

Document: EB 2011/LOT/P.5
Date: 27 October 2011
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Kingdom of Lesotho for the

Smallholder Agriculture Development Project

Note to Executive Board representatives

Focal points:

Technical questions:

Fumiko Nakai
Country Programme Manager
Tel.: +39 06 5459 2283
e-mail: f.nakai@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

For: Approval

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Abbreviations and acronyms

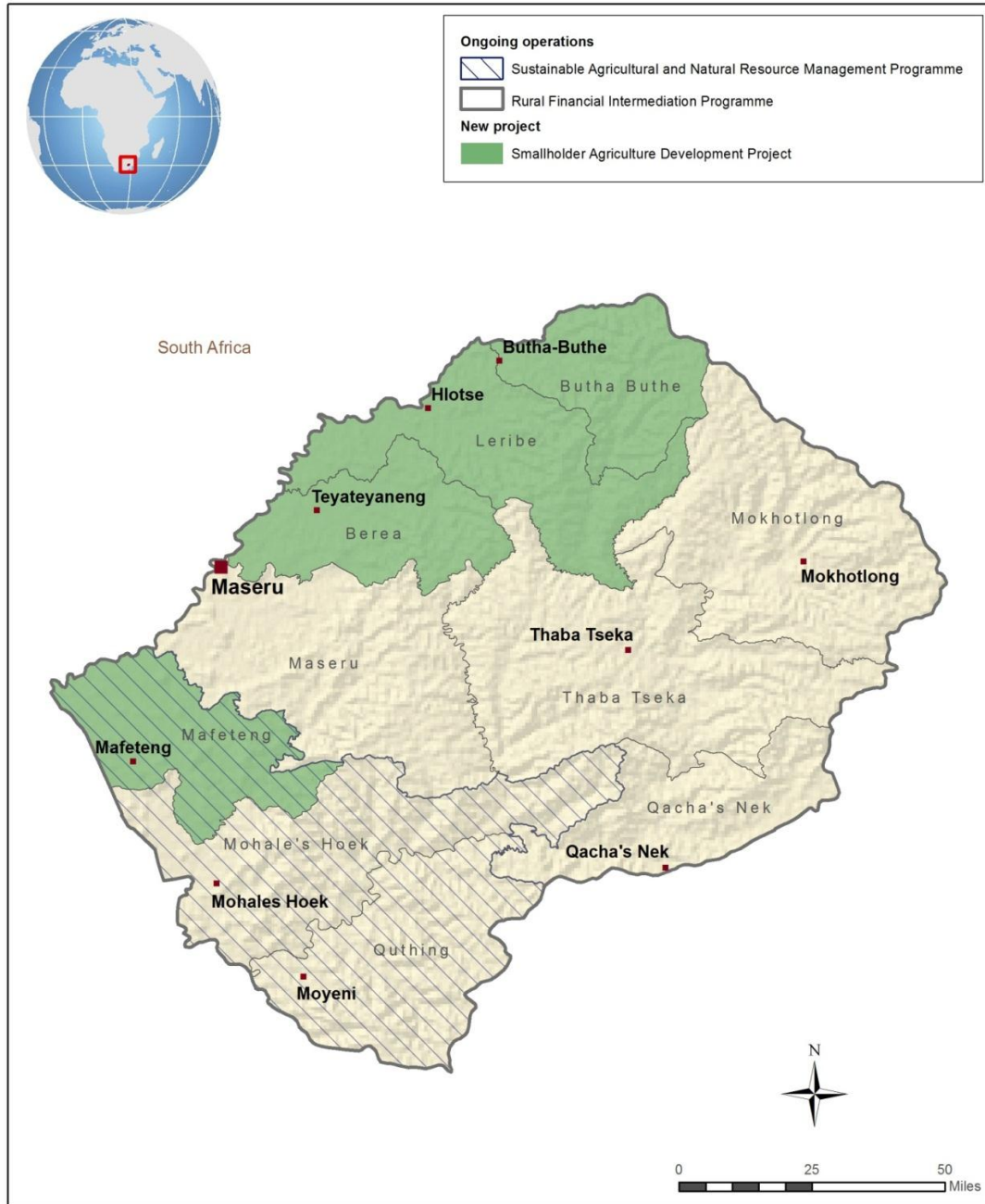
IDA	International Development Association
MAFS	Ministry of Agriculture and Food Security
PM&E	planning, monitoring and evaluation
PMU	project management unit

