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Investing in rural people

President's report

Proposed loan and grant to the Kingdom of Swaziland for the Smallholder Market-led Project

Note to Executive Board representatives

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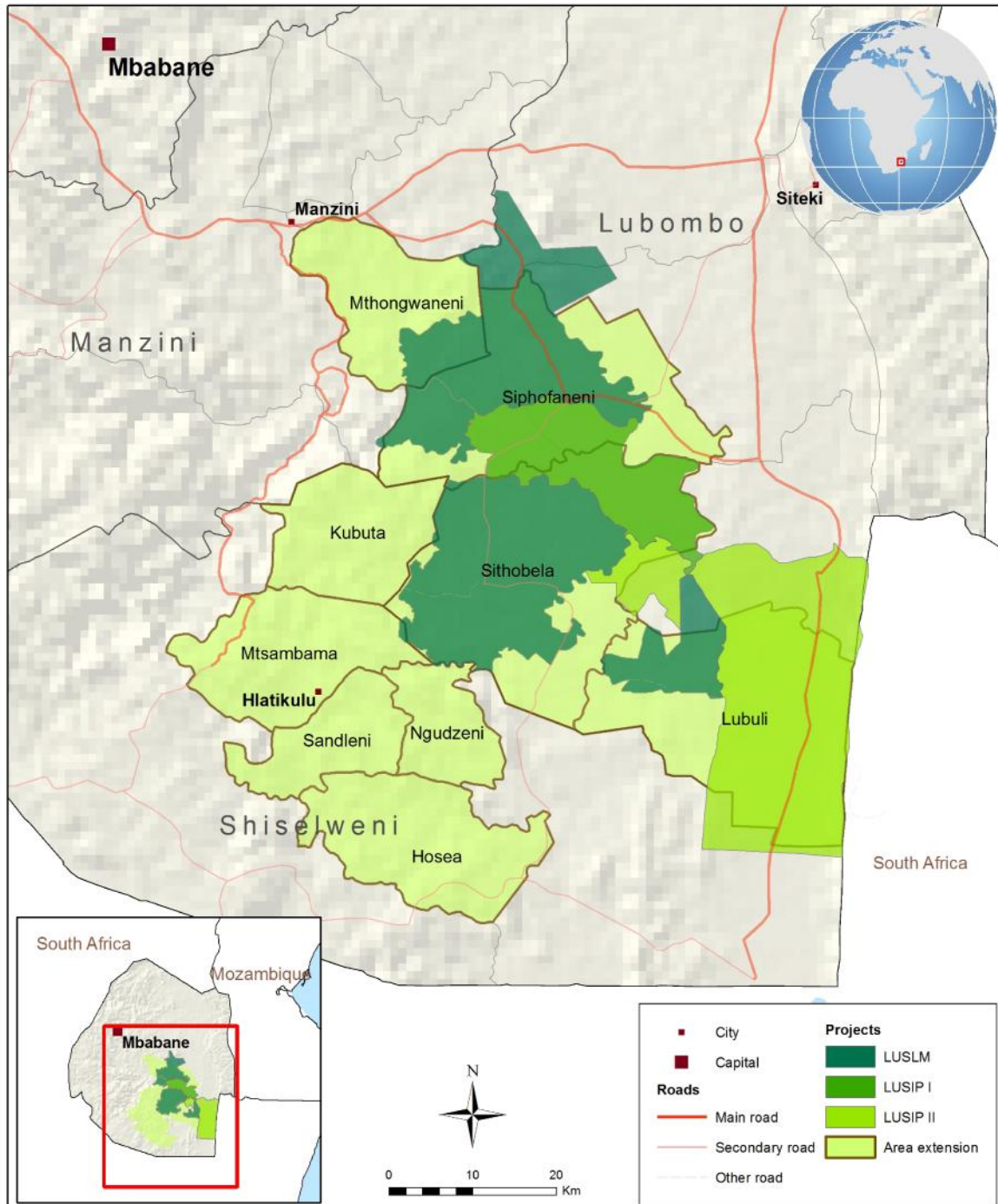
Abbreviations and acronyms

AWP/B	annual workplan and budget
CDC	community development committees
CDP	chiefdom development planning
M&E	monitoring and evaluation
NAMBoard	National Agricultural Marketing Board
PIU	project implementation unit
PSC	project steering committee
RFEDP	Rural Finance and Enterprise Development Programme
SMLP	Smallholder Market-led Project
SWADE	Swaziland Water and Agriculture Development Enterprise

Map of the project area

Swaziland

Smallholder Market-led Project (SMLP)



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 | 26-09-2014

Kingdom of Swaziland

Smallholder Market-led Project

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Kingdom of Swaziland
Executing agency:	Ministry of Agriculture
Total project cost:	US\$21.1 million
Amount of IFAD loan:	EUR 8.55 million (equivalent to approximately US\$9.6 million)
Amount of IFAD grant:	SDR 0.36 million (equivalent to approximately US\$0.5 million)
Terms of IFAD loan:	18 years, including a grace period of three years, with an interest rate equivalent to one hundred per cent of the variable interest rate, as determined annually by the IFAD Executive Board
Cofinancier(s):	To be identified
Amount of cofinancing:	US\$3.8 million
Terms of cofinancing:	To be determined
Contribution of borrower/recipient:	US\$6.6 million
Contribution of private sector:	US\$0.6 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Kingdom of Swaziland for the Smallholder Market-led Project (SMLP), as contained in paragraph 46.

