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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Republic of Malawi for the

Sustainable Agricultural Production Programme (SAPP)

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

ASWAp	agriculture sector-wide approach (formerly ADP)
ASWAp-SP	ASWAp Support Project (formerly ADP-SP)
CAADP	Comprehensive Africa Agriculture Development Programme
CGIAR	Consultative Group on International Agricultural Research
COSOP	country strategic opportunities programme
DAES	Department of Agricultural Extension Services
EPA	extension planning areas
FISP	Farm Input Subsidy Programme
GAPs	good agricultural practices
M&E	monitoring and evaluation
MAIWD	Ministry of Agriculture, Irrigation and Water Development
PPF	programme preparatory facility
SAPP	Sustainable Agricultural Production Programme

Republic of Malawi

Sustainable Agricultural Production Programme (SAPP)

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Malawi
Executing agency:	Ministry of Agriculture, Irrigation and Water Development
Total programme cost:	US\$51.1 million
Amount of IFAD loan:	SDR 14.65 million (equivalent to approximately US\$22.85 million)
Amount of IFAD grant:	SDR 14.25 million (plus a Programme Preparatory Facility grant of US\$0.6 million (total equivalent to approximately US\$22.85 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
Contribution of borrower:	US\$4.2 million
Contribution of beneficiaries:	US\$1.2 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 financing to the Republic of Malawi for the Sustainable Agricultural Production Programme (SAPP) as contained in paragraph 36.

Proposed loan and grant to the Republic of Malawi for the Sustainable Agricultural Production Programme (SAPP)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Malawi has a predominantly agricultural economy, with most of the population depending on subsistence farming and exports heavily reliant on the key cash crops of tobacco, tea, sugar and cotton. About 52 per cent of the population live below the national poverty line of Malawian kwacha 16,165/year and about 22 per cent live in extreme poverty. According to the Human Development Index Report for 2009 compiled by the United Nations Development Programme, 73.9 per cent of the population live below the income poverty line of US\$1.25/day and 90.4 per cent below the US\$2/day threshold. The Malawi Growth and Development Strategy sets the overall agenda for the country's social and economic development, with a clear focus on agricultural and rural development and rural poverty reduction.
2. Key challenges to agricultural development and rural poverty reduction include: (i) very small landholdings that barely provide for subsistence food needs; (ii) low crop yields due to land degradation, declining soil fertility and lack of irrigation; (iii) lack of diversification in farming systems (80 to 90 per cent maize); (iv) poorly developed markets for agricultural inputs and produce; and (v) weak service provision, particularly rural financial services and agricultural research and extension.

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

3. Agriculture sector policies in Malawi are built around two key instruments: the agriculture sector-wide approach (ASWAp) and the Farm Input Subsidy Programme (FISP). The ASWAp envisages a single comprehensive programme and budget framework to enhance coordination and harmonization between Government and donors. The ASWAp targets three focus areas: food security, agricultural commercialization and sustainable natural resource management; two key support services: research and extension; and two cross-cutting issues: HIV/AIDS and gender. This approach is being implemented by the Ministry of Agriculture, Irrigation and Water Development (MAIWD) through the ASWAp Secretariat, and the Government intends all agriculture sector programmes and projects eventually to be managed within the ASWAp framework. IFAD's country strategic opportunities programme (COSOP) for Malawi focuses on increased sustainable productivity through natural resource management, and sustainable agricultural input and produce markets. The SAPP contributes to these and to the ASWAp objectives and is designed for implementation within the ASWAp framework in coordination with complementary donor-supported initiatives.
4. Malawi has one of the highest population densities in Africa, placing considerable pressure on the environment. Rural poverty is closely linked to the capacity of the environment to withstand such pressure. Smallholder agriculture in Malawi is characterized by low-input maize production to meet subsistence food needs. Since the 1970s average maize yields have increased from about 1.0t/ha to 1.5t/ha, a rate

of only 1.1 per cent per annum. Options available to increase production more sustainably range from simple and affordable modifications to the way crops are grown to a full-scale redesign of farming systems to incorporate new crops, varieties, equipment, agro-chemicals and other technologies. Most of these good agricultural practices (GAPs) are based on the principles of conservation agriculture, i.e.: (i) minimal disturbance of the soil and early planting; (ii) retention of crop residues and weeds on the soil surface; (iii) timely and efficient weed control; (iv) crop rotation or intercropping (with emphasis on leguminous species); and (v) proper use of organic and inorganic fertilizers.

5. On-farm trials have been undertaken to validate these techniques, with generally favourable results. However, adoption has been limited due to poor knowledge management and communications, limited extension capacity and an overriding institutional concern with FISP funding and management. In addition, further on-farm trials and demonstrations are needed to refine the techniques for different agroecological and socio-economic contexts. The SAPP objective is to improve the livelihoods of large numbers of rural households through the adoption of affordable packages of improved agricultural practices, using a low-cost farmer-to-farmer extension approach supported by further adaptive research and knowledge management.

II. Programme description

A. Programme area and target group

6. The programme will be geographically targeted and will concentrate on enhancing agricultural productivity using simple, affordable technologies suitable for smallholder adoption, to help bridge the considerable gap between actual and potential yields. The target group is defined as "smallholder food security" households comprising productive men and women who have the potential to achieve household food security, but due to limited resources find it difficult to produce a surplus for market. In order to achieve food security they need technical and financial support in the form of basic inputs such as seed and fertilizer to increase food crop yields. This group accounts for 80 per cent of smallholder farmers, and is the focus of the public extension service. The majority of this group are responsive to interventions aimed at alleviating hunger, but often depend on external support for technologies involving purchased inputs. The group also includes the ultra-poor who have few assets, are often chronically ill or disabled, and live in elderly or child-headed households. This extremely vulnerable group relies mainly on low-paid seasonal labour. Small-scale commercial farmers will also be targeted to facilitate early adoption of GAPs, given that they tend to be most active and influential in farmer groups, are the first to adopt new practices, and volunteer to be lead farmers. Approximately 200,000 households are expected to participate directly.

