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PROJECT PAPER  
ON A  
PROPOSED RESTRUCTURING  
OF  
A MARKET ORIENTED SMALLHOLDER AGRICULTURE PROJECT  
CREDIT

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TO THE  
REPUBLIC OF ANGOLA

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Agriculture, Rural Development and Irrigation Unit (AFTAI2)  
Sustainable Development Department  
Country Department AFCS2  
Africa Region

## ABBREVIATIONS AND ACRONYMS

ADI	Agricultural Development Institute of MINAGRI
CDD	Community Driven Development
EDA	<i>Estação de Desenvolvimento Agrario</i> (Agricultural Development Office of ADI)
FAO	Food and Agriculture Organization of the United Nations
ICR	Implementation Completion Report
IDA	International Development Association
IFAD	International Fund for Agricultural Development
MINAGRI	Ministry of Agriculture
PCC	Project Coordination Committee
PPCC	Provincial Project Coordination Committee
PDO	Project Development Objective
PHRD	Poverty and Human Resources Development (Japan)
PISC	Project Implementation Sub-Committee
PIU	Project Implementation Unit
PPISC	Provincial Project Implementation Sub-committee
PPIU	Provincial Project Implementation Unit
RPF	Resettlement Policy Framework
WB	World Bank

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**ANGOLA**  
**ANGOLA- MARKET ORIENTED SMALLHOLDER AGRICULTURE PROJECT**

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# ANGOLA- MARKET ORIENTED SMALLHOLDER AGRICULTURE PROJECT

## RESTRUCTURING PAPER

### A. SUMMARY

1. This Restructuring Paper seeks approval by the Country Director for the following changes to the Angola Market Oriented Smallholder Agriculture Project (IDA Credit 4502-ANG): (i) partially cancel the IDA Credit in the amount of US\$10 million equivalent, as requested by the Government of Angola on December 31, 2012, to match the sector's implementation capacity more realistically with the time available to complete Project activities prior to the Closing Date of September 30, 2014; (ii) update the outcome indicators reflecting the reduced scope of activities, commensurate with the partial cancellation; (iii) reallocate the Credit proceeds to reflect the revised scope of investment activities and cost increases of some activities since Project appraisal in April 2008, leading to significant changes in the allocation between components and categories; and (iv) increase the allowable IDA Credit percentage of disbursements made under Category 4 to allow flexible management and timely payment of consultants involved in the implementation of the Project. Associated amendment of the Project's legal documents would also be made as warranted.

2. The Angola Market Oriented Smallholder Agriculture Project (MOSAP) was approved by the Board on July 31, 2008. The total cost of the Project is US\$49.35 million and is financed by: (i) an IDA Credit of US\$30.00 million equivalent; (ii) a Loan of US\$8.20 million from the International Fund for Agriculture Development (IFAD); (iii) a Grant of US\$4.0 million from the Japan Policy and Human Resources Development (PHRD) Fund; (iv) a contribution from the Government of Angola of US\$4.12 million equivalent; and (v) an estimated US\$3.03 million from the beneficiaries.

3. The Project was declared effective on September 20, 2010, about 26 months after Board approval. The average time needed to declare a Project effective in Angola is about 19 months. In the case of MOSAP, the long Effectiveness delay was due to specific country requirements, including the need for the Credit Agreement to be approved by the Cabinet and the requirement that the approval be published in the Country's official bulletin.

4. The Project Development Objective (PDO) "to increase agricultural production through the provision of better services and investment support to rural smallholder farmers located in selected *communas* and *municipios* of targeted provinces of Bie, Huambo, and Malanje" is still achievable. The Project has three components:

- Component 1: Capacity Building (US\$11.26 million of which US\$ 3.42m is IDA) - supports the establishment of farmer community groups, mainly through capacity building at local level.
- Component 2: Agricultural Investment (US\$29.34 million of which US\$23.46m is IDA) - provides investment support to smallholder farmer groups by financing sub-projects using a Community Driven Development (CDD) approach.