Proposed loan and grant to the Kingdom of Swaziland for the Smallholder Market-led Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Although Swaziland is classified as a middle-income country, with a relatively high GDP of US\$2,415 per capita, 63 per cent of the population live below the national poverty line and an estimated one in four of the adult population is affected by HIV/AIDS. The predicament of the most vulnerable worsened during the recent fiscal crisis, which had an adverse impact on employment and key social programmes, including basic health and educational programmes. Recent economic growth, which owes much to higher Southern African Customs Union (SACU) revenues over the past two years, has not been pro-poor and there are indications that the terms currently enjoyed by Swaziland in SACU may soon become less favourable.
2. Poverty in Swaziland is predominantly rural and varies among the country's four regions and between different ecological zones. Regionally, the prevalence of poverty in 2010 was greatest in Lubombo region at 69 per cent, followed by Shiselweni region at 68 per cent.
3. The main factors contributing to rural poverty are small landholdings and low land productivity, compounded by frequent droughts that lead to crop failure and loss of livestock. People are often isolated from markets and information sources and have limited access to off-farm employment opportunities. All these factors are aggravated by the very high prevalence of HIV/AIDS, trapping the poor in poverty and militating against recovery. Frequent drought has been attributed to climate change and has led to a decline in Swaziland's food production. About a quarter of the Swazi population is food insecure and dependent on assistance, and a third of children under five are stunted.

B. Rationale and alignment with government priorities and RB-COSOP

4. Poverty and food insecurity are still widespread in rural areas, in spite of the country's economic development. The high poverty rates suggest that past government policies and programmes have not been able to adequately address the needs of the poor rural population. Smallholder agriculture remains the backbone of rural livelihoods, while it is often drought prone and characterized by low productivity and isolation from markets. IFAD projects, namely the Lower Usuthu Smallholder Irrigation Project (LUSIP), the Lower Usuthu Sustainable Land Management Project (LUSLM) and the Rural Finance and Enterprise Development Programme (RFEDP), demonstrate the potential for smallholder farming systems to (a) cover basic food needs; and (b) enter into remunerative value chains, if the right inputs, services and market linkages are provided together with a strict focus on targeting the poor and disadvantaged.
5. The above projects demonstrated the relevance of access to irrigation water for smallholder crops such as maize, but even more so for potential high-value crops

such as vegetables. The RFEDP developed a honey value chain, which was adopted by wholesalers and has become very prominent among farmers with small landholdings and few livestock. The experience shows that the productivity of staple crops such as maize can be enhanced through access to irrigation, inputs and better farming technology, leading to better nutrition and food security among food deficient households. More advanced, economically active households have strong potential for entering remunerative value chains with the surplus produce of high-value crops such as vegetables, which they are able to produce with the support of dedicated business development services and dedicated wholesalers.

II. Project description

A. Project area and target group

6. The project will be implemented over a six-year period in 25 chiefdoms in the rainfed Middleveld and Lowveld areas of the Lubombo and Shiselweni regions. It will target poor smallholder farmers that are (i) food-deficient and living at a subsistence level; and (ii) economically active and able to sell surplus production. The farmers will be assisted in increasing their farm productivity and production through access to irrigation, inputs, training and access to services. Economically active farmers will sell surplus production to wholesalers to increase income. Along selected value chains, employment opportunities will be created for young people, for example in managing collection and information centres. The activities are tailored to the capacities of smallholders, including women and families affected by HIV/AIDS.

B. Project development objective

7. The project's goal is to contribute to national poverty reduction. The development objective is to enhance food and nutrition security and incomes among smallholder producer families through diversified agricultural production and market linkages. By the end of the project, rural poverty should be reduced by 20 per cent in the targeted chiefdoms and food insecurity reduced by 50 per cent in currently food deficient households. The project's three major outcomes are: (i) the project chiefdoms engage in effective planning and decision-making; (ii) soil and water resources are sustainably managed for market-led smallholder agriculture in the project chiefdoms; and (iii) smallholder producers in the project chiefdoms supply crop and livestock products to market partners, while subsistence farmers are enabled to produce sufficient nutritious food for themselves.

C. Components/outcomes

8. The project will have three components:
9. Component 1: Chiefdom development planning. In each chiefdom, community-based development planning will be the starting point to identify and direct development activities to the targeted households. To this end, an institutional framework supporting decision-making by the traditional leadership will (where needed) be established and strengthened. Community development committees (CDCs) will be assisted in processing information on the chiefdom's resource base, population, any bottlenecks and opportunities, and development options and priorities for inclusion in a chiefdom development plan.
10. Component 2: Infrastructure for soil and water conservation. Investments in soil and water conservation at sub-catchment and homestead levels will help harness irrigation and drinking water resources for both enhanced subsistence and market-led agricultural production. The infrastructure will be designed for erosion control and water catchment to improve and safeguard productive land. The main interventions will focus on preventing silting in water reservoirs and harnessing run-off for agricultural production. This component will comprise erosion control, the rehabilitation of approximately 18 existing and construction of approximately two new small earth dams and the installation of rainwater-harvesting equipment.

11. The process of planning, design, construction and operation and maintenance of the above infrastructure combines oversight by the CDC, active participation of the producers benefiting from the infrastructure, and sound engineering services through existing or hired specialized agencies. The new construction of dams requires a rigorous planning process, with environmental impact assessments and checks and balances on engineering and aftercare. Producers benefiting from this infrastructure will form users' groups to operate, maintain and guard the infrastructure.
12. Component 3: Market-led smallholder agriculture. The project will support smallholder farmers in enhancing their crop and livestock production through improved access to efficient technical advice, agricultural technology including post-harvest processing and storage, farm inputs and irrigation. In addition to achieving higher productivity, especially in the case of food deficient farm households, economically active households will be linked to markets, including small local traders and larger wholesalers such as the National Agricultural Marketing Board (NAMBoard) and Eswatini Kitchen, a private company.
13. The project will concentrate on commodities that respond to the food and income requirements of farmers and the productive capacity of the project area. Commodities identified thus far include beekeeping, legumes, vegetables, fruits, indigenous chicken and goats. In addition, technical support will be provided for major staple crops such as maize and sorghum to safeguard household food security.
14. The main approach for developing value chains will involve setting up innovation platforms, where representatives of wholesalers, buyers, extension services, business development services, rural finance services and smallholder farmers will identify together the required improvements and innovations. Measures include providing market information, estimating market demand, sourcing from new internal and external markets, business plan development, financial services, backward and forward linkages between wholesalers/buyers and producers, and extension services. These activities aim to establish pro-poor value chains by using existing unmet market demand as the entry point for agricultural development, and will help gear agricultural practices to the specifics – in terms of quantity, quality and timeliness – of that market demand, and ultimately raise incomes and increase food availability among poor rural households.

