

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H220 - ZA

Financing Agreement

(Agricultural Development Support Project)

between

REPUBLIC OF ZAMBIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 13, 2006

Public Disclosure Authorized

GRANT NUMBER H220 - ZA

FINANCING AGREEMENT

AGREEMENT dated June 13, 2006, between the REPUBLIC OF ZAMBIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to twenty-five million seven hundred thousand Special Drawing Rights (SDR 25,700,000) (“Grant”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are May 15 and November 15 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement shall have been executed on behalf of the Recipient and the Apex Organization.
 - (b) The Recipient has finalized and submitted the PIP in form and substance satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under Articles IV and V of the General Conditions and Schedule 2 to this Agreement shall terminate is ten (10) years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister responsible for Finance.

5.02. The Recipient’s Address is:

Ministry of Finance and National Planning
P. O Box 50062
Lusaka, Republic of Zambia

Cable:	Telex:	Facsimile:
MINFIN Lusaka	42221	253494 251078

5.03. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Lusaka, Republic of Zambia, as of the day and year first above written.

REPUBLIC OF ZAMBIA

By /s/ Ng’andu P. Magande

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ohene O. Nyanin

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support increased commercialization of smallholder agriculture through improved productivity, quality and efficiency of value chains where smallholders participate. Towards this end, the Project would: (a) provide resources for working capital and term lending for capital investments in agricultural production and marketing; (b) develop innovative business linkages between smallholders and other actors in the supply chains; and (c) target investments into public goods and key public sector functions.

The Project consists of the following parts:

Part 1: Support to Farmers and Agribusiness Enterprises

a. Supply Chain Credit Facility

The establishment and operation of a facility that shall provide a line of credit for short, medium and long term loans to beneficiaries through participating financial intermediaries, for: (i) productivity improvement and up-scaling of existing outgrower/contract farming schemes; (ii) expansion of existing and establishment of new contract farming schemes; and (iii) upgrading processing and marketing capacity of agribusinesses involved in the smallholder supply chain.

b. Market Improvement and Innovation Facility

The establishment and operation of a matching grant facility that shall provide financial resources to beneficiaries to develop innovative business linkages between smallholders and other actors in agricultural value chains.

c. Rural Roads Improvement Facility

Rehabilitation and maintenance of selected feeder and district roads in areas of high agricultural potential, consisting of: (i) rural roads rehabilitation and maintenance using Output and Performance Based Road Contracts; (ii) administration and supervision of the road investments; and (iii) technical assistance and consultancy services for the RDA and NRFA.

Part 2: Institutional Development

Provision of technical and material assistance (consisting of consultancy services, laboratory equipment, related vehicles and equipment and limited civil works); associated incremental operating costs; and training (consisting of staff training, study tours, domestic and regional workshops); to strengthen MACO and related institutions' services such as policy analysis, market information and capacity in trade negotiations; seed certification and control; food safety and quality standards and phytosanitary services; and cotton foundation seed production and entomological research.

Part 3: Project Management and Coordination.

Support for the establishment and operation of a National Coordination Office (NCO) within MACO.

SCHEDULE 2**Project Execution****Section I. Subsidiary Financing and Other Arrangements****A. Subsidiary Agreement**

1. To facilitate the carrying out of Part 1(a) of the Project, the Recipient shall make available the portion of the proceeds of the Financing allocated from time to time to Category (2) of the table in paragraph A.2 of Section IV of this Schedule, to the Apex Organization under a subsidiary agreement between the Recipient and the Apex Organization, under terms and conditions acceptable to the Association (“Subsidiary Agreement”). Except as the Association shall otherwise agree, such terms and conditions shall include the following:
 - (i) commitment by the Apex Organization to the objectives of the Project, and obligation to ensure that the activities under Part 1(a) of the Project are carried out with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices, and in accordance with the provisions of the Financing Agreement and the SPOP;
 - (ii) interest and other fees to be charged by the Apex Organization to the Participating Financial Intermediaries in respect of the outstanding balances of subsidiary financing, in accordance with the prevailing market conditions and other determinants as shall be stipulated in the SPOP;
 - (iii) provisions on the relending by the Apex Organization, as part of a revolving facility, of the loan repayments made by the Participating Financial Intermediaries, under the same purposes as provided in this Financing Agreement; and
 - (iv) Apex Organization’s net earnings (i.e. total interest collected minus the Apex Organization’s agreed fees) on the subsidiary financing will be added to the revolving fund facility.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall

otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

3. The Recipient shall ensure that Participating Financial Intermediaries for Part 1(a) of the Project are selected in accordance with the criteria and on terms and conditions satisfactory to the Association.

