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Investing in rural people

Kingdom of Lesotho

Wool and Mohair Promotion Project (WAMPP)

Negotiated financing agreement

Negotiated financing agreement: "Wool and Mohair Promotion Project"

(Negotiations concluded on 3 September 2014)

Loan Number: []

DSF Grant Number: []

ASAP Grant Number: []

Project Title: Wool and Mohair Promotion Project (the "Project")

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

and

The Kingdom of Lesotho (the "Borrower/Recipient")

(each a "Party" and both of them collectively the "Parties")

Whereas:

(A) The Borrower/Recipient has requested financing from the Fund for purposes of Financing the Project described in Schedule 1 to this Agreement;

(B) The IFAD Executive Board approved at its 105th Session the proposal to establish a Trust Fund for the Fund's Adaptation for Smallholder Agriculture Programme (ASAP), with the purpose of financing, in the form of grants, components of the IFAD-financed core portfolio of Projects and Programmes to increase the resilience of small farmers to climate change in the five key ASAP outcome areas; and

(C) The Borrower/Recipient intends to apply for a loan from the OPEC Fund for International Development ("OFID") in the amount of approximately twelve million United States dollars (USD 12 000 000) ("OFID Financing") to partly finance the Project on terms and conditions to be set forth in a financing agreement between the Borrower/Recipient and OFID ("OFID Financing Agreement").

NOW THEREFORE, the Parties hereto 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 financing to the Borrower/Recipient, which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The financing is composed of:
 - A. A Loan of three million eight hundred and thirty thousand Special Drawing Rights (SDR 3 830 000) (the "Loan").
 - B. A DSF Grant of three million eight hundred and thirty thousand Special Drawing Rights (SDR 3 830 000) (the "DSF Grant").
 - C. A Grant from ASAP of four million six hundred and ten thousand Special Drawing Rights (SDR 4 610 000) (the "ASAP Grant")
2. The Loan is granted on highly concessional terms and shall be free of interest but bear a service charge of three fourths of one per cent (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 the USD.
4. The first day of the applicable Fiscal Year shall be 1 April.
5. Principal and service charge shall be payable on each 15 January and 15 July.
6. The Borrower/Recipient shall open and thereafter maintain two (2) designated accounts in United States Dollars (USD) in the Central Bank of Lesotho to receive respectively the proceeds of the Loan and DSF Grant and of the ASAP Grant (collectively, the "Designated Accounts"), and two (2) Project accounts denominated in Maloti (collectively, the "Project Accounts").
7. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of three million nine hundred and seventy-eight thousand United States dollars (USD 3 978 000) to cover among other things duties and taxes, salaries for Project staff, and office space for the Project Coordination Unit (PCU).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Food Security (MAFS) of the Borrower/Recipient.
2. The following are designated as additional Project Parties:
 - (i) the Ministry of Forestry and Land Reclamation (MFLR);
 - (ii) the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM);
 - (iii) the Ministry of Local Government and Chieftainship Affairs (MoLG);
 - (iv) the Ministry of Energy, Meteorology and Water Affairs (MEMWA); and
 - (v) the Lesotho National Wool and Mohair Growers Association (LNWMGA).
3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing 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:

- (a) The right of the Borrower/Recipient to withdraw the proceeds of the OFID Financing under the OFID Financing Agreement, to the extent this has entered into force, has been suspended.
- (b) The Project Implementation Manual ("PIM") referred to under paragraph 11, Section II of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

2. The following is designated as an additional ground for cancellation of this Agreement: The right of the Borrower/Recipient to withdraw the proceeds of the OFID Financing under the OFID Financing Agreement, to the extent this has entered into force, has been cancelled.

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

- (a) The Designated Accounts and the Project Accounts referred to in Section B 6. above, shall have been duly opened;
- (b) The Borrower/Recipient shall have deposited adequate counterpart funds to cover the first year of Project implementation, as specified in the first Annual Work Plan and Budget ("AWPB");
- (c) The Project Steering Committee ("PSC"), the Project Consultative Technical Committee ("PCTC") and the Project Coordination Unit ("PCU") referred to respectively in paragraphs 6, 7, and 8, Section II of Schedule 1 hereto shall have been duly established and key staff shall have been appointed with the prior endorsement of the Fund;
- (d) The Lead Project Agency shall have entered into the performance-based agreement with the Lesotho National Wool and Mohair Growers Association (LNWMGA) in the form approved by the Fund; and
- (e) The Lead Project Agency shall have entered into the Memorandum of Understanding (MoU) with each Ministry designated as a Project Party in Section C 2 above in the form approved by the Fund.

4. The following are designated as specific conditions precedent to first replenishment by the Fund of the advance to the Designated Accounts:

- (a) The Lead Project Agency shall have submitted the PIM referred to in paragraph 11, Section II of Schedule 1 hereto to the Fund for approval prior to its adoption;

- (b) The Lead Project Agency shall have installed a multi-site off-the-shelf accounting Project software; and
- (c) The LNWMGA shall have contracted an independent audit firm, acceptable to the Fund to conduct a performance audit of the Project activities assigned thereto.