- Component 3: Project Management (US\$8.75 million of which US\$3.12m is IDA) - provides resources to manage this operation.

5. The Project design calls for Component 1 to be implemented before Component 2 to ensure that capacity exists at the local level to implement sub-projects.

6. Following Effectiveness in September 2010, the Project got off to a slow start. The main problem was the lack of implementation capacity in the Ministry of Agriculture, compounded by weak leadership within the Project Implementation Unit. The slow progress was reflected in low ratings of implementation progress assigned by the supervision team beginning soon after Effectiveness (implementation progress was consistently rated Unsatisfactory or Moderately Unsatisfactory). Four other main issues contributed to slow Project start-up:

- (i) Delays in getting the Project implementation structures in place and functioning. This included ensuring that the Project Implementation Unit (PIU) and three Provincial Project Implementation Units (PPIUs) were fully staffed, equipped, and installed in adequate offices. It also required setting up specified Project Committees and their operational subcommittees, the Project Implementation Steering Sub-Committee (PISC) and the Provincial Project Implementation Steering Sub-committee (PPISCs). While the PISC was formally established by a Ministerial Degree (82/09) in September 2009, the PPISCs were established only in December 2011;
- (ii) Delays in establishing the baseline values for key performance indicators. This included launching the selection process for a specialized firm to conduct the planned surveys, including the social profiling of farmers' organizations. The baseline study was established as one of the Disbursement Conditions for Component 2. The baseline study was completed in January 2013, meaning disbursements under this component could take place only two years after Effectiveness;
- (iii) Delays in contracting and mobilizing service providers to: (a) build and strengthen capacities of smallholder groups and associations; (b) strengthen capacities of government institutions to support smallholder production and marketing; and (c) strengthen capacities of private and non-governmental agriculture services providers. The service providers were hired only in December 2011, and the initial capacity building activities were delivered only in August 2012 (i.e., 18 months after Effectiveness); and
- (iv) Delays in defining the detailed procedures for funding sub-projects under Component 2, including criteria and procedures for the preparation, appraisal/approval, and implementation of each of the three financing windows under the Project. These procedures were submitted for Bank clearances only in December 2012.

7. Implementation improved after the Government took action by appointing a new Project coordinator at the end of 2011. From that point onward, the Project started to

make progress, and as a result disbursements increased from US\$0.3 million in February 2012 to about US\$4.2 million by December 2012. The total value of the contracts signed to date under the Project is estimated at US\$10 million.

8. Although significant progress has been made in recent months, implementation remains behind schedule, and the available resources cannot be used effectively by the Closing Date. No extension of the Closing Date is envisaged by the Bank for this operation. As such there is a need to restructure the Project by: (i) scaling back the scope of the originally envisaged investments so that activities can be fully implemented by the Closing Date, albeit at a reduced scale; and (ii) cancelling IDA resources that will not be used by the Closing Date, thereby allowing these resources to be put to more productive use within Angola (and possibly within the agriculture sector.)

9. A revised Results Framework is presented in Annex 1. In terms of outcome indicators, adjustments were made taking into consideration the available resources, implementation capacity, and remaining implementation period. Major changes include the percentage increase in the agricultural production of participating smallholder farmers, which has been reduced from 25 percent to 10 percent by 2014. In terms of intermediate indicators, the number of smallholder farmers that will benefit from training under the Project has been revised down from 126,000 to 50,000 by the end of the Project.

## **B. PROJECT STATUS**

10. The progress towards achieving the PDO and the implementation progress of the Project (IP) are rated Moderately Unsatisfactory and Moderately Satisfactory, respectively. The key outcome indicators include: (a) increased agricultural production of participating smallholder farmers; (b) improved access to markets; and (c) improved productive infrastructure and assets for rural smallholder farmers. Due to several constraints including the late completion of the baseline study, the Project has not been able to report on the key indicators. Now that the baseline is complete (January 2013), a full report on Project implementation including all outcome indicators will be available only at the end of 2013.