B. Programme development objective

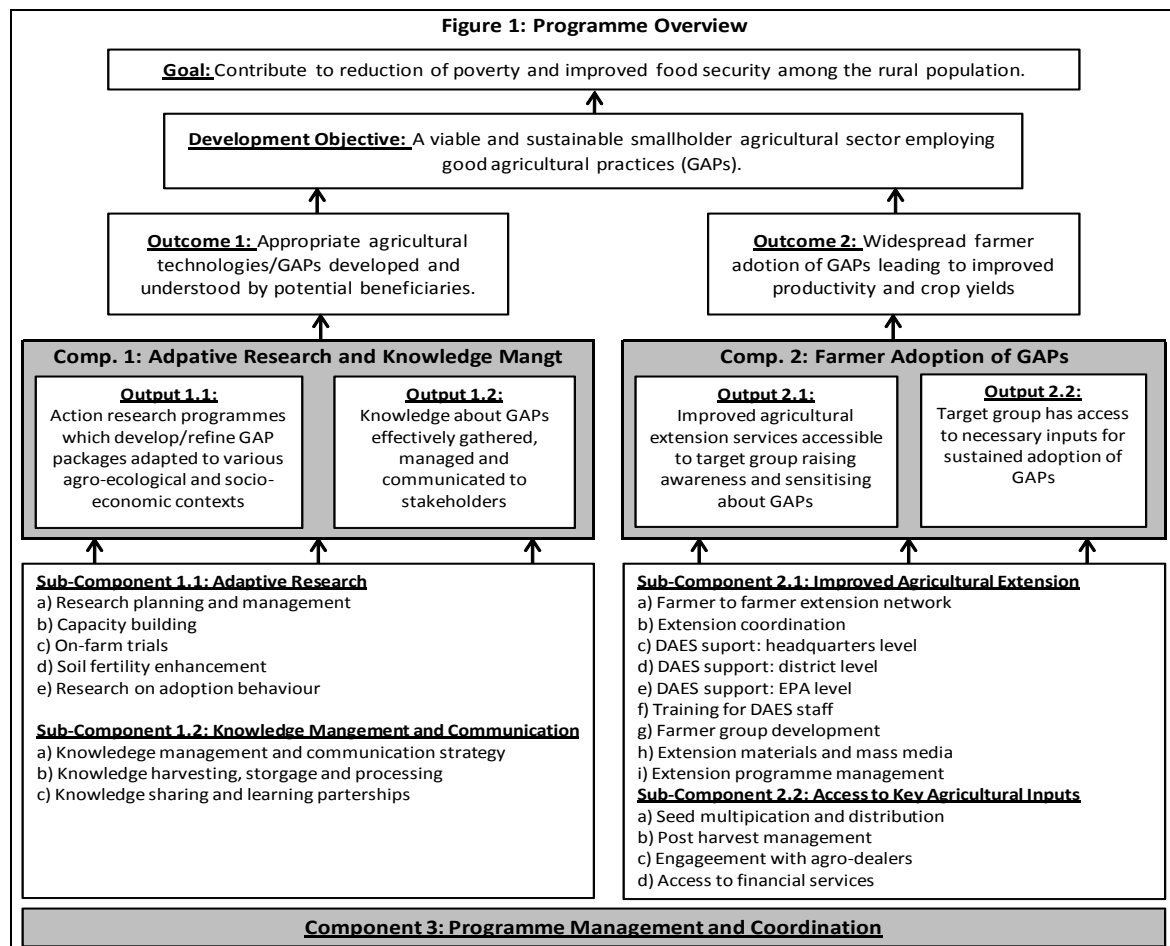
7. The goal is to contribute to poverty reduction and improved food security among the rural population. The specific development objective is to achieve a viable and sustainable smallholder agricultural sector employing GAPs. The programme's main thrust is to enhance agricultural productivity based on simple, affordable GAPs to help bridge the considerable gap between actual and potential crop yields.

C. Components/outcomes

8. SAPP has three components: (i) **adaptive research and knowledge management**, to further refine improved agricultural techniques to the conditions of Malawi. This will be undertaken in partnership with national, regional and international agricultural research and knowledge institutions. The outcome of component 1 is expected to be appropriate agricultural technologies and GAPs developed and understood by potential beneficiaries; (ii) **farmer adoption of GAPs**,

to facilitate the dissemination and adoption of GAPs to increase crop yields, diversify production, reduce yield variability, reduce labour inputs and improve soil health through integrated packages of improved soil and water management. Implementation will principally be by MAIWD in partnership with NGOs and other service providers. The outcome of component 2 is expected to be widespread farmer adoption of GAPs leading to sustainably improved productivity and crop yields;

(iii) **programme management and coordination**: SAPP will be implemented within the context of the ASWAp by the ASWAp Secretariat under the overall leadership of the Secretary for Agriculture, Irrigation and Water Development. The figure below illustrates how the various component and subcomponents are interlinked, contributing to the achievement of objectives.



III. Programme implementation

A. Approach

9. The programme will be implemented over nine years using a graduated approach to establish operational modalities, train staff, screen and evaluate GAPs to be promoted, engage with lead farmers, and develop partnerships and coordination arrangements, before scaling up to engage with target groups throughout the programme area.
10. The programme will be fully integrated within the ASWAp framework under the earmarked funding mechanism, and activities will be undertaken through mainstream government systems. While adhering to the general guidelines for implementing projects within the ASWAp framework, and in line with the government's decentralization policy, SAPP will delegate responsibility for component 2 activities at district level to bring implementation responsibilities closer to beneficiary communities.

