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Investing in rural people

President's report

Proposed loan and grant to the Republic of India for the Fostering Climate Resilient Upland Farming Systems in the North East Project

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For: Approval

Contents

Abbreviations and acronyms	ii
Map of the project area	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and results-based country strategic opportunities programme	2
II. Project description	2
A. Project area and target group	2
B. Project development objective	3
C. Components/outcomes	3
III. Project implementation	4
A. Approach	4
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	5
D. Financial management, procurement and governance	5
E. Supervision	7
IV. Project costs, financing and benefits	7
A. Project costs	7
B. Project financing	8
C. Summary benefit and economic analysis	9
D. Sustainability	9
E. Risk identification and mitigation	9
V. Corporate considerations	9
A. Compliance with IFAD policies	9
B. Alignment and harmonization	10
C. Innovations and scaling up	10
D. Policy engagement	10
VI. Legal instruments and authority	10
VII. Recommendation	10
Appendices	
I. Negotiated financing agreements	
II. Logical framework	

Abbreviations and acronyms

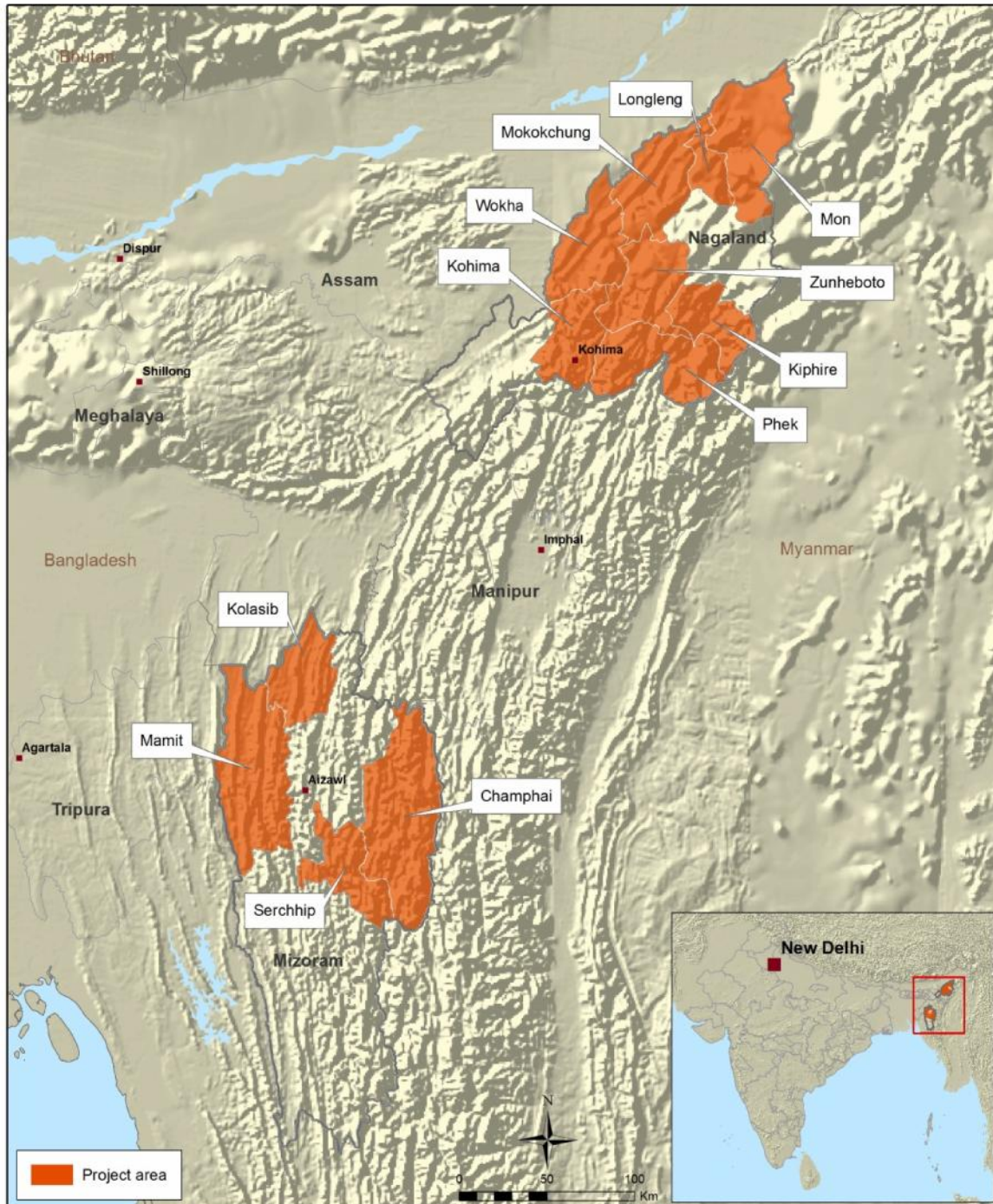
APC	Agriculture Production Commissioner
AWP/B	annual workplan and budget
CSS	centrally sponsored schemes
DPMU	district project management unit
FAO	Food and Agriculture Organization of the United Nations
FOCUS	Fostering Climate Resilient Upland Farming Systems in the North East
ICAR	Indian Council of Agricultural Research
M&E	monitoring and evaluation
PBAS	performance-based allocation system
PMU	project management unit
PSC	project steering committee

Map of the project area

India

Fostering Climate Resilient Highland Farming Systems in the North East in Mizoram and Nagaland States

President's report



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 20-10-2017

Republic of India

Fostering Climate Resilient Upland Farming Systems in the North East Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of India
Executing agency:	Societies for Climate Resilient Agriculture Nagaland and Mizoram States
Total project cost:	US\$168.46 million broken down into US\$79.30 million for Mizoram and US\$89.16 million for Nagaland
Amount of IFAD loan (PBAS 2016-2018):	US\$75.5 million broken down into US\$35.25 million for Mizoram and US\$40.25 million for Nagaland
Amount of IFAD grant (PBAS 2016-2018):	US\$1 million broken down into US\$450,000 for Mizoram and US\$550,000 for Nagaland
Terms of IFAD loan:	Blend: Maturity period of 25 years, including a grace period of 5 years, with interest on the principal amount outstanding at a fixed rate of 1.25 per cent per annum plus a service charge of 0.75 per cent per annum
Contribution of borrower:	US\$85.70 million: US\$27.51 million from centrally sponsored schemes); US\$26.27 million from convergence; and US\$31.91 from state governments; borrower contribution totals US\$41.24 million for Mizoram and US\$44.46 million for Nagaland
Contribution of beneficiaries:	US\$6.27 million broken down into US\$2.37 million for Mizoram and US\$3.9 million for Nagaland
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Republic of India for the Fostering Climate Resilient Upland Farming Systems in the North East Project as contained in paragraph 47.

Proposed loan and grant to the Republic of India for the Fostering Climate Resilient Upland Farming Systems in the North East Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. India is the third largest economy in the world in terms of purchasing power parity and the fastest growing large economy. Yet reducing poverty remains a key challenge for the country. Poverty declined from 37.2 per cent (41.8 per cent in rural areas) in 2004-2005 to 21.9 per cent (25.70 per cent in rural areas) in 2011-2012. But while India achieved Millennium Development Goal 1 of reducing extreme poverty by half, poverty continues to be a key development priority for the country. This is reflected in the Government's commitment to poverty reduction by 2022 – ahead of sustainable development goal targets.
2. India's agricultural performance has been remarkable over the past decades, transforming the nation from chronic dependence on grain imports into a net exporter of food. However, the share of agriculture in India's economy has declined to less than 17 percent. Growth and stability of the farm sector are critical for reducing poverty since rural areas account for over 71 per cent of the country's poor people. Approximately 60 percent of India's agriculture is rain-fed and therefore highly sensitive to climate variability. India has been sensitized to the challenges of climate change, ratifying the Paris Agreement on Climate Change in October 2016. Earlier in 2008, India released its National Action Plan on Climate Change, focused on adaptation to climate change, in which protection of the poor and vulnerable people is a key priority.
3. The project area in the States of Nagaland and Mizoram, in the North Eastern Region of India, is a biodiversity hotspot. Climate change adaptation in this region is critical since more than 81 per cent of the population is rural and dependent on climate-sensitive production systems and natural resources. The livelihood systems and food habits of people in north-eastern India have evolved around a shifting cultivation system known as jhum. This largely self-sufficient system is now being disrupted due to shortening jhum cycles as a result of low productivity and increasing population. Changing climate patterns are further exacerbating these disruptive trends.
4. In Nagaland and Mizoram, the jhum-based upland farming system covers approximately 60 per cent of the total agricultural area. Approximately 100,000 hectares (ha) of forest in Nagaland and 20,000 ha in Mizoram are cleared for jhum cultivation each year. In both states, rice is the main staple food and jhum crop. The production system is subsistence oriented, with landholdings of less than 1 ha of jhum and 1 ha of terrace cultivation. The governments of both states have made efforts to promote settled agriculture in upland areas with plantation crops such as oranges, tea and oil palm.
5. In Nagaland, census data indicate that the incidence of rural poverty doubled between 2004 and 2012, and stood at 19.9 per cent in 2011-2012 – equivalent to

280,000 persons. The incidence of poverty in Mizoram also increased during the period from 2003-2004 to 2009-2010, from 23 per cent to 31 per cent, putting the number of rural poor people at 160,000. In contrast to the deteriorating poverty situation, nutrition indicators in both Nagaland and Mizoram are higher than the national average with respect to underweight, stunting and wasting in children under 5.