Map of the project area

Lesotho

IFAD-funded operations

President's report



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

21-9-2011

Kingdom of Lesotho

Smallholder Agriculture Development Project

Financing summary

Initiating institution:	International Development Association (IDA) and IFAD
Borrower:	Kingdom of Lesotho
Executing agency:	Ministry of Agriculture and Food Security
Total project cost:	US\$24.46 million
Amount of IFAD loan:	SDR 3.15 million (equivalent to approximately US\$5.0 million)
Amount of IFAD grant:	SDR 3.15 million (equivalent to approximately US\$5.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Terms of cofinancing:	IDA credit of US\$10.0 million
Contribution of borrower:	US\$3.48 million
Contribution of beneficiaries:	US\$0.98 million
Appraising institutions:	IDA and IFAD
Cooperating institution:	IDA will be appointed as a cooperating institution for loan and grant administration. The project will be supervised jointly by IDA and IFAD.

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Kingdom of Lesotho for the Smallholder Agriculture Development Project, as contained in paragraph 30.

Proposed loan and grant to the Kingdom of Lesotho for the Smallholder Agriculture Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Since 1980, the Government of Lesotho has made considerable progress in developing its economy. Recent economic growth has been attributed to expansion in garment manufacture and mining, and to revenue generated by the export of water to South Africa. These economic gains have not, however, translated into improved well-being for the people of Lesotho. There is high inequality in the distribution of wealth (the Gini coefficient is estimated at 0.66) and poverty rates remain high, especially in rural areas.
2. About 70 to 80 per cent of the country's population live in rural areas, and more than three quarters of these people are engaged in agriculture – mostly traditional low-input, low-output rainfed cereal production and extensive animal grazing. In the past, remittances from mine workers were a major source of rural livelihoods, providing cash to purchase agricultural inputs or to invest in household assets and housing; however, remittances have declined steadily over the past decade. Despite the overall economic growth, income-generating opportunities remain limited and are generally confined to urban areas and wage employment in the industrial sector. The rural economy and agricultural development will therefore continue to play a major role in Lesotho's development strategy for the foreseeable future.

B. Rationale and alignment with government priorities and the results-based country strategic opportunities programme

3. The project is in line with the Government's key strategies, including the Agricultural Sector Strategy (2003), the National Action Plan for Food Security (2007-2017) and the National Strategic Development Plan, soon to be finalized. It will build upon the experience of other IFAD-financed projects that have supported sustainable agricultural development, but will place greater emphasis on business development and market-oriented production. The project will also complement the ongoing IFAD-financed Rural Financial Intermediation Programme, which is aimed at enhancing access to financial services by rural poor people.

II. Project description

A. Project area and target group

4. The project area covers four of Lesotho's 10 districts, namely Butha-Buthe, Leribe, Berea and Mafeteng. Located along the South African border, these districts possess some of the country's most productive land. The incidence of poverty in the project area is high, ranging from 57 per cent in Mafeteng to 68 per cent in Butha-Buthe. The project will target smallholder farmers and farmers' groups that:
 - (i) need support to improve their operations and sources of livelihoods; and
 - (ii) have the basic resources and motivation required to improve agricultural productivity and diversify into market-oriented agriculture. To help develop markets for the target group's outputs, the project will also support the development of agribusinesses.

B. Project development objective

5. The project's development objective is to increase the marketed output of project beneficiaries in Lesotho's smallholder agriculture sector. The two major project outcomes are: (i) agricultural market opportunities in the project area increased; and (ii) productivity and output of smallholder farming activities in the project area increased.

C. Components/outcomes

6. The project has three components: (i) increasing agricultural market opportunities; (ii) increasing market-oriented smallholder production; and (iii) project management. The first component aims to support Lesotho's developing agricultural business sector with a view to contributing to increased commercialization of the agricultural sector. It has two subcomponents: (a) promotion of innovative agribusiness initiatives; and (b) market linkage development. The second component will support smallholder farmers' groups to produce marketable commodities, improve their ability to respond to market requirements, and help motivated semi-subsistence producers move towards increased commercialization, while ensuring sustainable natural resource management. The second component has two subcomponents: (a) preparation and implementation of agricultural investment plans; and (b) technology packages for smallholders.

III. Project implementation

A. Approach

7. The project will support smallholder farmers in the targeted areas to exploit opportunities to increase their productivity and diversify into market-oriented agriculture. Project support will be driven by market opportunities and an emphasis will be placed on identifying commercially viable activities that can be replicated and successfully scaled up. Focusing on a limited number of districts to increase the likelihood of demonstrable impact and to facilitate close follow-up, the project will support market-oriented production and link that production to markets by promoting agribusinesses. Efforts will be made to foster synergies with other relevant initiatives.