11. The implementation status by component is provided below.

12. **Component 1: Capacity Building (IDA US\$3.42m).** This component was designed to strengthen the technical, institutional, managerial and marketing skills of 126,000 smallholders and their organizations, as well as the skills of services providers and other stakeholders involved in agricultural production and value chains,<sup>1</sup> to allow them to operate more effectively in a market-driven environment and prepare for the agricultural investment support opportunities under Component 2. This component was also designed to strengthen the capacity of the Agricultural Development Institute of the Ministry of Agriculture at local and central level by providing periodic training and means (such as offices, equipment, transport, and housing for extension officers at the

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<sup>1</sup> The value chain can be understood as the full range of activities encompassing the agricultural production, storage, processing, transportation and any other service to add value to the farm production.

municipal level) to be able to assist smallholders in the Project area. The expected results under this component included: (i) improved technical skills of beneficiary stakeholders involved in agricultural production; (ii) improved participation of smallholder farmers in farm organizations; (iii) improved capacity at the community level to prepare agricultural investment support opportunities; and (iv) improved government capacity to support smallholder farmers in the Project area.

13. In order to achieve the objectives of this component, the Government hired three service providers (one in each province) to build capacity among farmers and local services providers and to provide training for local government personnel. The Project also developed six training modules that were used by the service providers to deliver training programs for smallholder farmers. The Government also hired the Food and Agriculture Organization (FAO) to provide training of smallholder farmers. It is expected that FAO will provide training for up to 13,000 farmers by June 2014. Overall, by December 2012, the Project had provided training to over 27,000 smallholder farmers (grouped in 700 associations). The beneficiaries' associations and farmers have been trained in organization of associations, preparation of rapid rural appraisals, and agronomic techniques to increase agricultural production of the main crops targeted under the Project. In addition, about 269 associations are reported to have prepared proposals for financing under Component 2. The Project also has trained 77 government staff at local level, as well as more than 47 service providers (23 in Huambo, 10 in Bié, and 13 in Malanje).

14. Although the Project was designed to cover 25 *Comunas* in 12 *Municipios* in the targeted provinces of Bié, Huambo and Malanje, currently it is operating only in 12 *Comunas* and six municipalities of the three provinces. The outreach of the Project has been constrained by delays incurred in the procurement of the service providers, attributable to the difficulty of finding qualified and affordable service providers with adequate numbers of staff and the ability to address the Project's capacity building needs. Going forward, the Government plans to quickly expand the implementation of this component, and it has proposed to amend the FAO contract to cover the entire Project area and include additional beneficiaries. There are some advantages in expanding the FAO contract, since FAO has a successful track record in Angola of providing training to smallholder farmers, and it can mobilize much-needed international experience by hiring qualified personnel to provide the needed technical support to the Ministry of Agriculture and to the Project.

15. No changes are proposed with respect to the types of activities to be supported under the capacity building component, which will continue to include training of farmers, training of staff of the Ministry of Agriculture, and training of staff of NGOs. However, the implementation modalities and targets will be adjusted to take into consideration the available capacity and remaining implementation period. A revised Results Framework is presented in Annex 1. The number of smallholders targeted to receive training under the Project has been reduced from 126,000 to 50,000 by 2014. This component also includes significant amounts of IDA funding programmed to support civil works. Most of the civil works contracts are under execution. The civil works targets will be kept at their original levels, but the amount of IDA funding will be adjusted, as the cost of civil works has doubled since Appraisal in April 2008. The additional

amounts of IDA funding will be taken from Component 2, which has not been able to disburse to date.

16. **Component 2. Agricultural Investment Support (IDA US\$23.2).** This component was designed to provide demand-based support, in the form of matching grants, to rural communities and smallholders groups, for small-scale agricultural infrastructure, production, processing and marketing sub-projects. The key results expected from the implementation of this component include: (i) enhanced agricultural productivity and (ii) enhanced access to agricultural markets.

