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President's memorandum

Proposed additional grant to the Democratic Republic of Sao Tome and Principe for the Smallholder Commercial Agriculture Project

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 financing to the Democratic Republic of Sao Tome and Principe for the Smallholder Commercial Agriculture Project, as contained in paragraph 14 and all modifications to the financing agreement as contained in paragraph 10.

Proposed additional grant to the Democratic Republic of Sao Tome and Principe for the Smallholder Commercial Agriculture Project

I. Context and justification

1. The Executive Board approved the Smallholder Commercial Agriculture Project (PAPAC) on 12 September 2014 (EB 2014/LOT/P.13). Financing for the project comprised: (i) an IFAD grant of US\$3.0 million under the 2013-2015 cycle of the performance-based allocation system (PBAS); (ii) a funding gap of US\$3.0 million under PBAS 2016-2018, subject to Board approval (total IFAD financing amounting to US\$6.0 million in accordance with project cost tables 1 and 2, representing 61 per cent of the total project cost); (iii) financing for the period 2015-2017 by the French Development Agency (AFD) for US\$0.7 million (7 per cent); (iv) a Government contribution of US\$0.9 million (9 per cent); (v) a contribution by beneficiaries estimated at US\$1 million (11 per cent); and (vi) an amount of US\$1.2 million, which remained to be mobilized.
2. Following satisfactory performance of the IFAD portfolio in Sao Tome and Principe, an amount of approximately US\$3 million has been allocated to the PAPAC under the present PBAS cycle to fill the financing gap. Project concepts, components, cost items, cost-benefit analysis, results matrix, monitoring and evaluation (M&E), and institutional and operational arrangements remain unchanged.
3. This memorandum seeks Executive Board approval for use of the additional financing from the 2016-2018 PBAS cycle in the amount of SDR 2,171,844 (equivalent to approximately US\$3.0 million).

II. Status of project implementation

4. The PAPAC grant agreement was signed on 29 September 2014 and the PAPAC entered into force on the same date. The start-up workshop was held in January 2015 and the first disbursement of US\$700,000 took place in June 2015. The project is now in full implementation, with all activities – for the sustainable development of the three main value chains promoted by the project (cocoa, coffee and pepper) – being implemented in accordance with the workplan and on the basis of business plans of the cooperatives of producers.¹ To date, the project has been regularly carrying out rehabilitation of the old plantations on 2,200 hectares (ha) of cocoa, 320 ha of coffee and 10 ha of pepper, as well as activities to strengthen the management and technical capacities of the four cooperatives, including support to economic infrastructure.

¹ Organic Cacao Export Cooperative (CECAB), Quality Cacao Export Cooperative (CECAO), Organic Coffee Export Cooperative (CECAFEB) and Pepper and Vanilla Export Cooperative (CEPIBA).

III. Project costs, financing and benefits

5. The additional financing of SDR 2,171,844 in the form of a grant will be allocated across all project activities and categories.

Table 1

Project costs by component and financier

(Thousands of United States dollars)

Component	Government		IFAD		AFD		Beneficiaries		Financing deficit		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Development of family plantations												
1. Plantations ^a	236	8.2	1 114	38.6	19	0.7	764	26.5	752	26.1	2 885	29.3
B. Consolidation of producer organizations												
1. Rural infrastructure	119	10.0	686	57.3	46	3.8	109	9.1	237	19.8	1 198	12.2
2. Organization and management ^b	229	11.8	1 142	58.6	376	19.3	56	2.9	145	7.4	1 948	19.8
3. Common framework ^c	42	4.5	608	65.4	265	28.5	-	-	15	1.6	930	9.4
Subtotal	391	9.6	2 436	59.8	687	16.9	165	4.0	397	9.7	4 076	41.4
C. Introduction of new intervention areas												
1. Microirrigation	82	12.4	452	68.6	-	-	113	17.1	12	1.9	659	6.7
2. Livestock	32	16.1	151	75.7	-	-	4	2.2	12	5.9	200	2.0
Subtotal	114	13.3	603	70.2	-	-	117	13.7	24	2.8	859	8.7
D. Coordination, management and M&E												
1. Coordination, administration	146	9.5	1 389	90.5	-	-	-	-	-	-	1 535	15.6
2. M&E	30	6.0	460	92.0	-	-	-	-	10	2.0	500	5.1
Subtotal	176	8.7	1 849	90.9	-	-	-	-	10	0.5	2 035	20.7
Total	917	9.3	6 002	60.9	706	7.2	1 047	10.6	1 183	12.0	9 854	100.0

^a Densification and extensions.^b Technical, operational, administrative and financial.^c Institutional, commercial.

