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Investing in rural people

President's report

Proposed loan to Grenada for the Climate-smart Agriculture and Rural Enterprise Programme

Note to Executive Board representatives

Focal points:

Technical questions:

Lars Anwandter
Country Programme Manager
Latin American and the Caribbean Division
Tel.: +39 06 5459 2308
e-mail: l.anwandter@ifad.org

Mattia Prayer Galletti
Lead Technical Specialist
Policy and Technical Advisory Division
Tel.: +39 06 5459 2294
e-mail: m.prayer@ifad.org

Dispatch of documentation:

William Skinner
Chief
Governing Bodies
Tel.: +39 06 5459 2974
e-mail: gb@ifad.org

For: Approval

Contents

Appendices

Abbreviations and acronyms

AWP/B	annual workplan and budget
CC	climate change
CSA	climate-smart agriculture
CSN	country strategy note
GIDC	Grenada Investment Development Corporation
M&E	monitoring and evaluation
MoF	Ministry of Finance
PMU	programme management unit
PSC	programme steering committee
SAEP	Climate-smart Agriculture and Rural Enterprise Programme
SDG	Sustainable Development Goal

Map of the programme area

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.

IFAD *Map compiled by IFAD* | 23-05-2017

Grenada

Climate-smart Agriculture and Rural Enterprise Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Grenada
Executing agency:	Ministry of Finance
Total programme cost:	US$12.00 million
Amount of IFAD loan:	US$3.99 million
Terms of IFAD loan:	Highly concessional terms, maturity period of 40 years, including a grace period of 10 years
Amount of financing gap:	US$2.41 million
Cofinancier(s):	Caribbean Development Bank (CDB) Grenada Investment Development Corporation (GIDC)
Amount of cofinancing:	CDB: US$3.00 million GIDC: US$0.33 million
Terms of cofinancing:	CDB: loan GIDC: grant
Contribution of borrower:	US$2.00 million
Contribution of beneficiaries:	US$0.27 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 loan to Grenada for the Climate-smart Agriculture and Rural Enterprise Programme, as contained in paragraph 63.

Proposed loan to Grenada for the Climate-smart Agriculture and Rural Enterprise Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Grenada is an upper-middle-income small island developing state (SIDS), with a per capita GDP of about US$13,400. Its population of 110,096 (2015) lives in an area of 344 km^2 (95 per cent on the main island of Grenada and 5 per cent on the two smaller islands of Carriacou and Petite Martinique). Over 90 per cent of the population is considered rural (excepting residents of the capital town of St. George's).

2. As a small island, Grenada is highly vulnerable to external shocks and climate-change (CC) effects. After being devastated by hurricanes in 2004 and 2005, its tourism sector suffered a slump in the wake of the global financial crisis of 2008.

3. Poverty, unemployment and youth. Approximately 38 per cent of Grenada's population lives below the poverty line (2.4 per cent are considered indigent), and a further 14 per cent are highly vulnerable. In rural areas particularly, private investment is scarce and access to government programmes is limited. Unemployment (32-38 per cent) is a concern for rural communities, particularly among youth (37,540 young men and women from 15 to 34 years of age), whose unemployment rates are above 40 per cent (even higher in the case of women).

4. Agriculture sector and nutrition. Grenada is a net food importer; roughly 80 per cent of the food it consumes is not produced domestically. According to the Grenada Agricultural Census, in 2012 there were 9,200 farmers and 1,500 fishers (mostly men); 80 per cent of the farmers were smallholders and over 70 per cent were men. Agriculture and fishery activities account for 5.0-9.5 per cent of GDP, although they generate a significant share of exports (fish contribute 25 per cent of total exports, and nutmeg and mace 23 per cent).

5. Owing to a heavy reliance on cheap food imports, the poor have switched to a less healthy diet. This trend, coupled with a sedentary lifestyle, lends itself to obesity and to a higher prevalence of nutrition-related non-communicable diseases, such as diabetes, hypertension, stroke, heart disease and cancer.

6. In recent years, the Government of Grenada has put a high priority on the agriculture sector, approving several policies to stimulate local production (such as the "eat local, buy local" campaign) and to reduce internal barriers (such as high feed costs in the poultry sector and barriers limiting access to agricultural land). The National Agriculture Policy identifies priority commodities and classifies them according to their usefulness in increasing food security, exports, supplies to the tourism industry and import substitution. Most of the crop and livestock products identified – including fruit, vegetables, roots and tubers, poultry, pigs and goats – are produced by smallholders.

B. Rationale and alignment with government priorities and the country strategy note

7. **Rationale and alignment with government priorities.** Grenada's structural transformation from an agriculture-based economy to a service-based one has generated heavy dependency on food imports, and has caused abandonment of agricultural land areas and high levels of unemployment in rural areas, particularly among young people. The Government's national development policies have two major priorities for the rural sector: (i) job creation and youth empowerment; and (ii) climate-smart agriculture (CSA), to improve farmers' resilience to the effects of climate change. The proposed new programme is designed to assist the Government in pursuing these priorities.

8. **Alignment with Sustainable Development Goals (SDGs) and the country strategy note (CSN).** In terms of the SDGs, the new programme is expected to contribute mainly to SDG1 (end poverty); SDG2 (achieve food security and improved nutrition, and promote sustainable agriculture); SDG8 (promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all) and SDG10 (reduce inequality within and among countries).[1]

9. The new programme is also aligned with IFAD's CSN, which has the overall strategic goal of reducing the vulnerability of the rural poor to economic and climate shocks by promoting agricultural and non-agricultural employment opportunities and CC adaptation practices.