B. Organizational framework

8. A project management unit (PMU), staffed with recruited specialists and seconded government officers will be housed in the Ministry of Agriculture and Food Security (MAFS), and will be responsible for the day-to-day project coordination and management. A project management committee will oversee and guide overall implementation and ensure compliance with national policies, strategies and procedures. The committee will comprise director-level representatives from the Ministry of Finance and Development Planning; MAFS; Ministry of Forestry and Land Reclamation; Ministry of Trade and Industry, Cooperatives and Marketing; and Ministry of Local Government and Chieftainship.

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

9. A planning, monitoring and evaluation (PM&E) system will be established to capture data, track progress towards project results, and monitor the performance of implementing agencies and service providers. The PMU will have primary responsibility for monitoring progress and outcomes against indicators defined in the logical framework and in the IDA's results framework, with which the logical framework is aligned. An impact evaluation will be carried out on the basis of a series of quantitative and qualitative surveys: (i) prior to project start-up (baseline); (ii) at midterm; and (iii) at project completion.

10. The PM&E system will be an important tool for facilitating continuous critical reflection on experience and learning by all stakeholders. An annual workshop will be organized to assess implementation progress, exchange experiences and draw lessons. Furthermore, specific knowledge management activities have been built into each subcomponent.

D. Financial management, procurement and governance

11. An assessment carried out by the World Bank indicated that the financial management arrangements at MAFS meet the Bank's minimum requirements. The project will acquire accounting software to maintain project accounts and prepare financial reports. The accounting procedures will be set out in the project financial management manual to be finalized before project start-up. An internal audit unit of MAFS will periodically conduct internal audits. The IDA credit will be channelled through a designated account in United States dollars and a project account in local currency; similarly, IFAD financing (loan and grant) will flow through a United States dollar account and a project account in local currency. The project will be audited by the Office of the Auditor General.
12. All procurement to be financed under the project (by IDA and IFAD funds) will be carried out in accordance with the World Bank's guidelines and the provisions stipulated in the IDA Financing Agreement for the project. The initial procurement plan for the project has been prepared.
13. Financial and implementation reporting will be governed by World Bank rules and procedures.

E. Supervision

14. Supervision of fiduciary aspects (procurement and financial management) will be undertaken by the World Bank, whereas technical supervision of project implementation will be carried out jointly by IFAD and the Bank, including supervision missions and implementation support activities. The implementation support plan for the two institutions has been prepared.

IV. Project costs, financing and benefits

A. Project costs

15. The total financing requirements over six years are estimated at US\$24.46 million, inclusive of price and physical contingencies. The estimated costs by component are: (i) US\$4.07 million (17 per cent) for increasing agricultural market opportunities; (ii) US\$14.61 million (60 per cent) increasing smallholder market-oriented production; and (iii) US\$4.18 million (17 per cent) for project management. The total project cost also includes an advance of US\$0.8 million made available by IDA to facilitate project preparation and US\$0.8 million of the IFAD funds to finance the initial eligible expenditures to offset the advance by IDA.

B. Project financing

16. To help finance the project, it is proposed that IFAD provide to the Kingdom of Lesotho a loan in the amount of SDR 3.15 million (equivalent to approximately US\$5.0 million) on highly concessional terms, and a grant in the amount of SDR 3.15 million (equivalent to approximately US\$5.0 million). The loan will have a term of 40 years, including a grace period of 10 years, and a service charge of three fourths of one per cent (0.75 per cent) per annum. The project will be cofinanced by IDA (US\$10.0 million in the form of credit), the Government of Lesotho (US\$3.48 million) and the project beneficiaries (US\$0.98 million, cash and in kind).
17. IDA and IFAD will each provide cofinancing of US\$10 million. Cofinancing will be on a pari passu basis, except for the financing of initial eligible expenditures, which will be charged 100 per cent to IFAD to offset the expenditures under the project

preparation advance made available by IDA. In order to ensure harmonization with World Bank procedures, proceeds of the IFAD financing may be used to pay taxes that are not excessive, discriminatory or otherwise unreasonable.

