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President's memorandum

Proposal for additional financing to the Republic of Madagascar for the Support to Farmers' Professional Organizations and Agricultural Services Project (AROPA)

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing to the Republic of Madagascar for the Support to Farmers' Professional Organizations and Agricultural Services Project (AROPA), as contained in paragraph 26.

Proposal for additional financing to the Republic of Madagascar for the Support to Farmers' Professional Organizations and Agricultural Services Project (AROPA)

I. Background

1. The present memorandum seeks the approval of the Executive Board for additional financing in the form of a loan in the amount of US\$11.00 million on highly concessional terms for the Support to Farmers' Professional Organizations and Agricultural Services Project (AROPA), which was approved by the Executive Board in September 2008. This additional financing will be used to scale up successful programme interventions.
2. Following the request for additional financing from the Government of Madagascar, the funds will be allocated under the 2016-2018 cycle of the performance-based allocation system (PBAS). They will be supplemented by a contribution from the Government of US\$1.30 million and a contribution from the project beneficiaries, estimated at US\$1.04 million.
3. The additional financing will be used to (i) partially cover the shortfall resulting from the non-mobilization of the cofinancing originally foreseen; (ii) consolidate the results achieved for the targeted 62,000 family farms and their organizations; (iii) increase the number of family farmers targeted in the five project regions to a total of 75,000; and (iv) create, by 2019, the institutional conditions for sustainable scaling up of project tools and results at the national level.
4. The granting of the additional financing will also extend by one year the project completion and loan closing dates, to 31 March 2019 and 30 September 2019, respectively.

II. Justification for the additional financing

5. Several important factors justify the additional financing: (i) the cofinancing originally foreseen did not materialize because of the socio-political crisis that lasted from 2009 to 2013, which in turn affected the implementation of the project; (ii) complementary innovative tools and activities were introduced during the first midterm review (2012), such as a mechanism to target vulnerable groups, which enabled the poorest family farmers to reengage in productive activities thanks to the provision of inputs and small-scale farming equipment through a solidarity chain system; (iii) family farm management advisers have developed local farm services, particularly through farmers' field schools; and (iv) professionalization plans by national and regional producers' organizations, which have developed new functions and improved provision of agricultural services to their members. The relevance of these tools and mechanisms has been proven over the past three years.

III. Description of the project

6. The additional financing does not imply any modifications to the project objectives or its implementation modalities. Its main purpose is to consolidate results in the five areas of intervention and create the institutional framework for scaling up

activities, while promoting a gradual shift away from the project structure to the benefit of sustainable institutions.

7. The AROPA project will continue to operate in the five regions originally targeted. Activities will be consolidated in the 15 districts in which support is presently concentrated, and will be replicated in five districts that have not yet been targeted, including three drought-affected districts in the south.
8. Targeting will continue to focus on three categories of family farms (FF) identified through the agricultural services strategy (FF1, FF2 and FF3), which were defined following the first interphase review in 2012. The project will support an inclusive approach that encompasses vulnerable farms (FF3), with increased attention paid to ensuring that their targeting and inclusion in the producers' organizations in order to facilitate their access to inputs and knowledge as well as integrate them into existing value chains. This strategy is coherent with that of the country strategic opportunities programme (COSOP 2015-2019).

A. Components

9. The activities are organized around four existing technical components, and a mechanism for monitoring and evaluation, knowledge management and communication.

Component 1: Support for structuring professional organizations and the professionalization of producers

10. This component will focus on strengthening producers' organizations (POs) and provision of demand-driven local agricultural services. It will include: (i) a participatory institutional diagnostic assessment to be carried out for 25 regional POs, five regional chambers of agricultures and 55 unions; (ii) support for the professional plans of regional POs and chambers of agriculture to be implemented by the organizations themselves; (iii) funding of 115 advisers in family farm management to ensure locally available guidance for family farms and community-based POs; (iv) greater inclusion of the FF3 category within community-based POs; (v) improvement of the services provided by POs to their members; and (vi) formulation of five value chain development plans and the revitalization of five value chain platforms.

Component 2: Development of intermediation and agricultural service contracts

11. The second component is aimed at improving producers' access to information, knowledge and technologies. It will support the main mechanism of intermediation between the supply and demand of agricultural services, as defined in the agricultural services strategy, through capacity-building of the technical teams and steering committees of agricultural service centres. In addition, it will: (i) support the accreditation of service providers; (ii) support POs in marketing their products by pairing POs with market operators (i.e. contract farming between producers' organizations and market operators); and (iii) capitalize on and disseminate best practices and innovative experiences.