III. Project implementation

A. Approach

15. The Smallholder Market-led Project (SMLP) is a six-year project that uses the availability of confirmed markets as a driver for promoting smallholder production for household nutrition and sale of marketable surplus. Both intervention areas follow a clear value chain development approach that includes all players from production through to processing, services and marketing.
16. Chiefdom development planning (CDP) is the starting point to involve both food deficient and economically active households. Investments in soil and water conservation are the next step to increase productivity in smallholder farms and to safeguard a sustainable natural resource basis for market-led production. The involvement of wholesalers such as NAMBoard and Eswatini Kitchen will bring the essential pull for the smallholders, while they also bring in the essential technical services for improvements in agricultural production and marketing. Business service providers, for instance TechnoServe, will bring in the required know-how for both producers and wholesalers, in terms of technical and business-related aspects such as business planning and access to finance. The project approach builds on existing policies, approaches and market demands, and offers an opportunity to apply them on a larger scale while maintaining a focus on poor rural areas.

17. The choice for market-led development builds on the success of earlier projects, notably RFEDP, LUSIP and LUSLM, in promoting smallholder agricultural production. Support in terms of agricultural extension for better crop and livestock husbandry and better capture of soil moisture and rainwater resulted in larger volumes of agricultural produce. The surplus produced was, however, absorbed locally, with little or no produce reaching national markets or sold at national market prices. Although smallholders clearly have productive potential, national wholesalers are either unable to cover their markets or have resorted to sourcing their demand from producers elsewhere. Current demand for agricultural products in Swaziland has not been linked to the agricultural potential of smallholder producers.

B. Organizational framework

18. The Ministry of Agriculture will be the lead agency for SMLP and will delegate day-to-day project implementation to the Swaziland Water and Agriculture Development Enterprise (SWADE), a parastatal with proven experience in the management and implementation of similar projects. At the outset – to ensure smooth project start-up – SWADE will be supported and strengthened with short-term technical assistance on financial management and monitoring. SWADE will establish a dedicated project implementation unit (PIU), which will work under Ministry of Agriculture oversight comprising a project steering committee (PSC) and two technical committees. The PSC will provide strategic advice on project implementation and review and approve the results-based annual workplan and budget (AWP/B), procurement plan and financial and technical progress reports. It will be chaired by the Principal Secretary of the Ministry of Agriculture and composed of high-level representatives of the Ministries of Natural Resources and Energy, Economic Planning and Development and Finance. Other participants may include NAMBoard, the Swaziland Environment Authority and other important stakeholders.
19. The technical committees will guide the PIU with technical advice on CDP and infrastructure, and on market-led infrastructure. Both committees will host the relevant ministries, technical agencies and private sector. Project partners will be engaged under service agreements. Wholesalers already identified include NAMBOARD and Eswatini Kitchen.

C. Planning, monitoring and evaluation, and learning and knowledge management

20. Planning. The main planning tools for SMLP comprise the logical framework, the monitoring and evaluation (M&E) framework with its indicators and targets, and the results-based AWP/B. The logframe provides the overall targets for project implementation at the output, outcome, development objective and impact levels. The results-based AWP/B breaks down these targets by year and assigns financial resources by financier.
21. Every year, each project partner will prepare a results-based AWP/B, for consolidation by the PIU. Guidelines and templates provided in the project implementation manual will facilitate the planning and reporting process. The AWP/Bs will be prepared under a participatory approach based on the chiefdom development plans (see component 1). They will incorporate information from the M&E systems of the PIU and project partners, and recommendations from IFAD supervision and implementation support missions. The PSC will approve consolidated draft AWP/Bs, which will then be submitted to the Government and IFAD to seek their concurrence.
22. Monitoring and evaluation. The project will undertake regular monitoring of activities, output and outcomes. Regular outcome surveys will provide information on progress at the household level, and how project activities have led to change and impact. Chiefdom socio-economic profiles will be used as a basis to monitor and assess progress and targeting of development activities, as well as periodic

review of agreements reached between market partners in the innovation platforms. Project M&E will be based on IFAD's results and impact management system (RIMS) and be complemented with indicators and surveys as required.

23. The project will conduct baseline studies using RIMS and multidimensional poverty assessment tool methodologies. In addition to standard collection of gender and age disaggregated data, the baseline and follow-up surveys will employ the women empowerment in agriculture index, which measures women's empowerment relative to that of men at household level. SMLP has also been identified as a potential candidate for the IFAD impact assessment studies.
24. Learning and knowledge management. Learning and sharing knowledge will be firmly based on the project's M&E system. The PIU will issue progress reports on a quarterly basis to be reviewed by the PSC and technical committees. Besides project reports, policy workshops and short publications will be prepared on key lessons learned and disseminated to inform the public and trigger feedback at national and regional levels.

