ("MOFTI") at the Central Bank of Seychelles ("CBS").

7. The Borrower shall provide counterpart financing for the Project in the amount of USD 282 000.

Section C

1. The Lead Project Agency shall be the Ministry of Natural Resources and Industry (MNRI).

2. MOFTI, the Seychelles Agriculture Agency (SAA), the Seychelles Fishing Authority (SFA) and any other entities with implementation responsibilities, acceptable to the Fund, shall be designated as additional Project Parties.

3. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Loan shall be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension of this Agreement: The Project 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 Borrower has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower has not taken any measures to remedy the situation.

2. The following are designated as additional general conditions precedent to withdrawal:

(a) The PIM, covering, among other things, the technical, operational, organisational, financial and staff requirements necessary to implement all activities under this Agreement, shall have been adopted by the Lead Project Agency in the form approved by the Fund; and

(b) The Project Management Unit (PMU) staff, including a National Project Coordinator (NPC), Programming and M&E Officer and Financial Controller, acceptable to the Fund, shall have been appointed following a transparent competitive process.

3. The following is designated as a specific condition precedent to withdrawal under Category 4 (Credit) of the Allocation Table set forth in paragraph 1 of Schedule 2 hereto:

(a) A Subsidiary Performance-Based Loan Agreement, acceptable to the Fund, shall have been executed by the Lead Project Agency, following consultation with MOFTI, with each and every financial institution participating in the Project, outlining the terms and conditions of credit financing and on-lending thereto in accordance with Schedule 1, Section II, paragraph 9 of this Agreement.

4. This Agreement is subject to ratification by the Borrower.

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

For the Borrower:

Minister of Finance, Trade and Investment
Ministry of Finance, Trade and Investment
Liberty House
Victoria, Seychelles

For the Fund:

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 six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

THE REPUBLIC OF SEYCHELLES

[]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall target smallholder producers, small scale processors and marketers, micro-entrepreneurs, women and youth. The target group will consist of approximately: (i) 768 farmers who are producing for the domestic market; (ii) 1330 people dependent on artisanal fishing, fish handling and processing; and (iii) 7500 households which are involved in some form of backyard gardening, in particular those below the poverty line living on the main islands of Mahé, Praslin and La Digue.

2. *Goal.* The goal of the Project is to contribute to equitable and sustainable pro-poor agricultural and rural economic growth and employment.

3. *Objectives.* The objectives of the Project are to promote modern and sustainable agricultural and fishery practices, and to increase and diversify market access for smallholder farmers and fishers.

4. *Components.* The Project shall comprise the following Components: (i) *Enhancing business arrangements through capacity development of small farmers, rural micro entrepreneurs and fishers;* (ii) *Improving access to agricultural and rural finance;* (iii) *Strategic capacity building and infrastructure, and (iv) Project management.*

4.1. Component 1: Enhancing business arrangements through capacity development of small farmers, rural micro-entrepreneurs and fishers. This component aims to establish business ventures between small farmers and fishers and buyers and strengthen the capacity of small-scale actors in agriculture, fisheries and livestock to respond to market signals. Through a flexible business model, this component shall deliver support services targeting business development and promoting innovative technologies and environmentally-friendly value chains.

4.1.1. *Sub-component 1.1: Public Private Partnerships (PPP) and technology development.* This sub-component of the Project shall focus on capacity building of small farmers and fishers by professional public and private institutions to promote technology adoption, business development and business management. With the assistance of Technical Working Groups and other stakeholders, technology packages and trials shall be identified and their environmental efficiency and sustainability shall be assessed. This sub-component shall furthermore build on the Tourism Sustainability Label by promoting the marketing and usage of local products.

4.1.2. *Sub-component 1.2: Food security and productivity development.* This sub-component of the Project shall promote home gardens by addressing inefficiencies and supporting value chains through training and other forms of capacity development to improve food security and enhance productivity and market linkages at the household level.