11. A portion of the debt sustainability framework (DSF) grant funding will be provided to advance start-up activities in the form of a programme preparatory facility (PPF). This will ensure funding availability upon signature of the financing agreement.

B. Organizational framework

12. In line with Government's recent decision to abolish programme implementation units, overall programme coordination and management of activities will be performed by the ASWAp Secretariat in MAIWD, and the Government will assign a number of staff to programme implementation. They will be supported during the initial years by technical advisors, who will also support the entire ASWAp programme. Recognizing staffing limitations within the MAIWD, SAPP will also employ partnership arrangements with international and national research institutions – including the Consultative Group on International Agricultural Research (CGIAR), NGOs and other service providers. Activities undertaken by organizations outside the ministry will be governed by output-based contracts or memorandums of understanding. This will involve the use of reputable and competent organizations that are actively working with government research and extension services, and will maximize the use of capacity within the relevant MAIWD departments.

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

13. Monitoring and evaluation (M&E) will be undertaken at different levels to support effective implementation, maintain the programme's focus and direction, and provide information for addressing constraints and ensuring delivery of outputs. IFAD will provide technical assistance to support M&E and knowledge management. A mid-term review will be undertaken during year five. MOAIWD will assign an M&E specialist on a full-time basis who will have direct responsibility for monitoring and evaluating the programme from an administrative, financial, technical, socioeconomic and environmental point of view. As a starting point, a baseline survey will be undertaken to benchmark the existing situation in the programme districts. Specialized studies to evaluate the extent to which the programme goal and purpose are being achieved will be carried out. A comprehensive knowledge management and communication strategy will also be developed. The programme will also support capacity-building and institutional strengthening of stakeholders – including service providers, farmer organizations and government departments – for systematic knowledge management and communication.

D. Financial management, procurement and governance

14. The SAPP will be managed within the ASWAp framework under the earmarked funding option. IFAD will disburse funds through SAPP-specific designated accounts to be opened by the Government. The programme will acquire accounting software to account for funds and analyse expenditure trends by SAPP expenditure categories and components, and to generate financial statements acceptable to IFAD. These will be subject to annual audits by the Auditor General or auditors appointed by the former. Accounting and audit arrangements are to follow international standards.
15. National procurement procedures will be adopted provided they are consistent with IFAD procurement guidelines. Procurement thresholds will be aligned with those of the World Bank under the ASWAp-SP (ASWAp Support Project).

E. Supervision

16. Supervision of SAPP will be carried out directly by IFAD as an ongoing process of implementation support, which will also contribute to M&E, learning and knowledge management processes. There will be at least two implementation support missions annually. These will focus on technical aspects, as well as planning, procurement, financial management, M&E, and integration of programme activities within the ASWAp framework. The country programme manager will maintain oversight of the supervision process with the assistance of selected specialist consultants. The

country officer to be appointed in 2012 will be available for day-to-day supervision and implementation support.

IV. Programme costs, financing, benefits

A. Programme costs

17. Total investment and recurrent costs, including contingencies, over the nine-year life of the programme are estimated at US\$51 million (MWK 10 billion), disaggregated as follows: component 1: adaptive research and knowledge management, 10.5 per cent of costs; component 2: farmer adoption of GAPs, 79.2 per cent; and component 3: programme management and coordination, 10.3 per cent.

B. Programme financing

18. IFAD will finance 89.3 per cent of the total programme cost in the form of a loan for US\$22.85 million under highly concessional terms and a grant in the same amount. Part of the grant component will be used to finance the PPF. This financing arrangement reflects Malawi's status as a "yellow" country under the DSF. The Government will finance 8.3 per cent in the form of tax exemptions or reimbursement and funding for staff salaries (including both existing positions and new recruitments), and beneficiaries will contribute inputs valued at 2.4 per cent of total programme costs.

19. Summary of programme financing plan

Components by Financiers (US\$ Million)	IFAD		IFAD		GOM		Bene- ficiaries		Total	
	Loan/Grant		PPF							
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Adaptive Research and Knowledge Management										
Adaptive Research	3.7	84.4	-	-	0.7	15.6	-	-	4.3	8.5
Knowledge Management and Communication	1.0	98.6	-	-	0.0	1.4	-	-	1.0	2.0
Subtotal	4.7	87.1	-	-	0.7	12.9	-	-	5.4	10.5
B. Farmer Adoption of GAPs										
Improved Agricultural Extension	31.8	95.7	-	-	1.4	4.3	-	-	33.2	64.9
Access to Key Agricultural Inputs	5.9	81.1	-	-	0.2	2.2	1.2	16.7	7.3	14.3
Subtotal	37.7	93.0	-	-	1.6	3.9	1.2	3.0	40.5	79.2
C. Programme Management and Coordination										
	2.7	52.3	0.6	10.8	1.9	38.9	-	-	5.2	10.3
Total Programme Costs	45.1	88.2	0.6	1.1	4.2	8.3	1.2	2.4	51.1	100.0

C. Summary benefit and economic analysis

20. The economic rationale for SAPP hinges on: (i) the use of a low-cost but effective farmer-to-farmer extension system to support the adoption of simple and affordable agricultural technologies to increase maize and legume yields, enable diversification into higher value crops and improve soil health; (ii) reduced post-harvest losses; (iii) reduced labour inputs and improved labour productivity through improved crop management practices, particularly for weed control; (iv) more efficient use of crop inputs, especially fertilizers (partly provided under the FISP, but considered as a cost for farmers in the financial analysis); and (v) improved access to inputs and markets as well as reduced transport costs.
21. Crop budgets show that the improved agricultural packages proposed have the potential to generate attractive financial benefit-cost ratios. The financial benefit-cost ratio associated with a move from traditional to improved technology is 2.5:1; and the move from improved technology to zero-till agriculture with herbicides is estimated to be 4.2:1. Moreover, the cash gross margin per labour day increases from US\$1.98 under traditional technology to US\$7.20 under the zero-till model. When the financial benefits at farm level are aggregated up into national economic benefits, based on conservative assumptions concerning adoption rates for GAPs, the overall economic rate of return of the programme is around 26 per cent.

