

## Annex

### 1. IDENTIFICATION

Title/Number	Zimbabwe Annual Action Programme 2009 Accompanying Measures for Sugar - Sugar Facility – CRIS Decision 021446		
Total cost	EUR 6,533,000 (100% EC contribution)		
Aid method / Method of implementation	Project approach, centralised management.		
DAC-code	31162	Sector	Industrial crops Export crops

### 2. RATIONALE

#### 2.1. Sector context

The Lowveld region in the south-east of Zimbabwe has excellent agronomic conditions for growing sugar cane, and that is where production of sugar is focused. Agriculture in Zimbabwe contributes approximately 17% to Zimbabwe's GDP and is the main source of livelihood for about 70% of the population. In 2005, the sugar sector constituted 1.4 % of Zimbabwe's total GDP which makes it one of the strongest in agriculture, and provided about 95% of the Masvingo Province's GDP, creating US\$ 65 million in foreign exchange earnings. Sugar provides direct employment to some 25,000 workers, and indirectly to possibly more than 125,000 people. Since 2002 there has been a dramatic decline in sugar production, from 570,000 tonnes to an historic low of 290,000 tonnes in 2008/9, mainly due to the effects of the Land Reform process, the price and quota controls and the associated economic and inflationary conditions.

The Government of Zimbabwe approved a National Sugar Adaptation Strategy (NSAS) in 2006 on how to adjust to the new EU sugar market regime and future changes. In response, the European Commission outlined a Multiannual Indicative Programme for the period 2006-2013. The NSAS identifies the following priorities:

- Arresting the present decline in the production of sugar/sugarcane. Short term.
- A re-establishment or rehabilitation phase necessary to return the industry to its former levels of production (>600,000 tonnes of sugar per year) through the rejuvenation of the existing cane production areas. These are short to medium term actions, 0-3 years.
- Expansion of the sugar industry to produce up to and in excess of 1,000,000 tonnes sugar per year. These are long term actions, 3-7 years, but absolutely necessary to remain competitive in the world and regional markets.

Since the inception of the new Government of National Union (GNU) in Zimbabwe in February 2009, important liberalisation measures have been undertaken, including a commitment to a land audit, and a Short Term Recovery Programme (STERP) has been launched. The macroeconomic framework in the country appears now much more favourable, even if the economy is faced with the challenge of recovering from a very low level.

The EC Response Strategy is focusing on channelling support to the more vulnerable sector of the industry, i.e. the out-growers. The large estates belonging to the sugar mills still have the capacity to manage their own structures, while the out-growers' cane input to the mills has declined.

Potential cane growing land is lying idle and many out growers have seen their livelihoods seriously threatened. This AAP 2009 represents one essential step in implementing the strategy.

The AAP 2009 takes also into consideration the current framework of restricted measures that the European Union adopted in response to areas of concern and therefore there will be no activities and funds directed to contested land. Particularly, the activities under the AAP 2009 will take also into consideration the current framework of appropriate measures adopted pursuant to Article 96 of the Cotonou Agreement by Council Decision 2002/148/EC of 18 February 2002, and therefore the activities will only target the Chipiwa and Mpapa non-contentious pilot areas in terms of sugar cane production as well as conduct non contentious activities in the field of soil conservation, conflict resolution and social investments. The Chipiwa and Mpapa are pre-2000 re-settlement areas for small-holder producers of sugar cane.

The AAP 2009 is also a continuation of the AAP 2007 currently implemented with Caneland Trust (CLT) since October 2008. CTL is a non profit entity regrouping all the stakeholders of the sugar industry that was incorporated for the purpose of implementing the Sugar Adaption Strategy for Zimbabwe for the benefit of out-growers and in general of the sugar sector. CTL is already the beneficiary of grant contract DCI-SUCRE/2008/164737

Finally, the EC is also working on a Short Term Strategy of support to Zimbabwe, and this Sugar facility AAP is an important component of that strategy. It is the direct consequence of the formal re-launching of the political dialogue with the EU on 18 June 2009, at a meeting between the EU Troika and a Zimbabwe ministerial delegation led by the PM Hon. M. Tsvangirai, followed by meetings with the EC at the highest level, with the President, the Commissioner and the Director-General for Development. The Strategy is formulated in recognition of positive steps so far undertaken, but also of the not yet possible full re-engagement.