10. **Theory of change.** The design of the new programme is founded on promoting new business start-ups run by young people with a strong entrepreneurial drive. These start-ups will target market opportunities for products and services arising from the adoption of CSA approaches, building CC resilience and thus increasing the prospects for sustainability. This requires an entrepreneurial drive and business approach that are scarce among an aging farming community in rural areas. By attracting youth into agriculture and promoting rural start-ups, with technology-driven approaches, and putting the required financial and technical support services in place, the programme is expected to provide the missing links that are currently preventing income growth among poor rural people.

11. **IFAD's role.** While IFAD is a smaller player than some other international financial institutions in the region (such as the World Bank, Inter-American Development Bank and CDB), its rural-sector expertise gives it a comparative advantage in: targeting poor rural people, supporting rural communities and agricultural development projects, strengthening rural enterprises, teaching participatory approaches and promoting gender equity and market-driven business development.

II. Programme description

A. Programme area and target group

12. **Geographical coverage.** The programme area will encompass rural communities in all seven parishes of Grenada (six on the main island and the single parish that spans the two islands of Carriacou and Petite Martinique). Apart from the capital town of St. George's, all other parishes are considered rural. The latest population census (2011) estimated the rural population at about 107,000 inhabitants (35,600 households).

13. **Target group.** The overall target group of the new programme includes: (i) poor rural households (both extremely poor and poor, approximately 13,900

[1] Inequality in Grenada is above the Caribbean average. According to the Caribbean Development Bank (CDB), the most affluent 10 per cent of Grenadians account for 30 per cent of consumption, while the poorest 10 per cent account for just 3 per cent. In the 2008 Country Poverty Assessment, the GINI index was estimated at 0.38.

households); (ii) rural less-poor, but vulnerable (approximately 5,000 households); and (iii) small-scale farmers (approximately 2,700 households with access to a maximum of 7 acres of farmland, of whom at least 80 per cent have access to no more than 2.5 acres).

14. The chief characteristics of poor rural households are: (i) more than the national average number of family members per household (i.e. more than three); (ii) one or more unemployed persons among adult family members; (iii) one or more adult family members without a secondary or tertiary education; and (iv) the head of the household is single.

15. A total of 7,500 poor rural households are expected to benefit directly from the programme's activities: some 4,500 households will receive technical and financial support services, while 3,000 will benefit from renovated rural roads and drainage works.

16. Youth and gender targets. Roughly 75 per cent of beneficiaries are expected to be young people, and approximately 50 per cent will be women, with priority being given to young women heads of households (single mothers). The programme envisages affirmative action to attain these targets.

B. Programme development objective

17. The programme's development objective is to improve beneficiaries' livelihoods through access to new jobs, business start-ups or consolidation of new businesses and adoption of CSA practices.

18. The programme's expected impacts are: 4,500 poor households reporting an income increase of at least 10 per cent; (ii) 400 farmers with greater resilience (reporting adoption of at least one CSA practice); and (iii) 400 new jobs created.

C. Components/outcomes

19. The programme will be implemented through two technical components – (i) enterprise business development (EBD) and (ii) CSA – and one programme management component. While each technical component has its specific focus, target population and implementation arrangements, there will be many opportunities to develop synergies during the implementation phase. The CSA component will secure and improve the supply and quality of agricultural goods, providing grounds for microenterprise consolidation in the long term and creating opportunities for businesses along the value chain under the EBD component.

20. Component 1: EBD. The objective of this component is to support ongoing and start-up businesses in rural areas through technical services and financing. Access to support services to develop a business idea and build the capacities needed to become sustainable is currently limited. This component will seek to make these services more readily available, promoting innovation and the engagement of young people in the most promising sectors of the rural economy, including both farming and non-farming activities. The expected outcomes of this component are (i) 120 new enterprises created/consolidated; and (ii) 400 new jobs created.

21. Component 2: CSA. The objective of this component is to increase the resilience of small-scale farmers to the anticipated above-average temperatures and below-average dry-season rainfall, meaning longer drought periods. The component will thus promote the adoption of more efficient water management and conservation measures, as a key activity for responding to changing rainfall patterns. The component will also finance backyard gardens with CSA approaches to improve food security and nutrition among the most vulnerable population groups. The expected outcomes of this component are (i) 400 farmers increasing their production by an average of 20 per cent; and (ii) 3,000 farmers reporting improved physical access to markets.

22. Component 3: Programme management. This component aims to ensure the programme's effectiveness and efficiency by setting up key management systems and processes that will achieve the expected outcomes and outputs with the funds provided. Monitoring and evaluation activities are part of this component.

III. Programme implementation

A. Approach

23. The implementation approach is based on five principles: (i) a demand-driven approach to selecting the activities and services to be supported by the programme; (ii) shortening the lengthy preparation period that characterized previous IFAD projects in Grenada, drawing on the lessons learned and capacities built under the earlier Market Access and Rural Enterprises programme; (iii) improving contractual arrangements with implementing partners to empower these partners in achieving the programme's objectives and targets – fostering accountability; (iv) strengthening specific areas within the main service providers, to ensure high-quality and timely support services to beneficiaries; and (v) ensuring youth and social inclusion and gender equality through affirmative action. The programme has a proposed duration of six years.