6. Conscious of these challenges, the governments of Nagaland and Mizoram are seeking to promote climate-resilient and remunerative agricultural practices through the twin approaches of: systematically aligning jhum cycles to the natural regeneration cycle of forests; and simultaneously encouraging sedentary agriculture wherever possible.
- B. Rationale and alignment with government priorities and results-based country strategic opportunities programme.**
7. Jhum cultivation is considered a part of tribal cultural heritage and identity in both Mizoram and Nagaland. Livestock plays an important role in cultural and dietary traditions. Jhum cultivation begins with slashing and burning vegetation in a selected stretch of land, and is usually practised for one or two years before the land is abandoned to naturally regenerate. The choice of crop is consumption-oriented, with the focus shifting to cash crops for sale, such as ginger and chilli. There has been a considerable decline in the jhum cycle however, resulting in low productivity and pressure to increase the area under jhum cultivation. This decline in the jhum cycle has led to yield declines on account of weed infestation and nutrient deficiencies. The productivity of ginger, one of the major commercial crops in the jhum system, is reported to have declined from 5.8 mt per ha under a 15-20 year jhum cycle to 3 mt per ha under 5-10 year jhum cycle. This reduction in the jhum cycle perpetuates poverty on account of low productivity coupled with high costs of clearing forests at an increased frequency.
 8. The proposed Fostering Climate Resilient Upland Farming Systems in the North East (FOCUS) Project will address the issues facing jhum cultivation through: (i) better jhum cultivation practices that are more productive and sustainable, creating an ecological balance and translating into extension of the cultivation cycle by one to two years, with longer fallow periods (up to 15 years); and (ii) supporting jhum farming households in adopting alternative farming systems, particularly sedentary farming. Along with more productive wet-terrace rice fields and improved livestock systems, the project will enhance farmers' incomes, reduce pressure on natural resources and increase resilience to climate change. As farmers move to more market-orientated production, the project will support improved market access and value chain development.
 9. FOCUS is closely aligned with the priorities and strategies of the state governments of Nagaland and Mizoram, as reflected in the States Action Plans for Climate Change. Both states have undertaken a variety of pilot activities to increase the jhum cycle and assist jhum farmers in their progression towards sedentary agriculture. FOCUS incorporates identified best practices and other lessons from the region. It is also fully aligned with the first strategic objective of the results-based country strategic and opportunities programme (RB-COSOP 2011-2015, extended to 2017): increased access to agricultural technologies and natural resources. It is noteworthy that the 2015 country programme evaluation assessed the relevance of the COSOP as satisfactory.

II. Project description

A. Project area and target group

10. In Nagaland, the project will be implemented in eight out of 11 districts: Mon, Longleng, Zunheboto, Wokha, Kiphire, Phek, Mokokchung and Kohima, with approximately 200,000 rural households. In Mizoram, the project will be located in

four of eight districts: Champhai, Mamit, Serchhip and Kolasib, with approximately 83,000 households.

11. The population of both Nagaland and Mizoram is largely tribal: there are 16 recognized tribes in Nagaland and majority of the population in Mizoram is Mizo. The project's target group will be entirely comprised of tribal people and the project will target all farming households in selected villages.

B. Project development objective

12. The overall goal of the project is to increase the incomes of 137,000 rural highland farming households in Nagaland and 64,500 households in Mizoram, and enhance their resilience to climate change. This goal will be achieved through the development objective of increasing the environmental sustainability and profitability of farming systems utilized by highland farmers.

C. Components/outcomes

13. The project comprises three components: (i) jhum improvement; (ii) value chain and market access; and (iii) project management and knowledge services.
14. Component 1: Jhum improvement aims to introduce agricultural interventions that are responsive to climate change and its impacts on food production and livelihoods, and promote proven and emerging climate-resilient best practices. Component 1 will have three subcomponents:
 - (i) Better jhum management and conservation: The project will initially involve a participatory exercise to obtain free prior informed consent of stakeholders to participate in the project. Grassroots workers' capacity will be built, followed by identification and training of lead farmers and farmer-interest groups. Participatory land-use planning will also be undertaken using remote-sensing capacities. The project will introduce: soil and water conservation, and fertility management measures; appropriate crops both for sale and for improving food and nutritional security; and high-value tree crops. In addition, the project will support community conservation areas.
 - (ii) Support to settled agriculture: Responding to the transition made by many farmers from a jhum-only system to a jhum and settled agriculture mixed system, the project will support: (i) existing terrace rice cultivation; and (ii) upland settled agriculture comprising orchards and plantations. The project will also introduce the two-crop concept with short-duration rice as first crop and a second crop of pulses/ginger/onion after rice cultivation.
 - (iii) In Mizoram, in addition to the two activities mentioned above, the project will support farmer interest groups comprised of the poorest households in accessing land with group tenure rights. The project will provide training in improved agronomic practices and facilitate soil and water conservation, and cultivation of long-term crops on these lands.
15. The States of Mizoram and Nagaland will contract the Food and Agriculture Organization of the United Nations (FAO), using the grant proceeds to provide the following services in the areas of soil and water conservation, terrace rice cultivation, agronomy, agroforestry and nursery development, including but not limited to: (i) training of trainers; (ii) technical backstopping by experienced consultants; and (iii) visits by national and international experts.
16. Component 2: Value chain and market access aims to intensify agricultural and livestock activities in order to reduce pressure on jhum land. Component 2 will have two subcomponents:
 - (i) Value chain development: The project will promote activities for enhancing production of Naga-chilli, large cardamom and ginger in Nagaland, and Mizo-Chilli, turmeric and ginger in Mizoram using a cluster approach. The project

will also introduce an innovative modality for digital delivery of extension and monitoring of production practices, input use and expected production. In addition, it will provide marketing support by establishing a marketing unit to forge market linkages with private-sector market actors. Finally, the project will focus on the pig value chain by developing support services related to breed and feed improvement, and animal health. An innovation fund will be established to support organizations in value addition and marketing of local products, and build the entrepreneurial skills of youth.

- (ii) Market-access infrastructure: The project will address market infrastructure issues by building new farm-link roads and bridging critical gaps in the existing farm-link road infrastructure. The project will also improve the quality of roads, including proper side and cross drainage, and climate-resilient measures to connect with high-potential agriculture and livestock clusters. The farm-link roads will be maintained by the Department of Agriculture in the project states using regular government funds.

17. Component 3: Project management and knowledge services. The project will be implemented by a new society to be established within the Office of the Agriculture Production Commissioner (APC) in Nagaland and within the Department of Agriculture in Mizoram. To facilitate knowledge exchange, the project will engage the Indian Council of Agricultural Research (ICAR) in each state to generate knowledge on upland farming systems and their response to climate change, and create a learning platform for other states in the region.

III. Project implementation

A. Approach

18. The design of this project is in line with the following principles of engagement in IFAD's Policy on Engagement with Indigenous Peoples: (i) cultural heritage and identity; (ii) free, prior and informed consent; (iii) community-driven development; (iv) equitable access to land and resources; (v) building on indigenous knowledge; (vi) environmental issues and climate change; (vii) access to markets; (viii) empowerment; and (ix) gender equality. The project will respond to producers' needs through: (i) promoting more rational systems for planning sustainable land use; (ii) more sustainable and productive jhum cultivation systems; (iii) moving from jhum to more productive permanent cropping systems for food and cash crops; (iv) increased and less risky livestock production; and (v) improved access to and integration with input and output markets, leading to better returns and new opportunities for producers.

B. Organizational framework

19. At the state level, the APC's Office in Nagaland and the Department of Agriculture in Mizoram will be the lead agency. The project steering committee (PSC) in each state will be chaired by the chief secretary. The APC in Nagaland and the secretary of agriculture in Mizoram will co-chair the project management committee. Each state will establish a dedicated society for climate-resilient agriculture, which will be the project executing agency and will house the project management unit (PMU). An officer from the Indian Administrative Service has been appointed as the state project director in Nagaland. A technical officer at the level of joint director or above will be appointed on a full-time basis as the state project director in Mizoram. The state project director will serve as the chief executive officer of the society in each state.
20. The project will establish district project management units (DMUs) within district agriculture offices. The capacity of these officers and field-level staff will be built to implement the project. The project team will select and train lead farmers, community resource persons and village animal health workers to support the district teams in field-level implementation. The project will mobilize farmer interest

groups and support existing community-based organizations in implementing project activities.