## **2.2. Lessons learnt**

There have been no evaluations, so far, of Sugar-related support activities in Zimbabwe. However, the Delegation has taken stock of the brief experience since October 2008 in the implementation of the ongoing AAP 2007, which has helped identifying the interplay of actors in the sugar sector in Zimbabwe, their capacities and constraints.

## **2.3. Complementary actions**

The EC supports several food security and environmental protection-related projects that have an impact in the Lowveld, or are focused on the Lowveld. They are funded from other thematic programmes under DCIs (Food Security Thematic Budget {FSTB), the Food Facility, STABEX 95, as well as Humanitarian Aid through ECHO. The coordination/complementarity of the different programmes implemented in the Lowveld is organised within the Delegation where it is ensured that the different fundings are complementary and covering the main production gaps of the region. This research of complementarity is in line with the Short Term Strategy which provide for a comprehensive response of the Commission in Food security and agriculture.

These instruments are implemented through NGOs, international organisation and the NAO. They address conservation farming, livestock management, social protection networks, and their sustainable interaction with environment and wildlife activities in conservancies and National Parks (the other largely untapped big potential of the Lowveld is tourism). They are all of humanitarian nature (input distributions, health support through ECHO) or otherwise in direct support to the population (Mostly FSBL and FSTB implemented through NGOs or Stabex 95 implemented through PMUs and grants but not going through Government institutions) in compliance with the 2002 decision to restrict support as per Art. 96 of Cotonou.

## **2.4. Donor coordination**

Zimbabwe did not sign the Paris Declaration; however, under the leadership of the EC, aid harmonisation has been quickly brought onto the agenda following the inception of the GNU. Government has quickly taken the initiative of preparing an Aid Coordination Policy. This was approved by Cabinet in June 2009, and formally presented to Heads of Missions of the donors' community on 1 July 2009. An EC-funded study identifying options for coordination including donors' coordination and principles for donors' harmonisation in Zimbabwe was completed end May 2009 and is being discussed among donors. DFID has also proposed in June a "transitional support" model for donor alignment to Government needs in a restrictive environment. Until now, the fora of donor co-ordinations are orbiting around the UN-led initiatives, the WB-led initiatives (MDTF), some EU led technical coordination at sector level in education and food security as well as the likeminded donors groups ("Fishmongers Group") that roughly corresponds to OECD donors. In terms of specific donor coordination in the Lowveld (the area of sugar production), it does not take place as the EC is the only donor supporting the sugar industry and is also the only donor present in that area through NGO support.

## **3. DESCRIPTION**

### **3.1. Objectives**

To contribute to a return to pre-2003 peak sugar production levels and to restoring livelihoods in the Lowveld sugar industry areas.

#### *Project purpose:*

To implement activities that will support and sustain the recovery of sugar cane production affected by land reform processes, and enhance environmental processes and the socio-economic environment upon which it depends.

### **3.2. Expected results and main activities**

The response strategy through the proposed AAP 2009 will implement activities under six result areas, following on the inputs of AAP 2007 and building momentum for cane production increase through investments in training, supply chain enhancements and increase in production. It will also strengthen social support and environmental inputs (particularly soil erosion control measures and wildlife management). AAP 2009 will also look into the current NSAS to establish more realistic timeframes and production targets in the current global, regional and domestic economic and political environments. The effective implementation of production initiatives, beyond an initial scope of about 900 Ha that are non-contested, is dependent on the speed with which land reform and property rights conditions are improved as well as conflicts on land resolved. These processes may have long lead times. For this reason Result 1 of AAP 2009 will provide a significant investment in information dissemination, dialogue and conflict resolution activities, with the intention of accelerating progress towards a commonly accepted and constructive agenda for the sugar industry.

#### **Result 1: Information dissemination, dialogue and conflict resolution, building trust among stakeholders**

- Information dissemination, dialogue and conflict resolution
- Dialogue between Government and the sugar industry

#### **Result 2: Restoration of market circumstances, investment confidence and a common agenda for progress**

- Support operations of Caneland Trust (CTL) including widening and democratising its representation

- Administrative, technical and operating support to the cane growers' organisations, Zimbabwe Cane Farmers Association (ZCFA) and Commercial Sugar Farmers Association of Zimbabwe (CSFAZ)
- Develop market-based systems for technical support (water, power, irrigation, roads, etc.) to cane farmers
- Technical support to “area projects” and other farmer initiatives
- Technical support to Cane Purchasing Agreements negotiations
- Miller/cane grower dialogue on strategic options in production/by-product and marketing improvements
- Support industry/government discussions on sugar production and marketing