B. Organizational framework

24. The programme's executing agency will be the Ministry of Finance (MoF); and it will be implemented through a programme management unit (PMU) set up within MoF. The PMU will be responsible for the core services of accounting and financial management, monitoring and evaluation (M&E) and technical coordination.

25. The PMU will have a reduced staff, since activities will be performed by specialized implementing partners with which memorandums of understanding will be signed. The technical capacity of the selected implementing partners is considered adequate, based on their expertise and technical skills and/or on the experience of their previous involvement in IFAD projects.

26. Lastly, a programme steering committee (PSC) will be created, on which key stakeholders will be represented. The committee will play an overall guidance role, defining the main strategies and approving the programme operational manual, agreements and contracts with service providers, the annual workplan and budget (AWP/B), M&E reports and others submitted by the PMU for adequate supervision and guidance.

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

27. Monitoring and evaluation. M&E will be participatory, with stakeholders fully engaged in the collection, discussion and analysis of field data and in decision-making on changes that might be necessary for more effective or efficient programme implementation. This means that key implementers will play an active role in data collection, whereas the PMU will monitor the overall progress of the programme. The PMU will provide feedback on progress to the PSC and key implementers, and these actors will jointly decide on any corrective measures that might be required.

28. Knowledge management. Specific evidence-based knowledge products will be developed from programme experiences, to extract lessons and best practices, replicate innovative solutions, achieve better outcomes and greater impact from the development resources, and strategically disseminate the knowledge generated to support national decision-making and policy processes. The knowledge products to be generated by the PMU and its implementing partners include: working papers, case studies, research reports, videos, blogs and vlogs, and policy briefs. At the end of the programme, the PMU will organize and implement closing

workshops in Grenada, Carriacou and Petite Martinique to discuss experiences and results with stakeholders.

D. Financial management, procurement and governance

29. Financial management. MoF, acting through the PMU, is assigned overall fiduciary responsibility as the lead programme agency, and will thus ensure proper financial management and implementation of the programme. MoF has prior experience in managing IFAD projects and is familiar with the Fund's policies and requirements for drawing on this financing and for financial accountability. Transparency International's Corruption Perceptions Index 2016 rated Grenada's inherent risk low, giving it a score of 56 which placed it 46th of 176 countries rated. The financial management risk for this programme is rated medium, due mainly to the need to: ensure that regular internal audits are carried out, establish appropriate segregation of duties, improve preparation and monitoring of AWP/Bs and strengthen controls over activities in the regions.

30. Accounting and accounting system. Programme accounting will use the QuickBooks accounting system alongside the Standard Integrated Government Financial Information System (SIGFIS), which is used by all ministries and development projects in Grenada. SIGFIS is currently being upgraded to make it possible to configure reports that satisfy IFAD requirements. Once the upgrade and respective training have been completed successfully, the QuickBooks system will be discontinued.

31. Financial reporting. Pursuant to IFAD requirements, annual financial statements will be prepared and submitted using International Public Sector Accounting Standards, including information by category of expenditure, component and financing source.

32. Audits. The MoF Internal Audit Department will include the new programme in its internal audit plans, which will enable it to undertake reviews and submit findings to the PSC and IFAD. The external audit will be performed in accordance with International Standards on Auditing (ISAs), including ISA 701, by independent auditors acceptable to IFAD. The audit report and related management letter are to be submitted to the Fund within six months of each fiscal year-end.

33. Flow of funds. In accordance with Grenada's Public Financial Management Acts of 2014 and 2015, the funds from IFAD, CDB and the Government will be channelled to the single treasury account held in the Grenada Cooperative Bank. Funds will be traced through coded designated ledger accounts, and regular reconciliations will be performed.

34. Procurement. Procurement under the programme will be carried out by the PMU in accordance with provisions of the loan agreement, IFAD guidelines and the programme operational manual. Overall procurement risk is rated medium, in view of existing capacity and the programme's implementation arrangements.

35. Governance. The PSC will play a fiduciary oversight role, including approval of AWP/B submissions, discussion of key internal and external audit findings, review of programme progress and communication with all parties to ensure smooth and active implementation of activities from year to year.

E. Supervision

36. IFAD will supervise the programme directly, complemented by implementation support missions, the first of which will be undertaken during the first year of programme implementation. Key features to be assessed and monitored during this mission include: PMU staffing; programme start-up; understanding and application of targeting criteria; development of the AWP/B and procurement plan; progress in relation to the time frame defined in the implementation plan; progress on memorandums of understanding with key implementation partners;

development of the baseline study, M&E and management information system; development of the programme operational manual; and progress on fiduciary issues, expenditures, contribution of funds from the counterparties, and fulfilment of the terms of the loan agreement.

37. A midterm review will be take place no later than the midpoint of the implementation period, to assess progress towards achievement of logical framework indicators, programme objectives and outcomes.

F. Exceptions to the General Conditions for Agricultural Development Financing and IFAD's operating policies

38. Retroactive financing. As an exception to section 4.08(a)(ii) of the General Conditions, up to US$400,000 equivalent in specific eligible expenses incurred and prefinanced by the Government during the preparatory period (from the first day of negotiations until the financing agreement's entry into force), will be reimbursed from the IFAD loan after the financing agreement has entered into force and any conditions precedent to withdrawal have been met. The following expenditure categories are eligible for retroactive financing: (i) vehicles, equipment and materials; (ii) consulting services, training and technical assistance; (iii) salaries and allowances; and (iv) operating costs. Activities to be financed retroactively, and their respective expenditure categories and financing sources, will require IFAD's prior "no objection" to be considered eligible.