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	Government		IFAD		AFD		Beneficiaries		Financing deficit		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Rural infrastructure	85	13.0	221	33.8	38	5.8	114	17.4	196	30.0	653	6.6
Equipment	234	19.9	593	50.5	46	3.9	168	14.4	133	11.3	1 174	11.9
Research and technical assistance	12	1.2	416	40.3	603	58.5	-	-	-	-	1 031	10.5
Training	15	9.4	145	90.6	-	-	-	-	-	-	159	1.6
Provision of services ^a	469	13.0	2 258	62.6	19	0.5	586	16.2	275	7.6	3 608	36.6
Personnel	-	-	2 185	75.3	-	-	179	6.2	536	18.5	2 900	29.4
Operating costs ^b	101	30.9	185	56.2	-	-	-	-	43	13.0	328	3.3
Total	917	9.3	6 002	60.9	706	7.2	1 047	10.6	1 183	12.0	9 854	100.0

^a Agreements implemented by cooperatives.^b Including miscellaneous services.

IV. Financial management, procurement and governance

6. Financial management. An analysis of financial management options took place during the project design phase. It was decided, jointly with country authorities, that a project management unit (PMU) with administrative and financial autonomy would be tasked with implementing the PAPAC. The PMU is now fully operational and is able to employ the human resources of the Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme (PAPAFPA), thus benefiting from PAPAFPA experience in the PAPAC's financial management. The proposed financial management system has been evaluated to verify that it meets IFAD's fiduciary risk requirements. Risk, which is deemed moderate, will be mitigated by the following measures: adoption of a support and training plan for financial officers of the PMU and for accountants of the cooperatives; updating of the procedures manual, including procedures for cooperatives; expansion of annual audits to include the cooperatives; and presentation of interim financial reports by the PMU to IFAD and the oversight ministry.
7. Flow of funds. The project has a designated account in euros and an account in local currency (dobras) that will be replenished by the designated account. Bank accounts have been regularly opened in local currency for receipt of project resources by the cooperatives.
8. Procurement. In view of the country context – small size, insularity, few or no local suppliers – specific provisions have been made to lighten procurement procedures. These include: (i) purchasing of common equipment through United Nations organizations; and (ii) purchasing of other goods by national or international requests for quotations, rather than by the more-burdensome national or international calls for tender. In addition, three-year framework agreements are in place between each cooperative and the project on development of the family plantations component.
9. Audit. A project audit is performed annually, in accordance with international standards and IFAD's guidelines on audits, by a firm selected by tender. The auditors are requested to issue detailed recommendations annually on the project's management and internal control procedures. Annual audits also cover the use of resources by cooperatives.

V. Proposed amendment to the grant agreement

10. Once the additional grant is approved by the Executive Board, the current grant agreement will be amended to take into account the additional grant. This financing completes the financing plan initially approved at project design and will not entail any changes to the PAPAC concepts, components, cost items, cost-benefit analysis, logical framework and institutional arrangements.

VI. Legal instruments and authority

11. An amendment to the current grant agreement between the Democratic Republic of Sao Tome and Principe and IFAD will constitute the legal instrument for extending the proposed additional grant to the recipient.
12. The Democratic Republic of Sao Tome and Principe is empowered under its laws to receive financing from IFAD.
13. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a grant to the Democratic Republic of Sao Tome and Principe in an amount equivalent to two million one hundred and seventy-one thousand eight hundred and forty-four special drawing rights (SDR 2,171,844), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President