B. Matching Grants

The Recipient shall ensure that the beneficiaries of the matching grant scheme under Part 1(b) of the Project are selected in accordance with qualifying criteria, procedures, and on such terms and conditions as shall be included in the *MIF Implementation Manual*.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than sixty (60) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, not later than 45 days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Force Account
(e) Established Private or Commercial Practices which

have been found acceptable to the Association
(f) Community Driven Development

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least Cost
(b) Consultants’ Qualifications
(c) Single source selection
(d) Established Commercial Practices which have been found acceptable to the Association
(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, works, consultants’ services and training for the Project	14,190,000	100%
(2) Operating Costs for the Project.	600,000	100%
(3) Subloans under Part 1(a) of the Project	8,280,000	100%
(4) Matching Grants under Part 1(b) of the Project	2,070,000	100%
(5) Refund of Project Preparation Advance	560,000	Amounts due pursuant to Section 2.02 (c) of the General Conditions
TOTAL AMOUNT	25,700,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$3,000,000 equivalent may be made for payments made prior to this date but on or after March 1, 2006, for Eligible Expenditures;
 - (b) in respect of any Subloan under Category (3) unless the Subloan has been made in accordance with the terms and conditions set forth or referred to in paragraph A.1 of Section I of this Schedule 2; and a PFI Agreement has been entered into between the Apex Organization and the PFI which has made the Subloan; and
 - (c) in respect of any Matching Grant under Category (4) unless the Matching Grant has been made in accordance with the procedures and the terms and conditions set forth or referred to in paragraph B.1 of Section I of this Schedule 2.
2. For purposes of this Section, the term “Operating Costs” means the incremental expenses incurred by MACO on account of Project implementation, management, and monitoring, including office space rental and utilities, office supplies and equipment, bank charges, communications, vehicle operation, maintenance, insurance cost, building and equipment maintenance, travel, supervision and advertising.
3. The Closing Date is June 30, 2012.

Section V. Institutional and Other Undertakings

A. Project Management and Coordination

1. The Recipient shall, during Project implementation, maintain NCO with responsibility for overall project management and coordination, including preparation, together with the implementing entities, of annual work programs and budgets, accounting for use of project funds, monitoring project progress, and ensuring that project implementation proceeds efficiently and effectively as planned.

2. The Recipient shall, during Project implementation, maintain the Steering Committee with responsibility for providing policy guidance on the implementation of the Project.

APPENDIX**Definitions**

1. “Apex Organization” means the financial organization selected by the Recipient to administer the line of credit under Part 1(a) of the Project;
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement;
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004;
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005;
5. “MACO” means the Ministry of Agriculture and Cooperatives of the Recipient;
6. “MIIF Implementation Manual” means the Marketing Improvement and Innovation Facility Implementation Manual describing eligible activities and recipients, other policies and procedures for activities to be carried out under Part 1(b) of the Project, as adopted and approved by the Recipient, and as the same shall be amended from time to time acceptable to the Association;
7. “NCO” means the National Coordination Office referred to in Part 3. of Schedule 1 and in Section V A.1 of Schedule 2 to this Agreement;
8. “NRFA” means the National Roads Fund Agency, referred to in Part 1 (c) of Schedule 1 to this Agreement;
9. “Output and Performance-Based Road Contracts” means performance-based contracts under Part 1 (c) of the Project, for the construction, and maintenance of roads in rural areas, whereby the contractor is required to deliver and maintain pre-defined service levels;
10. “Participating Financial Intermediary” or “PFI” means a bank or financial institution eligible to make Subloans from the proceeds of the Grant under Part 1(a) of the Project;

11. “PIP” means the Project Implementation Plan detailing the procedures concerning coordination, implementation, monitoring and evaluation, procurement and administration of the Project;
12. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004;
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 2, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs;
14. “RDA” means the Roads Development Agency referred to in Part 1(c) of Schedule 1 to this Agreement;
15. “Statement of Policies and Operational Procedures” and “SPOP” means the statement of lending and investment policy, to be carried out under Part 1(a) of the Project as adopted and approved by the Recipient, and as the same may be amended from time to time acceptable to the Association;
16. “Steering Committee” means the Committee referred to in Section V A. 2 of Schedule 2 to this Agreement;
17. “Subloan” means a subloan to be made under Part 1(a) of the Project; and
18. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Apex Organization.