

Document: EB 2021/LOT/P.2/Sup.1
Date: 10 March 2021
Distribution: Public
Original: English

E



Republic of Zimbabwe

Smallholder Agriculture Cluster Project

Negotiated financing agreement

For: **Information**

Negotiated financing agreement: "Smallholder Agriculture Cluster Project"

(Negotiations concluded on 5 March 2021)

Loan No: _____

Project name: Smallholder Agriculture Cluster Project ("the SACP"/ "the Project")

The Republic of Zimbabwe represented by the Minister of Finance and Economic Development (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Project shall be co-financed by the OPEC Fund for International Development (OFID). The Borrower and OFID will conclude a Financing Agreement (the "OFID Co-financing Agreement") to provide financing for the Project;

WHEREAS, the Fund has agreed to provide financing for the Project;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan (the "Financing") to the Borrower, 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 Loan is thirty five million and seven hundred thousand United States Dollars (US\$35 700 000).

2. The Loan is granted on highly concessional terms and shall be free of interest but shall bear a fixed service charge as determined by the Fund at the date of approval of the

Loan by the Fund's Executive Board, payable semi-annually in the Loan Service Payment Currency. The Loan 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 principal of the Loan will be repaid at four and a half per cent (4.5%) of the total principal per annum from the eleventh (11th) year through to the thirtieth (30th) year, and at one per cent (1%) of the total principal per annum from the thirty-first (31st) year to the fortieth (40th) year.
4. The Loan Service Payment Currency shall be in United States Dollars.
5. The first day of the applicable Fiscal Year shall be 1 January.
6. Payments of principal and service charge shall be payable on each 15 June and 15 December.
7. The Borrower shall open an account denominated in USD ("Designated Account") through which the proceeds of the Financing shall be channelled as well as the dedicated bank account for receipt of counterpart funding and the operational bank accounts shall be detailed in the Letter to the Borrower¹. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
8. The Borrower shall provide counterpart financing for the Project in the amount of five million and thirty one thousand United States Dollars (US\$ 5 031 000) in the form of taxes and duties, provided through tax waiver to the Project.

Section C

1. The Lead Project Agency shall be the Ministry of Lands, Agriculture, Fisheries, Water and Rural Resettlement.
2. The following are designated as additional Project Parties: the Ministry of Finance and Economic Development (MOFED); Ministry of Women Affairs, Community and Small and Medium Enterprise Development (MWACSMED); Ministry of Environment, Tourism and Hospitality (METH); Ministry of Youth, Sports and Recreation (MYSR).
3. A Mid-Term Review will be conducted 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 6th anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.
5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the IFAD procurement guidelines.

Section D

The Fund will administer the Loan and supervise the Project.

¹ Letter to the Borrower is the finance letter which will be sent by IFAD to the Borrower, providing further details in respect of the financing such as withdrawal applications, procurement thresholds and such other information deemed necessary for purposes of the specific financing.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The Project Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project;
 - (b) the OFID Co-financing Agreement has failed to enter into full force and effect within 730 days of the date of this Agreement, and substitute funds are not available to the Borrower; and
 - (c) the right of the Borrower to withdraw the proceeds of the OFID Co-financing Loan has been suspended, cancelled or terminated, in whole or in part, or the OFID Co-financing Loan has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.
2. The following is designated as an additional ground for cancellation of this Agreement:
 - (a) Any of the personnel appointed to the key Project roles are removed from the Project without the prior concurrence of the Fund.
3. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The IFAD no objection to the PIM shall have been obtained;
 - (b) the following key Project roles have been appointed: National Project Coordinator, Chief Accountant, Procurement Officer, Monitoring & Evaluation and Planning Specialist and Senior Value Chain and Agribusiness Advisor; and
 - (c) evidence that the Borrower is operating a fully functional accounting software system, in form and substance satisfactory to IFAD.
4. This Agreement is subject to ratification by the Borrower.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Head Zimbabwe Public Debt Management Office
Ministry of Finance and Economic Development of Zimbabwe 4th Floor, New
Government Complex
Corner Samora Machel and Fourth Street,
Harare