C. Summary of benefits and economic analysis

18. Increased agricultural market opportunities and smallholder market-oriented production are expected to result in a growth in marketed outputs among project beneficiaries. It is estimated that about 15,000 households or 66,000 persons will directly benefit from the project, in addition to many indirect beneficiaries. At least 50 per cent of the direct beneficiaries are expected to be women.
19. An economic and financial analysis, based on a series of representative farm models using conservative values, indicated that if the project reaches 5,000 to 7,000 beneficiary households and if these beneficiary households realize a minimum projected set of incremental gains, the aggregate economic benefits generated by the project will produce an overall internal rate of return in excess of 12 per cent. The financial analysis also showed that changes in cropping patterns and productivity gains expected from project-supported activities are likely to generate attractive financial returns to participating households ranging from 13.3 to 49.0 per cent.

D. Sustainability

20. The project includes a number of design features intended to ensure sustainability: (i) strengthening of farmers' groups, market links and information flows, which is likely to lead to long-term improvements; (ii) strengthening of service providers, including partnerships between local NGOs and government extension services; (iii) cost-sharing arrangements with beneficiaries; (iv) emphasis on testing and disseminating improved approaches and technologies for wider adoption and longer-term benefits; and (v) incorporation of natural resource management practices into productive investments.

E. Risk identification and mitigation

21. One of the main risks relates to weak implementation capacity of government services, NGOs and the private sector. These capacity constraints could negatively affect the pace and quality of project implementation. Risk mitigation measures include: (i) capacity-building for participating government support services; (ii) inclusion within the PMU of technical staff responsible for component implementation; and (iii) performance-based elements in contracts and agreements.
22. The other major risk is that efforts by Lesotho farmers to expand their commercial activities could be constrained by the small size of the local market and by the availability of high-quality, low-cost produce imported from South Africa. Measures intended to mitigate this risk include: (i) focus on commodities that have a comparative advantage in the local market, at least at the initial stage; (ii) support and training to commercially oriented farmers and farmers' groups that will help them gear production to market demands; (iii) project support to enhance market opportunities for local production; and (iv) the use of demand-driven processes to ensure flexibility and to allow the project to be responsive to market requirements.

V. Corporate considerations

A. Compliance with IFAD policies

23. The project design is in compliance with IFAD policies and strategies, including the IFAD Strategic Framework 2011-2015, its Policy on Targeting and its Environmental and Social Assessment Procedures. The design includes measures to ensure gender-equitable participation. In terms of potential environmental and social impact, the project is classified as Category B under the procedures of both IFAD and the World Bank. During the project design stage, an environmental and social

management framework was prepared, providing a unified approach for the management of potential adverse impacts during project implementation.

B. Alignment and harmonization

24. The project supports the key development strategies of the Government of Lesotho including the latest National Strategic Development Plan. Although there are few development partners working in Lesotho's agriculture sector, consultations have been undertaken with a wide range of partners supporting activities of direct or indirect relevance, such as private-sector development, business and financial services development, and decentralization.

C. Innovations and scaling up

25. Stimulating improved approaches and promoting their demonstration, dissemination and scaling up are an integral part of the project design. Such approaches would include new business initiatives and technological innovations by small and medium-sized enterprises involved in agriculture and related areas, registered associations and cooperatives, which focus on measures to increase competitiveness, improve market access, add value and improve service provision. Sharing knowledge generated from testing and technology transfer will be an essential element of these activities. The project will also support viable market-oriented production that would have a significant demonstration effect.

D. Policy engagement

26. The project will help strengthen planning capacity and service delivery in support of market-oriented smallholder agriculture. Various local institutions (farmer/producer associations, trader/business associations, local governments, NGOs, financial institutions, etc.) will participate in different aspects of the project as stakeholders, service providers and/or beneficiaries.

VI. Legal instruments and authority

27. A project financing agreement between the Kingdom of Lesotho and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is provided in the annex.
28. The Kingdom of Lesotho is empowered under its laws to receive financing from IFAD.
29. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Kingdom of Lesotho in an amount equivalent to three million one hundred and fifty thousand special drawing rights (SDR 3,150,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kingdom of Lesotho in an amount equivalent to three million one hundred and fifty thousand special drawing rights (SDR 3,150,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

(Negotiations concluded on 21 September 2011)

Loan Number: _____

Grant Number: _____

Project Title: Smallholder Agriculture Development Project (SADP) (the "Project")

The Kingdom of Lesotho (the "Borrower/Recipient")

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:

WHEREAS, the Borrower/Recipient and the International Development Association have entered into a Financing Agreement [of even date] (the "IDA Financing Agreement") to provide financing (the "IDA Financing") for the Project.