4.2. Component 2: Improving access to agricultural and rural finance. This component shall facilitate the provision of the required financial services to transform the ailing agricultural sector and improve access to finance for smaller farmers, producers, fishers and rural micro-entrepreneurs. Access to financing shall be improved by the development of innovative agricultural and value chain financing models to be piloted and consequently scaled-up through partner financial institutions.

4.3. Component 3: Strategic capacity building and infrastructure. This component shall strengthen public sector and collective institutions by providing the necessary and complementary public goods to enable implementation of component 1 and ensure institutional continuity beyond the term of this Project.

4.3.1. *Subcomponent 3.1: Strategic capacity building.* This sub-component shall strengthen capacity of selected public and private actors involved in the implementation of Component 1, by providing capacity building including human resources support and guidance for public sector and collective institutions, equipment and small-scale infrastructure development, aligned to the work of other financing partners.

4.3.2. *Sub-component 3.2: Public and collective infrastructure.* This sub-component aims to finance enabling small rural infrastructure, including public and collective investments for irrigation and water harvesting necessary for the implementation of Component 1.

4.4. Component 4: Project management. This component shall provide effective technical, financial and contract management of the Project. The PMU shall exercise management and controlling functions including the recruitment of specialised expertise. The Project shall finance the required equipment, studies and training of staff, operating costs and the establishment of a Monitoring & Evaluation (M&E) System as well as a Knowledge Management System.

II. Implementation Arrangements

5. A National Project Steering Committee ("NPSC") shall be established under the chairmanship of the Minister, MNRI and composed of an equal number of private sector and government representatives. The NPSC shall provide guidance to the Project and review the implementation progress and impact. The NPSC shall meet as and when required and no less than twice every year.

6. A PMU embedded in the MNRI shall be established. The PMU shall be responsible for the implementation of the day-to-day activities and the monitoring of progress and impact of the Project. The PMU shall include a NPC, a programming and M&E officer, a financial controller, as well as the required support staff.

7. To advise on and support the implementation of the agricultural/livestock, rural and microfinance and fishery aspects of components 1 and 2 of the Project, Technical Working Groups (TWGs) composed of stakeholder groups and key institutions shall be established. The TWGs shall be coordinated by the PMU and shall convene on a regular basis. The composition of the TWGs shall include, among others:

- (a) The TWG on Agriculture: Representatives from farmers, service providers in the livestock sector, Seychelles Hospitality and Tourism Association (SHTA), the Seychelles Chamber of Commerce and Industry (SCCI), Local Government, the SAA, the Small Enterprise Promotion Agency (SEnPA), the Island Development Company (IDC), the Seychelles Farmers Association (SeyFA), the Development Bank of Seychelles (DBS), an environmental Non-Governmental Organisation, as well as private entrepreneurs.
- (b) The TWG for Rural and Agricultural Finance: Representatives from MOFTI and from financial institutions.
- (c) The TWG on Fisheries: Representatives from the Seychelles Fishing Boat Owners Association, the SFA, SHTA, SCCI, Seychelles National Parks

Authority (SNPA), Marine Conservation Society Seychelles (MCSS), SEnPA, IDC and DBS.

8. The Lead Project Agency shall enter into a MOU with each and every other Project Party, specifying the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. Each MOU shall be monitored closely by the PMU and shall: (a) specify that a register of assets acquired with the proceeds of the Loan shall be maintained by each Project Party and that at completion of the Project implementation, such assets shall be transferred to the Borrower; and (b) be submitted to the Fund for its prior approval. Each MOU may not be modified without the prior consent of the Fund.