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

Copy to: Country Director, Zimbabwe

This Agreement, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

REPUBLIC OF ZIMBABWE

"[Authorised Representative Name]"
"[Authorised Representative title]"

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit a large number of poor smallholder farmers in value chains selected through stakeholder business planning and competitive matching grant mechanism.
2. *Project area.* The Project will be implemented in the following five, out of Zimbabwe's ten provinces: Mashonaland Central, Mashonaland East, Mashonaland West, Midlands and Matabeleland North (the "Project Area").
3. *Goal.* The goal of the Project is to increase equitable smallholder participation in market-oriented and climate-smart value chains.
4. *Objectives.* The objective of the Project is the realisation of increased household incomes and improved nutrition, through sustainable transformation of the smallholder farming sector.
5. *Components.* The Project shall consist of the following Components:
 - 5.1. **Component 1: Inclusive Value Chain Development.** Although the skills level and agricultural sector potential in Zimbabwe are among the highest in Africa, the country's gaps in smallholder-based value chain ("VC") organization result in low productivity. SACP's Component 1, which is the Project's key investment component, is designed to address these challenges, as follows:
 - 5.1.1. Sub-component 1.1: Cluster Identification and VC Mobilization. This sub-component's expected results are: (i) 8 smallholder production clusters identified, (ii) 800 farmer groups mobilized and organized, and (iii) 200 microenterprises and 40 VC lead enterprises identified and mobilized for SACP support operations.
 - 5.1.2. Sub-component 1.2: Technical Services for APGs and Microenterprises. The projected results are: (i) 800 agricultural production groups ("APGs") and 200 agribusinesses, identified through Sub-component 1.1, receive business development services and are able to complete bankable business plans, which comply with agreed Environmental, Social and Governance standards; and (ii) 800 APGs implement climate smart agriculture practices.
 - 5.1.3. Sub-component 1.3: Financing for Inclusive VC Investments. The Project will co-finance, through a competitive selection process, privately owned and managed investments by smallholders and agribusinesses for VC upgrading. Matching grants will be made available in three categories, as follows: (i) US\$16 million of competitive co-investments carried out with 800 APGs; (ii) US\$4.4 million of competitive co-investments financed with 200 rural microenterprises; and (iii) US\$2.5 million of competitive co-investments financed with 40 VC Lead Enterprises ("VCLEs"). In addition, a US\$-denominated Line of Credit worth US\$2.5 million will be established at a selected financial institution, to initiate access to commercial bank finance by those SACP's partner VCLEs, which operate in the export sector.
 - 5.2. **Component 2: Climate Proofed Value Chain Infrastructure.** This component will improve irrigation water supply and management, domestic water supply, and local level feeder roads, to facilitate the commercialisation of smallholder agriculture. The implementation of activities under this component will encourage private sector investments in SACP areas, promote the production and marketing of large quantities

of quality produce and reduce the time and cost of transport to the markets. The expected results include: (i) prioritised ward level community infrastructure investments identified through participatory stakeholder consultations; (ii) approximately 1,780 ha equipped with improved, climate proofed irrigation systems; (iii) 150 km of roads rehabilitated and climate proofed; and (iv) 100 wards with improved water supply and sanitation facilities.

5.3. **Component 3: Policy and Institutional Support and Project Coordination.** This component is divided into two sub-components:

5.3.1. Sub-component 3.1: Policy and Institutional Support. This sub-component's activities will support efforts to create a conducive policy and institutional environment for private sector-led smallholder agriculture transformation in Zimbabwe. Based on the accumulated knowledge and information products from SACP implementation, policy dialogue and other discussion forums and events will be organised, aiming particularly at the development of action-oriented plans to support the diversification and commercialisation of smallholder agriculture.

