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Enabling poor rural people
to overcome poverty

People's Republic of China

Hunan Agricultural and Rural Infrastructure Improvement Project (HARIIP)

Negotiated financing agreement

Executive Board — 106th Session
Rome, 20-21 September 2012

For: **Information**

**Negotiated financing agreement:
"Hunan Agricultural and Rural Infrastructure
Improvement Project (HARIIP)"**

(Negotiations concluded on 6 September 2012)

Loan Number: _____

Grant Number: _____

Project Title: Hunan Agricultural and Rural Infrastructure Improvement Project
(the "Project")

People's Republic of China (the "Borrower")

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 Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, (except for Section 4.08 (a) (i) in respect of the provision identified in Schedule 2, paragraph 2). 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 (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

4. The amount of the Loan is thirty million two hundred fifty thousand Special Drawing Rights (30 250 000 SDR). The amount of the Grant is six hundred sixty thousand Special Drawing Rights (660 000 SDR).

5. The Loan is granted on ordinary terms and shall have a maturity period of eighteen (18) years including a grace period of five (5) years.

6. The Loan Service Payment Currency shall be the currency of the United States of America.

7. The first day of the applicable Fiscal Year shall be 1 January.

8. Payments of principal and interest shall be payable on each 15 June and 15 December.
9. There shall be two Designated Accounts denominated in US dollars opened and maintained by the Department of Finance (DOF) of the Hunan Province in a Bank acceptable to the Fund through which respectively the Loan and Grant proceeds shall be channelled. DOF shall be responsible for the Designated Accounts. The Borrower shall inform the Fund of the officials authorized to operate the Designated Accounts.
10. The Borrower shall cause the government of Hunan to provide counterpart financing for the Project in the amount equivalent to USD 45.6 million.
11. There shall be Project Accounts opened in Banks acceptable to the Fund and maintained by each of the County where Project activities will be implemented. For the Xiangxi Prefecture, the funds will be channelled from the DOF to the four (4) Counties through the Xiangxi Bureau of Finance (BOF). The Provincial Project Management Office (PPMO), the Prefecture Project Management Office (Prefecture PMO) of Xiangxi, all County Project Management Offices (CPMOs) and Implementing Agencies (IAs) shall maintain Implementation Accounts in local currency to receive the proceeds of the financing and/or the counterpart funding.

Section C

12. The Lead Project Agency shall be the Department of Agriculture (DOA) of the Hunan Province for the overall coordination and supervision of the Project activities.
13. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

14. The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out each six (6) months, the Fund shall conduct a mid-term review to be carried out towards the third year of Project implementation.

Section E

15. The following are designated as additional conditions precedent to withdrawal:
 - (a) The PPMO and at least one CPMO shall have been duly established and composed in accordance with Schedule 1, Section II and the respective Project staff shall have been selected;
 - (b) The Borrower through the DOA of the Hunan Province shall have caused the PPMO to submit, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year;
 - (c) The Designated Accounts shall have been duly opened and the authorized signatories shall have been submitted to the Fund.

16. The following is designated as an additional condition for suspension:
- (a) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
17. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Ministry of Finance
No. 3 Nansanxiang, Sanlihe, Xicheng District
Beijing 100820
People's Republic of China

Facsimile Number: +86 10 68551125

For the Fund:

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.

PEOPLE'S REPUBLIC OF CHINA

[Name of Authorized Representative]
[Title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit men and women from rural households, with a focus on poor and vulnerable households, including ethnic minorities, in the following nine (9) Counties of the five (5) Prefectures of the Hunan Province: Linxiang and Yueyang of Yueyang Prefecture, Taoyuan of Changde Prefecture, Shaodong of Shaoyang Prefecture, Longshan, Guzhang, Luxi and Fenghuang of Xiangxi Prefecture and Jingzhou of Huaihua Prefecture (the "Project Area"). Any changes in the Prefectures and/or Counties shall be agreed upon by the Borrower and the Fund.
2. *Goal.* The goal of the Project is rural development and poverty reduction in the Project Area.
3. *Objectives.* The specific Project objective is to increase revenues, improve family food security, and strengthen the resilience of approximately 182 000 rural households in nine (9) Counties, from improved agricultural production and rural infrastructure. By the end of Project implementation, the following results will have been achieved: incomes of the rural poor in targeted areas increased by approximately 25%, at closing date; and approximately 70% of beneficiary households report improved food security as compared to the agreed baseline.
4. *Components.* The Project shall consist of the following Components: (a) community infrastructure improvement, (b) sustainable agricultural development and market access support, and (c) Project coordination and management.