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

For the Fund:

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

For the Borrower/Recipient:

Minister of Finance
Ministry of Finance
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
(insert name and title)

For the Borrower/Recipient
(insert name and title)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Project Area.* The Project shall be implemented in all administrative districts of the Borrower/Recipient's territory with special focus on the Mokhotlong, Maseru, Thaba Tseka, Quthing and Butha-Buthe districts.
2. *Target Population.* The Project shall benefit approximately 50 000 households or 200 000 resource poor wool and mohair producers within the Project Area.
3. *Goal.* The overall goal of the Project is to boost the resilience of poor, smallholder wool and mohair producers to adverse effects of climate change in the Mountain and Foothill Regions of Lesotho.
4. *Objectives.* The development objectives are to: (i) enable smallholder livestock producers to generate higher incomes and more sustainable livelihoods; and (ii) increase their ability to cope with and recover from natural shocks.
5. *Components.* The Project shall have three Components: (1) Climate smart rangeland management; (2) Improved livestock production and management; and (3) Wool and Mohair fibre handling and marketing.
 - 5.1. Component 1: Climate Smart Rangeland Management. The objective of this component is to promote a sustainable system of climate-resilient communal grazing and rangeland management with the aim of improving livestock nutrition, maximizing production and returns for smallholder wool and mohair producers, and avoiding loss and damage resulting from climate-related events. This component will enable livestock producers to increase their productivity while countering rising trends in land degradation.
 - 5.2. Component 2: Improved Livestock Production and Management. The objective of this component is to increase the quantity and quality of wool and mohair produced by smallholder farmers in the Borrower/Recipient's territory. The activities planned under Component 2 will address the identified deficiencies in animal nutrition, breeding, and health to raise production standards and maximise returns for smallholder producers. The expected outcomes of component 2 will be that smallholder sheep and goat producers increase the production and productivity of superior quality of wool and mohair by intervening in all three factors affecting livestock productivity: (i) feeding, (ii) breeding, and (iii) animal health.
 - 5.3. Component 3: Wool and Mohair Fibre Handling and Marketing. The objective of this component is to increase market return from wool and mohair systems for livestock producers through improved quality of the fibre while at the same time stimulating a niche cottage industry for wool and mohair tapestry products, and providing a market outlet for unproductive animals that need to be removed from the rangeland. Value Chain challenges will be addressed in three sub-components: (a) value chain-based enterprise enhancement, (b) supporting cottage industry and niche market development and (c) promotion of livestock auctions and district slabs.

II. Implementation Arrangements

6. Project Steering Committee (PSC)

There shall be a PSC to provide policy guidance and oversight for Project implementation. The PSC shall be convened and chaired by the Principal Secretary (PS) of the Ministry of Development Planning (MDP) and include representatives from each of the Project Parties. The PSC shall meet bi-annually to review physical and financial progress, assess management effectiveness, decide on corrective measures where appropriate, review lessons learned and good practices, and approve AWPBs and Project Procurement Plan.

7. Project Consultative Technical Committee (PCTC)

There shall be a Project Consultative Technical Committee (PCTC) including Directors and focal points, among others, of the following: MAFS (Convenor and Co-chair), MFLR (Co-chair), MTICM (Co-chair), MEMWA, Ministry of Finance (MoF), Ministry of Home Affairs (MoHA), MDP, MoLG, LNWMGA, other relevant private sector actors, farmer/herder organisations and Non-Governmental Organisations. The PCTC shall meet quarterly and shall be tasked with providing technical and operational guidance, discuss and resolve operational problems, provide technical review of AWPBs and reinforce knowledge sharing across ministries.

8. Project Coordination Unit (PCU)

There shall be a Project Coordination Unit (PCU), hosted by the MAFS, tasked with the implementation, co-ordination and management of Project activities including consolidation of AWPBs, Procurement Plans, Progress and Financial Reports as received from the other implementing entities and co-ordination of the procurement of goods, works and services. The PCU shall also be responsible for monitoring and evaluation and provide support to implementation and supervision missions. It shall include the following professionals seconded from the Government or recruited pursuant to a competitive and transparent process: (i) the Project director; (ii) three technical component managers responsible for coordinating activities under each Component who shall be based in their respective line ministries (MTICM, MFLR and MAFS) with clearly defined lines of authority, communication and decision-making within the PCU framework; (iii) a financial management officer; (iv) a procurement officer; (v) a monitoring and evaluation officer; and (vi) a knowledge management and communication officer.

9. Lesotho National Wool and Mohair Growers Association

The Lesotho National Wool and Mohair Growers Association (LNWMGA) shall exercise leadership over the wool and mohair sub-sector, oversee activities of the sub-sector actors, provide wholesale inputs, deliver extension services and run breeding farms. In addition, the LNWMGA shall act as the policy advocate for the wool and mohair sub-sector and shall be a key service provider to the Project.

10. Non-Governmental Organizations and Community Based Organizations

Non-governmental organizations (NGOs) and community-based organizations (CBOs) shall support the Shearing Shed Associations and the Grazing Associations/Village Grazing Scheme, in building community consensus to define grazing areas and establish an equitable system of resource allocation to be based on the communities' own priorities. In addition, service providers shall be contracted to provide specialist technical advice and training to build local expertise to sustain interventions.