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

21. Planning. The annual workplan and budget (AWP/B) is the main planning document for FOCUS, serving as the instrument for identifying targets and activities, and relating them to project objectives and outcomes. Each year, a draft AWP/B will be consolidated by the PMU with inputs from DMUs. Each DMU will consolidate proposals for activities from project villages. The draft AWP/B will then be approved by the PSC before submission to IFAD for approval.
22. Monitoring and evaluation. The project's monitoring and evaluation (M&E) system, guided by an M&E framework set out in the project implementation manual, will collect data and information to measure performance and progress toward project objectives. It will serve as a learning tool to: provide information for reflection on project strategies; support decision making at all levels; and serve as a basis for results-based management. Responsibility for the M&E system and reporting will lie with the manager of planning and M&E housed within the PMU.
23. Learning and knowledge management. In line with IFAD policy, learning and knowledge management will be key elements of FOCUS through an integrated approach whereby M&E feeds into generating lessons learned. The project will develop a knowledge management strategy and action plan during the first year of implementation. In both states, the project will engage ICAR in implementing studies and organizing periodic learning events in the region to facilitate knowledge exchange, documentation and dissemination.

D. Financial management, procurement and governance

24. Financial management capacity. During the design phase, the financial management risk related to APC in Nagaland and the Department of Agriculture in Mizoram was assessed as high due to substantial organizational deficiencies. To mitigate these risks and ensure efficient and effective financial management, the project will establish two separate societies – one in each State – with financial regulations that are in line with best practices. The finance units of implementing agencies will be managed by a team comprising a finance and accounts specialist in the PMU and a finance and accounts officer in the DMUs. They will be responsible for: finalizing annual budgets, maintaining accounting records in accordance with Indian accounting standards; preparing interim financial reports and consolidated financial statements; reviewing financial reports; administering and monitoring project bank accounts; ensuring constant implementation of the internal control framework; performing internal audit activities until an appropriate internal audit function is established; and facilitating audits of the societies' financial accounts. The project will establish a fully computerized accounting system within both the PMU and DMUs.
25. Flow of funds. IFAD financing will be channelled through two designated accounts denominated in United States dollars to be opened at the Reserve Bank of India and administered by the Office of Controller of Aid Accounts and Audit in accordance with the Indian Public Financial Management System. The PMU in each state will receive funds through a budgetary allocation from the respective state government, which will include the IFAD and counterpart contributions. The PMU in each state will open and maintain a bank account in a commercial bank acceptable to IFAD to receive funds from Government and make expenditure for project activities.
26. Each DMU will also open and manage a bank account for project activities. The DMUs will submit monthly financial reports to the PMU based on actual expenditures incurred. The PMU will consolidate expenditures at the district and PMU levels, and send quarterly consolidated interim financial reports to IFAD. The accounting

software deployed in the PMU and DMUs of each state will facilitate the process of preparing financial reports and withdrawal applications.

27. **Audit.** The annual audit of project accounts in Mizoram and Nagaland shall be performed in accordance with the standards of the Government of India and IFAD. The statutory audit of the project shall be performed by the Office of the Accountant General of Mizoram/Nagaland. The societies will start early consultations with the Accountant General of Mizoram/Nagaland. Should the Accountant General of Mizoram/Nagaland be unavailable, the project will be audited by a private audit firm empanelled by the Comptroller and Auditor General of India. The Accountant General of Mizoram/Nagaland will still perform its annual audit in accordance with the timing of its approved annual work plan. The audit of the designated account will be conducted by the Office of the Comptroller and Auditor General of India. The audited statement of accounts along with the audit reports and management letters will be submitted to IFAD within six months following the end of each financial year.
28. **Retroactive financing.** Several preparatory activities such as registration of the societies, establishment of the PMU and recruitment of core staff have been planned from 10 June 2017 until the entry into force of the financing agreement. As an exception to the General Conditions for Agricultural Development Financing, it is therefore recommended that retroactive financing of US\$250,000 for Mizoram and US\$300,000 for Nagaland be approved. These proposed expenditures will be for: (i) goods, services and inputs; and (ii) training and capacity building. Each state government will pre-finance these expenditures, which will be claimable by the borrower after the project's entry into force and fulfilment of disbursement conditions, subject to the eligibility of the expenditures incurred.
29. **IFAD grant.** IFAD will provide a grant to both states for the engagement of FAO in capacity building and the provision of technical assistance. FAO will be requested to contribute from its own resources for this technical assistance sub-project. FAO will use its own financial management systems, which are fully acceptable to IFAD.
30. **Procurement arrangements.** Procurement of goods, works and services for FOCUS financed from resources provided or administered by IFAD will be undertaken in accordance with IFAD's Procurement Guidelines and 2010 Procurement Handbook, and as amended as an exception to the provisions of the General Conditions. Procurement will be undertaken in accordance with a consolidated procurement plan submitted by the PMU, approved by the PSC and acceptable to IFAD.
31. **Governance.** All procurements of goods, works and services financed from resources funded or administered by IFAD require bidding documents. The contracts will include a provision requiring suppliers, contractors and consultants to: comply with IFAD's zero tolerance anti-corruption policy; and permit IFAD to inspect their accounts, records and other documents related to the bid submission and contract performance; and have them audited by IFAD-appointed auditors.
32. As part of the governance framework, the PMU in each state will disclose the following documents either on its project website or the Department of Agriculture website: (i) the procurement plan and its revisions; (ii) the procurement manual; (iii) invitations to bid for goods and works for all national competitive bidding contracts; (iv) requests for expressions of interest for selection and hiring of consulting services; (v) contract awards of goods, works and all consultancy services; (vi) a list of contracts following direct contracting or single source selection; (vii) a short list of consultants; (viii) contract awards for all consultancy services; and (ix) actions taken in response to complaints received. In addition, the PMU will publish all information required under the Government's disclosure provisions as specified by the Right to Information Act and the decisions of the State Information Commissioners applicable to project implementation.

E. Supervision

33. The project will be directly supervised by IFAD. During the start-up phase, IFAD will attend the state level start-up workshop in each state. Special attention will be paid to establishing a robust financial management and procurement system that includes training of the finance and procurement staff. It is envisaged that the first supervision mission will take place at the end of the first year of implementation and a midterm review will be conducted during the third year.

IV. Project costs, financing and benefits

A. Project costs

34. Total project costs are estimated at US\$168.47 million over a six-year period, including overall physical and price contingencies. Of the total project costs, allocations for each component include: US\$54.68 million (32.5 per cent) for improved jhum management; US\$89.31 million (53 per cent) for value chain and market access; and US\$24.48 million (14.5 per cent) for project management and knowledge services.

Table 1
Project costs by component and financier
 (Thousands of United States dollars)

	Government		IFAD loan		IFAD grant		CSS*		Beneficiaries		Convergence**		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Mizoram														
A. Improved <i>jhum</i> cultivation	3 856	17.0	12 016	53.0	450	2.0	6 165	27.2	198	0.9	-	-	22 685	28.6
B. Market access and value chain development	5 608	11.7	18 244	38.0	-	-	8 818	18.4	2 172	4.5	13 134	27.4	47 976	60.5
C. Project management and knowledge services	3 653	42.3	4 992	57.7	-	-	-	-	-	-	-	-	8 645	10.9
Subtotal Mizoram	13 117	16.5	35 252	44.4	450	0.6	14 983	18.9	2 370	3.0	13 134	16.6	79 306	100.0
Nagaland														
A. Improved <i>jhum</i> cultivation	6 605	20.6	20 394	63.7	550	1.7	3 149	9.8	1 299	4.1	-	-	31 997	35.9
B. Market access and value chain development	2 828	6.8	13 390	32.4	-	-	9 375	22.7	2 602	6.3	13 135	31.8	41 330	46.4
C. Project management and knowledge services	9 363	59.2	6 466	40.8	-	-	-	-	-	-	-	-	15 829	17.8
Subtotal Nagaland	18 796	21.1	40 250	45.1	550	0.6	12 524	14.0	3 901	4.4	13 135	14.7	89 156	100.0
Grand Total														
A. Improved <i>jhum</i> cultivation	10 462	19.1	32 410	59.3	1000	1.8	9 314	17.0	1 497	2.7	0.0	0.0	54 682	32.5
B. Market access and value chain development	8 436	9.4	31 635	35.4	-	0.0	18 194	20.4	4 774	5.3	26 269	29.4	89 306	53.0
C. Project management and knowledge services	13 016	53.2	11 458	46.8	-	0.0	-	-	-	-	-	-	24 474	14.5
Total project costs	31 914	18.9	75 503	44.8	1000	0.6	27 508	16.3	6 271	3.7	26 269	15.6	168 462	100

* Centrally sponsored schemes of the Department of Agriculture and allied departments.

