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Investing in rural people

President's Report

Proposed Loan to the Kingdom of Eswatini for the Financial Inclusion and Cluster Development Project

Note to Executive Board representatives

Effective 19 April 2018, the Kingdom of Swaziland has been renamed the Kingdom of Eswatini.

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For: **Approval**

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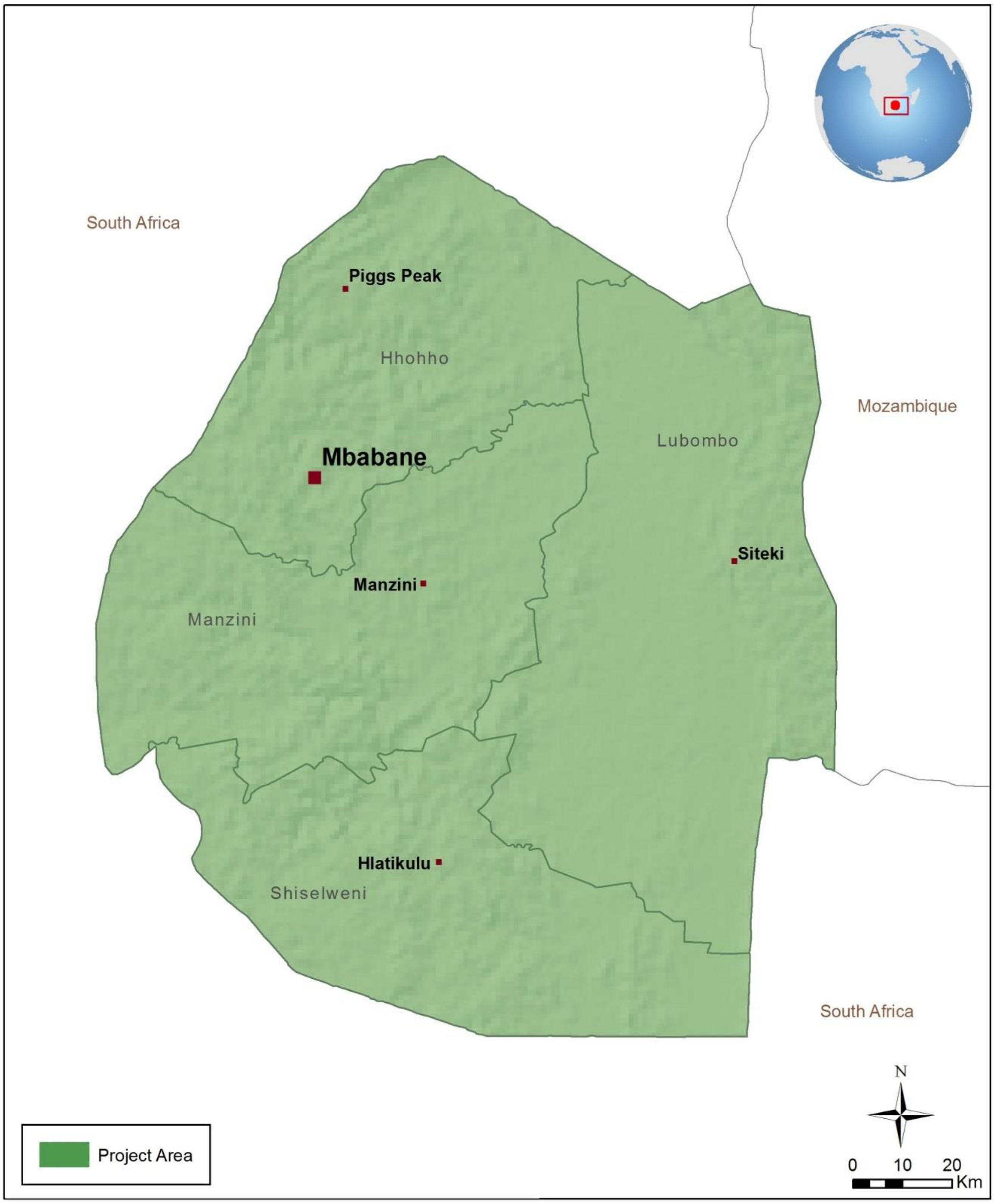
Abbreviations and acronyms

EIRR	economic internal rate of return
FFR	Financing Facility for Remittances
FIRM	financial instrument for risk management
MSME	micro, small and medium-sized enterprise
PICSA	Participatory Integrated Climate Services for Agriculture
RFEDP	Rural Financial Enterprise Development Project

Map of project area

Eswatini
Financial Inclusion and Cluster Development Project

President's report



IFAD

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 | 28-02-2018

Kingdom of Eswatini
Financial Inclusion and Cluster Development Project
Financing summary

Initiating institution:	IFAD
Borrower:	Kingdom of Eswatini
Executing agency:	Centre for Financial Inclusion, Ministry of Finance
Total project cost:	US$38.56 million
Amount of IFAD loan:	US$8.95 million
Terms of IFAD loan:	Ordinary: Maturity period of 18 years, including a grace period of 3 years, with an interest rate per annum equal to 100 per cent of the variable IFAD reference interest rate
Potential cofinanciers:	Green Climate Fund, Global Environmental Facility or Adaptation Fund
Amount of cofinancing:	US$5.07 million
Amount of Financing Facility for Remittances (FFR) grant:	US$300,000
Contribution of borrower:	US$2.94 million
Contribution of beneficiaries:	US$13.83 million
Contributions of enterprises:	US$7.46 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 the Kingdom of Eswatini for the Financial Inclusion and Cluster Development Project, as contained in paragraph 58.

Proposed loan to the Kingdom of Eswatini for the Financial Inclusion and Cluster Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Kingdom of Eswatini is a landlocked country with a population of 1.27 million, of which 79 per cent live in rural areas. Ranked as a lower-middle-income country with per capita gross national income of US$2,830 in 2016, its economy has recently stagnated. Growth of Eswatini's gross domestic product declined from 2.5 per cent to -0.9 per cent (between 2014 and 2016), but growth of 1.9 per cent was forecast for 2017. Eswatini is highly dependent on Southern African Customs Union receipts, which comprised more than 50 per cent of recent national budgets. The combination of a small private sector, large public sector and reliance on external revenue increases the country's vulnerability to fiscal shocks.

2. Income distribution is extremely unequal: the wealthiest 10 per cent control almost half of all consumption while 63 per cent live in poverty and 89 per cent of poor people live in rural areas. Eswatini has the world's highest prevalence of HIV/AIDS in the general population and one of the lowest life expectancies at birth – 57 years (2015 data).