22. By the end of the programme implementation period, some 98,000 households are expected to be using improved agricultural practices and 39,000 using zero-till and conservation agriculture techniques. By year 20 these numbers are expected to increase to 117,000 and 58,000, respectively. There is also likely to be some spontaneous adoption of these improved technologies by non-target group households in the programme districts.

D. Sustainability

23. Current agricultural support measures in Malawi are unsustainable in the long run, given the very high cost of the FISP. This makes it vital to increase agricultural productivity to improve the effectiveness of FISP investments and enable rainfed crops to be produced sustainably without high subsidy levels. Three of the four main thrusts of SAPP will directly address the twin issues of productivity and government support levels, which underpin the move towards a more sustainable future for the sector: (i) a shift in emphasis from subsidized input supply to improved productivity through natural resource management; (ii) more effective and sustainable service delivery through community-based farmer-to-farmer extension services; and (iii) institutional and management innovations to improve access to key agricultural inputs through commercial channels.
24. Other complementary measures to enhance the prospects for a sustainable smallholder sector include fostering and supporting greater participation of the private sector in the supply of inputs and services, particularly seed, fertilizers and financial services; support for the development of farmer groups; and intensive training for farmers, research and extension staff in modern, more productive and environmentally friendly rainfed cropping technologies

E. Risk identification and mitigation

25. The programme will be subject to a number of generic risks affecting the entire country programme, including: (i) limited capacity in relevant institutions; (ii) scarcity and lack of capacity among service providers; (iii) delays in programme implementation; (iv) changes in the agricultural and rural policy framework; and (v) deterioration in the fiscal position and/or loss of budget support from donors. The RB-COSOP includes risk mitigation measures for these and other risks.
26. Risks relating specifically to SAPP include: (i) a lack of institutional capacity in the MAIWD, particularly at district level and below, and on research stations; (ii) the potential for research and extension efforts to be dissipated among a number of uncoordinated initiatives; and (iii) farmers unwilling to change the way they grow their crops. Mitigation measures include the use of private-service providers, research institutions and NGOs; and the conduct of on-farm trial and demonstrations and farmer-to-farmer extension. An important mitigation strategy is the graduated implementation approach coupled with intensive supervision missions, which will allow for regular programme review.

V. Corporate considerations

A. Compliance with IFAD policies

27. The programme is in line with the IFAD Strategic Framework 2011-2015, which emphasizes enhancing environmental sustainability and resilience in small-scale agriculture, and supporting the development of technologies for sustainable intensification of small-scale agriculture.
28. Gender and targeting: The design included a detailed analysis of poverty, gender and targeting. The targeting strategy defines mechanisms to ensure that targeted poor men and women actually participate in and benefit from the planned interventions. These include: (i) geographic targeting measures; (ii) enabling measures; (iii) empowerment and capacity-building measures; (iv) self-targeting measures; (v) direct targeting measures; and (vi) procedural measures.

29. The programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact. SAPP is expected to result in positive environmental outcomes associated with the adoption of GAPs, including conservation agriculture. The programme will also contribute to climate change adaptation by promoting GAPs that are more resilient to climatic extremes, especially drought; and to climate change mitigation through carbon sequestration in soil organic matter.

B. Alignment and harmonization

30. The SAPP is fully aligned with the ASWAp and the New Partnership for Africa's Development (NEPAD) Comprehensive Africa Agriculture Development Programme (CAADP) Compact and investment framework, and is designed to be implemented through the ASWAp Secretariat using Government systems. The agriculture sector is widely supported by donors such as the European Union, the World Bank, the African Development Bank (AfDB), the Norwegian Agency for Development Cooperation, the United Kingdom Department for International Development, the Japan International Cooperation Agency, the United States Agency for International Development and a number of NGOs. Currently there is only one project fully integrated into the ASWAp – the ASWAp-SP jointly financed by the World Bank and Global Environmental Facility and Norway, which supports ASWAp development as well as other activities similar to those proposed for SAPP. A new AfDB rural infrastructure and irrigation project is also to be brought into the ASWAp. It is not clear whether, to what extent, or how quickly the large number of other projects and programmes will be brought under the ASWAp umbrella. However, it is certain that all new projects in the sector will have to be designed as part of the ASWAp. Donor coordination in the sector is through the Donor Committee on Agriculture and Food Security, of which IFAD is a member and regularly participates in the meetings.

C. Innovations and scaling up

31. The programme design is very much about innovation and scaling up, given its research, extension and development dimension, as well as innovations and learning experience in the regional grant-funded project on conservation agriculture that informed the design of the SAPP. SAPP will start small – in about half the extension planning areas (EPAs) in two districts – and expand over four years to cover all EPAs in six districts, with many opportunities for learning and adaptation along the way.

D. Policy engagement

32. Under NEPAD, Africa's heads of state and government have recognized the critical importance of agriculture as the cornerstone of sustained growth and poverty reduction through adoption of the CAADP – a strategy to put African agriculture on the path of strong and sustained growth. The Malawi ASWAp, which the SAPP supports, shares the principal elements and priorities of CAADP and closely mirrors its emphasis on agricultural productivity. The activities, outputs and outcomes of the SAPP will therefore provide a platform for evidence-based policy dialogue.