17. Component 2 was designed to be implemented after capacity building activities supported under Component 1 have been initiated, to ensure that capacity exists at local level to implement sub-projects successfully. For this reason, and given the delays incurred in implementing the capacity building activities supported under Component 1, only recently have farmer associations started preparing the sub-projects, with support from the Agricultural Development Office of Agricultural Development Institute (EDA) and the service providers. Currently, the PIU has received 269 proposals, worth about US\$3.0 million overall, requesting financing under Component 2. The receipt of these proposals is timely, since all Disbursement Conditions for Component 2 have been met: (i) the Project has identified and trained 47 service providers to carry out capacity building activities; (ii) the baseline study has been completed (January 2013); and (iii) the administrative capacity at the level of the Provincial Project Implementation Units meets the Bank's fiduciary requirements, as confirmed by the procurement and financial management specialists.

18. The type of activities to be financed under this component will not be affected by the restructuring, but the targets will be reduced significantly to reflect the partial cancelation. Originally the Project planned to benefit 24,000 smallholder farmers under this component, but the target has been reduced to 8,000 in line with available resources, implementation capacity, and time. Most of the resources to be cancelled will come from this component, since no disbursement has been made to date out of the US\$23 million. In deciding which sub-projects will be financed, priority will be given to those sub-projects that can be implemented quickly and that will significantly increase production of the target commodities. Details are provided in the Project implementation manual.

19. **Component 3. Project Management (IDA US\$3.12 million).** This component was designed to support Project management. Implementation of this component is rated Satisfactory. Most goods have been purchased, and the offices of the PIUs have been rehabilitated (including the purchase of furniture). The most important priority at this point is timely payment of the consultants and contractors involved in the Project management, to ensure that the Project activities are implemented on time. While the Government has honored its commitment to contribute to the financing of the Project, the Government's contributions have been irregular and unpredictable. Given the importance of the Project coordination function for the success of the Project, the proposal is to increase the percentage of IDA funds to be disbursed under Category 4. This change is justified to allow flexible management and timely payment of consultants and contractors involved in Project management and coordination.

20. **Safeguards.** The Project is classified as Category B. Two safeguards policies have been triggered: Environmental Assessment (OP 4.01) and Natural Habitats (OP4.04). The Government prepared and disclosed in country and through the World Bank InfoShop an Environment Management Social Framework (EMSF) acceptable to the World Bank. The Government also prepared guidelines and procedures for social screening, as well as pesticides use and management. All sub-projects will continue to be subject to environmental and social screening. There are no changes to the environmental category and triggered policies.

### C. PROPOSED CHANGES

21. There is no proposed change in the PDO, which is to increase agricultural production through provision of better services and investment support to rural smallholders in selected *comunas* and *municipios* of the Recipient's provinces of Bié, Huambo, and Malange. This will be a Level II (CD approved) restructuring. The restructuring paper proposes four changes:

- (i) A partial cancellation of US\$10.0 million from the IDA Credit. The partial cancellation was requested by the Government on December 31, 2012. Given the implementation delays and the available capacity in the Project, it is unlikely that the entire amount of the original IDA Credit can be used effectively by the Closing Date of September 30, 2014. No extension of the Closing Date is envisaged. Partial cancellation of the IDA Credit will allow the Project to more realistically match its implementation capacity with the time available for carrying out Project activities prior to the Closing Date. There will be no substantive changes to the types of activities supported under the Project, but the targets will be adjusted to reflect the delays that have been incurred, the available capacity in the Project, and the remaining implementation period.
- (ii) Changes in the outcome indicators reflecting the reduced scope of activities, commensurate with the partial cancellation and implementation capacity. A revised Project Result Framework is presented in Annex 1. Given the weaknesses in implementation capacity, which have been reflected in delays in starting up, preparing the baseline study, and procuring service providers, among other things, the change in the outcome indicators is needed to focus on the most relevant and appropriate indicators that can be monitored given available institutional and Project capacity.
- (iii) Reallocation of the Credit proceeds. Reallocation will reflect the revised scope of investment activities. It will account for the changes in Project activities and cost increases since Project Appraisal in April 2008 (for example, the cost of civil works planned under Component 1 has doubled). This will result in significant changes in the allocation of Credit proceeds between components and categories.
- (iv) An increase in the allowable IDA Credit percentage of disbursements made under Category 4, as requested by the Government. Following this change, the