3. There is an urgent need to provide new opportunities on a massive scale for young people to build better lives for themselves and their families. The agricultural sector has the scale to achieve this. However, significant obstacles prevent most small farmers taking advantage of these opportunities:

   (a) **On their farms** – Small farmers typically have limited market experience and business skills, producing low-value crops with traditional practices, poor-quality genetic resources, limited use of quality inputs, high exposure to changing rainfall patterns and limited irrigation.

   (b) **In market chains** – Links between individual farmers' products and end customers are limited by a lack of aggregation among small farmers, a lack of competition among buyers and distortions created by subsidized non-commercial state enterprises.

   (c) **In support markets** – Technical, business and financial services are essential for a competitive agricultural sector. Demand for these services has been suppressed by past development initiatives' generous subsidies – given even to aspiring market-driven smallholders.

   (d) **In access to finance** – Private investment is central to delivering large-scale transformation in smallholder agriculture. Access to quality finance for small farmers and micro, small and medium-sized enterprise (MSMEs) is a vital enabler of change for increased incomes and resilience. Promoting access to adequate savings services also allow low-income people to build up capital for investment.

4. The impacts of climate change cut across all four of these domains. With mean annual temperatures steadily increasing by between 0.1°C and 0.2°C per decade, within-season drought periods becoming longer and rainfall events more extreme,

climate change is having a profound and complex impact on rural livelihoods. There is a critical need for climate adaptation in the agricultural sector. Climate change and variability are among key sources of reported investment risk, but banks and farmers do not have the knowledge or tools to properly assess these risks or minimize them.

5. This project will work across all four domains, adopting mechanisms for coordinating resources alongside other development initiatives such as the Regional Development Fund, Chiefdom Development Plans and IFAD's Smallholder Market-led Project.

6. Economic growth is necessary but not sufficient to deliver resilient socio-economic change. Eswatini's sugar industry has highlighted the risks of negative social consequences from shifting intra-household dynamics triggered by rapid income growth. To mitigate these risks, the project will integrate social mentoring interventions.

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

7. The project is fully aligned with Eswatini's National Development Strategy, Financial Inclusion Strategy and the Eswatini National Agriculture Investment Plan, which aims "to improve marketing and processing infrastructure, improve access to market information and link farmers to markets". It is also aligned with national climate adaption priorities.

8. In addition, the project is aligned with strategic objective 2 of IFAD's Country Strategy Note on financial inclusion and sustainable value chains creating increased income opportunities for young entrepreneurs and market-oriented smallholder farmers. It will benefit from collaboration with the Smallholder Market-led Project by improving project-supported farmers' access to financial services, facilitating cluster development and developing common approaches to inclusive cluster development.

II. Project description

A. Project area and target group

9. The project will target aspiring smallholders and micro-entrepreneurs for selected commodities, and those taking advantage of emerging opportunities in cluster areas who require short-term support. The focus will be on (i) young men and women age 18-35 engaged (or willing to engage) in farm and non-farm enterprises in the selected cluster locations; and (ii) poor rural women and women-headed households active along the targeted supply chains and aspiring to grow their businesses. There will be a particular focus on targeting women and youth to ensure their active participation.

10. Working nationwide based on cluster development opportunities for impact, the project will focus on: (i) beef and goats; (ii) poultry; (iii) pigs; (iv) vegetables; and (v) legume seeds. The definition of each cluster will drive geographic targeting.

11. The project will target 18,500 farm and non-farm enterprises.

B. Project development objective

12. The goal of the project is to improve the prosperity and resilience of the country's poor and vulnerable smallholders and microentrepreneurs.

13. Its development objective is to increase returns from sustainable farm and non-farm enterprises for rural people, including poor people and youth, through resilient links to markets and access to appropriate financial services.

14. The main targets of this work include the following:

    (a) 8,500 individual entrepreneurs and MSMEs directly benefit from the full range of project support to increase real net income from farm and non-farm enterprises by more than 50 per cent;

    (b) An additional 10,000 individual entrepreneurs and MSMEs access and repay collateral-free loans through the project's financial instrument for risk management (FIRM) without receiving other support (finance-only beneficiaries);

    (c) 5,600 individual farm entrepreneurs and direct MSME beneficiaries (80 per cent of the total) report a greater than 50 per cent increase in the resilience score; and

    (d) 6,800 beneficiaries achieve annual returns on labour in farming or non-farm enterprises of greater than 120 per cent of the unskilled wage rate.

C. Outcomes and components

15. **Outcome 1:** Profits to farm and non-farm micro-enterprises and MSMEs in inclusive clusters increased for multiple high-value products.

    Outcome 2: Private investment from smallholders and MSMEs increased in priority clusters and commodity sectors.

    Outcome 3: National capacity to deliver inclusive cluster-development and financial-inclusion initiatives substantially increased.

    Outcome 4: Climate resilience and climate finance mainstreamed into rural finance operations.

16. The project has three interrelated components.

    Component 1: Inclusive cluster development

17. Cluster brokering and investment facilitation will catalyse the emergence of competitive clusters for products with confirmed market potential and comparative advantages for smallholder production. The cluster development approach involves action-oriented brokering, dialogue and investment facilitation to encourage investment and remove bottlenecks to increased trade and profits. Through this process, the project will establish investment priorities and facilitate private and public investment.

18. Private investment will be supported through mentored investment processes using savings and loan financing from partner financial institutions if needed. For public-good investments, the project will act as an integrator of existing support initiatives. Rolling multi-stakeholder cluster meetings will create a practical mechanism for investment supporters to develop a common understanding of opportunities and constraints in each cluster, and the roles each actor can play in addressing them. In addition, a Sector Development Facility will address gaps in support for critical public-good investments not supported by other actors.

19. Training modules to support women and men in long-term financial planning and optimizing the use of remittances will be included in business skills peer mentoring. Social mentoring will address both the positive and negative aspects of migration for migrant workers and their families that remain behind.

20. Given the expected impacts of climate change, producers will be guided to confirm whether their chosen commodity is climate resilient in local agro-ecological conditions. This process will assist farmers in evaluating their investments and, if needed, adapting their production practices and farm investment plans to increase climate resilience. This process will be enhanced by the climate information services in component 3.

Component 2: Expanding the supply of rural financial services

21. This project is designed to comprehensively address both demand- and supply-side constraints. While developing credible rural business value propositions (component 1) sufficient to entice financial institutions to offer financial products that meet beneficiaries' needs, it will offer incentives for financial institutions to expand their offerings and actively participate in rural business development (component 2). In parallel, it will strengthen rural households' financial literacy and resilience, and support borrowers in repaying their loan payments on time so that creditors can mitigate their risks (component 1).