VI. Legal instruments and authority

33. A financing agreement between the Republic of Malawi and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
34. The Republic of Malawi is empowered under its laws to receive financing from IFAD.
35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

36. 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 Republic of Malawi in an amount equivalent to fourteen million six hundred and fifty thousand special drawing rights, SDR 14,650,000, 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 Republic of Malawi in an amount equivalent to fourteen million two hundred and fifty thousand special drawing rights, SDR 14,250,000 as well as a Programme Preparatory Facility grant for US\$600,000 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: "Sustainable Agricultural Production Programme (SAPP)"

(Negotiations concluded on 19 October 2011)

FINANCING AGREEMENT

Loan Number: _____

Grant Number: _____

Programme Title: Sustainable Agricultural Production Programme [the "Programme"]

The Republic of Malawi (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:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, 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. 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 and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

- 1 A. The amount of the Loan is fourteen million six hundred and fifty thousand Special Drawing Rights (SDR 14 650 000).
B. The amount of the Grant is fourteen million two hundred and fifty thousand Special Drawing Rights (SDR 14 250 000).
- 2 The Loan is granted on highly concessional terms.
- 3 The Loan Service Payment Currency shall be the United States Dollar.
- 4 The first day of the applicable Fiscal Year shall be 1 July 2012.

5. Payments of principal and service charge shall be made on each 1 April and 1 October.
6. There shall be a designated Account for the benefit of the Ministry of Finance and Development Planning in the Reserve Bank of Malawi.
7. The Borrower/Recipient shall provide counterpart financing for the Programme for a total amount of approximately USD 4.2 million, to cover a portion of salaries and in the form of exemption of duties and taxes for the Programme in accordance with Annual Work Plans and Budgets (AWPBs).

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture, Irrigation and Water Development (MoAIWD).
2. The following are designated as Programme Parties: the Ministries of Finance and Development Planning (MoFDP), Local Government and Rural Development (MLGRD), and Industry and Trade (MoIT), regional and international organizations and private sector, non-governmental (NGOs) and farmer organizations.
3. The Programme Completion Date shall be the ninth anniversary of the date of entry into force of this Agreement.

Section D

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

Section E

1. The following are designated as additional specific conditions precedent to withdrawal:
 - (a) The Borrower/Recipient shall provide evidence that measures have been put in place to ensure taxes and duties related to the procurement by the Programme shall be waived; and
 - (b) The Borrower/Recipient shall have opened the Designated Account referred to in Section B.6 above.
2. This Agreement is subject to ratification by the Borrower/Recipient.
3. For the purposes of this Agreement, the definition of "Project Completion Date" in Article 2, Section 2.01 of the General Conditions shall be amended to read:

"Project Completion Date" means the date specified in an Agreement on which the implementation of the Project is to be completed, or such date, upon request by the Borrower/Recipient, as the Fund may designate by notice to the Borrower/Recipient".

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

For the Borrower/Recipient:

Secretary to the Treasury
Manager
Ministry of Finance and
Development Planning
P.O. Box 30049
Lilongwe 3
Malawi

For the Fund:

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

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
Borrower/Recipient
[insert name and title]

For _____ the
[insert name and title]

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The Programme shall principally benefit smallholder food security households (SHFS) in the participating districts, comprising productive men and women who have the potential to achieve household food security, but due to limited resources find it difficult to produce a surplus for market. They aim at food security and need technical and financial support in terms of basic inputs such as seed and fertiliser to increase food crop yields. This group constitutes 80% of smallholder farmers, and is the focus of the public extension service. The majority of this group are responsive to interventions aimed at alleviating hunger, but often depend on external support for technologies which involve purchased inputs. The SHFS group also includes the ultra-poor who have few assets, those who may be chronically ill or with disabilities, and may live in elderly or child-headed households. This extremely vulnerable group relies mainly on low-paid seasonal labour. Small scale commercial farmers will also be targeted by the Programme given that they tend to be most active and influential in farmer groups and become the first adopters and volunteer to be Lead Farmers. They will therefore be targeted by the Programme to facilitate early adoption of good agricultural practices (GAPs).

2. *Goal.* The goal of the Programme is to contribute to the reduction of poverty and improved food security among the rural population. The main thrust of the Programme is enhancement of agricultural productivity based on simple/affordable GAPs which are suitable for smallholder adoption, and will help to bridge the large gap between actual and potential crop yields. Promotion of better agricultural practices will greatly improve the effectiveness and impact of the Farm Input Subsidy Programme (FISP), which provides selected farmers with access to improved seeds and fertilisers, but does little to promote their efficient and effective use. An adaptive research programme will be supported to fine-tune GAP packages to Malawian socio-economic and agro-ecological conditions; in conjunction with knowledge management and communication initiatives to ensure that knowledge generated within the Programme is communicated to stakeholders, and that relevant knowledge from outside is made available to all. A range of extension tools will be deployed to train farmers to adopt improved agricultural technologies that will sustainably increase staple crop yields, improve soil health, and make way for greater crop diversification and commercialisation. The Programme will also facilitate farmers in obtaining access to the inputs needed to utilise GAPs including tools, equipment, seeds of alternative (mainly legumes) crops, fertilisers, financial services, and post-harvest storage facilities.

3. *Objectives.* The specific development objective is to achieve a viable and sustainable smallholder agricultural sector employing GAPs.

4. *Components.* The Programme shall consist of the following Components: (i) Adaptive Research and Knowledge Management; (ii) Farmer Adoption of GAPs; and (iii) Programme Management and Coordination.

4.1 Component 1: Adaptive Research and Knowledge Management will further refine improved agricultural techniques to the conditions of Malawi. This will be undertaken in partnership with national, regional and international agricultural research and knowledge institutions.

- (a) Sub-Component 1.1: Adaptive Research. A well-focussed programme of adaptive research will validate and adjust proven agricultural technologies in terms of their applicability to Malawian agro-ecological and socio-economic conditions. The approach will be differentiated according to the maturity of the various technologies and the level of experience with their utilisation. Some basic techniques can be recommended for immediate adoption by farmers. Others require validation through trials on farmers' fields in different agro-ecological zones before packages of recommended practices can be formulated and demonstrated.