IV. Programme costs, financing and benefits

A. Programme costs

39. The base cost of the programme is estimated at US$11.29 million, with physical and price contingencies representing US$710,000 (about 6 per cent). The exchange rate used for calculations is US$1 = 2.7 East Caribbean dollars. Physical contingencies have been calculated at 10 per cent for selected expenditure accounts, while inflation was estimated at 2.6 per cent per annum for both imported and local products. Value added tax has been applied to nearly all goods and services at the current level of 15 per cent.

B. Programme financing

40. The programme will be financed as follows: (i) a highly concessional IFAD loan of US$3.99 million (33 per cent of total programme costs); (ii) a CDB loan under the Special Development Fund of US$3.00 million (25 per cent of the total); (iii) a non-refundable contribution by the Grenada Investment Development Corporation (GIDC) of US$330,000; (iv) counterpart contributions by the Government estimated at US$2.00 million (17 per cent of the total); (v) contributions in cash and in kind by the final beneficiaries worth US$270,000; and (vi) a financing gap of US$2.41 million (20 per cent of the total).

41. The financing gap may be sourced from the subsequent IFAD performance-based allocation system cycle (under financing terms to be determined, subject to internal procedures and subsequent Executive Board approval), or by further cofinancing by CDB or another international financial institution operating in Grenada. The programme has been designed to be sustainable and stand-alone, even in the remote eventuality that the funding gap is not covered, in which case outreach would be reduced.

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

	IFAD loan		Financing gap		CDB		GIDC		Borrower		Beneficiaries		Total	
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Enterprise business development	1 702	43	1 844	77			330	100	113	6	153	57	4 142	35
2. Climate-smart agriculture	1 932	48	195	8	3 000	100			266	13	117	43	5 510	46
3. (a) Programme management	258	6	177	7					1 340	67			1 775	15
(b) Monitoring and evaluation	98	2	194	8					281	14			573	5
Total	**3 990**	**100**	**2 410**	**100**	**3 000**	**100**	**330**	**100**	**2 000**	**100**	**270**	**100**	**12 000**	**100**

Table 2
Programme costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD Loan		Financing gap		CDB		GIDC		Borrower		Beneficiaries		Total	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Vehicles, equipment and materials	155	4	5						28	2			188	2
2. Grants	1 605	40	821	34							269	100	2 695	22
3. Consulting services, training and technical assistance	2 110	53	1 374	57			330	100	245	12			4 059	34
4. Works					3 000	100							3 000	25
Total investment costs	3 870	97	2 200	91	3 000	100	330	100	273	14	269	100	9 942	83
5. Salaries and operating costs	120	3	211	9					1 727	86			2 058	17
Total	**3 990**	**100**	**2 411**	**100**	**3 000**	**100**	**330**	**100**	**2 000**	**100**	**269**	**100**	**12 000**	**100**

C. Summary benefit and economic analysis

42. In terms of benefits, programme interventions aim to reduce unemployment rates (mainly among young people) and increase family income generation, wages and new business incomes in rural areas.

43. The following quantitative benefits have been considered for component 1 activities: (i) for vocational skills training, at least a 20 per cent increase in expected future wages; (ii) for smaller grants (e.g. landscaping and birdwatching activities), income growth of at least 17 per cent; and (iii) for larger business grants (e.g. fisheries, health care and wellness, a shade-house for lettuce and agroprocessing of jellies and jams), at least a 23 per cent increase in income.

44. For component 2 (climate-smart agriculture): (i) a 17 per cent increase in income for a typical farmer improving resilience and yields with water-harvesting technologies; (ii) a 26 per cent increase in income for innovative CSA shade-houses; and (iii) a 52 per cent increase in a participant's income from small-ruminant CSA initiatives.

45. The financial analysis considered the costs and benefits of the programme's nine models over a 15-year period. All models are profitable at a 9 per cent discount rate, with a financial internal rate of return ranging from 9.3 per cent to 85.5 per cent.

46. The economic analysis used economic prices to calculate total costs and benefits, and an economic discount rate of 6 per cent. In addition to the benefits mentioned in the financial analysis, externalities deriving from restoration of rural roads, in the form of time savings for users, were also included. The analysis yielded an economic internal rate of return of 11.47 per cent, with a net present value of US$3.34 million.

D. Sustainability

47. Political and institutional sustainability. The programme is aligned with the Government's top priorities. Implementation arrangements will involve public-sector institutional partners providing the type of support services offered through the programme, as core responsibilities, and that are committed to maintaining the programme's activities after the completion date.

48. Financial sustainability. The programme will promote start-up businesses and put entrepreneurs and young people in contact with formal financial markets. The Grenada Development Bank and credit unions will participate in selecting matching grants. The programme will promote record-keeping activities in the new businesses – crucial for establishing a track record and gaining access to finance in the long term.

49. Environmental sustainability. The programme's CSA component will enhance the environmental sustainability of the agriculture sector. By promoting business-smart CSA and ensuring adequate maintenance activities, it is expected that farmers will adopt CSA practices on a sustainable basis.