Component A - Community infrastructure improvement. The objective of this Component is to strengthen the economic capacities at community level, especially the productive and livelihood assets for expanded and improved agricultural production, decreased physical isolation and improve integration into the market value chains. The Component will be achieved through the following activities:

- (a) Improvement of irrigation facilities. The goal of this intervention is to support irrigation canal lining to improve farmland productivity, especially the lining of lateral canals connecting with the fields of farmer households. This intervention includes beneficiary training for the application of water-saving irrigation techniques and the sustainable operation and maintenance of the works. Under this activity, the following steps will be undertaken: (i) a water resources study will be conducted to assess the availability and downstream impact of the water sources, (ii) a topographic survey will be performed by the Bureau of Water Resources (BOWR), (iii) Water Users Associations (WUAs) will be established and registered officially in accordance with prevailing laws and regulations, (iv) design of an irrigation scheme to be discussed with the WUAs, and (v) implementation of the irrigation scheme.
- (b) Paving of existing village roads. The goal of this intervention is to improve the access of the rural poor to markets, information and technical services through the pavement of existing earthen roads of bad conditions with concrete, which connect administrative villages or natural villages to the outside road network.

- (c) Construction of community facilities of safe water drinking supply. The goal of this intervention is to improve the access of the rural poor to the sources of safe drinking water through building collective drinking water supply systems in villages which currently have difficult access to safe drinking water. This intervention includes trainings to the WUAs and beneficiaries in order to ensure sustainability.
- (d) Upgrading the rural electricity grid in selected Counties.

Component B - Sustainable agricultural development and market access

support. The objective of this Component is to strengthen the self-development capacities of the rural men and women and improve their income generation opportunities by supporting the sustainable development of diversified and adaptive agriculture at the levels of production and service support. To this end a modular approach will be adopted and the capacity-building of the extension services and the Bureau of Agriculture (BOA) tasked with the implementation of the modules, shall be enhanced through training.

Module 1: Cash crop/off-farm. This module aims at increasing and diversifying farmers' income sources in the Project Area through the development of cash crops. Activities under this module include the provision of planting materials and inputs and training.

Module 2: Orchard-poultry integrated farming. This module aims to introduce an optimal integrated farming model at smallholder level by combining poultry production with short-term and quick returns with the production of fruits and non-timber forest products with long-term benefits. Activities under this module include the improvement of poultry sheds and provision of chickens, feeding materials, medicines and training.

Module 3: Agro-forestry. The objective of this module is to sustainably explore the income generation potential of diverse economic trees while maintaining a sound balance in forestry conservation and protection. The module promotes the introduction of improved varieties of economic forest species and the improvement of existing low-yield economic forests. Activities under this module include the provision of planting materials, fertilizer and other inputs on farm facilities and training.

Module 4: Support to farmers' cooperatives. The aim of this module is to provide support to the existing and newly established cooperatives through training, the provision of office equipment and essential equipment required for the improvement of production and marketing. Activities under this module include: (i) inventory and selection of potential cooperatives according to agreed selection criteria, (ii) analysis of the current state of cooperative and assistance for the drafting of new internal rules and regulation for the running of the cooperative, (iii) training needs assessment of the cooperatives, (iv) development of an agreed strategic plan and action plan for the cooperatives.

Module 5: Technical service support. The objective of this module is to improve the grassroots agro-technical services network and enhance the effectiveness of service delivery. Module activities include the support to the provision of essential equipment, tools and transport means, training and trial and demonstration activities and capacity building of the township extension agent.

