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Investing in rural people

Nepal

Agriculture Sector Development Programme

Negotiated financing agreement

Executive Board — 122<sup>nd</sup> Session  
Rome, 11-12 December 2017

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For: Information

# Negotiated financing agreement: "Agriculture Sector Development Programme"

(Negotiations concluded on 24 November 2017)

Loan No: \_\_\_\_\_

Grant No: \_\_\_\_\_

Programme Title: Agriculture Sector Development Programme ("the Programme" or "ASDP")

Nepal (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, the Government of Switzerland represented by the Swiss Federal Department of Foreign Affairs (FDFA), acting through the Embassy of Switzerland, will provide funding to Helvetas Swiss Inter-Cooperation (HSI) for technical assistance towards the Programme activities.

WHEREAS, upon the Borrower/Recipient's request, the Fund has agreed to provide financing for the Programme;

NOW THEREFORE, the Parties hereby agree as follows:

## Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and special covenants (Schedule 3).
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. 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 use to implement the Programme in accordance with the terms and conditions of this Agreement.

## Section B

1. A. The amount of the Loan is twenty seven million and two hundred thousand Special Drawing Rights (SDR 27 200 000).
- B. The amount of the Grant is one million and three hundred thousand Special Drawing Rights (SDR 1 300 000).

2. The Loan is granted on highly concessional terms, and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be United States dollar.
4. The first day of the applicable Fiscal Year shall be on or around 16 July.
5. Payments of principal and service charge shall be payable on each 1 December and 1 June.
6. There shall be two Designated Accounts, denominated in United States dollar opened at the Nepal Rastra Bank through which the proceeds of the Loan and the Grant, shall be channelled.

#### Section C

1. The Lead Programme Agency (LPA) shall be the Ministry of Agricultural Development (MoAD) or any legal successor authorised by the Borrower/Recipient.
2. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

#### Section D

The Financing will be administered and the Programme supervised by the Fund.

#### Section E

1. The following are designated as additional conditions precedent to withdrawal:
  - (a) The Designated Accounts referred to in Sections B.7 above shall have been duly opened;
  - (b) The Programme Steering Committee (PSC) and the Programme Coordination Office (PCO) shall have been duly established in accordance with Schedule 1 Section II Paragraph 7 and 9;
  - (c) The Programme Coordinator and other PCO key staff as described under Schedule 1 Section II Paragraph 9 shall have been duly appointed/designated;
  - (d) A Programme Implementation Manual (PIM) shall have been prepared in form and substance satisfactory to the Fund; and
  - (e) The LPA and HSI shall have entered into an Agreement as outlined in paragraph 11.2 section II of Schedule 1 to this Agreement, in form and substance satisfactory to the Fund.

2. The following are designated as additional conditions for suspension:
  - (a) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consultation 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 Programme.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

\_\_\_\_\_  
Ministry of Finance  
Singha Durbar  
Kathmandu, Nepal

For the Fund:

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.

NEPAL

\_\_\_\_\_  
Authorized Representative  
(Name and title)