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 may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement except for the provisions identified in Section E paragraph 4 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein and the terms defined in the IDA Financing Agreement shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use, together with the IDA Financing and its own counterpart financing, to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

- 1
 - A. The amount of the Loan is SDR 3 150 000.
 - B. The amount of the Grant is SDR 3 150 000.
2. The Loan is granted on highly concessional terms, as such is defined in the General Conditions.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 1 April.

5. Payments of principal and service charge shall be payable on each 15 January and 15 July.

6. The Borrower/Recipient shall provide counterpart financing for the overall Project for an approximate total amount equivalent to USD 3 500 000 in accordance with the approved annual work plan and budget of the Project.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Food Security of the Borrower/Recipient.

2. The following are designated as additional Project Parties: the Ministry of Finance and Development Planning, the Ministry Trade and Industry, Marketing and Cooperatives, the Ministry of Forestry and Land Reclamation, and the Ministry of Local Government and Chieftainship.

3. The Project Completion Date shall be 31 March 2018.

Section D

The Loan and Grant shall be administered by IDA as the Cooperating Institution. The Project shall be supervised jointly by IDA and the Fund.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: the IDA Financing Agreement shall have been suspended.

2. The following is designated as an additional ground for cancellation of this Agreement: the IDA Financing Agreement shall have been cancelled.

3. The following is designated as an additional general condition precedent to withdrawal: the IDA Financing Agreement shall have become effective.

4. The following provisions of the General Conditions shall not apply to this Agreement:

- (a) Section 2.01 (Financing Closing Date): The Financing Closing Date shall be four months after the Project Completion Date or such later date as the Fund may designate by notice to the Borrower.
- (b) Sections 7.05 (Procurement): All goods, works and consultants services required for the Project and to be financed out of the proceeds of the financing shall be procured in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" (dated January 2011), the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" (dated January 2011) and the provisions stipulated in Section III, Schedule 2 of the IDA Financing Agreement.
- (c) Section 7.01 (b) (ii) and Article 8 (Implementation Reporting and Information): The Borrower/Recipient shall monitor and evaluate the progress of the Project and prepare Reports in accordance with Section II.A.1 in Schedule 2 of the IDA Financing Agreement, as well as Annual Workplans and Budgets (AWPBs), in accordance with Section I.B.2 in Schedule 2 of the IDA Financing Agreement, provided that the

Borrower/Recipient shall simultaneously provide copies of all reports submitted to IDA to the Fund.

- (d) Article 9 (Financial Reporting and Information): The financial reporting system of the Borrower/Recipient shall be in accordance with Section II (B), Schedule 2 of the IDA Financing Agreement, provided that the Borrower/Recipient shall simultaneously provide copies of all reports submitted to IDA to the Fund.

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

For the Fund:

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

For the Borrower/Recipient:

Minister of Finance and
Development Planning
P.O. Box 395
Maseru 100
Lesotho

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund

For the Borrower/Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Objective.* The objective of the Project is to increase marketed output among Project beneficiaries in the Borrower/Recipient's smallholder agriculture sector.

2. *Components* The Project shall consist of the following parts:

2.1 Part A: Increasing Agricultural Market Opportunities.

- (i) *Promotion of innovative agri-business initiatives.* Provision of Sub-Grants to support the introduction, testing and demonstration of new business initiatives and technological innovations.
- (ii) *Market linkage development.* Provision of support to targeted farmer groups (including commodity-based farmer associations, district and local apex associations, registered farmer cooperatives, informal farmer organizations or producer interest groups, market intermediaries, agri-businesses, input suppliers and other market participants) with the goal of developing and strengthening links between agricultural producers and markets, reducing market transaction costs and aligning production decisions with business and market opportunities, including through:
 - (a) the development of an upgraded public market information system by the carrying out training, and sub-sector and commodity studies, and the introduction of IT-supported data and information exchange;
 - (b) support of agricultural trade fairs at district level;
 - (c) support of round-table meetings with farmer groups and traders/processors; and
 - (d) provision of mentoring services providing direct technical field support, such as food safety and product handling, to producer groups and associations.