22. Activities will include: (i) addressing the information divide between supply and demand for financial services through databases and information tools; (ii) partnerships with financial institutions to increase access to financial services; (iii) FIRM, which will provide the necessary security to banks and other financial institutions so they can extend loans to farmers and non-farm micro-entrepreneurs; (iv) capacity enhancement and policy development across all financial inclusion activities; (v) supporting savings and credit apex bodies to strengthen their networks and capacities; (vi) supporting the development of new financial products for remittance recipients that link remittances to savings; and (vii) partnerships to increase demand for credit with partner organizations working to improve the livelihoods of youth, women and rural people.

Component 3: Climate-informed decision making and investment

23. Components 1 and 2 will make great strides to improve financial inclusion and market linkages, reducing a key barrier to climate adaptation. Component 3 includes specific interventions to enhance climate resilience, build knowledge of involved stakeholders and introduce a facility to boost public and private investments that reduce climate risks. These activities, for which funding will be sought from a climate cofinancier, are linked to the other components. The implementation and financing of this component is subject to the identification of a cofinancer. If cofinancing does not materialize, the project will remain coherent with the implementation of the other two components.

III. Project implementation

A. Approach

24. The project will be implemented over six years. To maximize sustainability and scale, it will adopt a market-driven approach that strengthens existing institutions rather than building parallel ones. It will employ inclusive cluster development methods that are shown to be highly effective in profitably linking poor farmers to markets (for example in Nepal). This will be combined with expansion of market-oriented rural financial and non-financial services rather than subsidies and grants to substitute for these services. At the community level, the project will employ proven approaches including: peer-led business skills and financial training; and household methodologies based on the respected Gender Action Learning System and Participatory Integrated Climate Services for Agriculture (PICSA) developed by CGIAR. An intensive, structured approach to institutional capacity building is also embedded in the project.

B. Organizational framework

25. The Ministry of Finance will be the borrower representative and will chair the project steering committee. The Centre for Financial Inclusion, which implemented the previous IFAD-financed Rural Finance and Enterprise Development Programme, will be the lead implementing agency and will host the project management unit.

26. Staff of the Ministry of Agriculture, Ministry of Tinkhundla Administration and Development, Eswatini National Agricultural Union and Small Enterprise Development Company will be integrated into the project team at the central and regional levels to develop capacity and increasingly lead project activities. The Ministry of Tourism and Environmental Affairs, which includes the Eswatini Meteorological Service, will be implementing partner for component 3 – subject to climate cofinancing. The project will also be open to other public and private organizations to second their staff for capacity development.

27. Technical assistance will be flexible in order to respond to emerging needs during implementation, including in: cluster development; monitoring and evaluation; development and harmonization of databases and management information systems; social mentoring; targeting; climate information services; climate finance strategies; knowledge management; and capacity-strengthening activities identified in component 2.

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

28. The project aspires to be data rich and a benchmark in evidence-based knowledge management by adopting best practices for improved cost efficiency, speed and quality data collection and analysis, and using data to drive project success and inform evidence-based policy making.

29. Fast, efficient and reliable data gathering will be made possible by electronic tablet-based data collection systems utilized by self-nominated beneficiary peer mentors, supplemented by surveys and other data sources.

30. Knowledge management will be strongly focused on documenting best practices and key policy lessons, with highly targeted dissemination strategies among partner institutions to promote adoption and scale up.

D. Financial management, procurement and governance

31. The Ministry of Finance will oversee the financial management of the project through the Centre for Financial Inclusion (formerly the Micro Finance Unit). Having managed the previous Rural Financial Enterprise Development Project (RFEDP), in which financial management arrangements including systems, policies and procedures were rated satisfactory at closure, the same arrangements are envisaged. In addition, the finance staff of RFEDP, now working at the Centre for Financial Inclusion, will take over management of this project, mitigating the risk of start-up delays.

32. The financial management risk of the project is assessed as medium after considering the mitigation measures put in place, which include transitioning satisfactory systems, policies and staff from RFEDP to this project.

33. The Ministry of Finance will open a designated account at the Central Bank of Eswatini solely to receive IFAD funds. Funds will then flow into a project operating account, from which payments for goods and services, and to implementing agencies will be made. The Central Bank of Eswatini will also manage FIRM as a guarantee instrument. The Central Bank has had experience managing similar instruments such as the SME Guarantee Scheme. The Central Bank will provide annual reports on the due diligence performed with all participating banks for funds received within the fiscal year.

34. The Centre for Financial Inclusion is a government institution operated through Eswatini's Integrated Financial Management System. The project will be managed using the SunSystems accounting package, which will generate reports and financial statements in accordance with International Financial Reporting Standards but will also be able to send reports to the Government's system. The accounting software will be configured to capture and report on the beneficiary contribution,

which is a substantial part of project financing. This information will be linked to the database developed by the project to track the loan and investments through FIRM.

35. The project will be included in the internal audit arrangements of the Ministry of Finance and key findings will be shared with IFAD for further system improvements and capacity building.

36. As with previous projects, an external audit will be conducted by a private audit firm in accordance with International Standards on Auditing and in conformity with IFAD requirements on external audits of projects.

37. All goods, works and services will be procured in accordance with the provisions of the 2006 Public Procurement Act and the 2014 Public Procurement Regulations to the extent that they are consistent with IFAD's Project Procurement Guidelines. If there is any conflict between the Government's provisions and those of IFAD in relation to procurement, the provisions identified in IFAD's Project Procurement Guidelines and Procurement Handbook will prevail, as provided for in the financing agreement.

E. Supervision

38. The project will be jointly supervised by the Government and IFAD in line with IFAD's Supervision and Implementation Support Policy. Formal joint supervision missions will be conducted annually, with additional implementation-support missions as necessary. There will be at least one additional support mission in the first six months and at least one additional support mission in year 2. A mid-term review will be conducted by the end of year 3. Each mission will be planned in coordination with the Government, whose representatives will be invited to participate. Implementation-support activities may include capacity building for the Eswatini country programme, which includes other ongoing projects and grant-funded activities.

IV. Project costs, financing, and benefits

A. Project costs

39. Total project costs are estimated at US$38.56 million, including US$5.07 million subject to climate cofinancing, which is still being sought.

40. Project costs excluding those subject to climate cofinancing are US$33.5 million. This includes the Government's investment of US$2.94 million and private investments leveraged by IFAD totalling US$21.3 million from beneficiaries and enterprises.