The Adaptive Research Sub-Component will be managed by the MoAIWD Research Department and implemented in conjunction with a number of partners including Bunda College, NRC, and CGIAR institutions. Sub-Component 1.1 will primarily address issues which are of most relevance to the six Programme districts, many of which will also have broader national relevance. The adaptive research programme will be managed on a rolling three-year basis with annual reviews. In the first year, a full nine-year programme will be drawn up, with detailed plans and budgets for the first three year cycle. The principal activities to be undertaken will include: (i) Research planning and management; (ii) Capacity building for adaptive research; (iii) On-farm trial programme; (iv) Soil fertility enhancement; and (v) Research on adoption behaviour.

- (b) Sub-Component 1.2: Knowledge Management and Communication. The Programme's emphasis on the development, refinement and dissemination of GAPs calls for knowledge and learning intensive approach to be mainstreamed in all sub-components. The Programme will therefore support capacity building for systematic knowledge management and communication in MoAIWD in general, and within the participating Agricultural Development Divisions (ADDs) and Districts, and in relevant stakeholder institutions. The output of Sub-Component 1.2 will be knowledge about GAPs effectively gathered, managed and communicated to stakeholders. The principal activities to be undertaken will include: (i) a Knowledge management and communication strategy; (ii) Knowledge harvesting, storage and processing; (iii) Knowledge sharing and learning partnerships; and (iv) Formal Training in GAPs.

4.2 Component 2: Farmer Adoption of GAPs will facilitate the dissemination and adoption of GAPs which aim to increase crop yields, diversify production, reduce yield variability, reduce labour inputs and improve soil health through integrated packages of improved soil and water management. This will draw on the lessons learned from similar initiatives in the region, with refinements to suit Malawian agro-ecological and socio-economic conditions informed by the adaptive research and knowledge management initiatives of Component 1. The two main requirements for farmer adoption of GAPs include: (i) increased awareness of the technologies available and their benefits and costs; and (ii) access to the key inputs needed. The outcome of Component 2 is expected to be widespread farmer adoption of GAPs leading to sustainably improved productivity and crop yields.

- (a) Sub-Component 2.1: Improved Agricultural Extension: this will be based on a low-cost farmer-to-farmer extension network modelled on several successful partnerships between the MoAIWD Department of Agricultural Extension Services (DAES) and NGOs. The output of Sub-Component 2.1 will be the improvement of agricultural extension services accessible to target group households, raising awareness and sensitising farmers about GAPs. The principal activities to be undertaken will include: (i) Farmer-to-Farmer Extension Network creation; (ii) Extension Coordination, (iii) DAES support at headquarters level; (iv) DAES support at ADD and district level; (v) DAES Support at EPA level; (vi) Training for DAES Staff;

(vii) Farmer Group Development; (viii) Development of Extension Materials and Mass Media; and (ix) Extension of programme management.

- (b) Sub-Component 2.2: Access to Key Agricultural Inputs. Farmers are often unable to adopt GAPs because of the non-availability or un-affordability of key inputs. This applies particularly to legume seeds (beans, soya beans, cowpea, pigeon pea, groundnuts and leguminous trees) which are an important element of the GAPs to be offered by the Programme. To address this constraint the Programme will engage with private seed companies to support the multiplication and distribution of selected seeds through the network of farmer groups created under Sub-Component 2.1. The Programme will also engage with input suppliers/agro-dealers to encourage the commercialisation of inputs needed for GAPs (fertilisers, seeds, agro-chemicals, tools, implements etc.); and will establish partnerships with micro-finance institution(s) to facilitate the adoption of agricultural practices which require access to financial services, especially seasonal crop loans, leasing, insurance services etc. The principal activities to be undertaken will include: (i) Seed multiplication and Distribution; (ii) Engagement with Agro-Dealers; (iii) Post Harvest Management; and (iv) Access to Financial Services.

4.3 Component 3: Programme Management and Coordination. SAPP will be implemented within the Borrower/Recipient's Agricultural Sector Wide Approach (ASWAp) policy and institutional framework.

II. Implementation Arrangements

1. The MoAIWD will be responsible for the overall management of the SAPP. It will plan, implement, monitor, review and report component activities of the Programme.
2. Coordination of Programme activities will be done by the ASWAp Secretariat, in MoAIWD, while the Executive Management Committee of the ASWAp will be the Programme Steering Committee responsible for providing strategic direction and guidance.
3. The ASWAp Coordinator will oversee Programme implementation. Direct Programme management responsibility will be assigned to the ASWAp Deputy Coordinator (Management) and Deputy Coordinator (Technical). The Deputy Coordinator (Management) will be responsible for management-related activities especially under Component 3 of the Programme. The Deputy Coordinator (Technical) will be responsible for managing the implementation of core activities under Components 1 and 2. Responsibility for field operations under Component 2 will be assigned to the ADDs and District Councils (DCs) under the control of the ADD Programme Managers and District Agricultural Development Officers (DADOs) respectively. NGOs will be engaged to support District and Extension Planning Area level extension efforts in partnership with Government officers.
4. The Programme will outsource implementation and management of some of the activities to NGOs, research institutions, private sector and other service-providers. These will be governed by output-based contracts or MOUs.

5. MoAIWD will ensure that an adequate number of staff is assigned to the Programme implementation and that the objectives of the Programme are met. These will include an M&E Officer and a Knowledge Management and Communication Officer (Planning Department); a Procurement Officer (Procurement Unit), and two accountants (Finance Department). They will be supported during the initial years by a Programme Management Advisor, Financial Management Advisor, Procurement Advisor and an M&E/Knowledge Management Advisor. These Advisors will support the entire ASWAp programme, not just the SAPP. ASWAp will continue to provide procurement advisory services and will ensure that procurement capacity is maintained throughout the Programme implementation.