D. Financial management, procurement and governance

25. Financial management. The project's financial management system will be in compliance with Swaziland's and IFAD's financial regulations and procedures. Under these procedures, the project will adopt an appropriate financial management system that will include financial planning through AWP/Bs, financial accounting and reporting, funds flow management, procurement and audit. The project will ensure that adequate capacity in terms of human resources and equipment are in place. The PIU financial management team will open and maintain appropriate accounting records including books of account, asset and contract registers. The chart of accounts will be based on government accounting codes to ensure full compliance with the national system in addition to meeting IFAD requirements of cost analysis by financier, expense category and component. Previous experience with exchange visits of financial management staff between countries in the region was successful in promoting the adaptation of financial management best practice. Financial statements and reports will be prepared at the end of each quarter for oversight by the project director. The reports will be consolidated and presented in semi-annual physical and financial progress reports. SWADE uses the accrual-basis International Financial Reporting Standards and audits are conducted in accordance with International Standards on Auditing, the same standards as IFAD. Well-reputed private-sector audit firms have in the past issued unqualified audit opinions on the three areas required by IFAD: financial statements, withdrawal applications and the designated account.
26. Flow of funds. IFAD and any cofinancing funds will be disbursed to the project through the Ministry of Finance into designated accounts held at the Central Bank of Swaziland. The accounts will be operated by the authorized representative(s) of the Ministry of Finance. Separate operational accounts in local currency will be opened by the project for each funding source, including Government counterpart funds. Payments of cash expenses will be in line with the approved AWP/B.
27. Procurement. All project procurement of goods, works and services will be carried out in line with the approved project procurement plan, in accordance with the Public Procurement Act and Procurement Regulations to the extent consistent with IFAD's 2010 Procurement Guidelines. The Government procurement legal framework accommodates provisions of IFAD guidelines where there is conflict.
28. Governance. An enhanced framework for good governance has been developed for SMLP to ensure: (i) transparency; (ii) accountability in the use of resources; and (iii) participation, with people having a voice in decisions that may affect them. Key features of the framework include: (i) inclusive targeting of women and disadvantaged households; (ii) participation of community representatives in local-level planning; (iii) community and participatory monitoring of project activities,

including a complaints mechanism; (iv) internal and external audits of project accounts; (v) IFAD supervision and support; (vi) regular outcome surveys to provide information on the coverage and quality of project outputs; (vii) reporting of results to the PSC, IFAD and national government institutions, with key information published on a project website; and (viii) a complaints and remedies mechanism. The framework will support the transparent use of funds and constitutes a preventive measure against misuse of project funds.

E. Supervision

29. The project will be directly supervised by IFAD, with a focus on: (i) fiduciary aspects; (ii) achievements and quality of project implementation; and (iii) implementation support. Direct supervision will be a continuous process requiring sustained communication and engagement with the Government, specifically the Ministry of Agriculture and the Ministry of Finance, the PIU, project partners and the target group. Instruments for guiding and improving implementation will include continuous policy dialogue with the Government, adjusting AWP/Bs, revising implementation manuals, supervision and midterm review missions, and amending legal agreements as appropriate.
30. During the start-up phase, supervision will focus on ensuring that the institutional arrangements to support project implementation are in place. IFAD will support a series of workshops and training sessions to sensitize all potential stakeholders, service providers and beneficiaries to the project objectives and their own roles and responsibilities. Targeted training during the start-up phase will aim to increase technical capacities and ensure adequate implementation quality.

IV. Project costs, financing, benefits

A. Project costs

31. Total investment and recurrent costs, including contingencies, over the six-year project life are estimated at US\$21.1 million or 244.1 million Swazi emalangeni (SZL). The parameters underpinning these costs are: (i) project duration of six years; (ii) cost price inflation at 6 per cent for the project period and 3 per cent per annum for six years for foreign inflation, in line with International Monetary Fund estimates; (iii) an exchange rate calculated in constant purchasing power parity from a base of SZL 10.6:US\$1; (iv) government financing or waiver of all taxes on goods, works and services procured under the project. Taxes have been estimated using information from the Swaziland Revenue Authority that includes duties and value added tax; (v) base costs are real costs at July 2014 prices; and (vi) physical contingencies estimated at 5 per cent for the civil works. Price contingencies are based on local and foreign inflation. The component estimates are summarized in the following table:

Table 1
Project costs by component and financier
(Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan</i>	<i>IFAD grant</i>	<i>Private sector</i>	<i>Government of Swaziland</i>	<i>Unidentified financing</i>	<i>Total</i>
1. Chiefdom development planning	700	200	-	600	800	2 300
2. Infrastructure for soil and water conservation	2 200	-	-	1 200	3 000	6 400
3. Market-led smallholder agriculture	5 600	100	600	2 900	-	9 200
4. Project management	1 100	200	-	1 900	-	3 200
Total	9 600	500	600	6 600	3 800	21 100

B. Project financing

32. The loan will be provided on IFAD ordinary terms and conditions with a three-year grace period and an 18-year maturity. IFAD will provide a grant equivalent to US\$500,000 to enhance the project's start-up capacity, such as designing baseline and impact studies and establishing the overall project M&E framework and financial reporting system.
33. The project will be financed by IFAD, the private sector, the Government and unidentified financiers. The IFAD financing will be in the form of a loan in an amount equivalent to US\$9.6 million and a grant in an amount equivalent to US\$0.5 million, for a total IFAD contribution of US\$10.1 million. The Government will contribute US\$6.6 million and the private-sector contribution is estimated at US\$0.6 million. The financing gap of US\$3.8 million is expected to be funded by the Global Environment Facility (GEF) or another cofinancier to be identified.