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

	Government		IFAD loan		FFR grant		Climate cofinancier grant		Beneficiaries		Enterprises		Total*	
Components	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Inclusive cluster development	758	12.1	5 356	85.5	84	1.3	-	-	32	0.5	32	0.5	6 262	16.2
2. Expanding the supply of rural financial services	66	0.3	2 498	10.4	219	0.9	-	-	13 800	57.5	7,431	30.9	24 014	62.3
3. Climate-informed decision making and investment	-	-	-	-	-	-	5 069	100.0	-	-	-	-	5 069	13.1
4. Project management and knowledge management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Project management unit	2 119	75.6	685	24.4	-	-	-	-	-	-	-	-	2 804	7.3
4.2. Knowledge management, monitoring and evaluation	-	-	413	100.0	-	-	-	-	-	-	-	-	413	1.1
Total	**2 943**	**7.6**	**8 951**	**23.2**	**302**	**0.8**	**5 070**	**13.1**	**13 832**	**35.9**	**7 463**	**19.4**	**38 561**	**100.0**

* Includes US$5.1 million for component 3 climate cofinancier costs, which are yet to be identified or secured.

B. Project financing

41. Financing for this project includes US$2.94 million from the Government, an IFAD loan totaling US$8.95 million, a US$300,000 grant from FFR, climate cofinancing of US$5.07 million (unconfirmed), beneficiary contributions totaling US$13.83 million and US$7.46 million from enterprises.

42. The climate cofinancing request is a joint initiative with the Government to introduce climate considerations into the rural finance sector. It will target a major climate financing institution such as the Green Climate Fund, Global Environment Facility or Adaptation Fund. Funding applications for cofinancing are being submitted these institutions during 2018. Should cofinancing not materialize, component 3 will not be implemented.

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

	Government		IFAD loan		FFR grant		Climate cofinancier grant		Beneficiaries		Enterprises		Total	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment Costs														
A. Consultancies, training and workshops	147	2	5 866	88	184	4	475	7	-	-	-	-	5 246	13.6
B. Credit, guarantee fund	-	-	1 915	8	118	1	-	-	13 832	59	7 463	32	23 328	60.5
C. Equipment and materials	26	3	163	16	-	-	800	81	-	-	-	-	989	2.6
D. Vehicles	18	14	114	86	-	-	-	-	-	-	-	-	132	0.3
F. Grants	-	-	-	-	-	-	3 300	100	-	-	-	-	3 300	8.6
Total investment costs	**191**	**1**	**8 058**	**23**	**302**	**1**	**4 575**	**13**	**13 832**	**40**	**7 463**	**22**	**34 421**	**89.3**
II. Recurrent costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A. Salaries and allowances	1 946	69	391	14	-	-	480	17	-	-	-	-	2 817	7.3
B. Operating costs	806	61	502	38	-	-	15	1	-	-	-	-	1 323	3.4
Total recurrent costs	**2 752**	**66**	**893**	**22**	**-**	**-**	**495**	**12**	**-**	**-**	**-**	**-**	**4 140**	**10.7**
Total	**2 943**	**8**	**8 951**	**23**	**302**	**1**	**5 070**	**13**	**13 832**	**36**	**7 463**	**19**	**38 561**	**100.0**

C. Summary benefit and economic analysis

43. This project will yield an extensive range of tangible and intangible benefits. Quantifiable benefits include: increased incomes from newly created or expanded MSMEs; employment opportunities through the expansion of on- and off-farm activities; increased yields through investment in good agricultural practices, better quality seed and water-efficient drip irrigation to improve productivity and year-round cultivation; reduced climate-related losses; increased sales and net margins; and more efficient output markets. These benefits will be generated by supporting access to finance and developing the capacity of producers and groups through business skills training, social mentoring and producer coaching. Intangible benefits include: empowerment; the mitigation of social risks (including HIV/AIDS) by promoting socio-economic, gender and youth inclusiveness; and improved nutrition resulting from access to diversified foods and higher incomes.

44. Economic analysis shows satisfactory results, with a net present value of US$64 million and a 32.2 per cent economic internal rate of return (EIRR) at an economic discount rate of 10 per cent. Results were tested for sensitivity to variations in benefits and costs, and various lags in benefits. The project remains profitable under a wide range of scenarios but remains sensitive, especially to downward variations in output prices and implementation delays of two years. Delays of two years or a 50 per cent decrease in benefits versus the base scenario reduces the EIRR to between 18 and 23 per cent – substantially above the discount rate. Cost overruns would have a modest impact, with the EIRR falling to 28 per cent with a 20 per cent cost increase. All scenarios show acceptable results.

45. While the three components together are designed to achieve maximum impact, components 1 and 2 will be highly effective even if cofinancing for component 3 is not secured. The economic and financial analyses above are therefore presented only for costs and benefits excluding component 3.

D. Sustainability

46. Sustainability must be built on solid foundations. This involves: mentoring smallholders to invest in products that can sustain genuine competitiveness while bringing decent returns; growing viable support markets that deliver essential market-oriented financial and non-financial services independent of scarce public finances; building permanent capacity within multiple organizations to continue important elements of this project; and establishing essential information tools and platforms so that farmers, enterprises and service providers can make well-informed decisions about production, markets, credit and climate risks. The project addresses all these issues and more.

E. Risk identification and mitigation

Risk	*Mitigation*
Limited institutional capacity to implement project and sustain roles of stakeholders	Steering committee to lead: • Skills gap/attitude analysis, stakeholder mapping with implementing partners • Capacity building plan (overall and for each partner) with assigned budgets, activities and milestones based on the skills gap/attitude analysis • Routine tracking and delivery of capacity-building plan • Knowledge management strategy and products to support capacity-building plan • Regular, flexible international technical assistance provided in the first three years, linked to capacity-building priorities • At approximately the end of year 2, prepare an issues paper covering options for project sustainability and exit strategy; then lead development of the exit strategy, with clear milestones, for continuing project roles
Lack of credible market opportunities in which smallholders can profitably compete	• Selection of portfolio of products with confirmed market demand and smallholder profitability; scope to increase number later • Products target domestic and export markets, enhancing diversity and reducing concentration risks
Production systems poorly suited to current/future local agro-ecological conditions	• Suitability to local agro-ecological and climate conditions is a non-negotiable criterion for identifying specific commodities and clusters • Each farmer guided to confirm that their priority product is a sensible choice for them using the PICSA approach • Sector Development Fund available for action research and demonstration of resilient technologies • Financial institutions supported to introduce standard checklists of relevant socio-environmental safeguards for small rural loans in order to reduce the risk of inappropriate investment
Banks unwilling to lend to farm and non-farm micro-enterprises at the scale required	• Cluster mentoring approach to pre-screen profitable smallholder agricultural products and non-farm investments, and aggregate small loans to reduce transaction costs and risk • Mentoring farmers and producer groups through the investment cycle to loan repayment Provide financial institutions with: • Strong data and analysis actual loan performance, and build understanding and confidence in lending opportunities • Access to the project's risk management instrument and technical assistance for tailoring products to smallholders and rural entrepreneurs
Ineffective targeting	• Ensure rigorous, objective initial commodity assessment and selection processes, validating credible and affordable investment pathways • "Double wave" inclusion process in villages, with risk-averse or resource-constrained individuals able to join groups or clusters in the second wave once the first wave has demonstrated potential • Differentiated facilitation process within villages and groups to identify and remove specific bottlenecks faced by youth and other resource-constrained populations • Social mentoring within groups and households to increase support to youth and women within families and communities, and enhance economic empowerment
Insufficient flexibility in resource allocation to respond to emerging market opportunities and risks	• Ensure that managers have current information on the market situation to enable prompt action • Attention to streamlined and efficient internal processes • Performance targets and assessments based on impacts/results, not inputs/outputs
Fragmented or misaligned approaches among various government- and donor-funded projects	National level: • Key government agencies are core implementing partners • Develop regular information sharing and openness to joint peer review and evidence-based evaluation of different approaches • Pilot opportunities to align different approaches and evaluate their effectiveness before scaling up Local/cluster level: • Actively encourage all projects and government teams to participate in multi-stakeholder meetings and a common support agenda