E. Risk identification and mitigation

50. The main risks identified and corresponding mitigation measures are described in the following table.

Main risks	Mitigation strategy
Economic risk: Grenada's vulnerability, as a SIDS, to external shocks, particularly fluctuations in tourist arrivals, which could reduce demand for businesses promoted by the programme. Level of risk: moderate	- Small businesses will be promoted that are linked to agriculture, agroprocessing and related services and have the capacity to supply the domestic market. - Higher yields and quality control will be supported to gain competitiveness against imported products. - High-quality technical support services will contribute to increased competitiveness and instil entrepreneurial drive.
CC risks: Higher temperatures and more erratic rainfall patterns could undermine the production gains achieved during programme implementation and cause production losses. Level of risk: moderate	- Different CSA practices and technologies will be tested and fostered to improve resilience. - Smallholder access to local markets will be improved to provide an economic incentive for CSA adoption and food processing.
Social risks: The programme's capacity to reach the most vulnerable sectors of the target population (unemployed single mothers and at-risk youth susceptible to juvenile delinquency) unable to come forward to benefit from programme opportunities. Level of risk: moderate to low (decreasing over time)	- Most of the opportunities will be made available to the target group through public calls for proposals. - SAEP implementation will mainstream enabling measures, including affirmative action when required, designed to empower the most vulnerable groups and create an enabling environment for their participation. - In order to counteract young people's lack of interest in farming, the SAEP will only promote profitable activities. Young men and women will be enabled to identify the best opportunities for increasing income sustainably through the capacity-building process. - The PMU will monitor beneficiary participation by gender and age, taking affirmative action when necessary to correct imbalances, so that risk will decrease during implementation.
Institutional risks: Service providers' capacity to target the right beneficiaries and provide quality, timely support. Level of risk: moderate	- The roles and responsibilities of the PMU and institutional partners will be clearly defined, vesting full implementation responsibility in the service providers. - Institutional partners will participate in planning and will include activities and targets in their own workplans. - Contractual arrangements will be performance-based; payments will be approved and processed according to status reports; and beneficiaries will be involved in monitoring the quality of services at various levels.

V. Corporate considerations

A. Compliance with IFAD policies

51. Overall, the programme is compliant with: (i) the IFAD Rural Enterprise Policy, which encourages IFAD to follow a holistic approach to enable entrepreneurial poor people to access various business support services; (ii) the Targeting Policy, by applying self-targeting (through participation in training courses and grant requests) and social targeting (focused on women and youth); (iii) the Policy on Improving Access to Land and Tenure Security, by promoting policy dialogue on land access; and (iv) the Policy on Gender Equality and Women's Empowerment, through affirmative action to close the gender gap and increase women's participation.

52. Environmental and social category. In accordance with IFAD's Social, Environmental and Climate Assessment Procedures (SECAP), the programme is considered to pose moderate socio-environmental risks, and can be classified as category B, as it targets existing farms and promotes CSA practices, organic farming and/or integrated pest management.

53. Climate-risk category. According to the Notre Dame Global Adaptation Index, Grenada is ranked 61st of 181 countries, in a ranking system in which countries are listed in reverse order of vulnerability. Safeguards against climate vulnerabilities are incorporated into the programme by promoting CSA practices that provide a buffer against extreme weather events and reduce the risk of crop failure. Based on the above, Grenada's climate risk classification is moderate.

B. Alignment and harmonization

54. Alignment with the growth and poverty reduction strategy (GPRS). The programme is aligned with the 2014-2018 GPRS, in which the top priorities are economic growth and job creation.

55. Synergies and harmonization with the programmes of other donors. The programme will seek to develop synergy with the Integrated CC Adaptation Strategies, funded by the German Agency for international Cooperation (GIZ), which aims to build capacity at diverse levels to mainstream CC issues in policies and community initiatives, and will finalize operations at the end of 2018. It will also seek synergy with the Regional Agricultural Competitiveness Project of the Organisation of Eastern Caribbean States (OECS), recently approved by the World Bank. That project targets the development of agricultural value chains in Grenada and St. Vincent (some US$4 million for Grenada) and will begin operations by end-2017. It promotes the development of competitive clusters in the agriculture and fisheries sectors, involving key players in each value chain. The new IFAD operation could complement this by enabling poor farmers to participate in the new value chains.

C. Innovations and scaling up

56. The SAEP will include innovations that could be scaled up and replicated at the national level. An important innovation is the promotion of an agricultural extension scheme based on a public/private partnership, which will encourage the Government to explore alternatives to the existing model of exclusively public extension services.

57. The programme will also pioneer the mainstreaming of nutrition education in schools, extension services and training, generating valuable lessons for addressing the negative effects of changes in nutritional habits. In addition, it will introduce backyard gardens as a way to improve nutrition and allow home-based single mothers to engage in a productive economic activity.

58. Lastly, the programme's key technical elements could be replicated in other OECS countries that face similar problems (in terms of youth unemployment, reliance on food imports and vulnerability to climate change and variability).

D. Policy engagement

59. The following topics are considered of interest in promoting policy dialogue with the Government: (i) the programme's innovative mechanism to develop extension services in rural areas; (ii) access to land for women and young people; (iii) development of renewable energy sources to reduce energy costs in rural areas; and (iv) the concessions scheme to import and ensure access to affordable agricultural equipment for poor rural people.