** Convergence funding from other departments.

B. Project financing

35. Project financing will comprise approximately: US\$75.5 million from the IFAD loan; US\$1 million from the IFAD grant; US\$27.51 million from centrally sponsored schemes (CSS) funds; US\$6.27 million from beneficiary contributions; US\$26.27 million from convergence, mainly from the Rural Development Department; and US\$31.91 million equivalent in government counterpart financing, government contributions to CSS including taxes and duties, and salaries of seconded staff.

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

	Government		IFAD loan		IFAD grant		CSS		Beneficiaries		Convergence		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Mizoram														
A. Consultancies	384	16	1 802	75	-	-	227	9	-	-	-	-	2 412	3
B. Works	3 124	9	12 059	35	-	-	5 880	17	198	1	13 134	38	34 396	43
C. Equipment and materials	138	20	555	80	-	-	-	-	-	-	-	-	692	1
D. Grant and subsidies	-	-	1 143	55	450	22	-	-	490	24	-	-	2 082	3
E. Goods, services and inputs	2 099	10	9 191	42	-	-	8 877	41	1 671	8	-	-	21 838	28
F. Training and workshops	15	0	3 489	100	-	-	-	-	-	-	-	-	3 504	4
G. Salaries and allowances	6 578	55	5 357	45	-	-	-	-	-	-	-	-	11 935	15
H. Operating costs	779	32	1 657	68	-	-	-	-	11	1	-	-	2 447	3
Subtotal Mizoram	13 117	17	35 252	44	450	1	14 983	19	2 370	3	13 134	17	79 306	100
Nagaland														
A. Consultancies	153	14	718	65	-	-	226	21	-	-	-	-	1 097	1
B. Works	2 315	8	8 235	27	-	-	5 880	20	476	2	13 135	44	30 040	34
C. Equipment and materials	226	20	911	80	-	-	-	-	-	-	-	-	1 137	1
D. Grant and subsidies	-	-	1 544	56	550	20	-	-	662	24	-	-	2 756	3
E. Goods, services and inputs	1 341	6	13 329	56	-	-	6 418	27	2 755	12	-	-	23 843	27
F. Training and workshops	20	0	10 152	100	-	-	-	-	-	-	-	-	10 172	11
G. Salaries and allowances	13 881	90	1 573	10	-	-	-	-	-	-	-	-	15 455	17
H. Operating costs	861	18	3 788	81	-	-	-	-	8	0	-	-	4 657	5
Subtotal Nagaland	18 796	21	40 250	45	550	1	12 524	14	3 901	4	13 135	15	89 156	100
Grand total	31 914	19	75 503	45	1 000	1	27 508	16	6 271	4	26 269	16	168 462	100

C. Summary benefit and economic analysis

36. Investments in the project in Mizoram and Nagaland will have an overall economic internal rate of return of 25 per cent and 29 per cent respectively, and a net present value of INR 3,141 million and INR 6,593 million respectively at a discount rate at 10 per cent. Benefits have been calculated based on various production models covering food crops, orchards, spices, livestock, fishery, village forestry and agro-processing. The sensitivity analysis indicates that the costs will have to increase by 51 per cent – or benefits will have to decrease by 34 per cent – for the net present value to be zero for Mizoram. For Nagaland, costs will have to increase by 78 per cent or benefits will have to decrease by 44 per cent for the net present value to be zero.

D. Sustainability

37. The sustainability of project interventions will be ensured by the project approach. The improved agricultural practices adopted by farmers for increasing their incomes will be sustained provided that inputs and markets are available. The project interventions in the value chain and market-access component will aim to ensure profitability. The project also seeks to build the capacity of village-level service providers such as lead farmers, community resource persons and community animal health workers. Service providers will charge for the services they render to ensure the sustainability of operations beyond the project lifespan. The marketing systems will largely be within the private sector: the project will help producers to link with agribusiness and marketing companies, and establish local aggregation and primary processing enterprises. The Government will have continuing responsibilities in areas such as road maintenance and provision of livestock vaccines.

E. Risk identification and mitigation

38. There are several risks associated with the project, as detailed in the logical framework. A low risk with regard to the development objective is that climate change and better non-farm income opportunities will make farming unattractive. This risk will be mitigated through project interventions to increase the productivity and resilience of crops to climate change by focusing on livestock, horticulture and agro-forestry. The risk related to insurgency is moderate and will be addressed by empowering local communities and transferring funds directly to these communities. The risk related to high transaction costs as a result of low volume and the remoteness of producers will be addressed through a cluster approach to production and a focus on niche products, value addition and contract farming.
39. The financial management assessment of the project's lead agencies at the state level rated the fiduciary risk as high. This will be mitigated by creating two societies devoted to project implementation within the states but managed autonomously. These societies' financial management practices will be aligned with best practices for externally funded projects. Additional mitigation actions include hiring qualified staff, training and implementation support, which should facilitate good financial management.

V. Corporate considerations

A. Compliance with IFAD policies

40. The project is fully aligned with IFAD's Strategic Framework (2016-2025) and adheres to IFAD's policies on targeting, gender mainstreaming, engagement with indigenous peoples, environment and natural resource management, climate change and social, environmental and climate assessment. Since the project is classified as category B, no further environmental assessment is necessary. The climate risk classification is deemed to be moderate.

B. Alignment and harmonization

41. State governments have been actively involved in the formulation and appraisal of FOCUS. The project designed is fully aligned with existing government structures and programmes.

C. Innovations and scaling up

42. The project will seek to scale up and improve on the experience of several current and recent efforts at jhum improvement and settled agriculture. These include the Nagaland Environment Protection and Economic Development Project, Nagaland Sustainable Land and Ecosystem Management Project, and initiatives of Mizoram's New Land Use Policy Implementing Board. Additionally, the IFAD-supported North Eastern Region Community Resource Management Project for Upland Areas, has demonstrated the benefits of community planning and implementation for more sustainable land-use systems. This project will also build on lessons learned from pig-production interventions in the north-east sponsored by Tata Trusts with support from International Livestock Research Institute. Comprehensive M&E, together with special studies and knowledge management supported by ICAR will generate detailed information on processes and results, which will assist in formulating future strategies and support further replication in the North East Region.

D. Policy engagement

43. The project will generate knowledge on jhum cultivation and the shift to sedentary agriculture that will inform future state-level policies. The project also aims to take policy dialogue to the next level by engaging ICAR in conducting impact-assessment studies for wide dissemination of results, therefore contributing to the adoption of successful strategies across the region.

VI. Legal instruments and authority

44. Two project financing agreements between the Republic of India and IFAD will constitute the legal instrument for extending the proposed financing to the borrower for this project in the States of Mizoram and Nagaland. A copy of the negotiated financing agreements is attached as appendix I.
45. The Republic of India is empowered under its laws to receive financing from IFAD.
46. The proposed financing will comply with the Agreement Establishing IFAD and the policies and criteria for IFAD financing.

VII. Recommendation

47. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on blend terms to the Republic of India in the amount of seventy-five million five hundred thousand United States dollars (US\$75,500,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED: that the Fund shall further provide a grant to the Republic of India in the amount of one million United States dollars (US\$1,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

Fostering Climate Resilient Upland Farming Systems in the North East Project

(Negotiations concluded on 17 November 2017)

Loan Number: _____

Grant Number: _____

Project Title: Fostering Climate Resilient Upland Farming Systems in the North East Project ("the Project")

The Republic of India (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")
(each a "Party" and both of them collectively the "Parties")

WHEREAS:

(A) The Borrower/Recipient has requested a Loan and a Grant from the Fund for the purpose of financing the Fostering Climate Resilient Upland Farming Systems in the Northeast Project (FOCUS) to be implemented in the state of Nagaland and in the state of Mizoram;

(B) This Agreement is to finance the implementation of the Project in the state of Mizoram;

(C) For this purpose, the Borrower/Recipient shall make available to the State of Mizoram the respective part of the proceeds of the Financing upon terms and conditions set forth in this Financing Agreement;

(D) The Project shall be implemented in the state of Mizoram (the "State") pursuant to a separate agreement of even date herewith between the Fund and the State (the "Project Agreement");

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement except for the provisions identified in Schedule 2, paragraph 3 of this Agreement. In addition, the procurement of goods, works and services under the Project, financed from resources provided or administered by IFAD, will be undertaken in accordance with IFAD's Project Procurement Guidelines and Procurement Handbook approved in 2010 and as amended from time to time, as an

exception to the General Conditions. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall cause the State of Mizoram to use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is thirty five million and three hundred thousand United States dollars (USD 35 300 000).