V. Corporate considerations

A. Compliance with IFAD policies

47. The project is fully aligned with IFAD's Strategic Framework 2016-2025 and contributes to two Strategic Objectives: Increase poor rural people's productive capacities; and Increase poor rural people's benefits from market participation.

48. The project complies with IFAD's Targeting Policy and is guided by the IFAD's Policy on Gender Equality and Women's Empowerment to: (i) promote economic empowerment in order to enable rural women and men to participate in – and benefit from – profitable economic activities; (ii) enable women and men to have equal voices and influence in rural institutions and organizations; and (iii) achieve a more equitable gender balance in workloads and the distribution of economic and social benefits. The project is also compliant with IFAD's Rural Enterprise Policy by supporting the development of formal agribusiness linkages for smallholders and MSMEs to strengthen income generation and sustain market access. In addition, the project is designed to respond to environmental risks and opportunities in line with IFAD's Social, Environmental and Climate Assessment Procedures, with a special focus on climate resilience.

B. Alignment and harmonization

49. The project's main implementing partners comprise government agencies for community development, agriculture, climate adaptation, financial inclusion and financial sector development, as well as Eswatini's leading national farmer organization. It is therefore fully aligned with national priorities in these areas.

50. Harmonization with other actors will include:

    (a) The recently relaunched Youth Enterprise Fund, which serves the same target groups and can provide non-collateral lending to young women and men who may otherwise find it difficult to secure loans from banks, even through the project's risk instrument; and

    (b) World Vision, which collaborates on savings and credit groups, market linkages and interventions with women under 24 years.

51. The European Union is another major donor in the agricultural sector. The project will continue to explore opportunities for collaboration with its High Value Crop and Horticulture Project and other initiatives. One promising area for collaboration is in joint piloting with partner financial institutions offering collateral-free loans to European Union-supported farmers through the project's risk instrument, combined with mentoring considered essential by banks.

C. Innovations and scaling up

52. The project design introduces several best practices that have proven successful elsewhere to Eswatini in an integrated manner. Scaling up is a foundational element of the project via market-oriented approaches to cluster development and financial and non-financial service development focused on institutional capacity building.

D. Policy engagement

53. By partnering with multiple government institutions concerned with rural economic development, the project aims to positively influence government policy and practice from the inside. Knowledge-management and capacity-building activities are specifically designed to identify best practices and key policy lessons, then support partner ministries and others in adopting them in their core operations. Specific funds are designated for these activities, including technical support to partners' adoption and scaling up.

54. The multi-stakeholder processes central to this project provide an important mechanism for beneficiaries' voices to be represented in decision making on policies and resource-allocation decisions.

VI. Legal instruments and authority

55. A financing agreement between the Kingdom of Eswatini and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A copy of the negotiated financing agreement is attached as appendix I.

56. The Kingdom of Eswatini is empowered under its laws to receive financing from IFAD.

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

VII. Recommendation

58. 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 Eswatini in the amount of eight million, nine hundred fifty thousand United States dollars (US$8,950,000) 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: "Financial Inclusion and Cluster Development"

(Negotiations concluded on 27 March 2018)

IFAD Loan Number: ___________

Project Title: Financial Inclusion and Cluster Development (FINCLUDE) (the "Project")

The Kingdom of Eswatini (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

WHEREAS, IFAD has agreed to extend a loan to the Borrower for the purpose of financing the FINCLUDE Project, on the terms and conditions set forth in this Agreement;

WHEREAS, the Project will facilitate the implementation of the National Financial Inclusion Strategy and will build on lessons learnt from the Rural Finance and Enterprise Development Programme financed through a Programme Loan agreement between the Fund and the Borrower dated 25 March 2010; and

WHEREAS the Project will complement the Smallholder Market-Led Project financed through a Financing agreement between the Fund and the Borrower dated 16 February 2016;

WHEREAS the Fund intends to provide a Grant for the benefit of the Project from its Financing Facility for Remittances, to support the implementation of remittances,

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), and the Allocation Table (Schedule 2).

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 to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the IFAD Loan is eight million nine hundred fifty thousand United States dollar (USD 8 950 000).

2. The IFAD Loan is granted on ordinary terms and shall have a rate of interest on the principal amount outstanding at the IFAD reference interest rate per annum, and shall have a maturity period of 18 years including a grace period of three (3) years starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.

3. The Loan Service Payment Currency shall be USD.

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 each 1 June and 1 December.

6. The Ministry of Finance (MoF) will open a designated account in USD in the Central Bank of Eswatini to receive the loan funds from IFAD.

7. A Project account will be opened for purposes of receiving funds from the Designated account for daily operations.

8. The Borrower shall open and maintain a counterpart operating account to receive and disburse counterpart funds.

9. The Borrower will provide counterpart funds for the Project in the amount of two million nine hundred thousand United States Dollar (USD 2 900 000) million for staff salaries, rentals and tax and duties on Project expenditure.

Section C

1. The Lead Project Agency shall be the Centre for Financial Inclusion (CFI) of the MoF.

2. The following are designated as additional Project Parties, among others:

   (a) Ministry of Agriculture (MoA).

   (b) Eswatini National Agricultural Union.

   (c) Ministry of Tinkhundla Administration and Development (MoTAD).

   (d) Small Enterprise Development Company (SEDCO).

3. A Mid-Term Review will be conducted at the end of the third year of Project implementation and as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.

4. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date will be established as specified in the General Conditions.

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 the right of the Borrower to request disbursements under the Loan:

   (a) Any of the Key Project Personnel have been removed from the Project without the prior concurrence of the Fund;

   (b) The Project implementation Manual (the "PIM") as referred to in paragraph 7 part II of Schedule 1, and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, has determined that it 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 disbursement:

   (a) The IFAD no objection to the PIM shall have been obtained;

   (b) The PMU shall have been established and the recruitment of key Project staff, as defined in Schedule 1, shall have been duly recruited;

   (c) The establishment of an accounting software acceptable to IFAD.