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert F. Houngbo  
President

## Schedule 1

### Programme Description and Implementation Arrangements

#### I. Programme Description

1. Target Population. The Programme will target smallholder producers and landless rural people interested to engage in targeted value chain activities. Women will be two thirds of the Programme beneficiaries with disadvantaged households including Dalits, Janajatis, Muslims, youth, landless and other disadvantaged groups specifically targeted for Programme inclusion. It is expected that the Programme will serve around 35,000 direct beneficiaries and about 40,000 indirect beneficiaries.
2. Programme Area. The Programme will be implemented in Surkhet, Dailekh, Salyan, Jajarkot, Kalikot, Jumla, Mugu, Dolpa, Humla and Rukum (western) districts in State 6 of Nepal.
3. Goal. Contribute to the achievement of Nepal's Sustainable Development Goals (SDG 1 - Poverty and SDG 2 – Zero Hunger) targets by reducing poverty and nutrition insecurity amongst women and men in hill and mountain areas.
4. Objectives. Contribute to the achievement of Nepal's SDG 8 – Decent Work and Economic Growth target through sustainable improvement in the income and food security of smallholders and disadvantaged rural groups involved in commercially-oriented production and marketing systems in selected high value agricultural value chains.
5. Components. The Programme will have two components:
  - 5.1 Component 1. Value chain Development
    - 5.1.1 Sub-component 1. Inclusive and sustainable agriculture value chains expanded and diversified. This sub-component aims at identifying financially and economically profitable agricultural value chain investment opportunities and provides risk-based co-financing and institutional, technical and capacity building support to strengthen value chain cohesion and stakeholder profits through the following activities: (i) identification and assessment of profitable high-value agriculture value chains by developing a Strategic Investment Plan (SIP) and the establishment of a Multi-Stakeholders Consultative Platform (MSPs) supporting specific value chain developments and strengthening public/private partnerships; and (ii) co-financing agricultural value chain development by establishing allocated Value Chain Development Mechanism (VCDM) to catalyse private investment into the SIP value chains, and developing Value chain-led participatory and applied technology development and multi-disciplinary capacity building.
    - 5.1.2 Sub-component 2. Market-oriented public and community infrastructure functional. This sub-component aims at supporting the construction of market-oriented infrastructure through co-financing of public and community market infrastructure targeting commodity chain engagement and/or climate change adaptation subject to the no-objection of the Fund depending on the thresholds defined in the PIM.
    - 5.1.3 Sub-component 3. Rural financial services for value chain development strengthened. This sub-component aims at facilitating financial linkages for agriculture producers and agri-businesses in value chains, through (i) the development of Rural financial services to provide Technical Assistance to Micro Finance Institutions (MFIs)/ private banks in order to implement value chains solutions and (ii) a support to credit access by training about 1,000 facilitators on business and financial literacy.

5.1.4 Sub-component 4. Agriculture services sustainably support innovation and value chain development. This sub-component shall focus on the implementation of (i) participatory and pluralistic extension services and strengthened farmer groups by supporting the establishment and capacitation of institutions such as the Nagarpalika and Gaunpalika ( Municipality) Agricultural Units (MAUs) and Community Agriculture Extension Service Centers (CAESCs) to facilitate the delivery of extension services and fostering collaboration public/private sector in the delivery of agricultural services, and also (ii) women's empowerment and household nutrition through Business Literacy Facilitators (BLFs) to implement targeted interventions designed to empower women and adolescent girls, both within their households and in their wider communities.

5.2 Component 2. Programme Management. A PCO shall be established in order to facilitate the Programme implementation through (i) private and public-sector implementation agencies such as, MAUs, CAECs, Local Resource Persons (LRPs), and (ii) more direct implementation for activities such as rural financial services. HSI, funded by the FDFA, acting through the Embassy of Switzerland, will be an implementing partner for the Sub-Component 4. Key Programme staff, including inter alia a Programme Coordinator, a senior agriculture officer or equivalent, a funds and contract specialist, an account officer and support staff, shall be based at the PCO. Field teams working along the four main road corridors having business, engineering, social/gender, rural finance and Monitoring & Evaluation/Knowledge Management skills shall be established.

## II. Implementation Arrangements

### A. Organizational framework

6. Lead Programme Agency (LPA). The MoAD, or any legal successor authorised by the Borrower/Recipient, shall be the LPA and shall have the overall responsibility for the Programme.

7. Programme Steering Committee (PSC).

7.1 Establishment. A PSC chaired by the Secretary MoAD and composed inter alia of, other federal ministry representatives, State Secretary for Agriculture or equivalent for State 6. Additionally, the PSC shall, by nomination, include representatives of National Farmers Commission and private sector entities related to the Programme.

7.2 Responsibilities. Among other things, the PSC shall (i) ensure effective coordination/integration/cooperation among government and/or donor-funded Programmes, (ii) inform the LPA on matters concerning the strategic management of the Programme, including decisions such as approval of the PIM, AWPB, and other decisions related to Programme coordination, orientation and mobilization of resources. The PSC will meet at least quarterly to coordinate Programme implementation and make recommendations, to the LPA, as needed.

8. Technical Advisory Group (TAG). A TAG, chaired by the State Secretary for Agriculture or equivalent for State 6, with the Programme Coordinator as member secretary, federal, state and local government representatives of (rotating basis if needed) agriculture, livestock, forestry, agri-business and food technology/safety experts, shall be established to advise the PCO on technical aspects of the Programme implementation. This TAG shall meet as required to review (i) technical aspects of progress of implementation, (ii) the ASDP AWPB before submission and (iii) to liaise with Multi Stakeholder Platforms (MSPs) groups (which include local government representatives) to discuss technical constraints to efficient VC development.