B. The amount of the Grant is four hundred and fifty thousand United States dollars (USD 450 000).

2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding at a fixed rate of 1.25 per cent and in addition a service charge of 0.75 per cent per annum payable semi-annually in the Loan Service Payment Currency and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years, starting from the date of approval by the Executive Board.

3. The Loan Service Payment Currency shall be the United States dollars (USD).

4. The first day of the applicable Fiscal Year shall be 1st April.

5. Payments of principal, interest and service charge shall be payable on each 15 June and 15 December.

6. The Project Management Unit (PMU) of the Lead Project Agency will receive funds through a budgetary allocation from the State Government which will include IFAD financing and counterpart contribution. The PMU will open and maintain a bank account in a commercial bank acceptable to the State to receive funds from the Borrower/Recipient. Each District Management Unit (DMU) will also open and manage a bank account in a commercial bank acceptable to the State to finance project activities.

7. The Borrower/Recipient shall cause the State to provide an amount of approximately eleven million one hundred forty thousand United States dollars (USD 11 140 000) equivalent as counterpart financing for the Project. The Borrower/Recipient, in cooperation with the State, shall undertake proactive measures/policies for convergence of other Government schemes and mobilize financial and in-kind contributions from beneficiaries. The Borrower/Recipient shall cause the State to take measures required for accessing funds for the activities ascribed to the Central Sector Scheme funds including the state share of the Central Sector Scheme (CSS) funds and the funds are promptly released in advance to the Department implementing the schemes.

Section C

1. At national level the Department of Economic Affairs, Ministry of Finance of the Borrower/Recipient, will be the nodal agency for the Project while the nodal agency at state level shall be the Department of Agriculture in Mizoram. The Lead Project Agency shall be the Society for Climate Resilient Agriculture in Mizoram (SCRAM).

2. The following are designated as additional Project Parties: the Lead Project Agency and its DMUs of the Project; Indian Council of Agricultural Research; any other stakeholder identified by the State in agreement with the Fund.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

4. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions, not later than thirty six months from the date of entry into force.

Section D

The Loan and the Grant will be administered and the Project supervised by the Fund.

Section E

1. In addition to Section 12.01 of the General Conditions, the following is designated as additional ground for suspension of this Agreement:

(a) The Project Implementation Manual (PIM) or any provision thereof, has been waived, suspended, terminated, amended or substantially modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower/Recipient has not taken any measures to remedy the situation; and

(b) The Lead Project Agency (SCRAM) has been liquidated without prior consultation with the Fund.

2. In addition to Section 4.02 of the General Conditions, the following are designated as additional general conditions precedent to withdrawal:

(a) The Lead Project Agency (SCRAM) has been duly established and registered;

(b) Key project staff, including the PMU finance team has been appointed by the SCRAM;

(c) A PIM has been prepared by the SCRAM and approved by the Fund; and

(d) The Project Agreement in form and substance acceptable to the Fund shall have been duly concluded between the Fund and the State of Mizoram.

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

For the Borrower/Recipient:

Secretary
Department of Economic Affairs
Ministry of Finance
North Block
New Delhi 110001, India

For the Fund:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

REPUBLIC OF INDIA

(Authorised Representative)
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project shall be implemented in the four districts of Champhai, Mamit, Serchhip and Kolasib (the "Project Area"). The four selected districts have approximately 83,254 rural households who represent the target group of the Project in the State of Mizoram. The Project will adopt a social targeting approach by excluding the households with permanent government jobs. The target group categories will therefore include all tribal households involved in jhum farming and those unable to take up jhum cultivation on account of labour shortages and other vulnerable households having persons with disability and other challenges. Women are the main contributors to both agriculture and livestock activities and therefore gender will be mainstreamed into the project activities so that women have access and control over resources both in terms of targeting of project activities and also their participation in various committees of the project.

2. Goal. The overall goal of the Project is to increase agricultural income of 64,500 households and to enhance their resilience to climate change.

3. Objectives. The objective of the Project is increasing the environmental sustainability and profitability of farming systems practiced by highland farmers.

4. Components. The Project shall consist of the following three components:

4.1 Component 1: Improved Jhum Management will aim to promote proven and emerging climate resilient best practices

4.1.1 Better jhum and conservation will support: (i) capacity building of staff, lead farmers and farmers; (ii) land use planning to develop rational and sustainable systems for village land utilisation; (iii) better jhum management through introduction of a package of improved practices for soil and fertility management, crop production, agro-forestry and fallow management; and (iv) community forest conservation with re-vegetation and soil conservation.

4.1.2 Settled agriculture will support: (i) existing rice cultivation on the lowlands through short duration seeds, fertility improvement techniques and improved cropping intensity; and (ii) existing orchards and plantation through demonstration of soil and water conservation works, improved planting materials and planting of high value trees. In Mizoram, the poorest households in each village will be supported to get access to land for settled agriculture.

4.1.3 The State of Mizoram will contract the Food and Agriculture Organization of the United Nations (FAO), using the grant proceeds, to provide the following services in the areas of soil and water conservation, terrace rice cultivation, agronomy, agroforestry and nursery development, but not limited to: (i) training of trainers; (ii) technical backstopping by experienced consultants; and (iii) exposure visits both international and national.

4.2 Component 2: Value chain and market access

4.2.1 Value chain development will support: (i) production support for clusters of market-orientated spices (chilli, turmeric and ginger in Mizoram), including supply of planting materials and training; (ii) marketing support for a range of cash crops

with marketable volume; (iii) livestock support largely covering pigs with support for breeding, feed improvement, and animal health; and (iv) innovation support for testing and dissemination of innovative technologies and approaches for agriculture, livestock and marketing.

4.2.2 Market access infrastructure will support construction of market infrastructure using climate resilient building techniques. The Project will support building agriculture link roads in Mizoram.

4.3 Component 3: Project Management and Knowledge Services. The Project will be implemented by a new Society to be established within the Department of Agriculture (DoA) in Mizoram. As this Project covers the two states of Nagaland and Mizoram, it will be a testing ground for improved jhum practices for the north-eastern region. To facilitate cross learning, the project in each state, will engage Indian Council of Agricultural Research (ICAR) to generate knowledge on upland farming systems and their response to climate change and to create a learning platform for other states in North East Region.

II. Implementation Arrangements

5. Coordination. The Governing Council of SCRAM will function as the state level Project Steering Committee (PSC). The Chief Secretary of the State of Mizoram will be the Chairperson of the PSC. The PSC will meet once in six months to review progress, provide overall guidance and policy support and to facilitate inter-departmental coordination specifically with regard to convergence. All the members of the Governing Council will be the members of the PSC. PSC will invite representatives from the National Bank for Agriculture and Rural Development (NABARD), Civil Society and Technical Experts of repute to participate in the PSC meetings. The State Project Director shall be the member secretary of the PSC. PSC shall be largely responsible for policy decisions with regard to statutory obligations and also for approving the Project Implementation Manual and its amendments thereto from time to time, and the Annual Work Plan and Budget (AWPB) before incorporation into the state budget.

6. The Project shall establish a Project Management Committee (PMC) headed by the Secretary, Agriculture in Mizoram. The Directors of the relevant technical departments will be the members and the Chief Executive Officer of the Society will be the Secretary. The PMC will meet quarterly and will be responsible for resolving implementation issues, interdepartmental coordination and allocation of funds under convergence and centrally sponsored schemes.

7. The Project shall establish a District Project Coordination Committee (DPCC) in each project district. The DPCC will meet quarterly to discuss the project implementation progress, constraints and remedies. The most important function of this committee will be to ensure flow of funds from Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and from other agriculture and allied central sector schemes for implementing project activities. The DPCC will be chaired by the Deputy Commissioner / District Collector of the respective project district and the District Project Manager will be the Vice Chairperson/Member Secretary. The members of the DPCC will be important district level officers. Based on the need, representatives of NABARD and Lead Bank will also be invited to participate in the DPCC meetings. A representative from PMU may attend any of the DPCC meetings if and when required.

8. The Project shall establish a Block Project Coordination Committee (BPCC) in each Block of the project area. The BPCC will meet bimonthly to discuss approval and review of the MGNREGS activities and their convergence with project activities. This committee will be chaired by the Block Development Officer and the Circle/Block

Agriculture Officer will be the Member-Secretary. The members of BPC will include: (i) Chairpersons of all project Village Councils; and (ii) All Block/Circle level officers.

9. Management. The state PMU will be housed within the SCRAM and vested with the project management responsibility in terms of planning, implementation, supervision, monitoring and evaluation, budgeting, financial management, procurement and compliance with the provisions of the financing and project agreements. The Chief Executive Officer/Secretary of the SCRAM will be the State Project Director (SPD). The SPD will be reporting to the Secretary Agriculture / Director Agriculture in Mizoram. All funds with the exception of CSS and state share for CSS funding will flow through the Agriculture Department in Mizoram by creating a separate line item in their respective annual budget. The SCRAM shall be provided with full time senior technical staff of the rank of Deputy Directors on deputation. In addition, a Finance and Accounts Specialist, a Manager - Planning and M&E, a Manager – Knowledge Management, a Manager – Gender and Community Institutions, a Finance and Accounts Officer and other support staff will be engaged on contract basis. Staff appointments, except those on deputation, will be fixed term contracts of at least three years and the candidates will be recruited from the open-market based on professional competence and experience. The duration of their contracts will not exceed the Project implementation period. The SCRAM while recruiting staff will give preference to women subject to other things being equal.