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		Private sector		Government		Unidentified financing		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Consultancies ^a	4 800	71.4	500	8.1	200	3.6	200	3.3	400	6.5	6 100	29.1
2. Equipment and materials	1 200	65.5	-	-	-	-	200	14.0	400	20.5	1 800	8.6
3. Goods, services and inputs ^b	1 200	86.2	-	-	-	-	200	14.3	-	-	1 400	6.6
4. Works	1 300	26.2	-	-	-	-	700	14.0	3 000	60.4	5 000	23.6
5. Operating costs	1 100	86.2	-	-	-	-	200	13.8	-	-	1 300	6.2
6. Salaries and allowances	-	-	-	-	400	6.3	5 100	93.7	-	-	5 500	25.9
Total	9 600	45.6	500	2.4	600	2.7	6 600	31.5	3 800	17.8	21 100	100.0

^a Includes studies, technical assistance and training.^b Includes vehicles.

C. Summary benefit and economic analysis

34. The overall economic internal rate of return of the project is estimated at 23 per cent for the base case. The net present value of the net benefit stream, discounted at 5 per cent based on the Central Bank of Swaziland benchmark interest rate/discount rate, is SZL 259.9 million (US\$24.8 million). The analysis shows significant net incremental benefits for farmers and rural entrepreneurs in the project area.
35. An estimated 55,250 households will benefit directly from the project, of which about 70 per cent or 40,000 households are classified as poor. It is estimated that 30 per cent of the target group will fully take up the project interventions related to value chain activities, which in turn will lead to substantial increases in incomes and the availability of nutritious food.
36. Benefits will accrue from: (i) efficient planning and implementation of pro-poor development activities at chiefdom level; (ii) increased and sustainable access to water for irrigation and drinking; (iii) increased productivity in livestock, crop and horticulture production; and (iv) sustainable access to markets, services (extension, finance) and inputs.

D. Sustainability

37. Project sustainability will be supported by close alignment with the policy and planning framework in Swaziland. The project will assist in addressing emerging needs, e.g. by increasing agricultural productivity and supplying consumer markets with national products. CDP is expected to become a simpler tool that is easy to

apply and fully meets people's needs. Moreover, it will foster transparency in decision-making and funding for development activities at community levels. The introduction of soil and water conservation will protect the key resources of smallholder farmers from degradation and in turn enhance productivity. Efficient knowledge management will be the key element to distil successful approaches and disseminate them widely. The Ministry of Agriculture will ensure that extension services are better equipped and regularly trained to serve the chiefdoms. Wholesalers such as NAMBOARD are likely to continue investing in smallholder farmers, provided that the project succeeds in setting up value chains. This will also encourage other wholesalers to undertake similar arrangements to source agricultural produce from smallholders. The focus on commodities, already being produced by smallholders and of high nutritious value, will generate long-term benefits for the health of rural people.

E. Risk identification and mitigation

38. The principal risk areas affecting project execution include:

- (i) Slow start up due to limited institutional capacity may reduce the likelihood of the project reaching its targets. This risk has been mitigated by the preparation of a draft project implementation plan and a financial management manual during project design. The Government will finalize the project manuals before project start-up. IFAD will finance start-up costs up to US\$500,000 equivalent to enhance technical capacity in project management, especially for baseline surveys, M&E and financial management.
- (ii) Non-availability of project financing would lead to a reduction of the project area from 25 to about 20 chiefdoms. IFAD and the Government are exploring mobilizing additional funds through PBAS reallocation as well as cofinancing from GEF under GEF-6. In the case of both financing opportunities being realized, the GEF funds will be used to increase complementary activities and/or scale up the geographic scope. The SMLP, with its focus on sustainable land management and climate-sensitive design, would be an ideal baseline project for a GEF-6 grant.
- (iii) Fiduciary risks. The inherent fiduciary risk in Swaziland is medium, based on Transparency International and Rural Sector Performance Assessment scores. Tools for effective financial management are present in SWADE, with strong capacities in many areas. The challenges encountered in the past pertain to the application and implementation of the control framework: financial reporting, budgeting, staffing, mingling of financier and government funds, and internal audit reports not being acted upon. Close collaboration was needed on the preceding IFAD-funded project to achieve acceptable financial management results. Consequently SMLP's initial fiduciary risk assessment at design is high, but these risks will be mitigated with technical assistance and the application of lessons learned, starting with the incorporation of internal control mechanisms into the financing agreement. Consequently, fiduciary risk rating is expected to drop to medium during the first year of implementation. The Ministry of Finance has a strong oversight role in management of external funds and participates in the PSC. During design, a financial management manual was prepared to guide the PIU on appropriate management of the fiduciary aspects of the project. IFAD will provide close oversight through its supervision and implementation support.
- (iv) Reliability of existing market demand has been extensively researched during project design. The involvement of NAMBoard in a number of the market chains with smallholders suggests a fair degree of stability. Similarly, Eswatini Kitchen is a confirmed reliable partner. Existing market demand may also be affected by production in South Africa and by changes in global demand. The development of a

market information system under the project will mitigate this risk by communicating early, allowing for mitigation measures in case of falling demand.

V. Corporate considerations

A. Compliance with IFAD policies

39. Project design is compliant with the applicable IFAD policies and strategies. Both a strategy for gender mainstreaming and targeting mechanisms have been incorporated in the project design in accordance with the IFAD Policy on Gender Equality and Women's Empowerment and the IFAD Targeting Policy. The IFAD Policy on Improving Access to Land and Tenure Security has informed the project's approach to addressing issues of land tenure insecurity under traditional authorities. Potential negative environmental impact has been analysed and mitigation measures designed in line with IFAD's Environment and Natural Resource Management Policy.