9. Following consultation with MOFTI, the Lead Project Agency shall enter into a Subsidiary Performance-Based Loan Agreement with each and every financial institution participating in the implementation of activities under Component 2 of the Project. Each such financial institution shall meet eligibility criteria acceptable to the Fund and shall be selected following a transparent competitive process. The Subsidiary Performance-Based Loan Agreements shall clearly specify the scope of the work to be undertaken, expected targets, estimated budget for specific activities, maximum loan amount, on-lending rates as well as clearly defined target indicators. Each Subsidiary Performance-Based Loan Agreement shall be monitored closely by the PMU and renewed annually based on satisfactory performance. Each Subsidiary Performance-Based Loan Agreement shall be submitted to the Fund for its prior approval and may not be modified without the prior consent of the Fund.

10. A Mid-Term Review ("MTR") shall be carried out in the Project's third year of implementation by the Lead Project Agency and the Fund jointly. The MTR shall cover, among other things: (i) the physical and financial progress as measured against Project Annual Work Plans and Budgets (AWPBs) and against Project objectives; (ii) the overall Project performance as well as the performance and financial management of contracted implementing partners; (iii) an assessment of the efficacy of technical assistance and training programmes; (iv) the proposed use of uncommitted funds made available to the financial institutions participating in the Project; and (v) the proposed terms of an exit strategy.

Schedule 2

Allocation Table

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

Category	IFAD Loan Amount Allocated (expressed in SDR)	Percentage
1. Civil Works and Infrastructure	548 000	100% Net of Taxes, private companies', other donors', producers' and Government Contributions
2. Vehicles	17 000	100% Net of Taxes and Government Contribution
3. Technical Assistance and Training	498 000	100%
4. Credit	594 000	100%
5. Recurrent Costs		
(a) Salaries and Allowances	118 000	100% Net of Government Contribution
(b) Operations and Maintenance	7 000	100% Net of Government Contribution
6. Unallocated	198 000	
TOTAL	1 980 000	

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

1. Civil Works and Infrastructure includes Eligible Expenditures for Equipment and Goods

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 to request withdrawals from the Loan Account if the Borrower 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. *Monitoring.* The Lead Project Agency shall monitor the Project and in partnership with other designated Project Parties, generate data and information on Project activities, output and outcomes in a manner satisfactory to the Fund. The Lead Project Agency shall also collect information on Project impact..
2. *Resource Protection.* The Borrower shall take all reasonable measures to ensure that existing laws are enforced to safeguard water, forest and wildlife resources in the Project Area. The Borrower shall take all measures to ensure sustainability of the Project without any detriment to the environment and shall promote natural resources' sustainability.
3. *Operation and Maintenance.* The Borrower shall ensure that adequate human and financial resources shall be provided to support the operation and maintenance of Project-financed investments and recurrent costs of the Project operations both during and after the Project Implementation Period, at least for the useful life of such investments.
4. *Authorisation.* The Borrower shall provide each Project Party with such delegations of authority or other authorisations as may be required under its national procedures to implement the Project in Accordance with this Agreement.
5. *Use of Vehicles and Other Equipment.* The Borrower shall ensure that all vehicles and other equipment transferred and or procured under the Project are dedicated solely to Project use.
6. *Policy Framework.* The Borrower shall provide the Fund with an annual statement of undertaken policy changes in the agricultural, fisheries, tourism and other related sectors together with an assessment of their expected impact on the Project, for the duration of the Project.
7. *Financial Statements.* Each Subsidiary Performance-Based Loan Agreement shall specify that the financial institution participating in the implementation of the Project shall make available to the Borrower, through the PMU, the statement of sources and uses of funds related to Project activities under their respective responsibility in respect of each Fiscal year within two (2) months of the end of each Fiscal year. The PMU shall attach these statements of sources and uses of funds to its own financial statements for subsequent submission to the Fund.
8. *Audit Reports.* The Borrower shall ensure that each Subsidiary Performance-Based Loan Agreement specifies that the financial institution participating in the implementation of the Project shall appoint an external independent auditor to audit their financial statements relating to the Project. These audit reports shall be submitted to the Borrower, through the PMU, within five (5) months after the end of each Fiscal Year for subsequent submission to the Fund.