10. District Management Units (DMUs). The project shall establish a DMU in each district within the District Agriculture Office. The District Agriculture Officer will be the District Project Manager. A small team of professionals will be recruited to facilitate project implementation and administration. DMUs will function as an outpost of SCRAM. DMU will be authorised to release funds based the sanctioned AWPB. A technical team comprising officers of mid-level seniority drawn from the Departments of Agriculture, Horticulture, Animal Husbandry and Soil and Water Conservation will be attached full time for this project. In addition, the project will engage a Planning and Monitoring Officer, a Finance and Accounts Officer and the required junior professionals at the district level on a contract basis.

11. Subsidiary Agreement. The State, through the Department of Agriculture, will enter into a Subsidiary Agreement, acceptable to the Fund, with SCRAM. Among other things, the provisions of the Subsidiary Agreement will include: (i) the SCRAM declares its commitment to the goal and objective of the Project and, in furtherance of such goal and objective, they shall undertake to carry out the Project in accordance with the Financing Agreement and with the Project Agreement; (ii) the preparation of annual plan and budget, and fund flow arrangements; (iii) physical and financial reporting requirements; (iv) auditing and submission of Project financial statements; (v) adherence to IFAD Procurement Guidelines and approved Procurement Plan; (vi) using bank interest earned for eligible expenditures; (vii) updating of CSS physical and financial achievements in the respective online portals of Ministry of Agriculture, Government of India (viii) adopting an accounting software to record and generate financial reports and (ix) applying IFAD Policy on Fraud and Anti-corruption.

12. Project Implementation Manual (PIM). The PIM shall include procedures and processes for project implementation, financial administration and reporting and procurement of goods, works and services. As per IFAD Policy of Engagement with Indigenous Peoples (2009), the PIM will outline the implementation of the Free, Prior and Informed Consent which will capitalize on the participatory planning process of the Project. The PMU shall adopt the PIM substantially in the form approved by the PSC and the Fund and may make amendments thereto from time to time with the approval of the Fund. In case of any discrepancies between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

13. Planning, Monitoring and Evaluation (M&E), and Learning. The AWPB is the key planning document for FOCUS and will serve as the instrument for identifying specific targets and activities and in relating these to project outcomes and objectives. Each year a draft AWPB will be consolidated by the PMU with inputs from DMUs. Each DMU will consolidate proposals for activities that have come from project villages. The draft AWPB will then be approved by the PSC before submission to IFAD for its concurrence. If required, the PMU may propose adjustments or revision in the AWPB during the project year. The approved AWPB will be used as a key document when reviewing performance and progress during the IFAD supervision missions. AWPB includes the Procurement Plan.

14. The Project's M&E system will measure performance against the project log frame as well as showing the contribution of project outcomes to the government's strategic objectives for the agricultural and rural sector. The M&E system will also provide evidence of the results in terms of IFAD's objectives at the country level, with data disaggregated by gender and by age to show impact on women and youth. The M&E system will also be a learning tool to provide information for critical reflection on project strategies and operations. It will support decision-making at various levels and be a basis for results-based management.

15. The Project will develop a Knowledge Management strategy and action plan. This will include internal learning as well as knowledge sharing with external stakeholders and the wider development community through generation of knowledge products, such as newsletters, briefs, training materials, technical manuals, booklets, posters, videos, etc. The project will also aim to be a platform for learning for the other states in North Eastern Region (NER) wherever jhum is being practiced. A Project website will be established as a knowledge sharing tool, with information on good practices and innovations shared with NITI Aayog, DEA and Ministry of Development of North East Region and also displayed on the IFAD Asia website.

16. This Project is a part of a two state project and ICAR will be engaged by the two states to conduct specific studies and to organize periodic learning events in the region to facilitate cross learning in the region, undertake documentation and dissemination on the evolution and sustainability of upland farming systems and their capacity to respond to climate change.

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 USD)	Grant Amount Allocated (expressed in USD)	Percentage
1. Works	11 100 000		85%
2. Grants and Subsidies	1 100 000	450 000	100% except the Innovation fund funded by the loan at 70%
3. Goods, Services and Inputs	9 000 000		Goods, Services and Input at 90%, equipment and material at 80%
4. Training	4 900 000		Training and workshop at 100%, consultancies and TA at 85%
5. Salaries and Allowances	5 700 000		90%
Unallocated	3 500 000		
TOTAL	35 300 000	450 000	

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

"Works" financed by IFAD include village forest conservation infrastructures, irrigation water infrastructures, bench terracing works, road rehabilitation.

"Grants and Subsidies" financed by IFAD include a grant to the State of Mizoram to hire FAO for technical assistance, as well as financing to the Innovation Fund.

"Goods, services and Input" financed by IFAD include equipment and material, supply of planting material, animal husbandry equipment.

"Training" financed by IFAD include workshops, consultancy services and technical assistance.

"Salaries and Allowances" financed by IFAD include operating costs.

2. Retroactive financing. As an exception to Section 4.08 (a) (ii) of the General Conditions, expenditures of up to the equivalent of two hundred fifty thousand United States dollars (USD 250 000) incurred after 10 June 2017 but before the date of entry into force of this Agreement shall be charged under category 3, Goods, services and inputs and under category 4, Training. The retroactive financing may be claimed from the Loan Account when the general conditions precedent to withdrawal are complied with. The retroactive financing is not additional financing and shall be within the Loan resources allocated.

Negotiated financing agreement:

"Fostering Climate Resilient Upland Farming Systems in the NorthEast (Nagaland)"

(Negotiations concluded on 17 November 2017)

Loan Number: _____

Grant Number: _____

Project Title: Fostering Climate Resilient Upland Farming Systems in the Northeast (FOCUS) (Nagaland) ("the Project")

The Republic of India (the "Borrower/Recipient")

and

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

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

WHEREAS:

(A) The Borrower/Recipient has requested a Loan and a Grant from the Fund for the purpose of financing the Fostering Climate Resilient Upland Farming Systems in the Northeast Project (FOCUS) to be implemented in the state of Nagaland and in the state of Mizoram;

(B) This Agreement is to finance the implementation of the Project in the state of Nagaland;

(C) For this purpose, the Borrower/Recipient shall make available to the State of Nagaland the respective part of the proceeds of the Financing upon terms and conditions set forth in this Financing Agreement;

(D) The Project shall be implemented in the state of Nagaland (the "State") pursuant to a separate agreement of even date herewith between the Fund and the State (the "Project Agreement").

NOW THEREFORE, the Parties hereto 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, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, except for the provisions identified in Schedule 2,

paragraph 3 of this agreement. In addition, the procurement of goods, works and services under FOCUS, financed from resources provided or administered by IFAD, will be undertaken in accordance with IFAD's Project Procurement Guidelines and Procurement Handbook approved in 2010 and as amended from time to time, as an exception to the General Conditions for Agricultural Development Financing. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall cause the State of Nagaland to use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is forty million two hundred fifty thousand United States dollars (USD 40 250 000).

B. The amount of the Grant is five hundred and fifty thousand United States dollars (USD 550 000).

2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding at a fixed rate of 1.25 per cent and in addition a service charge of 0.75 per cent per annum payable semi-annually in the Loan Service Payment Currency and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years, starting from the date of approval by the Executive Board.

3. The Loan Service Payment Currency shall be the United States dollars (USD).

4. The first day of the applicable Fiscal Year shall be 1st April.

5. Payments of principal, interest and service charge shall be payable on each 15 June and 15 December.

6. The Project Management Unit (PMU) of the Lead Project Agency will receive funds through a budgetary allocation from the State Government which will include IFAD and counterpart contribution. The Government of India share and the State share of the Central Sector Schemes (CSS) funds shall also be transferred to the PMU. The PMU will open and maintain a bank account in a commercial bank acceptable to the State and to receive funds from the Borrower/Recipient. Each District Management Unit (DMU) will also open and manage a bank account in a commercial bank acceptable to the State to finance project activities.

7. The Borrower/Recipient shall cause the State to provide an amount of approximately seventeen million three hundred twenty thousand United States dollars (USD 17 320 000) equivalents as counterpart financing for the Project. The Borrower/Recipient, in cooperation with the State, shall undertake proactive measures/policies for convergence of other Government schemes for mobilization of financial and in-kind contributions from beneficiaries.