Component 3: Financing of production and services for farmers

12. This component covers support mechanisms for the productive investments of FFs and the POs. It will mainly operate through regional agricultural development funds (RADFs), which will gradually incorporate financing mechanisms for activities supported by the project, particularly the PO professional plans and the vulnerability targeting mechanism (to ensure inclusion of the most vulnerable FFs). This is by far the largest component under the additional financing and the project overall in terms of budget. It will entail: (i) relocation and capacity-building of the RADF in Ihorombe Region; (ii) assuming the functions of the regional executive directorates and regional steering committees for three RADFs (Haute Matsiatra, Ihorombe et Amoron'i Mania) in complementarity with projects funded by the

European Union; (iii) providing an annual contribution of 1.2 million Malagasy ariary per RADF (the European Union will support the remaining two RADFs); and (iv) funding the professional plans of apex POs and of national chamber of agriculture, and the targeting mechanism for the most vulnerable (if possible through the RADFs). The financing foreseen in the original AROPA report for infrastructure-related activities (rural roads) was no longer considered a priority and will be suspended (approximately US\$7.0 million).

Component 4: Support to national policy on agricultural services

13. The component has an important role in the scaling up of the project activities and results, operationalizing the national strategy for agricultural services (agricultural development funds/agricultural service centres) and the consolidation of the chamber of agriculture (legal status, public funding and replacement of elected representatives). It will support, in particular, (i) the design and fine-tuning of the professional plan of the national chamber of agriculture and those of the six apex POs; (ii) operationalization of the agricultural development fund at the national level, thereby allowing for the future institutional and financial integration of the RADF and the agricultural service centres; (iii) technical coordination of the project; (iv) knowledge gathering and management; (v) support for POs in policy dialogue within the framework of the Agriculture, Livestock and Fisheries Sector Programme; and (vi) joint action with the Food and Agriculture Organization of the United Nations, World Food Programme and AROPA in the south of the country.

B. Expected results

14. The additional financing will allow for: (i) consolidation of results achieved in favour of the 62,000 FFs currently targeted and their 2,700 organizations; and (ii) achievement of expected results by doubling the average annual income of 62,000 FFs and expanding the number of beneficiaries to a further 13,000 FFs, to reach a total of 75,000 beneficiaries in the five regions of intervention.
15. It will also allow for the strengthening of tools and mechanisms put in place by the project and the creation, by 2019, of the institutional conditions for the sustainable scaling up of project instruments and results at the national level. All national and regional POs will complete their professional plans and attain the necessary institutional maturity to ensure their sustainability.

IV. Project costs and financing

16. The overall amount of additional financing is estimated at US\$13.34 million over four years, distributed as follows : (i) an IFAD contribution of US\$11.00 million (82.5 per cent), in the form of a loan on highly concessional terms; (ii) a contribution by the Government of Madagascar of US\$1.30 million (9.7 per cent), in the form of tax exemptions, running costs of the agricultural service centres and the RADFs; and (iii) a contribution from the beneficiaries of US\$1.04 million (7.8 per cent), in the form of investment in the various professional plans.

17. Tables indicating costs by component and by expenditure category are provided below.

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

<i>Component</i>	<i>IFAD</i>		<i>Beneficiaries</i>		<i>Government</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Support for structuring professional organizations and the professionalization of producers	1 185 189.70	79.4	-	-	307 656.70	20.6	1 492 846.50	11.2
2. Development of intermediation and agricultural service contracts	1 098 854.60	85.1	-	-	193 114.00	14.9	1 291 968.50	9.7
3. Financing of production and services for farmers	6 129 908.80	81.0	1 041 685.90	13.8	398 705.90	5.3	7 570 300.60	56.7
4. Support to National policy on services for farmers	2 586 711.90	86.6	-	-	399 447.20	13.4	2 986 159.00	22.4
Total	11 000 665.00	82.5	1 041 685.90	7.8	1 298 923.80	9.7	13 341 274.60	100.0

Table 2
Project costs by expenditure category and financier
(United States dollars)

<i>Expenditure category</i>	<i>IFAD</i>		<i>Beneficiaries</i>		<i>Government</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
A. Equipment and vehicles	139 904.30	74.2	-	-	48 692.00	25.8	188 596.30	1.4
B. Agricultural development fund	5 979 756.90	80.9	1 041 685.90	14.1	369 549.60	5.0	7 390 992.40	55.4
C. Training and capacity-building and studies	3 388 249.60	85.3	-	-	583 741.70	14.7	3 971 991.30	29.8
D. Operating costs								
Salaries and allowances	1 129 126.70	84.0	-	-	215 071.80	16.0	1 344 198.50	10.1
Operation and maintenance	363 627.50	81.6	-	-	81 868.70	18.4	445 496.20	3.3
Subtotal	1 492 754.20	83.4	-	-	296 940.50	16.6	1 789 694.70	13.4
Total	11 000 665.00	82.5	1 041 685.90	7.8	1 298 923.80	9.7	13 341 274.60	100.0