VI. Legal instruments and authority

60. A programme financing agreement between Grenada and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an appendix.

61. Grenada is empowered under its laws to receive financing from IFAD.

62. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

63. 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 highly concessional terms to Grenada in the amount of three million nine hundred and ninety thousand United States dollars (US$3,990,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Negotiated financing agreement

Climate Smart Agriculture and Rural Enterprise Programme ("SAEP")

(Negotiations concluded on 9 November 2017)

Loan No: ________

Climate Smart Agriculture and Rural Enterprise Programme (“SAEP” or the “Programme”

Grenada(the “Borrower”)

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

The Borrower intends to obtain co-financing funds for the implementation of the Programme from the Caribbean Development Bank (CDB).

Section A

1. The following documents collectively form this Agreement: this document, the Programme 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, 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 to the Borrower (the “Financing”), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is three million nine hundred ninety thousand United Sates dollars (USD 3 990 000).

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 United States Dollar (USD).

4. The first day of the applicable Fiscal Year shall be 1st of January.

5. Payments of service charges shall be payable on each 1 of February and 1 of August.

6. The proceeds of the Financing shall be channelled to the coded designated ledger accounts opened in the Single Treasury Account maintained at the Grenada Cooperative Bank. All the arrangements regarding the functioning of this Account and the modalities of disbursement shall be detailed in the Letter to the Borrower.

7. The Borrower shall provide counterpart financing for the Programme in the approximate amount of two million United States dollars USD 2 000 000 to cover mainly taxes, operative costs and staff salaries.

Section C

1. The Lead Programme Agency shall be the Ministry of Finance (MoF).

2. The following are designated as additional Programme Parties: Grenada Investment Development Cooperation (GIDC), the Ministry of Agriculture (MoA), the Ministry of Carraicou and Petite Martinique Affairs (MCPMA), and the Ministry of Works (MoW).

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

Section D

The Loan will be administered and the Programme supervised by the Fund.

Section E

1. The following is designated as additional grounds for suspension of this Agreement:

(a) The Programme Implementation Manual (PIM), 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 Programme.

(b) The PMU key staff have been appointed, transferred or moved from the Programme Management Unit (PMU) without the prior concurrence of the Fund in writing.

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

(a) The designated ledger accounts in Single Treasury Account specified in paragraph B.6 above has been duly opened;

(b) The Programme Steering Committee (PSC) and the PMU have been established in accordance with section II paragraph A.7 and A. 8 of Schedule 1 to this Agreement;

(c) PMU Key staff (the Programme Manager, the Financial Manager, the Monitoring and Evaluation (M&E) Specialist) have been appointed with the prior consent of the Fund; and

(d) A draft PIM referred to under section II paragraph E of Schedule 1 under this Agreement has been prepared in form and substance satisfactory to the Fund.

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

For the Borrower:

Minister for Finance
of Grenada
Financial Complex
The Carenage
St. George's
Grenada

For the Fund:

The 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 two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

GRENADA

____
(Authorized Representative)
(Name and Title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Gilbert F. Houngbo
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Target Population. The Programme shall benefit two of the most vulnerable groups of the population: (i) the unemployed and underemployed men and women, with a focus on youth and (ii) smallholder farmers, vulnerable to climate change and variability.

2. Programme Area. The Programme area will include rural communities in the 7 parishes of Grenada (6 parishes in the main island and the parish covering Carriacou and Petite Martinique) (the “Programme Area”).

3. Goal. The goal of the Programme is to contribute to the reduction of poverty and vulnerability of men and women in rural communities in the tri-island state of Grenada.

4. Objectives. The objective of the Programme is to improve the livelihoods of the beneficiaries through accessing new jobs, starting up businesses or consolidating new businesses and adopting climate smart agriculture practices.

5. Components. The Programme shall consist of the following Components:

5.1 Component 1. Enterprise Business Development (EBD). This component aims at supporting ongoing and start-up businesses through the implementation of the following activities: (i) vocational and employment skills training especially focusing on women and youth in order to increase their possibilities to become employed through certified trainings, (ii) technical support services to promote the consolidation of ongoing businesses or the creation of new businesses and (iii) a matching grants scheme promoting a step by step approach to support sustainable business ideas.

5.2 Component 2. Climate Smart Agriculture (CSA). This component aims at increasing the sustainability of small farmers through the adoption of CSA practices. In this respect the Programme will support the following activities: (i) knowledge on CC issues and training on CSA practices to farmers, MoA extensionists and vulnerable people in rural communities, (ii) extension services to farmers on CSA practices and on improving marketing links, (iii) a matching grant financing scheme for individual farmers and/or groups to promote the adoption of CSA practices and technologies and (iv) the rehabilitation of rural roads and drainage systems to improve and/or maintain access to markets in extreme weather events, such as heavy rainfall.

5.3 Component 3. Programme Management: This component aims at ensuring the effectiveness and efficiency of the Programme by establishing key management systems and processes.

II. Implementation Arrangements

A. Organisation and Management

6. Lead Programme Agency (LPA). The Ministry of Finance (MoF) as the LPA will have the overall fiduciary responsibility of the Programme. The MoF shall ensure proper financial management and implementation of the Programme.

7. Programme Steering Committee (PSC)

7.1 Establishment and Composition. A PSC, chaired by a representative of the MoF, shall be established in which key stakeholders shall be represented including inter alia: two beneficiary representatives; private sector representatives and, public sector institutions, as detailed in the PIM. The Programme Manager shall attend all PSC meetings and serve as the Recording Secretary.