**Result 3: Sugar industry skills base developed**

- Extra training facilities provided/constructed
- Evaluation of training resources and provision of training

**Result 4: Sugar production activities expanded in stages**

- Development of “area project” evaluation and funding mechanisms
- Support to the expansion of sugar cane production on non-contested land
- Support to re-establishing and diversifying sugar industry support services

**Result 5: Environmental improvement to reduce water inefficiency and resource-based population displacement.**

--Support to integrated soil conservation, land use and livestock management in the Runde River catchment with possible activities such as:

- Water harvesting, innovative water extraction systems, small irrigation schemes rehabilitation and/or development, water conservation techniques, borehole rehabilitation etc.
- Training in conservation farming, fertiliser micro-dosing, composting, agricultural management etc.
- Development of compost, manure and organic fertiliser.
- Small livestock restocking and multiplication, dip tank rehabilitation and improving availability of livestock water sources. Training in livestock management and marketing.

--Support to wildlife conservation and tourism-related activities in the lower Runde River catchment with possible activities such as:

- Wildlife/tourism on marginal lands (can be decoupled from primary production – create service industries)
- Facilitation of selected enterprises: meat production (game/livestock), eco/cultural tourism.

--Development of an integrated Lowveld development plan

- Work with the local stakeholder forum to debate and coordinate issues related to conservation and land use in the Lowveld

**Result 6: Social support systems restored in support of sugar industry**

--Participatory funding facility for community-based health and education facilities--Short-term funding support to the re-establishment of sugar area social services.

Support to both local hospital and schools managed by the sugar estates that represent the only social services available in the area. Strengthening health and education performances to enhance cane farmer productivity.

### **3.3. Risks and assumptions**

The overarching assumption conditioning the effectiveness of Accompanying Measures for Sugar Protocol support to Zimbabwe is Government's commitment to address the consequences of the Land Reform process, including all the related issues outlined in the Global Political Agreement (GPA) and the STERP. These inputs are essential to reducing fragmentation, restoring economies of scale in sugar cane production and re-establishing and stabilising the sugar supply chain.

At a global level the assumption is that the market price for sugar in the EU market, as well as the international and regional market prices will remain at a level compatible with Zimbabwe's cost of production and export costs. It is also assumed that domestic commodity price issues will normalise over time. Associated with market price issues is the assumption that the recovery of Zimbabwe's sugar industry will be rapid enough to regain its foothold in regional markets that are being eroded rapidly by sugar expansion programmes in regional competitor countries (particularly Mozambique and Zambia).

At the implementation level key assumptions are:

- the cane growers associations will be able to join hands and work together to implement projects that will contribute to the restoration of cane production;
- milling companies receive sufficient cane to maintain their operations and efficiency;
- electricity to farmers' irrigation systems and mills will become more assured and stable;
- contract services for ploughing, dam construction, on- and off-farm maintenance and the supply of farming inputs will be restored;
- extension and training services will be expanded to service the larger number of smallholder farmers.

The administrative assumptions are that:

- Caneland Trust (CLT) will retain the support of its Trustees as an independent, non-partisan entity.
- CLT will have the capacity and experience to bear the workloads of partially overlapping AAPs.

### **3.4. Crosscutting Issues**

These include consideration for environmental issues (including pollution control and mitigation measures, wildlife/farming conflict issues, and improved land use practices that will reduce soil erosion and sedimentation and siltage of water courses), HIV/AIDS and gender. HIV prevalence in rural areas has a strong correlation with high-income nodes and is a real threat to productivity and the retention of skills in sugar growing areas.

Gender imbalance is also a frequent correlate in sugar growing areas. Mechanisms for encouraging an improved gender balance among small-scale cane farmers will be examined under support measures to the cane farmers' associations. The milling companies already implement gender policies under their codes of practice. Gender representation in farmers' associations is very poor and will also be an area to be addressed under the support measures to the associations.

The implementation of the GPA is supposed to bring to an end highly controversial measures such as the prosecution of bona fide occupants of land that was gazetted under the fast track land reform. The GNU will have to govern a process that will lead to a satisfactory outcome of the land reform, in a context of renewed confidence in the rule of law and the respect of international commitments. The GPA has amongst its commitments: good governance, respect of law, freedom of media and the respect of human rights.