3. This Agreement is subject to ratification by the Borrower.

4. The following are the designated representatives and addresses to be used for any communication, notices, requests, reports related to this Agreement:

For the Borrower

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

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

KINGDOM OF ESWATINI

____
(Authorized Representative)
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Project area and Target Population*. FINCLUDE will have a national coverage based on comparative advantage and readiness for opportunities, cluster development and impact. The Project will initially focus on five commodities: (1) red meat (beef/goat); (2) poultry; (3) pigs; (4) vegetables; and (5) legume seeds. The Project will target actual or aspiring smallholders and micro-entrepreneurs for selected commodities or taking advantage of emerging opportunities in cluster areas, who require short-term support. Special focus will be placed on: (i) young men and young women (18-35 years) engaged or motivated and willing to engage in farm and non-farm enterprises in the selected clusters locations; and (ii) poor rural women and particularly women headed households active along the targeted supply chains and aspiring and seeking business growth. Criteria for prioritization of the localities where Project will be implemented will be defined in the PIM. The Project will complement the existing interventions under the Borrower's funding schemes for entrepreneurial development.

2. *Goal*. The Project's goal is to contribute to the improvement in prosperity and resilience of the country's poor and vulnerable smallholders and micro-entrepreneurs through increasingly profitable and resilient links to markets and access to appropriate financial services.

3. *Objectives*. The development objective is to increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through efficient public and private sector investment as defined under component 1.

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

Component 1: <u>Inclusive cluster development</u>. Cluster brokering and investment facilitation will catalyse the emergence of competitive clusters for products with confirmed market potential and comparative advantages for smallholder production. The cluster development approach is a rolling process of action-oriented brokering, dialogue and investment facilitation among key actors in each cluster to catalyse investments and remove bottlenecks to increase trading and profits for farmers and others. Investment priorities are set through this process and private and public good investments will be facilitated by FINCLUDE. Private investment will be supported through mentored investment processes using savings and loan financing, facilitated by FINCLUDE from partner financial institutions if needed. For public good investments, FINCLUDE's primary role is as an 'integrator' of existing support initiatives of government and others. The rolling multi-stakeholder cluster meetings create a practical mechanism for such supporters to develop a common understanding of opportunities and constraints in the clusters and roles each can play in addressing these. In addition, a Sector Development Facility will address gaps in support for critical 'public good' investments not being supported by others.

Remittance. Almost half of the adult population rely on each other for income and hence the need for alternative secure and affordable financial services mechanisms to remit and utilize the income both, for household needs and economic activities. Training modules to support women and men to better make use of remittances will be included as part of business skills peer mentoring, particularly on medium/long-term financial planning and productive use of remittances. Similarly, social mentoring will address positive and negative social aspects of migration, for migrant workers and remaining migrant families.

Climate resilience. Producers will be guided to re-confirm that their chosen focus product is a sensible choice for them individually given local agro-ecological conditions and expected impacts of climate change. The process helps farmers to consider specific 'no regrets' investments or adaptations to their intended production practices and farm investment plans that would increase resilience and likelihood of success. This process will be enhanced by the Climate Information Services in Component 3.

Component 2: Expanding supply of rural financial services. FINCLUDE will addresses demand and supply side constraints. It will develop credible rural business value propositions (Component 1) of size sufficient to entice the appetite of financial institutions to engage in offering a range of financial products catering to the business needs while it will exploit all available resources of the financial sector and offer incentives to financial institutions to expand their offerings and actively participate in rural business development (Component 2). In parallel, it will strengthen the overall financial literacy and resilience of mostly rural households and support businesses in meeting their loan payments on time, and so creditors to mitigate their risks (Component 1).

Activities include: Addressing the information divide between supply and demand for financial services through several databases and information tools; Partnerships with financial institutions to increase access to financial services; Financial Instrument for Risk Management (FIRM), to provide the necessary security to the banks and other financial institutions so they can extend loans to farmers and non-farm micro-entrepreneurs; Capacity enhancement and policy development across all activities pertaining to financial inclusion; supporting Savings and credit groups to strengthen their networks and capacities; For remittance users, supporting development of innovative financial products linking remittance and savings, and; Partnerships to increase the quality of credit demand more widely will be established with several external organizations working to improve livelihoods particularly of youth, women and rural people.

Component 3: Climate Resilient Decision Making and Investment. Components 1 and 2 will make great strides in improving financial inclusion and market linkages helping reduce a key barrier to climate adaptation. In addition, there are specific interventions that can further enhance overall impacts in terms of climate resilience, by building knowledge of various actors involved and introducing a facility to boost public and private investments that reduce climate risks. These activities, for which funding will be sought from a climate financier, are tightly linked to the other components..

Implementation arrangements for Component 3, will be further elaborated later on when the Climate Funding is assured.

II. Implementation Arrangements

1. *Lead Project Agency.*

1.1 The Centre for Financial Inclusion (CFI) of the Ministry of Finance will be the Lead Implementing Agency and will house a PMU embedded into its existing structures.

1.2 CFI will establish and directly manage a team with a mix of its own staff, hired professional contracted staff and assigned staff from interested partner organizations (public and private).

2. *Project Steering Committee (PSC).*

2.1 *Establishment and Composition*. A PSC, chaired by MoF, will be established to provide overall strategic direction and governance of the Project. The PSC will be chaired by the Principal Secretary (PS) of MoF, or his/her nominee, and composed of representatives from MoA, and other Ministries and institutions with direct relevancy to the achievement of FINCLUDE's goal and development objective and also ensuring that audits are properly carried out, and corrective measures are taken.

2.2 *Responsibilities.* The PSC will provide strategic guidance towards the achievement of Project objectives and contribute to the higher level sector policy and strategic goals. This will also be responsible for review and approval of Annual Work Plans and Budgets and annual reports.

3. *Implementation Structure.*

3.1 The Project will be implemented through a decentralized structure with a small central team based in CFI (the PMU) and operational teams in each of the four regions (Hhohho, Manzini, Lubombo, Shiselweni).

3.2 The PMU will be embedded within the existing structures of the CFI. PMU will be accountable for ensuring FINCLUDE achieves its objectives and for oversight of all day to day operations of the Project.

3.3 *Senior Management team*. A Senior Management Team will support the Project Director in the overall coordination and delivery of the Project and be jointly accountable for its overall performance in addition to their technical areas of responsibility. The Senior Management Team will comprise: the CFI CEO who will act as the Project Director supported by the Project Manager of the PMU, , and the contracted senior professionals as Coordinators and Deputy Coordinators for each of the three Components plus the inclusion specialist, Chief Finance Officer and M&E KM specialist for the Project.