Government will no longer be required to contribute under Component 3 to the procurement of goods, payment of consultants, training costs, and operating costs. Most of the goods to be procured under Component 3 have been already procured. The Government has honored its commitments to contribute to the procurement of these goods, but the Government's contributions have been unpredictable, making it very difficult to manage procurement activities. Given the importance of an effective Project coordination function, increasing the percentage of disbursements made under Category 4 that can be paid using IDA funds (to cover costs that originally were to have been paid using the Government's contribution) is justified to allow flexible management and timely payment of consultants and contractors involved in the Project management and coordination.

### Proposed Financing Plan

Project Costs (US\$m)		
Components/Activities	Current	Proposed
Component 1. Capacity Building	3.42	8.88
Component 2. Agricultural Investment Support	23.46	8.00
Component 3. Project Coordination, Monitoring and Evaluation	3.12	3.12
<b>Total</b>	<b>30.00</b>	<b>20.00</b>

### Current Disbursement by Co-financiers in USD

Categories			IDA	%	IFAD	%	PHRD	%	Gov	%	Total	%
Component 1	(1.a)	Consulting services and training	0.62	7	3.2	38	4	47	0.64	8	8.46	100
	(1.b)	Goods and works	2.8	100	0	0	0	0	0	0	2.8	100
Component 2		Matching grants	23.46	89	2.85	11	0	0	0	0	26.31	100
Component 3		Goods, consulting services, training & operating costs	3.12	36	2.15	25	0		3.48	40	8.75	100
Total			30		8.2		4		4.12		46.32	

### Proposed Disbursement by Co-financiers in USD (Changes only on IDA and Government)

Categories			IDA	%	IFAD	%	PHRD	%	Gov	%	Total	%
Component 1	(1.a)	Consulting services and training	0.62	7	3.2	38	4	47	0.64	8	8.46	100
	(1.b)	Goods and works	8.26	100	0	0	0	0	0	0	8.26	100
Component 2		Matching grants	8.00	89	2.85	11	0	0	0	0	10.85	100
Component 3		Goods, consulting services, training & operating costs	3.12	75	2.15	25	0		1.50	0	6.77	100
Total			20.00		8.2		4		2.14		34.34	

**Proposed Reallocations in SDRs**

Category of Expenditure		Allocation		% of Financing (including taxes)	
Current	Revised	Current	Revised	Current	Revised
(1) Consultants' Services and Training under Part A of the Project	No change	400,000	400,000	7%	7%
(2) Goods and Works under Part A of the Project	No change	1,800,000	5,400,000	100%	100%
(3) Grants for Subprojects under Part B of the Project	No change	14,400,000	5,200,000	89%	89%
(4) Goods, Consultants' Services, Training and Operating Costs under Part C of the Project	No change	1,900,000	2,000,000	36%	75%
		18,500,000	13,000,000		

Exchange rate US\$1 = SDR 0.6506515 (December 31, 2012)

- Closing Date

No extension of the Closing Date is envisaged on the part of the Bank for this operation.