Section C

1. At national level the Department of Economic Affairs, Ministry of Finance of the Borrower/Recipient, will be the nodal agency for the Project while the nodal agency at state level shall be the Office of the Agriculture Production Commissioner in Nagaland. The Lead Project Agency shall be the Society for Climate Resilient Agriculture in Nagaland (SOCRAN).

2. The following are designated as additional Project Parties: the Lead Project Agency and its DMUs of the Project; Indian Council of Agricultural Research; any other stakeholder identified by the State in agreement with the Fund.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

4. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions, not later than thirty six months from the date of entry into force.

Section D

The Loan and the Grant will be administered and the Project will be supervised by the Fund.

Section E

1. In addition to Section 12.01 of the General Conditions, the following is designated as additional ground for suspension of this Agreement:

(a) The Project Implementation Manual (PIM) or any provision thereof, has been waived, suspended, terminated, amended or substantially modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project, and the Borrower/Recipient has not taken any measures to remedy the situation; and

(b) The Lead Project Agency (SOCRAN) has been liquidated without prior consultation with the Fund.

2. In addition to Section 4.02 of the General Conditions, the following are designated as additional general conditions precedent to withdrawal:

(a) The Lead Project Agency (SOCRAN) society has been duly established and registered;

(b) Key project staff, including the finance team, has been appointed by SOCRAN;

(c) A PIM has been prepared by SOCRAN and approved by the Fund; and

(d) The Project Agreement in form and substance acceptable to the Fund shall have been duly concluded between the Fund and the State of Nagaland.

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

For the Borrower/Recipient:

Secretary
Department of Economic Affairs
Ministry of Finance
North Block
New Delhi 110001, India

For the Fund:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

REPUBLIC OF INDIA

(Authorized Representative)
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project shall be implemented in the eight districts of Mon, Longleng, Zunheboto, Wokha, Kiphire, Phek, Mokokchung and Kohima (the "Project Area"). The eight selected districts have approximately 200,000 households. The Project would adopt a social targeting approach by excluding the households with permanent government jobs. The target group categories would therefore include all tribal households involved in jhum farming and those unable to take up jhum cultivation on account of labour shortages and other vulnerable households having persons with disability and other challenges. Women are the main contributors to both agriculture and livestock activities and therefore gender would be mainstreamed into the Project activities so that women have access and control over resources both in terms of targeting of project activities and also their participation in various committees of the Project.

2. Goal. The overall goal of the Project is to increase agricultural income of 137,000 households, and to enhance their resilience to climate change.

3. Objectives. The objective of the Project is increasing the environmental sustainability and profitability of farming systems practiced by highland farmers.

4. Components. The Project shall consist of the following three components:

4.1. Component 1. Improved Jhum Management will aim to promote proven and emerging climate resilient best practices

4.1.1 Better jhum and conservation will support: (i) capacity building of staff, lead farmers and farmers; (ii) land use planning to develop rational and sustainable systems for village land utilisation; (iii) better jhum management through introduction of a package of improved practices for soil and fertility management, crop production, agro-forestry and fallow management; and (iv) community forest conservation with re-vegetation and soil conservation.

4.1.2. Settled agriculture will support: (i) existing rice cultivation on the lowlands through short duration seeds, fertility improvement techniques and improved cropping intensity; and (ii) existing orchards and plantation through demonstration of soil and water conservation works, improved planting materials and planting of high value trees.

4.1.3. The State of Nagaland will contract Food and Agriculture Organization of the United Nations (FAO), using the grant proceeds, to provide the following services in the areas of soil and water conservation, terrace rice cultivation, agronomy, agroforestry and nursery development, but not limited to: (i) Training of trainers; (ii) technical backstopping by experienced consultants; (iii) exposure visits both international and national.

4.2. Component 2. Value chain and market access

4.2.1. Value chain development will support: (i) production support for clusters of market-orientated spices (large cardamom, chilli and ginger in Nagaland), including supply of planting materials and training; (ii) marketing support for a range of cash crops with marketable volume; (iii) livestock support largely covering pigs with support for breeding, feed improvement, and animal health;

and (iv) innovation support for testing and dissemination of innovative technologies and approaches for agriculture, livestock and marketing.

4.2.2. Market access infrastructure will support construction of market infrastructure using climate resilient building techniques. IFAD loan funds In Nagaland will be only allocated for construction of critical gaps in the existing road infrastructure such as bridges, culverts and other cross drainage structure.

4.3 Component 3. Project Management and Knowledge Services. The Project will be implemented by a new Society called Society for Climate Resilient Agriculture in Nagaland (SOCRAN) to be established within the Agriculture Production Commissioner's Office (APC's Office) in Nagaland. As this Project covers the two states of Nagaland and Mizoram, it will be a testing ground for improved jhum practices for the north-eastern region. To facilitate cross learning, the Project in each state, will engage Indian Council of Agricultural Research (ICAR) to generate knowledge on upland farming systems and their response to climate change and to create a learning platform for other states in North East Region.

II. Implementation Arrangements

5. Coordination. The Governing Council of the SOCRAN would function as the state level Project Steering Committee (PSC). The Chief Secretary of the State of Nagaland would be the Chairperson of the PSC. The PSC will meet once in six months to review progress, provide overall guidance and policy support and to facilitate inter-departmental coordination specifically with regard to convergence. All the members of the Governing Council will be the members of the PSC. PSC will invite representatives from the National Bank for Agriculture and Rural Development (NABARD), Civil Society and Technical Experts of repute to participate in the PSC meetings. The State Project Director shall be the member secretary of the PSC. PSC shall be largely responsible for policy decisions with regard to statutory obligations and also for approving the Project Implementation Manual and its amendments thereto from time to time, and the Annual Work Plan and Budget (AWPB) before incorporation into the state budget.

6. The Project shall establish a Project Management Committee (PMC) headed by the Agriculture Production Commissioner and Mission Director, in Nagaland. The Directors of the relevant technical departments will be the members and the Chief Executive Officer of the Society will be the Secretary. The PMC will meet quarterly and will be responsible for resolving implementation issues, interdepartmental coordination and allocation of funds under convergence and centrally sponsored schemes.

7. The Project shall establish a District Project Coordination Committee (DPCC) in each project district. The DPCC will meet quarterly to discuss the Project implementation progress, constraints and remedies. The most important function of this committee will be to ensure flow of funds from agriculture and allied central sector schemes for implementing project activities. The DPCC will be chaired by the Deputy Commissioner/District Collector of the respective project district and the District Project Manager will be the Vice Chairperson. The members of the DPCC will be important district level officers. Based on the need, representatives of NABARD and Lead Bank will also be invited to participate in the DPCC meetings. A representative from PMU may attend any of the DPCC meetings if and when required.

8. The Project shall establish a Block Project Coordination Committee (BPCC) in each Block of the Project area. The BPCC will meet bimonthly to discuss convergence between MGNREGS and the Project. This committee will be chaired by the Sub-divisional Officer and the Sub-divisional Agriculture Officer would be the Member-Secretary. The members of BPCC will include: (i) Chairpersons of all project Village Councils; and (ii) All Block/Circle level officers.

9. Management. The state level PMU will be housed within the SOCRAN and vested with the project management responsibility in terms of planning, implementation, supervision, monitoring and evaluation (M&E), budgeting, financial management, procurement and compliance with the provisions of the financing and project agreements. The Chief Executive Officer/Secretary of the SOCRAN will be the State Project Director (SPD). The SPD will be reporting to the Agriculture Production Commissioner (APC) and Mission Director in Nagaland. State budget allocations for the Project, including parallel financing funds from CSSs, IFAD loan proceeds, IFAD grant, and the state share for CSS funding, will flow through the APC's office in Nagaland. The Society shall be provided with full time senior technical staff of the rank of Deputy Directors on deputation. In addition, a Finance and Accounts Specialist, a Manager - Planning and M&E, a Manager – Knowledge Management, a Manager – Gender and Community Institutions, a Finance and Accounts Officer and other support staff would be engaged on contract basis. Staff appointments, except those on deputation, will be fixed term contracts of at least three years and the candidates will be recruited from the open-market based on professional competence and experience. The duration of their contracts will not exceed the Project implementation period. The Society while recruiting staff will give preference to women subject to other things being equal.

10. District Management Units (DMUs). The Project shall establish a DMU in each district within the District Agriculture Office. The District Agriculture Officer will be the District Project Manager. A small team of professionals will be recruited to facilitate Project implementation and administration. DMUs will function as an outpost of SOCRAN. DMU will be authorised to release funds based the sanctioned AWPB. A technical team comprising officers of mid-level seniority drawn from the Departments of Agriculture, Horticulture, Animal Husbandry and Soil and Water Conservation would be attached full time for this project. In addition, the project would engage a Planning and Monitoring Officer, a Finance and Accounts Officer and the required junior professionals at the district level on a contract basis.