11. Project Implementation Manual

The Project shall be implemented in accordance with the approved AWPB and Procurement Plan and guided by the PIM, the terms of which shall be adopted by the Lead Project Agency 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 Project staff and consultants; (ii) Project operating manuals and procedures; (iii) monitoring and evaluation systems and procedures; (iv) a detailed description of implementation arrangements for each Project component; (v) modalities for the selection of service provider(s) and Project Parties to be based on transparent and competitive processes; and (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 arrangements.

12. Mid-Term Review

The Lead Project Agency and the Fund shall jointly carry out a review of the Project implementation no later than the third anniversary of the date of Entry into Force of this Agreement (the "Mid-Term Review") based on terms of reference prepared by the Lead Project Agency and approved by the Fund. Among other things, the Mid-Term Review shall consider the performance and financial management of contracted implementing partners, the efficacy of technical assistance and capacity building activities, the overall achievement of Project objectives and the constraints thereon and recommend such reorientation as may be required to achieve such objectives and remove such constraints. The Borrower/Recipient shall ensure that the agreed recommendations resulting from the Mid-Term Review are implemented within the specified time therefor and to the satisfaction of the Fund. Such recommendations may result in modifications to this Agreement or cancellation of the Financing.

13. Performance Based Agreements

The Lead Project Agency shall enter into a performance-based agreement with each of the LNWMGA, contracted service providers, NGOs and CBOs to ensure implementation of the Project. Each performance-based agreement shall specify the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. Each performance-based agreement shall be monitored closely by the Lead Project Agency, renewed annually based on satisfactory performance and shall: (i) specify that each of the LNWMGA, contracted service providers, NGOs and CBOs shall maintain a register of assets acquired with the proceeds of the Financing and that at completion of Project Implementation, such assets shall be transferred to the Lead Project Agency; (ii) provide that each of the LNWMGA, contracted service providers, NGOs and CBOs shall implement a financial management system which will enable clear identification of Project expenditures; and (iii) be submitted to the Fund for its prior approval. In addition, the performance-based agreement which the Lead Project Agency shall conclude with the LNWMGA shall provide that such entity open and thereafter maintain a dedicated bank account for Project operations. Each performance-based agreement may not be modified without prior consent of the Fund.

14. Memorandum of Understanding

The Lead Project Agency shall enter into a Memorandum of Understanding (MoU) with each Ministry designated as a Project Party under Section C 2 above for the implementation of the activities under the Project assigned thereto. Each MoU shall clearly specify the scope of the work to be undertaken, expected targets, estimated budget for specific activities, as well as clearly defined target indicators. Each MoU shall be monitored by the PSC and shall: (i) be submitted to the Fund for its prior approval;

and (ii) specify that each Ministry designated as a Project Party under Section C 2 above shall maintain a register of assets acquired with the proceeds of the Financing and that at completion of the Project implementation, such assets will be transferred to the Lead Project Agency. In addition, the MoUs which the Lead Project Agency shall conclude with the MFLR, and the MTICM shall provide that such ministries open and thereafter maintain dedicated bank accounts for Project operations at central level. Each MoU may not be modified without the prior consent of the Fund.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	DSF Grant Amount Allocated (expressed in SDR)	ASAP Grant Amount Allocated (expressed in SDR)
I. Consultancies	480 000	480 000	1 560 000
II. Goods, Services and Inputs	920 000	920 000	430 000
III. Workshops	360 000	360 000	1 510 000
IV. Salaries and Allowances	1 060 000	1 060 000	450 000
V. Operating Costs	630 000	630 000	200 000
Unallocated Costs	380 000	380 000	460 000
TOTAL	3 830 000	3 830 000	4 610 000

(b) In all cases the percentage of expenditures to be financed will be 100% net of taxes, beneficiaries and Government contributions.

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

"Consultancies" includes Eligible Expenditures for costs associated with technical assistance and studies;

"Goods, Services and Inputs" includes Eligible Expenditures for costs associated with vehicles; and

"Workshops" includes Eligible Expenditures for costs associated with training, extensions and capacity building.

(d) Eligible Expenditures shall concurrently be allocated to the Loan and DSF Grant in equal measure.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of one hundred and fifty thousand Special Drawing Rights (SDR 150 000).

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan Account, the DSF Grant Account, and/or the ASAP Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. *Gender and Youth.* The Borrower/Recipient shall ensure that women and youth are represented in the organization and management of the Project. The Borrower/Recipient shall also ensure that women and youth beneficiaries shall be represented in all Project activities and that they receive appropriate benefits from the Project outputs.
2. *Operation and Maintenance.* The Borrower/Recipient shall ensure that adequate human and financial resources are provided to support the operation and maintenance of Project-financed investments and the recurrent costs of the Project operations both during and after the Project Implementation Period, at least for the useful life of such investments.
3. *Counterpart Funds.* The Borrower/Recipient shall ensure that counterpart funds are clearly identifiable in the financial management system and all financial statements.