5.3.2. Sub-component 3.2: Project Coordination. This sub-component will cover the project management and coordination activities of SACP.

5.4. **Component 4: Contingency Emergency Response.** Given the recurrent weather extremes in Zimbabwe, in particular droughts, this component, designed with a zero cost allocation, has been included to enable IFAD to respond urgently in its support to smallholder farmers, who are the most impacted. Specifically, this component is expected to facilitate and expedite the implementation of level-2 project restructuring, in the event of an emergency or disaster.

II. Implementation Arrangements

6. *Lead Project Agency.* Ministry of Land, Agriculture, Fisheries, Water and Rural Resettlement ("MLAFWRR"). To this end, MLAFWRR will establish a Joint Management Unit ("JMU") that will include the functions of both the Project Coordination Unit of the ongoing Smallholder Irrigation Revitalisation Project ("SIRP") project and the National Project Management Unit ("NPMU") of this Project.

7. *Project Oversight Committee.* A joint Project Steering Committee ("PSC") will be constituted for SIRP and SACP, chaired by the Permanent Secretary of MLAFWRR. The PSC will be responsible for programme oversight and strategic guidance, and comprise of the representatives of the following public sector departments/institutions and private sector organisations that are expected to play key roles in the SACP efforts to develop rural value chains in Zimbabwe: The Strategic Policy Planning and Business Development Directorate, Department of Mechanisation and Irrigation, and Department of Agricultural Extension Services ("Agritex") of MLAFWRR; the Ministry of Finance and Economic Development; Ministry of Women Affairs, Community and Small and Medium Enterprise Development; Ministry of Environment, Tourism and Hospitality; Ministry of Youth, Sports and Recreation; and the Chamber of Commerce. The PSC will also include two senior members of the water user organisations and APGs from the provinces, representing SIRP and SACP beneficiaries. The JMU will act as a secretariat for the PSC meetings.

8. *National Project Management Unit and Joint Management Unit.* The JMU shall be established with structure, functions and responsibilities in accordance with the PIM and acceptable to the Fund. The JMU staff will consist of a mix of SIRP staff, officers working for both SIRP and SACP, and specialists specifically hired or seconded to manage the new SACP activities. The JMU and the NPMU of SACP will be based in Harare close to the MLAFWRR premises.

The PMU will be composed of, but not limited to the SACP National Coordinator, Senior Value Chain and Agribusiness Advisor, Senior Climate Smart Agriculture Advisor, Chief Accountant and Procurement Officer, who will be competitively recruited from the market for the duration of the Project. The Monitoring & Evaluation and Planning Specialist will be recruited from the market for the initial 3 years to assure a proper set up of the system, and thereafter replaced by secondment for 3,5 years. The above-mentioned roles form the key Project roles. While several specialists, particularly the key ones, are dedicated to only one project, SACP shares an Office Secretary, Senior Social Inclusion Specialist and KM/Communication Specialist with SIRP. The rest of the SACP staff members are seconded.

To manage the field operations, SACP will establish four Provincial Project Implementation Units (PPIU), covering Matebeleland North, Mashonaland Central, Mashonaland East and Mashonaland West. Implementation for Kwekwe district in Midlands province will be the responsibility of the Matebeleland North PPIU while Chirumanzu will fall under the Mashonaland West PPIU.

At the district level, the implementation will be carried out through Agritex extension network, who form implementation teams in 18 SACP districts covered by SACP.

All staff, recruited or seconded, shall be selected competitively according to the Borrower's applicable procedures acceptable to the Fund and hiring and termination of the contracts shall be subject to the Fund's no-objection.

9. *Implementing partners.* In order to smoothly manage field operations, SACP will establish four Provincial Project Implementation Units. At district level, implementation will be carried out through Agritex's extension network, who form implementation teams in the districts covered by SACP. The district-level field operations will be supported by SACP-resourced staff from other public institutions and private sector service providers.