2.2 Part B: Increasing Market-oriented Smallholder Production.

- (i) *Preparation and implementation of Agricultural Investment Plans (AIPs)* through:
 - (a) Provision of technical assistance to prepare the AIPs that identify and prioritize training and technical assistance needs, along with key resource management activities and productive investments;
 - (b) support for the implementation of the AIPs by carrying out of training to increase the capacity of service providers in support of the preparation and implementation of the AIPs;
 - (c) carrying out of civil works for the rehabilitation and refurbishment of the Recipient's Department of Livestock Services training facility in Maseru and provision of training and veterinary kits to training participants; and

- (d) allocation of Sub-Grants for the implementation of approved activities identified in the AIPs.
- (ii) *Technology Packages for Smallholders*. Support for the introduction, further development and dissemination of new and improved technologies and training activities.

2.3 Part C: Project Management

The establishment of an effective Project management and administrative system to ensure sound Project implementation, coordination between the Project and other initiatives and national institutions in the sector.

II. Implementation Arrangements

1. Project Management Committee

- (a) The Borrower/Recipient shall maintain the Project Management Committee (PMC) throughout the implementation of the Project, with functions and resources satisfactory to the Fund.
- (b) Without limitation to the provisions of paragraph (a) above, the PMC will be responsible for overseeing and providing guidance for overall Project implementation and ensuring compliance with national policies, strategies and procedures.
- (c) Without limitation to the provisions of paragraph (a) above, the PMC shall be chaired by the Director of Planning and Policy Analysis of the Ministry of Agriculture and Food Security (MAFS) and be comprised of sector director level representatives of, *inter alia*, the Ministry of Finance and Development Planning (MFDP), MAFS, Ministry of Forestry and Land Reclamation (MFLR), Ministry of Trade & Industry, Cooperatives and Marketing (MTICM) and Ministry of Local Government and Chieftainship (MLGC).

2. Project Management Unit (PMU)

- (a) The Borrower/Recipient shall maintain the Project Management Unit within the Ministry of Agriculture and Food Security, throughout the implementation of the Project, with functions and resources satisfactory to the Fund.
- (b) Without limitation to the provisions of paragraph (a) above, the PMU shall have responsibility for the day-to-day coordination and management of the Project, including overall responsibility for, *inter alia*: (i) ensuring timely implementation in accordance with the PIM; (ii) preparing Annual Work Plans and Budgets and annual procurement plans; (iii) overseeing Project activities under its direct responsibility and of those under the responsibility of other agencies involved in Project implementation; (iv) managing Project finances; (v) maintaining consolidated Project accounts; (vi) ensuring adherence to the Safeguard Documents of all agencies involved in the implementation of the Project; (vii) developing and maintaining a system of monitoring the Project key performance indicators; (viii) ensuring coordination among stakeholders as needed; (ix) regularly

updating the PMC on Project progress and key issues; and (x) review and approve AIPs at the national level.

- (c) Without limitation to the provisions of paragraph (a) above, the PMU shall be headed by a Project manager, who shall be assisted by a team comprised of, *inter alia*, (i) a Project accountant; (ii) a procurement officer; (iii) a monitoring and evaluation officer; (iv) an agribusiness and marketing officer; (v) an agricultural investment planning officer; (vi) a Sub-Grant officer; and (vii) a field officer in each Project district; all of whom shall have qualifications and experience acceptable to the Fund.

3. Project Implementation Manual (PIM)

- (a) The Borrower/Recipient shall carry out the Project in accordance with the Project Implementation Manual; provided, however, that, in the event of any conflict between the provisions of the PIM, and those of this Agreement, this Agreement shall prevail.
- (b) Except as the Fund shall otherwise agree, the Borrower/Recipient shall not amend or waive any provision thereof if, in the opinion of the Fund, such amendment or waiver may materially and adversely affect the implementation of the Project.

4. Annual Work Plans and Budgets

The Borrower/Recipient shall prepare and adopt, not later than February 15 of each year during the implementation of the Project, or such later date as the Fund may agree, an annual work plan and budget ("Annual Work Plan and Budget"), in form and substance satisfactory to the Fund, containing a description of all activities (and associated budgeted costs) to be carried out in the following Fiscal Year, except that for the first year of implementation of the Project it will cover the period from Effective Date (as such is defined in the IDA Financing Agreement) through the end of Fiscal Year 2012/13.