4. *Project Management Unit (PMU).*

4.1 The Project Management Unit (PMU) will be responsible for overall Project implementation in consultation with other relevant national agencies and Ministries to ensure consistency with national policies. The PMU established under CFI at National level will be composed of Project specific staff fully dedicated to the Project headed by a Project Manager. The PMU will be accountable to the CEO of CFI, who will be the executive level head Project. A Chief Project Finance officer , assisted by other Finance staff will be supervised within the structures of CFI.

4.2 The PMU will be responsible for Project coordination and management of fiduciary issues in conformity with the standards and requirements agreed upon between Borrower and IFAD; and manage the Project in accordance with the Financing Agreement and other Project documents such as the Letter to the Borrower, and the PIM/Finance Manual. It will also be responsible for the day-to-day management of the Project.

5. *Regional teams.*

5.1 The four regional teams will be responsible for the integrated delivery of activities from the community level and will include staff with backgrounds in: MSME finance/bank credit officers, business activities across all three components in their region – covering cluster development, rural finance and climate investment. Thus, the Cluster Development Officers, Cluster Mobilizers and Social Mentor Supervisors will need to be familiar and trained on all aspects of the Project.

5.2 *Cluster Development Teams (CDT).* The Cluster Development Coordination teams will each take lead responsibility for delivering the results on the specific commodities and non-farm enterprises clusters, ensuring a co-ordinated and coherent set of activities and interventions across the Project in support of the particular commodity. At the regional level, the CDT will coordinate across all commodities active in their region. Staff of the CDT will be recruited from a range of professional backgrounds to ensure a breadth of suitable skills and experience in the team.

5.3 *The Cluster mobilization teams (CDT).* The Cluster Mobilizers will work in in pairs. Each pair of Cluster Mobilizers will be responsible for the mobilization and facilitation of clusters within their assigned local area. Clusters Mobilizer may therefore be responsible for clusters for several different commodities. Cluster Mobilizers will be coached and supervised by Cluster Mobilization Supervisors who will report to the CDT.

6. *Key Project Personnel.* Key Project personnel shall include the Project Director, Project Manager, Component Coordinators, inclusion specialist, Chief Finance Officer, Procurement specialist and M&E KM specialist. The recruitment and removal of the Project Director or key staff shall be subject to the concurrence between the Fund and the Borrower.

7. *Project Implementation Manual.* The PMU will develop a Project Implementation Manual (PIM) for the Borrower's and the Fund's consideration and approval. Project. The PIM will include, inter alia, a comprehensive financial management section, will provide more details on roles and responsibilities of Project and implementing parties and include internal audit requirements. The PIM may be amended from time to time, subject to approval by the Fund incorporating the relevant operational aspects governing the implementation of the Project.

Schedule 2

Allocation Table

1. *Allocation of the Financing.* 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 (expressed in USD)	Percentage[1]
1. Training and Workshops[2]	5 280 000	100% net tax
2. Credit, Guarantee Fund	1 720 000	100% net tax
3. Equipment and Materials [3]	250 000	100% net tax
4. Operating costs	450 000	100% net tax
5. Salaries & Allowances	350 000	100% net tax
Unallocated	900 000	100% net tax
TOTAL	8 950 000	

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 USD 400 000. Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.

[1] This net of taxes and co-financing by all other financiers
[2] Includes consultancies
[3] includes funds for vehicles

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:

a) The Project has not confirmed within 60 days of the end of each Fiscal year the that the loans under the financial instrument for risk management (FIRM) under Component 2 were eligible, due diligence performed and relevant fees were paid.

b) The Project fails to accurately record and report on the beneficiary contribution.

Logical framework

Results Hierarchy	Indicators[1]					Means of Verification			Assumptions
	Name	Base line	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	Number of people receiving services promoted or supported by the project. (60% youth = 11,100 people / 50% women = 9,250 women)	0	900	7,000	18,500	Project reports	Annual	PMU	Assumes continued social, political and economic stability in the country and Southern African Customer Union region.
Goal:: Improvement in prosperity and resilience of poor and vulnerable smallholders and microentrepreneurs	Number of individual entrepreneurs and MSMEs directly benefitting from a full range of FINCLUDE support (*"full beneficiaries")* whose profits increase (real net income) from farm or non-farm enterprise by >50% (Unit = No. of individuals / MSMEs) (New Core Indicator (CI)[2])	0	0	2,500	8,500	Base/Mid/ End Survey Annual Cluster Tracking Surveys[3] (ACTS)	Baseline Mid-term End line Annual	PMU	
	Number of additional individual entrepreneurs and MSMEs who take and duly repay loans under the FIRM without receiving other FINCLUDE support (*"finance only"* beneficiaries)	0	200	1,700	10,000	FIRM reports / Credit History Database	Annual	CBS PMU	
	Individual farm entrepreneurs and MSME "full" beneficiaries report a >50% increase in resilience score[4]	0	-	-	5,600	Base/Mid/ End line Survey	Baseline Mid term End line	PMU	
Development Objective: To increase returns from sustainable farm and non-farm enterprise for rural people, including poor and youth, through resilient links to markets and access to appropriate financial services	Number of beneficiaries' achieving annual return on labour in farm or non-farm enterprises of >120% of unskilled wage rate (Unit = No. of individuals)	0	0	2,000	6,800	Base/Mid/ End line Survey ACTS	Baseline Mid term End line Annual	PMU	Assumes 80% of 'full' beneficiaries achieve this level of income. At design, unskilled wage rates are E60/day (annualized x 250 days = E15000) => target min. net income ~E18000 p.a. per worker
Outcome 1: Profits to farm and non-farm micro enterprises and MSMEs from inclusive clusters increased for multiple higher value products.	Aggregate value of priority products[5] and services sold by farm/non-farm micro-enterprises in target clusters in real terms[6] (Unit = Percentage increase)	0	0	10%	40%	ACTS	Annual	PMU	Baseline sales data in each commodity cluster to be gathered during start-up of cluster activities. Assumes that there are no prolonged collapses in export/local demand or prices for agricultural products.
	Adoption rate of environmentally sustainable and climate resilient production and postharvest technologies[7] for crops by participating farmers (Unit = %) (New CI 1.2.2)	0	0	40%	80%	Base/Mid/ End line Survey ACTS	Base/Mid/ End line; Annual	PMU	Substantial improvements in climate resilient production are necessary and feasible as foundations of growth.
Outcome 2: Private investment increased in priority clusters and commodity sectors from smallholders and MSMEs	Total private investment in priority clusters and commodity sectors by individuals, households & MSMEs[8] secured under the FIRM[9]. (Unit = cumulative US$)	0	0	US$8 million	US$25 million	FIRM reports Credit history database FI Loan data	Annual	CBS PMU Partner FIs	Sufficient numbers of FIs continue to show commercial commitment to expand rural lending portfolio to smallholder and MSME sectors.