7.2 Responsibilities. The PSC shall have an overall guidance role, establishing the main strategies and approving the PIM, the agreements and contracts with service providers, the Annual Work Plan and Budget (AWPB), the M&E reports and any other reports submitted by the PMU for adequate supervision and guidance.

8. Programme Management Unit (PMU)

8.1. Establishment and Composition. A PMU with staff as detailed in the PIM shall be established and shall report directly to the Permanent Secretary (PS) in the MoF. A number of key staff positions (the Programme Manager, Financial Manager, M&E Specialist) shall be filled with experienced staff from the MAREP Programme.

8.2. Responsibilities. The PMU shall be responsible for the implementation of the Programme, covering the core services of accounting and financial management, M&E and technical coordination.

B. Programme Implementation

9. Component 1. The Programme will develop a MoU with GIDC for the business support activities of this component and for the preparation of business grant proposals, and MoUs with the main training service providers for the Vocational Skills Training (VST) activities including Life Skills training . These MoUs shall be performance-based and will establish (i) the responsibility of the service provider to select beneficiaries according to the Programme’s targeting criteria defined in the PIM and also, (ii) a minimum retention rates that the trainer commits to attain. The selected service providers will report to the PMU. A Business Grant selection committee will be set-up with expertise in assessing business proposals.

10. Component 2. The PMU will enter into MoUs with key implementing partners such as:

(i) the MoA for ensuring quality technical assistance to the target population, exploring innovative ways of delivering climate smart agricultural extension services by providing training to Extension Assistants (EAs). The training to EAs will be contracted through competitive processes to specialized service providers with recognized expertise in Climate Change and adaptation in the Caribbean region. A unit within the MoA will be established to report directly to the PMU, which will recruit a technical coordinator for supervising the EAs.

(ii) the Ministry of Carriacou and Petit Martinique Affairs in charge of agricultural extension services on these two small islands and;

(iii) MoW for the rehabilitation of roads and drainage systems under component 2 provided that the Borrower has entered into a co-financing agreement with CDB to finance such rehabilitation.

In addition, under this component a CSA Grant selection committee will be set-up with expertise in CSA practices and technologies.

C. Monitoring and Evaluation (M&E)

11. M&E under this Programme will be conducted using a participatory approach through which stakeholders, implementing partners and service providers will be fully engaged in the recollection of field data, discussion of this data, and decision making regarding changes that might be required for a more effective programme implementation. Key implementing partners and service providers will play an active role in data collection and monitoring the progress on the implementation of their respective AWPBs. The PMU will be responsible for monitoring the overall Programme progress, providing feedback to the PSC.

D. Mid-Term Review

12. A review of Programme implementation shall be carried out no later than the midpoint of the Programme implementation period (the “Mid-Term Review” or “MTR”), based on terms of reference prepared by the PMU and approved by the Fund. Among other things the MTR shall assess progress in implementation and achievement of logical framework (LF) indicators, programme objectives and outcomes.

E. Programme Implementation Manual (PIM)

13. Preparation. The LPA shall prepare a consolidated draft PIM acceptable to the Fund. The PIM shall include among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement, monitoring and evaluation, reporting and related procedures; (iii) detailed description of implementation and targeting arrangements for each Programme component; and (iv) other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

14. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for no objection. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Borrower shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

Schedule 2

Allocation Table

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

Category		IFAD Loan Amount Allocated (expressed in USD)	Percentage
I.	Vehicles, equipment and materials	140 000	100% net of taxes
II.	Grants	1 440 000	100% net of taxes
III.	Consultancies, training and technical assistance	1 900 000	100% net of taxes
IV.	Salaries and operating costs	110 000	100% net of taxes
Unallocated		400 000	
TOTAL		3 990 000	

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

(i) Category II – Grants shall cover eligible expenditures for costs related to Business grants and CSA grants.

(ii) Category III – Consultancies, training and technical assistance shall cover eligible expenditures for costs related to Vocational and Skills Training (VST), Capacity Building, Extension services, Market Promotion, Studies, Workshops, M&E impact studies, Audit reports, costs related to the business support activities of EBD Component and to the preparation of business grant proposals.

(iii) Category IV – Salaries and operating costs shall cover eligible expenditures for salaries, vehicle maintenance, fuel, DSA and other operating expenditures

2. Retroactive Financing. As an exception to section 4.08(a)(ii) of the General Conditions, specific eligible expenditures incurred from the start of negotiations (9 November 2017) until the date of entry into force of this Agreement shall be considered eligible up to an amount equivalent to USD 400 000. The following categories are eligible to be covered by the retroactive financing: (i) vehicles, equipment and materials; (ii) consultancies, training and technical assistance; (iii) salaries and allowances; (iv) operating costs. Activities to be financed by retroactive financing and their respective category of expenditures and source of financing will require prior no objection from IFAD to be considered eligible. These amounts may be reimbursed after the general conditions precedent to withdrawal have been met.

3. Start-up Costs. Withdrawals in respect of expenditures for start-up costs for the for activities relating to: (i) the start-up workshop; (ii) the baseline survey; and (iii) equipping and operating the PMU can be made before the satisfaction of the conditions precedent to withdrawal. Start-up costs shall not exceed an aggregate amount equivalent to USD 250 000. Activities to be financed by start-up costs and their respective categories of expenditures and source of financing will require prior no objection from IFAD to be considered eligible.