B. Alignment and harmonization

40. Aside from harmonization with the Government's Poverty Reduction Strategy and Action Plan and with the Comprehensive Africa Agriculture Development Programme and United Nations Development Assistance Framework, the project will complement, derive lessons from and sustain positive initiatives emerging from the Swaziland Agricultural Development Programme cofinanced by the European Union (EU) and the Food and Agriculture Organization of the United Nations. The project will create space for learning between similar projects, such as the recently started High-Value Crop and Horticulture Project funded by EU and European Development Fund.

C. Innovations and scaling up

41. SMLP is based on experiences and lessons learned from its precursors and aims to replicate successful practices on the largest scale possible in terms of both direct inclusion of poor rural households and policy influence. The project applies an in-built learning loop, whereby interventions start off on a small scale, then are assessed for effectiveness and subsequently fine-tuned for replication on a wider scale. This applies especially to results and lessons learned on innovation in market linkages through the innovation platforms established by NAMBoard, Business Development Services and buyers such as Eswatini Kitchen. Once approaches have been tested and fine-tuned, the project can help roll out the innovation to the entire designated project area.

D. Policy engagement

42. The project will inform policymakers on three key policy aspects: (i) efficient local planning processes for development with CDP simplification; (ii) management of small-scale irrigation by end users; and (iii) implementation of the new land law. The project is well positioned to engage with policymakers and other stakeholders as it can report the needs of smallholders, bring in the farmers' representatives and private-sector views, and provide quantitative and qualitative assessments for policy discussions.

VI. Legal instruments and authority

43. A financing agreement between the Kingdom of Swaziland and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
44. The Kingdom of Swaziland is empowered under its laws to receive financing from IFAD.
45. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

46. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Kingdom of Swaziland in an amount of eight million five hundred fifty thousand euros (EUR 8,550,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Swaziland in an amount of three hundred sixty thousand special drawing rights (SDR 360,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Smallholder Market-Led Project"

(Negotiations concluded on 10 March 2015)

IFAD Loan Number:

IFAD Grant Number:

Project Title: Smallholder Market-Led Project (the "Project")

The Kingdom of Swaziland (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:

Preamble

WHEREAS IFAD has agreed to extend a loan and a grant to the Borrower/Recipient for the purpose of financing the Smallholder Market-Led Project, on the terms and conditions set forth in this 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 amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (hereinafter referred to as "the Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the IFAD Loan is eight million, five hundred fifty thousand Euro (EUR 8 550 000).
- B. The amount of the IFAD Grant is three hundred and sixty thousand Special Drawing Rights (SDR 360 000).

2. The IFAD Loan is granted on ordinary terms and shall have a rate of interest per annum equivalent to one hundred per cent of the variable reference interest rate, as determined annually by the IFAD Executive Board, and shall have a maturity period of 18 years including a grace period of three (3) years.
3. The Loan Service Payment Currency shall be EUR.
4. The first day of the applicable Fiscal Year shall be 1 April.
5. Payments of principal and interest of the IFAD loan shall be payable on each 1 June and 1 December.
6. There shall be one Designated Account, denominated in Euro to receive Loan funds and another Designated Account, denominated in USD to receive Grant funds. The accounts shall be for the benefit of the Ministry of Agriculture (MoA) and held in the Central Bank of Swaziland.
7. There shall be a separate Project account, for IFAD provided funds, in local currency for the benefit of MoA in a bank acceptable to the Fund.
8. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of six million, six hundred thousand United States Dollars (USD 6 600 000). A separate Project bank account shall be opened for these counterpart funds.

Section C

1. The Lead Project Agency shall be the MoA.
2. The following are designated as additional Project Parties:
 - A. Swaziland Water and Agriculture Development Enterprise (SWADE);
 - B. Swaziland National Agricultural Marketing Board (NAMBOARD);
 - C. Eswatini Kitchen; and
 - D. Technoserve.
3. The Parties have identified Eswatini Kitchen and Technoserve as unique service providers for the purpose of the implementation of Project activities under Component 3.
4. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will 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) Key Project Staff are appointed, transferred or removed from the Project without the prior concurrence of the Fund;
 - (b) The Project is unable to provide financial reports by expense category, Project component and financier (including counterpart funding) on a timely basis;

- (c) Failure to act upon critical SWADE internal audit recommendations pertaining to the Project; and
 - (d) The Project Implementation Manual (PIM) referred to under paragraph 6, Section II, Schedule I hereof, 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 are designated as additional specific conditions precedent to withdrawal:
- (a) The Borrower/Recipient has established within SWADE a Project Implementation Unit (PIU) in accordance with paragraph 4, Section II, Schedule I to this Agreement;
 - (b) The Borrower/Recipient has established a Project Steering Committee (PSC), as referred to under paragraph 2, Section II, Schedule I to this Agreement;
 - (c) An off-the-shelf accounting software has been duly implemented in accordance with a comprehensive chart of accounts satisfactory to the Fund;
 - (d) The service agreement entered into between the PIU and the NAMBOARD shall have entered into force; and
 - (e) The Borrower/Recipient has prepared a draft PIM in form and substance satisfactory to the Fund.
3. The following is designated as a specific condition precedent to first replenishment by the Fund of the advance to the Designated Account: SWADE shall have adopted a Code of Conduct acceptable to the Fund.
4. This Agreement is subject to ratification by the Borrower/Recipient.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient

Minister of Finance
Ministry of Finance
P.O. Box 443
Mbabane
Swaziland

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 Borrower/Recipient and three (3) for the Fund.