### **3.5. Stakeholders**

The sugar industry still contributes significantly to Zimbabwe's GDP, it is of strategic importance both in terms of the domestic economy and export earnings. The Ministries of Finance, Economic Development, Agriculture, Lands, Commerce and Industry, are all major stakeholders in supporting the implementation of the NSAS.

The Ministry of Lands in particular has a major role to play in the land reform process, which has significant impact on the sugar industry and the rapidity with which it can be brought back to full and expanded production. The Ministries of Finance, Agriculture, Industry and Trade would all be concerned with the implementation of measures to encourage the sustained growth and viability within the cane production and sugar milling and refining sectors.

The Environmental Management Agency will be involved in ensuring that the expanded industry will not damage the environment through pollution, the destruction of wildlife or water catchment areas and would necessarily work with wildlife authorities, the water authority (ZIMWA) and NGOs, as well as with local communities involved with environmental management.

Nevertheless, the industry is private sector driven and the main targeted beneficiaries are the existing and future out-growers and their representative organisations. Indirect beneficiaries of improved cane production will be the downstream supply chain partners: the milling companies (Tongaat-Hulett), the sugar supply companies and the wider economy. The communities around the sugar areas will gain enhanced employment opportunities and quality of life and those in surrounding communal land areas will gain from enhanced conservation and land use initiatives and spin-off improvements. The AAP support measures will be channelled mainly through a grant contract with the Caneland Trust (CTL), a non-profit entity with representation from all the main Lowveld non-state sugar sector stakeholders.

In conformity with our restricted measures, the activities foreseen in result 4 of the AAP 2009 will provide support to the "Chipiwa outgrowers". These farmers were resettled at the end of eighties well before the contested "Fast track land reform" initiated in 2001.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Method of implementation**

Art. 5.2 of the AMSP Regulation 266/2006 says that *"for countries finding themselves in a political crisis, unrelated to the evolution of the sugar sector, the delivery of assistance [...] will be assessed [...] on a case by case basis"*. For this reason, this AAP 2009 (as its predecessor AAP 2007) would be implemented through direct centralised management. Therefore, the project will be implemented by the European Commission, through its Delegation in Zimbabwe.

As was the case with AAP 2007 DCI-Sugar/2007-19430, it is proposed that the larger proportion of AAP 2009 resources supporting Results 1, 2, 3 and 4 will be allocated as a 100% direct award grant to the Caneland Trust (CLT) - see budget below.

CLT is a non-profit registered entity with representation from all the main non-state sugar sector stakeholders, and the only organisation capable of operating in the sugar sector in the Lowveld by virtue of all considerations of fact and law (PRAG 6.3.2) and is already a beneficiary of a direct award under AAP 2007 under DCI-SUCRE/2008/164737.

It is also proposed that funds allocated under Results 5 and 6 where activities are related to support to communities will be channelled through Non-State Actors, Civil Society Organisations or International Organisations having already an experience in the thematic and geographic areas of the Lowveld sugar industry. The grant contracts will be allocated through a call for proposals launched by the Delegation. Subject to a decision by the authorising officer as foreseen in the Guidelines on Contractual procedures to be used in cases of Crisis and Emergency Situations (reference AIDCO 21002 of 30-9-2008), flexible procedures can be applied in accordance with these same guidelines.

In addition a service contract is foreseen for the definition of an "integrated Lowveld development plan & strategic environmental assessment" as described under result 5. The framework contract will be used to award the contract. Lastly, the EC Delegation will directly manage resources for audits and evaluations.

## 4.2. Procurement and grant award procedures

### 1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the DCI Regulation 1905/2006 and AMSP Regulation 266/2006.

### 2) Specific rules of grants

The choice of grants to NSAs (Non-State Actors) as the main implementation modality is essentially derived from the restrictive environment in which the EC operates in Zimbabwe (application of Art. 96 provisions since 2002), and not only from technical considerations of opportunity. The EC in Zimbabwe operates exclusively on humanitarian grounds or in direct support to the population. Financing will be provided in full for grants allocated to CLT (derogation to the principle of co-financing) as Zimbabwe falls into the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.