**Annex 1 Results Framework**  
**Angola Market Oriented Smallholder Agriculture Project**  
**February 2013**

	<b>Action</b> D=Dropped C=Continue N= New R=Revised	<b>Comments / Justification</b>
<b>PDO:</b>		
The PDO is to increase agricultural production through the provision of better services and investment support to rural smallholder in selected <i>communas</i> and <i>municipios</i> of the Recipient's provinces of Bie, Huambo and Malanje.	C	
<b>PDO Indicators</b>		
Percentage of agricultural production increase based on crop production index of participating smallholder farmers	C (Revised only the targets)	The baseline was only completed in January 2013. An index was produced based on 2012 data. The targets will be reviewed to adjust to the available implementation period.
Percentage of participating smallholder farmers with secured market access through contractual arrangements with agribusinesses or traders	D	Not relevant to the PDO
Percentage of participating smallholder vulnerable groups with secured access to market through contractual arrangements with agribusinesses or traders	D	Not relevant to the PDO
Percentage of communities and/or associations that benefited from grants and completed their sub-projects under agricultural investment support component	D	This was revised was changed to intermediate indicator for Component 2
Target clients who have adopted and improved agricultural technology promoted by the project	N	Core indicator
<b>Intermediate Results Indicators</b>		
Number of smallholder farmers that benefitted from training	C	
Percent of participating smallholder farmers who benefited from capacity building support and are applying the new knowledge/skills in their day-to-day activities	R	Reviewed to align with core indicators and as PDO--Target clients who have adopted and improved agricultural technology promoted by the Project
Percent of participating smallholder farmers in the Project areas who belong to farm organizations	C	
Percent of trained communities and associations that qualify for investments under component 2	D	Not relevant as the component 2 has been reduced substantially
Percentage of communities and/or associations that benefited from grants and completed their sub-projects under agricultural investment support component	N	This was moved from outcome indicator to be used as intermediate indicator for Component 2
Ratio of smallholder farmers' organizations to an extension officer	C	

Average yield of the major crops (maize, cassava, beans and potato) of participating smallholder farmers:	C	
• <i>Maize (t/ha)</i>	C	
• <i>Cassava (t/ha)</i>	C	
• <i>Beans (t/ha)</i>	C	
• <i>Potato (t/ha)</i>	C	
Percent of agricultural production marketed by participating farmers	D	Not relevant to the PDO

#### Arrangement for results monitoring

Project Outcome Indicators	D=dropped C=continue N=new R=revise	Unit	Baseline 2012	Actual 2012	Targets		Comments
					2013	2014	
Percentage of agricultural production increase based on crop production index of participating smallholder farmers	C (targets only)	%	0	0	5	10	The baseline study was completed in January 2013. Since the Project is delayed for almost four years the indicators have been adjust to reflect what could be achieved in the remaining two years.
Participating smallholder farmers with secured market access through contractual arrangements with agribusinesses or traders	D	%	0	0	5	10	Not relevant for the PDO
Percentage of participating smallholder vulnerable groups with secured access to market through contractual arrangements with agribusinesses or traders	D	%	0	0	5	10	Not relevant to the PDO
Target clients who have adopted an improved agricultural technology promoted by the Project	N	%	0	0	30	40	Core indicator

Intermediate Results Indicators							
Number of smallholder farmers that benefitted from training	R (targets only)	No.	0	27,960	126,000	126,000	Only the targets were reviewed
	new targets	No.	0	27,960	35,000	50,000	Targets adjusted
Participating smallholder farmers who benefitted from capacity building support and are applying the new knowledge/skills in their day-to-day activities	R	%	0	0	30	40	Reviewed and moved to the PDO level. It is a core indicator and now reads "Target clients who have adopted an improved agricultural technology promoted by the Project"
Participating smallholder farmers in the Project areas who belong to farm organizations	C	%	0	20	40	50	No change
Trained communities and associations that qualify for investments under Component 2	D	%	0	33	30	40	Not relevant
Number of smallholder farmers in associations that benefit from grants and completed their activities under the Project's agricultural investment component	R	No.	0	0	5,000	8,000	Previous indicator was percentage of communities and / or associations that benefited from grants and completed their sub-projects under Component 2
Ratio of smallholder farmers' organizations to an extension officer	C	Ratio	0	8	10	12	No changes in the targets
Increase in average yield of major crops (maize, cassava, beans and potato) of participating smallholder farmers.	R (targets only)			0	5	10	
<i>Maize</i>	R Targets	t/ha	0.4			0.6	
<i>Cassava</i>	R Targets	t/ha	10.0			11.0	
<i>Beans</i>	R Targets	t/ha	0.3			0.4	
<i>Potato</i>	R Targets	t/ha	4.0			5.0	
Agricultural production marketed by participating farmers	D	%	0	0	2	3	Not relevant to the PDO
Number of smallholder farmers financed under the agricultural investments component	N	No.	0	0	7,000	10,000	