Module 6: Root and tuber crops. The objective of this module is to increase and diversify farmers' income sources through the development of root and tuber crops in Counties agreed upon by the Fund and the Borrower. Activities under this module include: provision of seeds and fertilizers, irrigation development and training.

Component C - Project coordination and management. This Component includes the establishment and operations of a PPMO in Changsha, one Prefecture PMO in Jishou for the prefecture of Xiangxi, CPMOs in each of the Counties of the Project Area and Township PMOs (TPMOs) in each township as appropriate.

II. Implementation Arrangements

A. Organization and Management

1. *Lead Project Agency*

1.1. The Lead Project Agency shall be the Department of Agriculture (DOA) of the Hunan Province for the overall coordination and supervision of the Project.

2. *Project Coordination Group (PCG)*

2.1. *Establishment and Composition.* A PCG shall be established at the Province level. The PCG will be led by the Director General of DOA and shall be composed of representatives from local DOA, DOF and the Development and Reform Commission (DRC). Key line agencies including the Poverty Alleviation Office (PAO), Department of Water Resources (DOWR), Department of Transportation (DOT) and local China Women's Federations may be invited to participate as appropriate.

2.2. *Responsibilities.* The PCG shall provide overall guidance and coordination for Project implementation. Its responsibilities shall include: (i) overall supervision of PMOs' operations, (ii) coordination of counterpart funds for carrying out the Project, (iii) review and approval of Project Annual Work Plans and Budgets (AWPBs) and reports, and (iv) coordination of IAs in Project implementation and reporting.

3. *Project Leading Groups (PLGs)*

3.1. *Establishment.* PLGs shall be established at the Xiangxi Prefecture and County levels respectively by the Prefecture and by each County where the Project will be implemented.

3.2. *Composition.* Each PLG will be led by a senior official of government of the same level and composed of representatives from local BOF, DRC and key line agencies including the BOA, PAO, BOWR, Bureau of Transportation (BOT) and local China Women's Federations.

3.3. *Responsibilities.* PLGs shall provide overall guidance and coordination for Project implementation at their respective levels. Their responsibilities shall include: (i) overall supervision of PMOs' operations, (ii) coordination of counterpart funds for carrying out the Project, (iii) review and approval of Project AWPBs and reports, and (iv) coordination of IAs in Project implementation and reporting.

4. *Provincial Project Management Office (PPMO)*

4.1. *Establishment.* A PPMO shall be established by the government of Hunan in Changsha. The PPMO shall be located within the DOA.

4.2. *Composition.* The PPMO shall be composed of at least the following key positions: a director, a deputy director, an accountant, a Monitoring and Evaluation (M&E)/planning officer, a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

4.3. *Responsibilities.* The PPMO shall be responsible for coordinating Project implementation across the Counties of the Project Area. Its responsibilities shall include: (i) consolidation of AWPBs, (ii) establishment of Project M&E system, (iii) monitoring and supervision of Project implementation, (iv) provision of appropriate training to CPMOs and IAs, (v) consolidation of Statements of Expenditures (SOEs), financial statements, and the preparation of Withdrawal Applications (WAs), (vi) procurement under the Project, and (vii) Project reporting.

5. *Prefecture Project Management Office (Prefecture PMO)*

5.1. *Establishment.* A Prefecture PMO shall be established in Jishou by the government of Xiangxi Prefecture to oversee Project activities in the four (4) Counties under its jurisdiction, namely Longshan, Guzhang, Luxi and Fenghuang.

5.2. *Composition.* The Prefecture PMO shall be composed of at least the following key positions: a coordinator, a deputy coordinator, an accountant, a M&E/planning officer, and a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

5.3. *Responsibilities.* Under the coordination of the PPMO, the Prefecture PMO shall be responsible for performing overarching functions of planning, coordination and monitoring Project implementation at Prefecture level, with the operations being substantially decentralised to the CPMOs. Its responsibilities shall include: (i) coordination of AWPBs submitted by the four (4) Counties, (ii) monitoring and supervision of Project implementation, (iii) provision of appropriate training to CPMOs in terms of Project implementation, (iv) preparation of SOEs, financial statements and claim documents, and (v) Project reporting.