Considering that the guidelines for the call for proposal to award the grants for results 5 and 6 will specify that Non-State Actors, Civil Society Organisations or International Organisations having already an experience in the thematic and geographic areas of the Lowveld sugar will be preferred. The minimum period between the date of publication of the Guidelines and the deadline for submission of proposals will be 60 days.

## 4.3. Budget and calendar

Total Project Budget for AAP 2009 (in Euros)				
Results area	Grant to Caneland Trust (PRAG 6.3.2)	Grants	Framework contract	Total
1. Information dissemination, dialogue and conflict resolution, building trust among stakeholders	300.000			300.000
2. Restoration of market circumstances, investment confidence and a common agenda for progress	1.030.000			1.030.000
3. Sugar industry skills base developed	100.000			100.000
4. Sugar production activities expanded in stages	3.600.000			3.600.000
5. Environmental improvement to reduce water inefficiency and resource-based population displacement		700.000	100.000	800.000
6. Social support systems restored in support of sugar industry		370.000		370.000
Subtotal				6.200.000
External audits			33.000	33.000
Evaluation			50.000	50.000
Visibility	30.000			30.000
Contingencies				220.000
Grand Total	5.060.000	1.070.000	183.000	6.533.000

The activities under grant with CLT will be funded in full by the Commission. The justification is that emerging from the protracted economic crisis at its peak in 2008; there is a serious de-capitalisation of the private sector in general and in particular of every actor involved in the sugar sector, trustees of CTL. In accordance to PRAG 6.2.9

## **Duration**

The execution period of the Agreement will be 72 months. This execution period will comprise 2 phases under the conditions provided for in Article 4.1 of the General Conditions (Annex I of the present Agreement):

1. Operational implementation phase that starts from the entry into force of the financing agreement and will have duration of 48 months.
2. Closure phase of a duration of 24 months that starts from the expiry date of the operational implementation phase

Pursuant to Article 6 of the General Conditions (Annex I of the present Agreement), the contracts implementing the financing agreement shall be signed at the latest within three years of the entry into force of the financing agreement (except audit and evaluation contracts). That deadline may not be extended. ('sunset clause')

## **4.4. Performance monitoring**

The implementation of AAP 2009 activities of the National Sugar Adaptation Strategy (NSAS) and of all associated procurement processes will be overseen by the NSAS Steering Committee. The Steering Committee will be composed of CLT, the NAO, relevant Government ministries representatives, the relevant sugar sector Farmers' Unions and the Head of Delegation. This will ensure the necessary ownership of the programme.

The Delegation will be responsible for monitoring the programme. Additionally, it is reckoned that the AAP will be externally monitored twice, through Results-Oriented Monitoring (ROM) missions.

The attached logframe includes indicators and sources of verification. Thanks to the information available from the industry, and through the Farmers' Unions, baseline values for most quantitative indicators are well known.

## **4.5. Evaluation and audit**

Specific budgets for audit and evaluation are foreseen. This evaluation will also include the Mid-Term Review of the Sugar Adaptation Strategy in order to assess the adequacy of the ZSAS to the current context, and inform the identification of the AAP 2010 and the programming of the next EC Multi-annual Indicative Program. A budget for audit of the AAP 2009 by the EC is included, besides the audits that will be performed as part of the grant contract.

Independent consultants recruited directly by the Commission on specifically established terms of reference will carry out external monitoring ROM system, which in principle will start from the sixth month of project activities, and will be finalised at the latest 6 months before the end of the operational implementation phase.

The Beneficiary and the Commission shall analyse the conclusions and recommendations of the mid-term evaluation and jointly decide on the follow-up action to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. The reports of the other evaluation and monitoring missions will be given to the Beneficiary, in order to take into account any recommendations that may result from such missions.

The Commission shall inform the Beneficiary at least 60 days in advance of the dates foreseen for the external missions. The Beneficiary shall collaborate efficiently and effectively with the monitoring and/or evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

#### **4.6. Communication and visibility**

The Caneland Trust is well perceived among sugar sector stakeholders as well as in the Lowveld region as an actor that is operating with the support of the EC. In its outreaching communication activities the Delegation has been coherently conveying the message of a «Vision for the Lowveld» that brings together our support to sugar, environment and food security and that will have results at national level. A budget for communication and visibility activities was included in the AAP 2007 grant to CLT. In this AAP 2009, a similar budget is included for specific visibility activities following a communication and visibility plan that will be requested from the beneficiaries of the grants.