10. *Monitoring and Evaluation.* The Monitoring & Evaluation and Planning Specialist at NPMU will be supported by four Provincial Monitoring & Evaluation Planning Officers with functions and responsibilities detailed in the PIM. These includes: (i) establishment of the Monitoring & Evaluation and management information system; (ii) conducting the baseline, midterm review, completion surveys; (iii) conducting Monitoring & Evaluation capacity building for project staff; and (iv) compilation of progress reports among others.

11. *Knowledge Management & Communication.* The Knowledge Management and Communication Specialist will undertake detailed responsibilities and functions described in the PIM, in particular the generation of evidence-based knowledge products for the communication of project activities, achievements and lessons learned to stakeholders and the wider public.

12. *Project Implementation Manual.* A draft project implementation manual has been prepared as well as an annual work plan and budget, and procurement plan for the first 18 months of project implementation. The Joint Management Unit with SIRP is expected to speed up the Project start-up.

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	Loan Amount Allocated (expressed in USD)	**Percentage
Grants & Subsidies	21 650 000	100%
Goods, Services & Inputs	900 000	100%
Equipment & Materials	1 000 000	100%
Credit	2 400 000	100%
Consultancies, Training & Workshops	3 800 000	100%
Recurrent costs	2 450 000	100%
Unallocated	3 500 000	100%
TOTAL	35 700 000	100%

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

**Percentage means all expenses are Net of taxes.

2. *Disbursement arrangements. Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (in Categories: (i) Goods, Services & Inputs; (ii) Consultancies, Training & Workshops and (iii) Recurrent Costs) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of four hundred thousand United States Dollars (US\$ 400 000). Activities to be financed by Start-up Costs will require the 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. Within six (6) months of entry into force of the Financing Agreement, the Project will procure and install a customize accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.
2. Within six (6) months of entry into force of the Financing Agreement, the Project will enter into Memorandum of Understanding (MoU) with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.
3. *Planning, Monitoring and Evaluation.* The Borrower shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
4. *Gender.* The Borrower shall ensure that the Project is gender transformative by addressing gender inequality challenges along the agricultural value chains.
5. *Inclusivity.* The Borrower shall ensure that:
 - (a) project activities reach all different groups in the Project Area, through the provision of opportunities to access and participate in project services;
 - (b) all groups located in a Project Area are adequately and fairly represented in local planning for Project activities; and
 - (c) the terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected².
6. *Land Access.* The Borrower shall ensure that Smallholder farmers have full access to land along applicable country's customary and legal regulations.
7. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower confirms that the Project will be implemented in compliance with IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) and the main policies and strategies, including, *inter alia*: (i) IFAD's Environment and Climate Change Strategy; (ii) IFAD's Natural Resources Management Policy; and (iii) IFAD's Policy on Improving Access to Land and Tenure Security. Before supporting any intervention that might affect the land access and use rights of communities, the Project will ensure that their free, prior, and informed consent has been solicited through inclusive consultations based on full disclosure of the intent and the scope of activities planned and their implications. Prior to carrying out any construction of infrastructure and related items, the Borrower shall prepare and adopt an Environmental and Social Impact Analysis and Environmental Social Management Plans (ESMPs), where they are required, with adequate budget for their implementation, so that to confirm the full social and environmental sustainability of the infrastructure development foreseen.

² Refer to ILO 169, 1989 when ratified.

8. *Anticorruption Measures.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.
9. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
10. *Use of Project Vehicles and Other Equipment.* The Borrower shall ensure that:
 - (a) all vehicles and other equipment procured under the Project are allocated for Project implementation;
 - (b) the types of vehicles and other equipment procured under the Project are appropriate to the needs of the Project; and
 - (c) all vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.
11. *External audit.* Annual external audits to be conducted and to include a performance audit of disbursed Matching Grants.