6. *County Project Management Offices (CPMOs)*

6.1. *Establishment.* CPMOs shall be established in each County of the Project Area through an official document from the government. The CPMOs shall be located within the BOAs.

6.2. *Composition.* The CPMOs shall be composed of at least the following key positions: a director, a deputy director, an accountant, a M&E/planning officer, and a knowledge management and gender coordinator. Qualified staff shall be selected according to the Borrower's applicable procedures.

6.3. *Responsibilities.* The CPMOs shall be responsible for coordinating Project implementation at County level. Their responsibilities shall include: (i) development of AWPBs through participatory approaches, (ii) monitoring and supervision of Project implementation, (iii) facilitation of the establishment of the Village Implementing Groups (VIGs), (iv) provision of appropriate training to IAs, TPMOs and VIGs in terms of Project implementation, (v) preparation of SOEs, financial statements and claim documents, (vi) organising of Project procurement, and (vii) Project reporting.

7. *Township Project Management Offices (TPMOs)*

7.1. *Establishment.* Where appropriate, TPMOs shall be established by the township governments through an official document from the government, in each township of the Project Area utilising the existing local government facilities.

7.2. *Composition.* The local government shall assign qualified staff to the TPMOs.

7.3. *Responsibilities.* TPMOs will provide support to the CPMO and IAs for implementation of Project activities at village level on an as-required basis. Their responsibilities shall include: (i) oversee the works of VIGs, (ii) identify eligible villages that could participate in Project activities, (iii) facilitate village-level participatory planning activities to determine what activities will be implemented in the villages, (iv) review village implementation work plans, (v) coordinate the township technical stations/centres in Project implementation, (vi) consolidate the M&E data collected by VIGs and submit to CPMOs, and (vii) facilitate the liaison with target villages.

8. *Village Implementing Groups (VIGs)*

8.1. *Establishment.* A VIG shall be established by the local authorities with the support of the CPMOs in each selected administrative village.

8.2. *Composition.* The VIG will be chaired by the Head of the village committee and shall include all farmer representatives, women and other representatives of the poor and vulnerable target populations.

8.3. *Responsibilities.* The responsibilities of the VIGs shall include: (i) participatory perceived well-being ranking of households within the village on a need basis, (ii) identifying Project modules and activities prioritized by eligible groups through participatory approach, and reporting to the PMOs for the development of AWPBs, (iii) organizing the poor and vulnerable households to participate in Project activities, (iv) assisting PMOs monitor Project implementation and collecting M&E data as required, and (v) organising the operation and maintenance of community infrastructure built by the Project.

B. Implementation of Components

9. *Component A - Community infrastructure improvement*

9.1. The activities under this Component shall be implemented by the BOWRs for the improvement of irrigation facilities as well as the Bureau of Health and the construction of community facilities of safe drinking water supply, the BOTs for the implementation of the village road activities and the Bureau of State Electricity Grid for grid updating. At village level, the VIGs will also be involved in the supervision and implementation of Project activities. The BOWRs and BOTs shall be responsible for the identification of eligible villages in accordance with the criteria set forth in the PIM, the design of the works by site, the formation of interest groups for Project works and to report to CPMO on the progress and results of implementation.

9.2. Bureaux of State Grid (BOSGs) shall be responsible for the implementation of the grid network. The responsibilities of the BOSGs shall include the identification of eligible villages in accordance with agreed criteria, the design of the works by site, the implementation for the grid upgrading, the operation and maintenance of the Project works and reporting to CPMO on the progress and results of implementation.

10. *Component B - Sustainable agricultural development and market access support*

10.1. The BOAs shall be responsible for the implementation of the modules. The responsibilities of the BOAs shall include: the identification of eligible townships, villages and cooperatives in accordance with agreed selection criteria, the identification of target households together with VIGs, the adjustment of the modules to fit local conditions with given criteria, technical support and follow-up services to beneficiaries on module activities, facilitation of the formation of beneficiary group or farmers' cooperatives, reporting to CPMO on the progress and results of implementation.