5. Sub-Projects

- 5.1 Under Parts A(i) and B(i)(d) of the Project, the Borrower/Recipient shall make Sub-Grants to Sub-Grant Beneficiaries for the purpose of financing Sub-Projects in accordance with eligibility criteria, Sub-Grant amounts and contributions, and procedures acceptable to the Fund and further described in the Project Implementation Manual. Sub-Grant Beneficiaries are small and medium agro-based businesses, rural entrepreneurs, farmer associations and farmer groups which have been chosen to receive Sub-Grants.
- 5.2 The Borrower/Recipient shall make each Sub-Grant under a Sub-Grant Agreement with the respective Sub-Grant Beneficiary in the form of the model agreement attached to the Project Implementation Manual and on terms and conditions described in more details in the Project Implementation Manual, which shall include, *inter alia*, the following:
 - (i) the Sub-Grant shall be made on a non-reimbursable grant basis;
 - (ii) the Borrower/Recipient shall obtain rights adequate to protect its interests, including the right to:

- (A) suspend or terminate the right of the Sub-Grant Beneficiary to use the proceeds of the Sub-Grant, or obtain a refund of all or any part of the amount of the Sub-Grant then withdrawn, upon the Sub-Grant Beneficiary's failure to perform any of its obligations under the Sub-Grant Agreement;
 - (B) require each Sub-Grant Beneficiary to:
 - (1) carry out the Sub-Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Fund,;
 - (2) provide, promptly as needed, the resources required for the purpose of the Sub-Project;
 - (3) procure the goods, works and services to be financed out of the Sub-Grant in accordance with the provisions of this Agreement;
 - (4) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Fund, the progress of the Sub-Project and the achievement of its objectives;
 - (5) enable the Borrower/Recipient and the Fund to inspect the Sub-Project, its operation and any relevant records and documents;
 - (6) prepare and furnish to the Borrower/Recipient and the Fund all such information as they shall reasonably request relating to the foregoing; and
 - (7) promptly inform the Borrower/Recipient and the Fund of any condition which interferes or threatens to interfere with the progress of the Sub-Project, or the performance by the Sub-Grant Beneficiary of its obligations under the Sub-Grant Agreement.
- 5.3 Except as otherwise agreed in writing with the Fund, the Borrower/Recipient shall, in the case of Sub-Grants financed under Part B(i)(d) of the Project, ensure that: (A) the contribution of the Sub-Grant to the cost of the proposed Sub-project shall not exceed the maximum amount indicated in the Project Implementation Manual for the relevant type of Sub-projects; and (B) the balance of the cost of the proposed Sub-project shall be provided by the Sub-Grant Beneficiary in the form of the Sub-Grant Beneficiary's contribution, whether in cash or in kind.
- 5.4 The Borrower/Recipient shall exercise its rights under each Sub-Grant Agreement in such manner as to protect its interests and to accomplish the purposes of the Financing. Except as the Fund shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-Grant Agreement or any of its provisions.

6. Prior Review

- 6.1. The Borrower/Recipient shall provide to the Fund for its prior review and no-objection: (i) the first 30 Sub-Projects' proposals recommended under Part A(i) of the Project; and (ii) the first 20 AIPs under Part B(i)(d) of the Project.

7. Mid-Term Review

The Borrower/Recipient shall:

- (a) no later than thirty-six (36) months after the date of entry into force of this Agreement carry out a mid-term review of the progress made in carrying out the Project;
- (b) assess, in consultation with the Fund, during the mid-term review, *inter alia*: the: (i) overall progress made during the implementation of the Project and (ii) the results of the monitoring and evaluation activities; and
- (c) no later than thirty days after the completion of the mid-term review, start to implement the recommendations of the mid-term review as agreed with the Fund.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
I. Goods, works, non-consulting services, and consultants' services and Training	1 150 000	1 150 000	50%
II. Operating Costs for the Project	375 000	375 000	50%
III. Goods, works, non-consulting services, and consultants' services and Training under Sub-Grants	1 350 000	1 350 000	50% of amounts disbursed
IV. Offset of Preparation Advance	275 000	275 000	100%
TOTAL	3 150 000	3 150 000	

2. Withdrawal applications for eligible expenditures shall initially be charged against Category IV, up to a limit of the total amount disbursed by IDA to the Borrower/Recipient prior to the date of effectiveness of the IDA Financing Agreement in accordance with the agreement between the Borrower/Recipient and IDA dated 9 February 2011. All subsequent withdrawal applications shall be charged against the applicable category or categories and shall be apportioned by IDA as Cooperating Institution between IDA and the Fund in the ratio of 1:1. The Fund's share of each withdrawal application (including the initial applications) shall be apportioned by IDA as Cooperating Institution between the Fund Loan and Grant in the ratio of 1:1.

Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions
Goal: Reduce rural poverty and enhance rural economic growth on a sustainable basis	<ul style="list-style-type: none"> Improvements in household asset index Number of households with improved food security 	Baseline and impact surveys; qualitative analysis, including gender equality and poverty targeting	
PDO: Increase marketed output among project beneficiaries in Lesotho's smallholder agriculture sector	<ul style="list-style-type: none"> Household commercialization level (value of produce and products sold as percentage of total value of produce and products) Number of direct project beneficiaries (66,000 and > 50% women) 	Baseline and impact surveys; project M&E records	Careful selection of farmers, commodities and investments will ensure a focus on profitable and competitive products.
Component 1: INCREASING AGRICULTURAL MARKET OPPORTUNITIES			
Outcome 1. Agricultural market opportunities in the project area increased	<ul style="list-style-type: none"> Percentage of targeted beneficiaries recording better access to markets (50%) 	Baseline and impact surveys; qualitative performance assessment	The proposed information and training activities will ensure that businesses and groups understand the grant project procedures, and prepare adequate proposals.
Output 1.1 Innovative and viable agricultural business initiatives demonstrated	<ul style="list-style-type: none"> CGP grants approved and implemented (164) Value of CGP investments and matching grant support (US\$ 2.37 million) Innovative and viable agricultural businesses initiatives demonstrated with a minimum satisfactory rating (120) Number of persons trained (men/women) and duration of training, by type of training (11,200 training days in total, 50% women/days) 	Project M&E records; grant evaluation reports	Capacity building under the project will sufficiently address implementation capacity constraints. Provision made to train service providers and, if needed, source regionally, will be sufficient to overcome capacity constraints.
Output 1.2 Linkages between agri-businesses and farmers improved	<ul style="list-style-type: none"> Number of enterprise-producer exchange events held (400) Number of trade partnerships between farmer groups and enterprises established (100) 	Project M&E records; baseline and impact surveys	The selection process, with approval at several levels, including various public and private sector representatives, and widely publicizing the results, will ensure a transparent process.
Output 1.3 Access by farmers to market-related information improved	<ul style="list-style-type: none"> Percentage of farmers and traders in project districts who directly access public market information (50%) 	Baseline and impact surveys	
Component 2: INCREASING SMALLHOLDER MARKET-ORIENTED PRODUCTION			
Outcome 2. Productivity and quality of market-focused crops and livestock from smallholders in the project area increased	<ul style="list-style-type: none"> Incremental net value of marketed production in the project area (US\$ 3.6 million) Targeted beneficiaries who have adopted improved technologies/farming practices in targeted areas (7,000 persons, at least 50% women) 	Baseline and impact surveys; qualitative performance assessment	The project design will clearly define roles and responsibilities. The national task force, technical working group and PMU will improve interagency coordination. Adequate support for transparent and efficient management of public resources will be available.
Output 2.1 Investments in productivity-enhancing technologies and NRM completed	<ul style="list-style-type: none"> Number of AIPs completed with satisfactory rating (72) Number of group-based investments completed as per agreement (400) Value of AIP investments and matching grant support (US\$ 7.56 million) NRM activities completed by type (90) Number of persons trained (men/women) and duration of training, by type of training (4,000 men, 4,000 women / 160,000 training days) 	Project M&E records; AIP evaluation reports; qualitative assessment of effectiveness of training; direct observation of status of natural resources	Outsourcing and capacity building under the project in combination with a strong PMU will secure sufficient implementation capacity. Government will adhere to commitments and strategy documents that encourage outsourcing some activities to private sector partners, which will work closely with government the extension service.
Output 2.2 Capacity of farmers to take a business approach to agriculture increased	<ul style="list-style-type: none"> Number of people in market-related groups supported (6,000 men and 6,000 women) Number of persons trained (men/women) and duration of training, by type of training (3,000 men, 3,000 women / 100,000 training days) Percentage of targeted beneficiaries who use market information in making production decisions (50%) 	Project M&E records; qualitative assessment of effectiveness of training	Surveys on existing potential and the use of clear objective criteria will result in appropriate selection.
Output 2.3 Improved capacity of agricultural service providers to support market-oriented production	<ul style="list-style-type: none"> Number of persons trained (men/women) and duration of training, by type of training (300 men, 150 women / 9,000 training days) Demonstrations of innovative technology packages conducted (40) Percentage of targeted clients (businesses and groups) satisfied with capacity of agricultural service providers (50%) 	Project M&E records; qualitative assessment of performance	