KINGDOM OF SWAZILAND

Authorized Representative
Title

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project will target poor, smallholder farmers that are (i) food deficient living at a subsistence level and (ii) economically active and are able to sell surplus production. The farmers will be assisted to increase productivity and production of their farms through access to irrigation, inputs, training and access to services. Economically active farmers will sell surplus production to wholesalers to increase income. Along selected value chains, employment opportunities will be created for the youth, for example in managing collection and information centres. The activities are tailored to the capacities of the smallholders including women and families that are affected by HIV/AIDS. The target population lives in approximately 25 rain-fed Middle-and Lowveld chiefdoms in the Shiselweni and Lubombo Region.

2. **Goal.** The Project's goal is to reduce poverty and contribute to national rural poverty reduction.

3. **Objectives.** The development objective is to enhance food and nutrition security and incomes among smallholder producer families through diversified agricultural production and market linkages.

4. **Components.** The Project shall consist of the following Components:

Component 1: Chiefdom development planning. In each Project supported chiefdom, community-based development planning will be the starting point to identify and direct development activities to the targeted households. To this end, an institutional framework supporting decision-making by the traditional leadership will (where needed) be established and strengthened. Community development committees (CDCs) will be assisted to process information on the chiefdom's resource base, on its population, on bottlenecks and opportunities and on development options and priorities into a chiefdom development plan.

Component 2: Infrastructure for soil and water conservation. Investments in soil and water conservation at sub-catchment and homestead-levels will help harness irrigation and drinking water resources for both, enhanced subsistence and market-led agricultural production. The infrastructure will be designed for erosion control and water catchment to improve and safeguard productive land. The main interventions will focus on preventing the silting-up of the water reservoirs and by harnessing run-off for agricultural production. This component will comprise erosion control, the rehabilitation of approximately 18 existing and the construction of approximately two (2) new small earth dams and the installation of rainwater harvesting equipment.

Component 3: Market-led smallholder agriculture. The Project will support smallholder farmers to enhance their crop and livestock production through improved access to efficient technical advice, agricultural technology including post-harvest processing and storage, farm inputs and irrigation. In addition to reaching higher productivity especially for the food deficient farm households, economically active households will be linked to markets, including small local traders and larger wholesalers like the NAMBOARD and Eswatini Kitchen, a private company.

II. Implementation Arrangements

1. Lead Project Agency

1.1 The MoA will be the Lead Ministry for the Project and it shall delegate Project implementation and coordination to the PIU. To this end, the MoA will (i) assign a senior staff to coordinate Project preparation and start-up activities on behalf of the Ministry; and (ii) will convene a quarterly PSC and technical committees for exercising oversight throughout the implementation period.

1.2 The Ministry of Finance (MoF) will be responsible for the flow of IFAD, other co-financing and counterpart funds to the Project in line with national regulations.

2. Project Steering Committee

2.1 Establishment and Composition. The MoA will establish a Project Steering Committee (PSC) with structure, functions and responsibilities in accordance with the PIM and acceptable to the Fund. The PSC will be chaired by a senior official of the MoA and will comprise representatives that may include: Ministry of Natural Resources and Energy, Ministry of Economic Planning and Development and MoF, NAMBOARD, the Swaziland Environment Authority, the Chief Executive Officer of SWADE, the Swaziland National Trust Commission and Ministry of Tourism and Environmental Affairs. The PSC shall meet at least once a year and as often as required and the National Project Director shall act as the meeting's secretary, and shall ensure that adequate documents and proposals are prepared ahead of each PSC meeting.

2.2 Responsibilities. The PSC is responsible for Project oversight and to ensure alignment of the Project to ongoing programmes and activities, as detailed in the PIM, including (i) provide strategic guidance to the Project management; (ii) approve the Annual Work Plan and Budget and Procurement Plan, financial and technical progress reports; and (iii) initiate follow-up actions on lessons and findings from the Project.

3. Technical Committee

3.1 Establishment and Compositions. The Borrower/Recipient shall establish two technical Committees, one for Chiefdom Development Plans and infrastructure (TCCDP), and another for Market-led Agriculture (TCMLA), both with structure, functions and responsibilities in accordance with the PIM and acceptable to the Fund. The TCCDP will be chaired by the MoA and may comprise senior representatives of the Ministry of Tinkhundla, the Swaziland Environmental Agency, SWADE, relevant divisions of MOA, and the PIU, who acts as secretary to the Committee.

3.2 The TCMLA will be chaired by NAMBOARD and may comprise senior representatives from the business development service providers like TechnoServe, relevant divisions of MoA, Eswatini Kitchen, SWADE, Micro Finance Unit, Swaziland National Agricultural Union, and the PIU who acts as secretary to the Committee.

3.3 Responsibilities. Both Technical Committees will provide technical guidance and oversight to the Project. They will report regularly to the PSC and advise the PIU and they shall endeavour to meet at least once every three months.

4. Project Implementation Unit

4.1 Establishment and Composition. The PIU shall be established within SWADE, with structure, functions and responsibilities acceptable to the Fund and in accordance with the PIM. Qualified staff including, inter alia, a National Project Director, a Project Finance Manager, a Procurement Officer, a Planning, Monitoring and Evaluation Officer and a Subject Matter Specialist for each of the Project Components 1-3 (collectively "Key Project Staff") shall be selected according to the Borrower/Recipient's applicable procedures acceptable to the Fund and hiring and termination of the contracts shall be subject to the Fund's no-objection. The PIU will set up an office in the Project area in or near to a Rural Development Area at a central location.

4.2 Responsibilities. The PIU is responsible for overall Project implementation and coordination, including, inter alia: (i) preparation of the Annual Work Plan and Budget (AWPB); (ii) financial management; (iii) procurement; (iv) project monitoring and evaluation; (v) knowledge management; (vi) preparation and consolidation of Statement of Expenditures, financial statements and withdrawal application; (vii) Project reporting; and (viii) of coordination of all Project implementing partners.