V. Financial management, procurement and governance

18. The Ministry of Agriculture will remain the lead project agency. Supervision and monitoring will continue at the national level under the national steering committee, and, at the regional level, the regional steering committees.
19. The manual of administrative, financial and accounting procedures will be updated. Procedures will be in line with the conditions and modalities established by IFAD and the Republic of Madagascar, and harmonized with those currently in effect under the APOPA project and those applicable to IFAD projects.
20. Project implementation will be monitored through the effective accounting procedures already in place within AROPA and rigorous management controls, with the management information system adapted to project needs; regular monitoring and control by the IFAD Programme Support Unit (CAPFIDA) to strengthen the professionalization plans; monitoring of financial and management dashboards; and the preparation of periodic reports.

VI. Audit

21. As is the case for all other IFAD-financed operations in the country, consolidated financial statements will be audited by an independent auditor and by the Office of the Auditor-General, in accordance with International Standards on Auditing and relevant IFAD guidelines.

VII. Legal instruments and authority

22. Subject to the approval of the Executive Board, the current financing agreement will be amended to reflect the additional financing. The proposed changes to the agreement will require revision to the allocation of IFAD financing to include the additional resources granted as a loan. The amendments will also include the extension of the project completion date to 31 March 2019 and of the loan closing date to 30 September 2019.
23. The additional financing does not imply any modification to the project description and will be used to scale up activities originally foreseen under the project.
24. The Republic of Madagascar is empowered under its laws to borrow from IFAD.
25. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VIII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Madagascar in an amount equivalent to approximately seven million nine hundred and seventy special drawing rights (SDR 7,970,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Logical framework

Cadre logique (actualisé sur la base du COSOP 2015-2019)

RÉSULTATS	INDICATEURS	ÉVOLUTION		
		Réf. (2010)	2015	Cible (2019)
Objectif de développement: 75 000 FAMILY FARMS pauvres des zones d'intervention améliorent durablement leur revenu et leur sécurité alimentaire.	Taux d'incidence de la pauvreté dans les zones d'intervention	80,5%		74,6%
	Revenu moyen annuel par FAMILY FARMS (en ariary)	985 196	ND	3 170 142
	FAMILY FARMS bénéficiaires	0	61 823	75 000
Effets: Effet 1. Les producteurs et leurs organisations (OP) ont augmenté leurs productions et la partie commercialisée. Effet 2. Les OP rendent des services à leurs membres. Effet 3. Les organisations de producteurs (07 OP faitières/ chambre d'agriculture nationale, 30 OP régionales/ chambres d'agriculture régionales) ont amélioré leur professionnalisme et leur niveau d'autonomie.	Valeur de produits commercialisés (en million d'Ar)	ND	70 000	110 000
	Couple OP-OM établi	0	11	25
	Partenariats de services établis entre OP et autres acteurs	ND	7	37
	Projets professionnels menés à terme	0	27	63
Produits: Produit 1.1. La base productive des FAMILY FARMS est améliorée. Produit 1.2 Les filières agricoles sont développées. Produit 2.1. Les OP mobilisent des fonds pour financer les services aux membres. Produit 2.2. Les services agricoles aux FAMILY FARMS sont disponibles. Produit 3.1. La qualité de gouvernance et la gestion des OP sont améliorées. Produit 3.2. Le niveau d'autonomie des OP est amélioré.	Superficie aménagée/réhabilitée (ha)	0	9502	11500
	Rendement moyen rizicole (t/ha)	2,7	3,4	4,0
	Emplois créés	0	1470	2500
	Nombre d'OP appuyées	ND	2 723	2 800
	% de projets professionnels soumis effectivement financés (en montant)	0	14%	80%
	% OP obtenant un score de délivrance de services supérieur à 2/4 (diagnostics institutionnels participatifs)	ND	61%	100 %
	% OP obtenant un score de gouvernance supérieur à 2/4 (diagnostics institutionnels participatifs)	ND	77 %	100 %
	% OP obtenant un score d'autonomie supérieur à 2/4 (diagnostics institutionnels participatifs)	ND	61 %	100 %