11. Subsidiary Agreement. The State, through the Agricultural Production Commissioner, will enter into a Subsidiary Agreement, acceptable to the Fund, with SOCRAN. Among other things, the provisions of the Subsidiary Agreement will include: (i) SOCRAN declares its commitment to the goal and objective of the Project and, in furtherance of such goal and objective, they shall undertake to carry out the Project in accordance with the Financing Agreement and with the Project Agreement; (ii) the preparation of annual plan and budget, and fund flow arrangements; (iii) physical and financial reporting requirements; (iv) auditing and submission of Project Financial Statements; (v) adherence to IFAD Procurement Guidelines and approved Procurement Plan; (vi) using bank interest earned for eligible expenditures; (vii) updating of CSS physical and financial achievements in the respective online portals of Ministry of Agriculture, Government of India (viii) adopting an accounting software to record and generate financial reports and (ix) applying IFAD Policy on Fraud and Anti-corruption.

12. Project Implementation Manual (PIM). The PIM shall include procedures and processes for Project implementation, financial administration and reporting and procurement of goods, works and services. As per IFAD Policy of Engagement with Indigenous Peoples (2009), the PIM will outline the implementation of the Free, Prior and Informed Consent which will capitalize on the participatory planning process of the Project. The PMU shall adopt the PIM substantially in the form approved by the PSC and the Fund and may make amendments thereto from time to time with the approval of the Fund. In case of any discrepancies between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

13. Planning, M&E, and Learning. The AWPB is the key planning document for FOCUS and will serve as the instrument for identifying specific targets and activities and in

relating these to project outcomes and objectives. Each year a draft AWP&B will be consolidated by the PMU with inputs from DMUs. Each DMU will consolidate proposals for activities that have come from project villages. The draft AWPB will then be approved by the PSC before submission to IFAD for its concurrence. If required, the PMU may propose adjustments or revision in the AWPB during the Project year. The approved AWPB will be used as a key document when reviewing performance and progress during the IFAD supervision missions. AWPB includes the Procurement Plan.

14. The project's M&E system will measure performance against the project log frame as well as showing the contribution of Project outcomes to the government's strategic objectives for the agricultural and rural sector. The M&E system will also provide evidence of the results in terms of IFAD's objectives at the country level, with data disaggregated by gender and by age to show impact on women and youth. The M&E system will also be a learning tool to provide information for critical reflection on project strategies and operations. It will support decision-making at various levels and be a basis for results-based management.

15. The Project will develop a Knowledge Management strategy and action plan. This will include internal learning as well as knowledge sharing with external stakeholders and the wider development community through generation of knowledge products, such as newsletters, briefs, training materials, technical manuals, booklets, posters, videos, etc. The Project will also aim to be a platform for learning for the other states in the North Eastern Region wherever jhum is being practiced. A project website will be established as a knowledge sharing tool, with information on good practices and innovations shared with NITI Aayog, DEA and Ministry of Development of North East Region and also displayed on the IFAD Asia website.

16. This Project is a part of a two state project and ICAR will be engaged by the two states to conduct specific studies and to organize periodic learning events in the region to facilitate cross learning in the region, undertake documentation and dissemination on the evolution and sustainability of upland farming systems and their capacity to respond to climate change.

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 USD)	Grant Amount Allocated (expressed in USD)	Percentage
1. Works	7 400 000		85%
2. Grants and Subsidies	1 400 000	550 000	100% except the Innovation fund funded by the loan at 70%
3. Goods, Services and Inputs	12 800 000		Goods, Services and Input at 90%, equipment and material at 80%
4. Training	9 800 000		Training and workshop at 100%, consultancies and TA at 85%
5. Salaries and Allowances	4 800 000		90%
Unallocated	4 050 000		
TOTAL	40 250 000	550 000	

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

“Works” financed by IFAD include village forest conservation infrastructures, irrigation water infrastructures, bench terracing works, road rehabilitation.

“Grants and Subsidies” financed by IFAD include a grant to the State of Nagaland to hire FAO for technical assistance, as well as the financing to the Innovation Fund.

“Goods, services and Input” financed by IFAD include equipment and material, supply of planting material, animal husbandry equipment.

“Training” financed by IFAD include workshops, consultancy services and technical assistance.

“Salaries and Allowances” financed by IFAD include operating costs.

2. Retroactive financing. As an exception to Section 4.08(a) (ii) of the General Conditions, expenditures of up to the equivalent of three hundred thousand United States dollars (USD 300 000) incurred after 10 June 2017 but before the date of entry into force of this Agreement for shall be charged under the Category 3, Goods, Services and Input and under category 4, Training. The retroactive financing may be claimed from the Loan Account when the general conditions precedent to withdrawal are complied with. The retroactive financing is not additional financing and shall be within the Loan resources allocated.

Logical framework

Results Hierarchy	Name	Indicators			Means of Verification			Assumptions (A) / Risks (R)
		Baseline	Mid-Term	Endline	Source	Frequency	Responsibility	
Outreach	- <u>Number of persons receiving services promoted by the project</u>	0	402,000	1,007,500	Project MIS	Yearly	M&E Unit	
	- <u>Number of youth receiving services promoted by the project</u>	0	24,180	60,450				
	<u>Number of HH reached</u>	0	81,400	201,500				
Goal: Income of 201,500 farm households in hill areas of Nagaland and Mizoram increased and their resilience to climate change enhanced	% of HH jhum- farming for 3 or more years <u>continuously on single plot</u>	0		70%	Impact assessment	Baseline End-line	M&E Unit Commissioned Study	(A) economic growth and social stability
	Number of HH reporting increase of >100% in household incomes	0	61,050	151,125	Impact assessment	Baseline End-line	M&E Unit Commissioned Study	
Development Objective: Environmental sustainability and profitability of the farming systems in hill areas enhanced	% soil carbon			4%	Soil carbon test	Baseline Annual	M&E Unit	(R) Climate change and/or better non-farm opportunities makes farming unattractive.
	Real increase in net farm income (in 2017 prices) in million INR	0	3,151.2	4,754.6	TOS	Baseline MTR End-line	M&E Unit Commissioned Study	
	Number of trees increased at least 20 per ha in jhum plot	0	10 #/ha	20#/ha	TOS	Baseline MTR End-line	M&E Unit Commissioned Study	
Outcome 1: Improved farmers' capacities to manage upland farming sustainably	<u>Number of HH reporting adoption of environmentally sustainable and climate resilient technologies and practices¹</u>	0	81,400	201,500	Project MIS	Yearly	M&E unit	(A) Producers are able to finance the continued investments required to climate proof their farms
Outputs:								
a. Participatory Land Use Planning conducted	No of VC with completed PLUP and land suitability maps	0	922	922	Project MIS	Yearly	M&E unit	(A) Access to reliable technical advice and planting material is secured
b. improved jhum management	No farmers trained (W/M) on better jhum and fallow management	0	101,800	290,800	Project MIS	Yearly	M&E unit	

¹Climate resilient technologies and practices refer to agro-forestry, soil and water conservation, improved planting material, integration with livestock

Results Hierarchy	Name	Indicators			Means of Verification			Assumptions (A) / Risks (R)
		Baseline	Mid-Term	Endline	Source	Frequency	Responsibility	
	No farmers trained (W/M) on settled agriculture	0	35,000	105,200	Project MIS	Yearly	M&E unit	(A) Effective convergence with Govt programme to build the assets of the poorer HH
	Area in ha under SWC, by jhum, jhum fallow, settled agriculture	0	58,240	88,250	Project MIS	Yearly	M&E unit	
c. Village forest conserved	Area under CCA managed by VC	0	10,600	18,440	Project MIS	Yearly	M&E unit	
d. Access of poorest households	No of HH benefitting from support to landless	0	5440	10,880	Project MIS	Yearly	M&E unit	
Outcome 2: Increased volume of marketed crops and livestock, with improved returns to producers	Gross returns from spices (million INR)	0	289.9	947.0	Project MIS	Yearly	M&E Unit Commissioned Study	(R) High transaction cost due to small volume and remote location (R) Implementation of APMC Act prevents new types of market linkages and reduces farm-gate prices.
	Gross returns from livestock (million INR)	0	295.8	584.4				
Outputs: a. Spice producers are integrated in national and international spice markets	No participating HH in organized spice value chain	0	6800	15,200	AOS	Annual	M&E unit	
b. Increased productivity of pig production	Pig off-take number	0	27,000	55,000	AOS	Annual	M&E unit	
c. value-chain clusters developed	Number of clusters	0	35	80	AOS	Annual	M&E unit	
Outcome 3: Improved access to markets	<u>Number of farmers reporting improved physical access to markets</u>	0	20,000	48,000	AOS	Annual	M&E unit	
Outputs: a. Rural roads rehabilitated	<u>Length and type of access road rehabilitated in km</u>	0	300	800	Project MIS	Quarterly	M&E unit	

Underlined indicators are IFAD RIMS indicators