10.2. The County Bureaux of State Forestry Administration (BOSFAs) will be responsible for the detailed planning, implementation and monitoring of the agro-forestry module under the coordination of the CPMOs and the implementation of the modules of support to farmers' cooperatives and technical service support if the agro-forestry module leads to increasing demands by farmers' cooperatives. The BOSFAs shall be responsible for the identification of eligible villages and household in accordance with agreed selection criteria together with VIGs, the adjustment of the modules to fit local conditions with given criteria, technical support, facilitation of the establishment of beneficiary groups by trade and linking them with relevant farmers' cooperatives, facilitation of the formation of beneficiary group or farmers' cooperatives, reporting to CPMO on the progress and results of implementation.

10.3. The BOWRs shall be responsible for the implementation of the development of irrigation schemes and drinking water supply facilities as well as their maintenance under the coordination of the CPMOs. Smaller maintenance work shall be carried out by the Village Committees and the WUAs. The responsibilities of the BOWRs shall include the identification of eligible villages in accordance with agreed selection criteria, the facilitation of the formation of interest groups for the operation and maintenance of Project works, design of the works by site, the organization of the construction of the infrastructure and reporting to CPMO on the progress and results of implementation.

10.4. The BOTs shall be responsible for the implementation of the development and maintenance of the village roads under the coordination of the CPMOs. The responsibilities of the BOTs shall include the identification of eligible villages in accordance with agreed selection criteria, the facilitation of the formation of interest groups for the operation and maintenance of Project works, design of the works by site, the organization of the construction of the infrastructure and reporting to CPMO on the progress and results of implementation.

C. Project Implementation Manual

11. *Preparation.* The PPMO shall prepare a draft PIM. The draft PIM shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Project staff, consultants and likely service providers and IAs;
- (b) Criteria for the performance appraisal of the Project professional staff;
- (c) Targeting and selection criteria for participating townships, villages, cooperatives and other beneficiaries;
- (d) Project operational, financial procedures and procurement procedures, including participatory planning, implementation and monitoring procedures;
- (e) M&E system and procedures including the Results and Impact Management System (RIMS); and
- (f) Implementation modalities for all modules.

12. *Approval and Adoption.* The Lead Project Agency shall cause the PPMO to forward the draft PIM to the Fund for comments and approval. The Lead Project Agency shall adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of total expenditures
I. Civil works	18 260 000		51% of total cost
II. Vehicles	190 000		100% net of taxes
III. Equipment & Materials	650 000		100% net of taxes
IV. (a) Training, Workshops, Technical assistance & Studies	1 720 000		100% net of taxes
(b) Training, Workshops, Technical assistance & Studies - GRANT		210 000	100% net of taxes
V. (a) Agricultural materials	6 420 000		55% of total costs
(b) Agricultural materials - Module 6		390 000	100% net of taxes
Unallocated	3 010 000	60 000	
TOTAL	30 250 000	660 000	

(b) The terms used in the Table above are defined as follows:

“Category IV(a) Training, Workshops, Technical assistance & Studies” means eligible expenditures for training, workshops, technical assistance and studies except for those covered under Category IV(b).

“Category IV(b) Training, Workshops, Technical assistance & Studies - GRANT” means eligible expenditures under Category IV(b) related to the training of beneficiaries under Module 6, trainings and/or dissemination under Module 3 described under Component B and eligible expenditures of the RIMs & Innovation for the Provincial and Xiangxi Prefecture PMOs under Component C.

“Category V(a) Agricultural materials” means all eligible expenditures for agricultural materials and inputs except those covered under Category V(b).

“Category V(b) Agricultural materials – Module 6” means eligible expenditures for agricultural inputs under Module 6 of Component B.

2. *Retroactive Financing.* Withdrawals not exceeding in the aggregate the equivalent of SDR 650 000 to pre-finance activities may be made from the Loan Account in respect of expenditures for: essential items of equipment and materials, start-up training and workshops, technical assistance and studies under Category III, Category IV(a) and agricultural materials excluding vehicles under Category II, incurred as from 2 December 2011. Such expenditures may be considered Eligible Expenditures for all purposes of this Agreement.