Schedule 2

Allocation Table

1. *Allocation of the Loan and Grant Proceeds.* (a) The Table below sets forth the categories of Eligible Expenditures to be financed by the Loan and the Grant, the allocation of the amounts of the Loan and the Grant 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 Expenditure to be Financed
I. Vehicles Motorcycles and Equipment	465 000	400 000	100% net of taxes
II. Technical Assistance, Training, Workshops and Studies	545 000	245 000	100%
III. Support for Adaptive Research and Knowledge Management			
(a) Support for Adaptive Research	910 000	910 000	100% net of Govt. Contribution
(b) Support for Knowledge Management	325 000	325 000	100%
IV. Support for Farmer Adaption of GAPs			
(a) Support for improved Agricultural Extension	8 755 000	8 755 000	100% net of tax
(b) Support for Access to Key Agricultural Inputs	1 645 000	1 645 000	100% net of beneficiary contribution
V. Recurrent costs			
(a) Salaries and allowances	110 000	60 000	100% of Govt. contribution
(b) Incremental Operating Costs	795 000	795 000	100% net of tax
Unallocated	1 100 000	1 115 000	
TOTAL	14 650 000	14 250 000	

(b) For all category allocations, each withdrawal application for eligible expenditures shall be apportioned between the Loan and Grant in the ratio of 1:1, until the balances on the categories are exhausted.

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/Recipient to request withdrawals from the Loan Account and the Grant Account if the Borrower/Recipient 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 Programme:

1. The Borrower/Recipient shall ensure that the ASWAp will continue to be adequately staffed and will be charged with responsibility for the coordination and management of SAPP activities.
2. MoAIWD will ensure that an adequate number of staff is assigned to the Programme implementation. Key staff shall consist of: an M&E Officer, a Knowledge Management and Communications Officer, a Procurement Officer(s) and two Accountants who would be assigned to the Programme immediately upon entry into effect of this Agreement.
3. The Borrower/Recipient confirms its commitment to engage with regional and international organizations, private sector and NGOs as implementing partners and service providers, with the active participation of the Programme's target group, in order to ensure that the SAPP objectives are met.

Negotiated financing agreement: "Sustainable Agricultural Production Programme (SAPP) – Programme Preparatory Facility (PPF)"

(Negotiations concluded on 19 October 2011)

FINANCING AGREEMENT

Grant Number: _____

Programme Title: Sustainable Agricultural Production Programme – Programme Preparatory Facility ["PPF"]

The Republic of Malawi (the "Recipient")

and

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

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

WHEREAS (A) The Fund has agreed to extend financing to the Recipient on the terms and conditions set forth in a Financing Agreement of even date (the "Financing Agreement") for the purpose of financing the Sustainable Agricultural Production Programme (the "Programme"); and

(B) in order to assist the Recipient in fulfilling the conditions precedent to the effectiveness of the Financing Agreement and starting up the Programme, the Fund has also agreed to provide the Recipient with a Programme Preparatory Facility ("PPF") grant (the "PPF Grant");

NOW THEREFORE the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme 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. 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 the PPF Grant to the Recipient, which the Recipient shall use to implement the PPF in accordance with the terms and conditions of this Agreement.

Section B

- 1 The amount of the Grant is 600 000 United States Dollars.
2. There shall be a Grant Advance Account for the benefit of the Ministry of Finance and Development Planning in the Reserve Bank of Malawi.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture, Irrigation and Water Development.
2. The Programme Completion Date shall be the second anniversary of the date of entry into force of this Agreement.

Section D

The PPF shall be supervised by IFAD.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: the Financing Agreement is suspended.
2. The following are designated as additional grounds for cancellation of this Agreement:
 - (a) The Financing Agreement does not enter into force; and
 - (b) The Financing Agreement is cancelled.
3. The following are designated as additional specific conditions precedent to the first withdrawal:
 - (a) The Recipient shall assure the Fund that taxes and duties related to the procurement by the PPF shall be waived; and
 - (b) The Financing Agreement has been signed.
4. The following is designated as an additional specific condition precedent to the second and all subsequent withdrawals: the Financing Agreement shall have been ratified and shall have entered into force.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Recipient:

Secretary to the Treasury
 Manager
 Ministry of Finance and
 Development Planning
 P.O. Box 30049
 Lilongwe 3
 Malawi

For the Fund:

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

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 Recipient.

For the Fund
[insert name and title]

For the Recipient
[insert name and title]

Schedule 1*Description of the activities to be financed under the PPF Grant*

PPF Grant proceeds shall be used for activities including, but not limited to, the following:

- (a) Provision of international and national technical assistance to support key start-up activities. The selection of consultants and/or technical advisors shall be made upon acceptance of candidature by the Fund;
- (b) Provision of temporary logistical support for the Programme management team, including the purchase of vehicle(s), equipment and office facilities for six to twelve months;
- (c) Orientation of MoAIWD and participating sector staff through workshops at headquarters and district levels;
- (d) Technical assistance for detailed design of the M&E system;
- (e) Technical assistance for the preparation of the knowledge management and communication strategy;
- (f) Finalisation of the SAPP Programme Implementation Manual (PIM), based on the draft PIM;
- (g) Preparation of the first Annual Workplan and Budget and finalisation of the 18-month procurement plan, based on the draft procurement plan;
- (h) Procurement and installation of accounting software;
- (i) Procurement of office supplies and equipment;
- (j) Miscellaneous supplies and services needed during the first year; and
- (k) Conduct of a start-up workshop and Programme launch.