5. Project Assignment letters and Service Agreements

5.1 In order to facilitate Project implementation, MoA will issue an assignment letter to SWADE to establish the PIU and undertake specific responsibilities for Project implementation in form and substance acceptable to the Fund. The PIU will enter into service agreements with NAMBOARD, Eswatini Kitchen and Technoserve and other service providers for specific project activities and in form and substance acceptable to the Fund. NAMBOARD, a specialised parastatal agency dedicated to improve farmers' access to markets, will engage to provide guidance to market linkage activities for the project target group. The Project will invest in marketing infrastructure and capacity development. NAMBOARD will, in return dedicate capacity to the Project area and to value chains to be developed therein. The continuation of each of the service agreements will be subject to regular review and satisfactory performance.

5.2 The PIU will enlist other professional services for planning, design and supervision of infrastructural works and will engage experienced contractors for the technical implementation. Contracts and procurement will adhere to international engineering procurement standards.

6. Project Implementation Manual

6.1 The Project shall be implemented in accordance with the approved AWPB and Procurement Plan and 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.

Schedule 2

Allocation Table

1. Allocation of the Financing. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Financing and the allocation of the amounts of the Financing to each Category.

Category	Loan Amount Allocated (expressed in EUR)	Grant Amount Allocated (expressed in SDR)
I Consultancies	3 850 000	360 000
II Equipment and materials	950 000	-
III Goods, Services and Inputs	940 000	-
IV Works	1050 000	-
V Operating costs	910 000	-
Unallocated costs	850 000	-
TOTAL	8 550 000	360 000

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

- (i) "Consultancies" includes Studies, Technical Assistance and Training; and
- (ii) "Goods, Services and Inputs" includes vehicles.

(c) The percentage of expenditures for items to be financed in each Category shall be 100% net of taxes, contributions of government and beneficiaries.

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 EUR 400 000.

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 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, Youth and HIV/AIDS.** The Borrower/Recipient shall ensure that women and youth are given equal opportunities to be represented in the organization and management of the Project. The Borrower/Recipient shall also ensure that women, youth, and beneficiaries affected by HIV/AIDS 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 in all financial statements and that said funds are made timely available in the relevant Project account.
4. **Land rights.** The Borrower/Recipient shall ensure that smallholder farmers have full access to improved, irrigated Swazi Nation Land for sustainable crop and livestock production as per approved Chiefdom Development Plans.

Logical framework (excerpt)

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
Contribution to the national goal of reduced rural poverty (SNAIP, 2014)	<ul style="list-style-type: none"> ▪ 20% reduction in number of households below national poverty line in the Project chiefdoms ▪ 10% reduction in child malnutrition (RIMS level III) ▪ 4000 households with a 20% improvement in household assets ownership index (RIMS Level III) 	<ul style="list-style-type: none"> ▪ Project baseline survey and follow-up surveys ▪ Periodic reports Swaziland Statistical Office ▪ Health clinic data recording ▪ RIMS survey data ▪ RCT outcomes 	
Project Development Objective:			
Smallholder producer households in the Project chiefdoms enhance food and nutrition security and incomes from diversified agricultural production and market-linkages	<ul style="list-style-type: none"> ▪ 5500 households with increased incomes by 15% or more above baseline (by wealth category, male/female headed, youth headed HH) ▪ 50% reduction in households classified as food deficit (above baseline) ▪ 9,900 direct project beneficiaries 	<ul style="list-style-type: none"> ▪ Project baseline survey and surveys ▪ Mid-term and end of Project evaluations 	<ul style="list-style-type: none"> ▪ (A) Demand for food does not outstrip production of a marketable surplus ▪ (A) economic and fiscal policies remain favourable to small producers ▪ (A) No major natural disaster affects the Project Area ▪ (A) Additional funds / co-funding for expansion of the Project to new chiefdoms in rain-fed areas available
Outcome 1: Effective planning and decision-making by the Project chiefdoms	<ul style="list-style-type: none"> ▪ 25 CDPs having a completion rate of 50% or more ▪ 25 effective advisory services programmes coordinated with CDC approach 	<ul style="list-style-type: none"> ▪ Project monitoring reports ▪ Data on participation and perception ▪ Meeting minutes and records ▪ Chiefdom records ▪ Letters of Consent 	<ul style="list-style-type: none"> ▪ (A) CDPs are endorsed by chiefs, communities and national government

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
<p>Outcome 2: Soil and water resources are sustainably managed for market-led smallholder agriculture in the Project chiefdoms</p>	<ul style="list-style-type: none"> ▪ 550 % increase, above baseline, of crop production from the command area of the dams ▪ 70 groups effectively maintaining irrigation commands and erosion control areas 	<ul style="list-style-type: none"> ▪ Project monitoring reports ▪ CDC records on registry and annual review of water user and erosion control groups ▪ Annual infrastructure inspections by Land Use Department 	<ul style="list-style-type: none"> ▪ (A) Sustainable land use practices are disseminated and adopted widely ▪ (A) Groups benefiting from erosion and irrigation infrastructure are supported by Government
<p>Outcome 3: Smallholder producers in the Project chiefdoms supply crop- and livestock products to market partners</p>	<ul style="list-style-type: none"> ▪ A total increase of SZL 43.3 million in the annual farm gate value of traded volumes by year 6; across chiefdom and selected value chains over baseline 	<ul style="list-style-type: none"> ▪ Production data from MoA livestock and crop surveillance system ▪ Data from MoA honey certification system ▪ Market surveys ▪ Project monitoring reports ▪ NAMBOARD, Eswatini kitchen etc. periodic reports 	<ul style="list-style-type: none"> ▪ (A) Consumers demand for local produce increases ▪ (A) Wholesalers access finance for business development ▪ (A) Selected value chains remain viable for the smallholder producer