Schedule 3

Special Covenants

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

1. Gender. The Borrower shall ensure that appropriate measures will be taken in order to support women and youth inclusion, particularly of young males, and female-headed households.

2. Counterpart Funds. The Borrower shall ensure that counterpart funds are clearly identifiable in the financial management systems and all financial statements.

3. Environmental and Social Due Diligence. The Borrower assures that an Environmental and Social Management Plan (ESMP) as required by IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) will be adopted and that the Programme will be carried out in accordance with the aforementioned ESMP.

Logical framework

Results Hierarchy	Indicators [of which Core Indicators - CI - in square brackets]				Means of Verification			Assumptions (A)
	Name	Baseline	Mid-Term Target	End Target	Source	Frequency	Responsibility	
Outreach	▪ Number of persons receiving services promoted or supported by the Programme ▪ Corresponding number of households reached ▪ Corresponding total number of household members	0 0 0	3,200 3,200 9,600	7,500 7,500 22,500	Programme M&E system	Annually	M&E unit - PMU	
Goal Contribute to the reduction of rural poverty and vulnerability of men/women in rural communities in GOG	▪ Number of indigent, poor and vulnerable HHs increasing their assets by more than 10 per cent.	0	1,500	4,500	Baseline and final impact survey	At start and completion	M&E unit - PMU	A 1: Reasonable growth in the economy
Development Objective Project beneficiaries improve their livelihoods[2] and resilience by accessing new jobs, starting-up /consolidating businesses[3] and adopting CSA practices[4]	▪ [N HHs reporting an increase of at least 10 per cent of income (by sex and age of HH head)]	0	1,500	4,500	Baseline and final impact survey	At start and completion	M&E unit - PMU	A 2: There are no natural disasters, such as hurricanes
	▪ [CI 3.2.2: Number of farmers reporting adoption of at least one CSA practice]	0	200	500				
	▪ [CI 2.2.1: N of new jobs created (by sex, age, and employed/self-employed)]	0	150	400				
Component 1 Enterprise and BD Outcome: Start up and new enterprises in rural areas are supported through capacity building, technical services and financing	▪ N of enterprises created/consolidated	0	40	120	Programme M&E system Employment/ national records	Annually	M&E unit - PMU	A 3: Focus on self-employment and youth is a successful strategy
Outputs 1.1 Youth receive employment skill training	▪ N of youth (by sex, age) receiving vocational skills training	0	250	400	Programme M&E system	Semi-annually	M&E unit - PMU	A 4: Technical support services are provided to enterprises in an

[2] Definition: In SAEP "livelihood", is defined as the capabilities, assets and activities required for a means of living. Livelihood refers to economic production, employment, and household income, within a broader context of reduced vulnerability, and environmental sustainability.
[3] Definition: New businesses refers to businesses operating for less than 3 years, registered or not registered, and requiring support to become consolidated / sustainable.
[4] Definition: Refers to practices and technologies (e.g. clean production, aquaponics, hydroponics, solar panels, bio-gas) that sustainably increase agricultural productivity and rural household incomes, while building resilience and adapting production practices and technologies to climate change. These practices may or may not contribute to the reduction of greenhouse gas emissions.

1.2 Start-ups receive technical support services for business development	▪ N of people (by sex, age) receiving technical support services.	0	300	500	Reports of - NTA - GIDC			efficient manner
1.3 Youth start-up businesses access grant financing	▪ N of youth (by sex) accessing Youth Business Grant Fund	0	250	400				
1.4 Start-ups and new enterprises supported with capacity building and technical services	▪ [CI 2.1.1: N of rural enterprises accessing business development services]	0	80	270				
Component 2 CSA Outcome: Farmers have increased access to CSA practices	▪ [CI 1.2.4: N of farmers increase production by 20 per cent (by sex and age of HH head)]	0	100	400	Programme M&E system MoA Reports Service providers Ministry of Work	Semi-annually	M&E unit - PMU	A 5: Rural communities are aware of the challenges related to CC
	▪ [CI 2.2.6: N of people reporting improved physical access to markets]	0	1000	3000				
Outputs: 2.1 Farmers, MOA extensionists and vulnerable people in poor rural communities receive training on CC and CSA practices	▪ N of people (by sex, age) trained in innovative technologies, smart agriculture and CC	0	700	2 200				A 6: Services are provided to farmers in an efficient and well-coordinated way
2.2 Farmers receive extension services on CSA practices and on improving marketing links	▪ [CI 1.1.4: N of farmers (by sex, age) receiving extension services on CSA practices.][5]	0	600	1 200				
	▪ [CI 2.1.2: N of farmers (by sex, age) receiving market support services.][6]	0	200	400				
2.3 Individual farmers and/or groups receive grant financing for CSA initiatives	▪ N of adaptation and climate smart investment projects financed through CSA Grant Fund ▪ N of backyard gardens financed through CSA Grant Fund	0 0	60 20	120 60				
2.4 Rural roads rehabilitated to improve and/or maintain access to markets	▪ N of rural roads rehabilitated in the project area	0	10	30				

[5] Corresponds to the following Core indicator: 1.1.4 Number of persons trained in production practices and/or technologies.
[6] Corresponds to the following Core indicator: 2.1.2 Number of persons trained in income-generating activities or business management.