Schedule 2*Allocation Table*

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

Category	Grant Amount Allocated (expressed in USD)	Percentage of Expenditures to be Financed
I. Vehicles Motorcycles and Equipment	100 000	100% net of tax
II. Technical Assistance, training workshop and studies	400 000	100%
III. Recurrent costs	100 000	100% net of tax
TOTAL	600 000	

Logical framework

Results Hierarchy	Indicators a/	Means of Verification	Assumptions
<p>Goal: Contribute to reduction of poverty and improved food security among the rural population.</p>	<ul style="list-style-type: none"> Prevalence rates for rural poverty in programme districts decline by 20% Prevalence rates for food insecurity in programme districts decline by 30% RIMS level 3 indicators: prevalence of child malnutrition and inventory of household assets. Level of national food production increases by 10% 	<ul style="list-style-type: none"> Household income and expenditure surveys. RIMS impact survey questionnaire (baseline and final) Agricultural production and trade statistics. 	
<p>Development Objective: A viable and sustainable smallholder agricultural sector employing good agricultural practices (GAPs).</p> <ul style="list-style-type: none"> Outcome 1: Appropriate agricultural technologies/GAPs developed and understood by potential beneficiaries. 	<ul style="list-style-type: none"> Average maize yields in target group households increase from 1.3t/ha to 3.0 t/ha. % of land planted to high value (non-maize) crops increased from 10% to 20%. At least 33% of target group farmers accessing crop inputs through commercial channels. Number of improved agronomic packages tested and demonstrated. Awareness of improved agronomic packages amongst stakeholder groups. 	<ul style="list-style-type: none"> Baseline and follow-up crop production and yield surveys in Programme areas. Records of FISP and independent monitoring reports on Programme. Documents describing key elements of agronomic packages tested and demonstrated. Awareness surveys (baseline and follow-up). 	<ul style="list-style-type: none"> GOM will be prepared to phase out subsidies once farmers are able to finance procurement of inputs themselves. GAP packages suitable for adoption by target groups will be identified and accepted by potential beneficiaries.
<p>Output 1.1: Action research programmes which develop/refine GAP packages adapted to various agro-ecological and socio-economic contexts, and improved methods of disseminating such packages to rural communities.</p>	<ul style="list-style-type: none"> Results of action research programmes which demonstrate superior GAP packages suitable for smallholders. Farmer and researcher evaluation of GAP packages. 	<ul style="list-style-type: none"> Reports on trials and demonstrations. Measurements of crop productivity and profitability. 	<ul style="list-style-type: none"> Suitable partners to undertake action research programmes will be engaged.
<p>Output 1.2: Knowledge about GAPs effectively gathered, managed and communicated to smallholders.</p>	<ul style="list-style-type: none"> Regional knowledge centres on GAPs effectively networked. Knowledge generated by programme widely disseminated and understood by stakeholders. 	<ul style="list-style-type: none"> Reports of regional knowledge networking activities. Information dissemination materials produced and distributed. Reports on other knowledge management activities (e.g. workshops). Surveys on awareness and acceptance of GAPs amongst farmers, extension workers and researchers. 	<ul style="list-style-type: none"> Regional agricultural knowledge sharing networks will be effectively engaged. Other partners will cooperate in the development of effective knowledge management systems.
<p>Outcome 2: Widespread farmer adoption of GAPs leading to improved productivity and crop yields.</p>	<ul style="list-style-type: none"> At least 80,000 smallholders adopting GAPs in the Programme area. 40% of farmers continue to apply GAPs after Programme support ended. 	<ul style="list-style-type: none"> Baseline and follow-up surveys on agricultural practices in Programme areas. 	<ul style="list-style-type: none"> Farmers will be willing and able to procure the necessary inputs to sustain use of GAPs after support ends.

<p>Output 2.1: Improved agricultural extension services accessible to target group households raising awareness and sensitising farmers about GAPs.</p>	<ul style="list-style-type: none"> • At least 50% of target group households receiving extension services on GAPs. • 135,000 households adopting GAPs by Year 9 • At least two thirds of farmers satisfied with extension services. • 	<ul style="list-style-type: none"> • Records of extension service providers (Govt., NGO, private). • Baseline and follow-up studies on adoption behaviour • Baseline and follow-up surveys on households receiving services and level of satisfaction. • Extensions materials and training curricula. 	<ul style="list-style-type: none"> • An adequate number of suitably qualified extension service providers will be available. • Adequate research-extension linkages will be established and maintained.
<p>Output 2.2: Target group has access to necessary inputs for sustained adoption of GAPs.</p> <p>Outcome 3: Programme efficiently and effectively integrated within the ASWAp framework.</p>	<ul style="list-style-type: none"> • 160 tonnes per annum of improved (non-maize) seed produced and distributed to target group households. • At least 75% of agro-dealers in Programme area stocking key agricultural inputs (type, quantity) needed for GAPs. • 9,700 grain silos distributed. • Level of storage losses decreased from 20% to 5% • At least half of target group households accessing formal credit for purchase of crop inputs. • ASWAp performance indicators (see ASWAp PIM) 	<ul style="list-style-type: none"> • Records maintained by partners engaged to undertake seed multiplication and distribution. • Baseline and follow-up surveys of agro-dealers. • Records maintained by partners engaged to provide financial services to target group farmers. • Quarterly and annual ASWAp progress reports. • IFAD supervision reports. 	<ul style="list-style-type: none"> • It will be possible to engage suitable partners for seed multiplication and distribution, agro-dealer support and rural financial services. • Programme will be implemented within the emerging ASWAp framework. • MOAFS will provide adequate resources for efficient and effective management.
<p>Output 3.1: Programme management systems fully integrated within the ASWAp management system.</p>	<ul style="list-style-type: none"> • Assessments of the ASWAp Secretariat's effectiveness in facilitating Programme implementation. 	<ul style="list-style-type: none"> • ASWAp consolidated AWPBs. • ASWAp M&E reports. • Mid-Term Review and programme completion report. 	<ul style="list-style-type: none"> • Adequate resources allocated to Programme management, monitoring and evaluation in a timely fashion.