[1] Data for all household/individual related indicators to be disaggregated by poverty status, age (<25 yrs, 25-35 yrs, >35 yrs) and gender.
[2] Disaggregated between individuals (farm, non-farm) and MSMEs.
[3] Annual Cluster Tracking Survey will combine data from: individual MSME data collected via tablet-based MIS by the business skill / social mentors at least for all 'full' beneficiaries; trader and service provider tracking survey in each cluster; secondary data (e.g. agricultural output data). Annual Cluster Tracking Survey will replace the annual outcome survey (see details in PIM).
[4] Resilience, defined as resilience to climate and economic shocks, measured through a scorecard based on FAO's Resilience Index and Measurement Analysis (RIMA) methodology. Target assumes 80% of 7,000 *farm* 'full' beneficiaries. Subject to securing funding for full implementation of Component 3.
[5] Initially five priority products will be supported: chicken, red meat, pigs, vegetables and legume seeds. Additional products may be added during project implementation.
[6] calculation of "real terms" to include correction for changes in wider reference market prices for the specific products so that gain/loss from general market price variations are discounted.
[7] "Adoption Rate" in the production/post-harvest practices to be defined for each target product by the M&E team with technology experts at the start of the project. At the farm level, this is typically expected to include farmers adopting at least 2/3 of the components of an improved technology package for production a specific crop/livestock. Each of the technology components will be clearly defined and objectively verifiable, similar to good practices in other IFAD projects elsewhere.
[8] Disaggregated by commodity and between households and MSME. For households also disaggregated by age (youth/non-youth) and gender.
[9] To include follow-on loans and investments where the initial investment was secured under the FIRM but foll-ow-on loans were provided directly by the FSP without the need to the FIRM guarantee

Results Hierarchy	Indicators[1]					Means of Verification			Assumptions
	Name	Base line	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
	Savings accounts opened in banks and other financial institutions (including SCGs) for investment purpose in priority cluster and commodity sectors by individuals benefiting from FINCLUDE services, among which 1/5 belongs to a migrant household[10]	0	n/a	2,000	6,800	ACTS Partner FI reports	Annual	PMU Partner FIs	Sufficient numbers of FIs continue to show commercial commitment to expand rural savings portfolio.
	Participating individuals with increased business skills levels (Unit = people)	0	0	2,000	6.800	Pre-/post BS training assessment	Annual	PMU	80% of 'full' beneficiaries. Participating smallholders have sufficient interest to improve their business skills.
	Continued increased financing by Financial Institutions (FIs) to small farmers and rural MSME after project (Unit = Value of loans)	0	n/a	n/a	US$5 million p.a.	CFI industry tracking reports	End of project / Post-project	CFI under its core mandate	Positive framework conditions for investment into agriculture and rural MSMEs.
Outcome 3: Substantially increased national capacity to deliver inclusive cluster development and financial inclusion initiatives	Multi-stakeholder Cluster Meeting (MCM) established, functional and self-sustaining[11] (Unit = percentage) (New Core Indicator - policy 2)	0	0	90%	90%	Project reports; MCM surveys	Annual Annual	PMU PMU	External socio-political factors do not disrupt MCM processes. Sufficient interest from Private sector in MCMs in all commodities.
	Percentage of clusters in which participants (producers /MSMEs) accessed unsubsidized technical services from commercial suppliers in last 12 months. (Unit = % of clusters)	0	20%	60%	100%	ACTS	Annual	PMU	Development of commercial services and support markets is not undermined by the provision of free or heavily subsidized services by others.
	Number of other development actors and government agencies applying one or more best practices[12] of FINCLUDE in their own activities. (Unit= no. of organizations)	0	1	2	4	KM products published; Feedback reports from organisations replicating practices; Budget / expenditure data from partners on replication activities.	Annual	PMU	Best practices must be documented in KM products by FINCLUDE. Must be substantiated by evidence of activities from adopting agencies, including evidence of change in practice from before.
	Knowledge management outputs rated as highly satisfactory by steering committee (SC) members (Unit = % of SC members)	0	80%	80%	80%	SC KM feedback survey	Annual	PMU	Assumes that KM products must be highly satisfactory if SC members and others are likely to be interested to replicate best practices in their own institutions.
Outcome 4: Climate resilience and climate finance mainstreamed into rural finance operations	Participating individuals using climate information for decision-making (unit = people [% of total outreach])	TBD	As	2,800 [40%]	14,800 [80%]	Base/Mid/ End line Survey ACTS	Base/Mid/End-line Annual	PMU	Subject to securing financing to fully implement Component 3 – Climate Resilient Decision Making and Investment
Outputs	No. of individuals trained in business and financial skills	0	500	5,000	8,500	Training records	Annual	PMU	100% of full beneficiaries
	No. of households graduating from social mentoring intervention	0	0	2,500	6,800	Mentoring records	Annual	PMU	80% of full beneficiaries
	No. of producer groups mobilized to participate in clusters	0	40	175	175	ACTS	Annual	PMU	
	No. of best practices in delivering positive economic and social benefits to poor young women (<24 yrs) piloted, documented and scaled-up	0	0	4 piloted	2 scaled-up	KM products ACTS	Annual	PMU	
Outputs subject to securing financing to fully implement Component 3: Climate Resilient Decision Making and Investment	Climate finance mobilized at national level for small farmers and rural MSME across the country during project period (Unit = Value of all financial products)	0	0	US$ 10 million	US$ 50 million	Climate Finance Tracker[13]	Annual	PMU	Commitment from relevant national authorities to apply for and secure additional climate financing
	No. of smallholder farmers trained in use of climate information services	0	0	3,500	7,000	Training records	Annual	PMU	All *farm* 'full' beneficiaries.

[10] This number is based on the proportion of households to whom remittances represent a source of income estimated as of 22% of the population according to Finscope survey 2014. This estimate can be refined after the completion of the demand side survey on remittances and migrant households.
[11] 'functional' MCMs by end of the project are defined as those being self-managed and organized by the members of the cluster without external financial support
[12] Key elements of the approach to be documented in KM products and promoted for wider adoption by other organizations are expected to include, inter alia: improved business skills and financial literacy training, multi-stakeholder cluster meetings and associated processes for inclusive cluster development; producer groups and MSME mentoring; market-based service market development; social mentoring and household methodologies; use of peer mentors for business skills, social mentoring and other skills training delivery; PICSA climate information usage by smallholders; promotion of private smallholder investment via savings and credit rather than grants.
[13] The Climate Finance Tracker will be developed as part of the Climate Finance Strategy.