## 9. Programme Coordination Office (PCO).

9.1 Establishment. A PCO shall be established and composed of a management team, a technical team of externally recruited experts, and support staff. Key Programme staff shall include a Programme Coordinator, with the relevant qualifications and experience, a senior agriculture officer, a funds and contract specialist and an account officer. The PCO, acting as its Secretariat, will report directly to the PSC.

9.2 Responsibilities. The PCO shall facilitate the Programme implementation by working with private and public-sector implementation agencies and through more direct implementation. The PCO shall have the responsibility to ensure: (i) the coordination and synergy of the co-implementing agencies and technical service providers, and the municipal level agencies, and grassroots communities; (ii) the contracting of suitable service providers to undertake various forms of research, studies, technical assistance and training; (iii) accountable for management of the financing, including preparation of the PIM, AWPBs, procurement plans, financial statements and submission of the same, selection of technical assistance, establishment and operation of M & E and Management Information Systems (MIS), and other functions related to operational and financial management of the Programme.

10. Technical Assistance (TA). The Grant proceeds shall specifically finance international and national TA to support the offices in municipality including wards by providing capacity development. TA activities under the grant financing shall include inter alia (i) the implementation of business development services offered by the Programme; (ii) the capacitation of the District Coordination Committees in convening the MSPs; (iii) the implementation of household methodologies towards the empowerment of women; and (iv) linking in with on-going nutritional interventions and building the Behavioural Change Communication.

## 11. Partnerships.

11.1 Government partners. The Programme will work with the ADS Coordination Unit within the MoAD to support a change in service delivery to coordinate, technically supervise and monitor a pluralistic extension system largely delivered through municipalities, MAUs and CAESCs. The Programme will also strengthen government partner skills in the fields of Programme management, M & E, gender mainstreaming, climate change adaptation and knowledge management.

11.2 FDFA TA. FDFA will support the Programme implementation by providing a grant of USD 3 million for TA implemented by HSI with specific focus on Sub-Component 4, in additional seven districts (Surkhet, Salyan, Jumla, Mugu, Dolpa, Humla and Rukum (western)) within State 6. The LPA shall have entered into an agreement with HSI to define the terms and conditions of such technical assistance.

11.3 NGOs and implementation support. The Programme will work closely with NGOs of proven competence and sustainability, particularly in supporting and capacitating the extension system, community participatory planning, cooperative and Micro Finance Institutions (MFI) institutional reform and gender development and nutrition support at municipal level.

11.4 Private sector. Private enterprises, cooperatives, farmers' organizations, lead farmers and farmers' groups engaged in commodity production, the supply of goods and services, commodity processing, marketing or related fields will participate in Programme implementation as co-financiers and/or service providers.

11.5 MAUs and CAESCs. The establishment of MAUs and CAESCs under Municipalities will strengthen the grassroots-level management and operational capacity, fostering community-governed and equitable representation and participation of the vulnerable groups in community decision making structure.

## B. Programme Implementation Manual (PIM)

12. Preparation. The LPA shall prepare, in accordance with terms of reference acceptable to the Fund, a PIM, which shall include, among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, disbursement, financial management, procurement monitoring, evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Programme.

13. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Borrower/Recipient shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, with the prior consultation of the Fund.

## C. Mid-Term Review

14. The LPA, including State and Municipal representatives and the Fund shall jointly carry out a review of Programme implementation no later than the end of the third year of the Programme (the "Mid-Term Review") based on terms of reference prepared by the Borrower/Recipient and approved by the Fund. Amongst other things, the Mid-Term Review shall consider the achievement of Programme objectives and the constraints thereon, and recommend such reorientations as may be required to achieve such objectives and remove such constraints.



## 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 to each category of the Financing 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
1. Works	7 600 000	-	Loan 100% net of Government, beneficiaries, private sector and municipalities contribution
2. Training	8 550 000	1 000 000	Loan 100% net of Government contribution, Grant 100% net of Government contribution
3. Grants & Subsidies	6 100 000	-	Loan 100% net of Government, beneficiaries, private sector and municipalities contribution
4. Equipment and Materials	1 200 000	200 000	Loan 100% net of Government contribution, Grant 100% net of Government contribution
5. Salaries & Allowances	1 050 000	-	Loan 100% net of Government contribution
Unallocated	2 700 000	100 000	
<b>TOTAL</b>	<b>27 200 000</b>	<b>1 300 000</b>	

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

“Works” financed by IFAD includes public goods infrastructures.

“Training” financed by IFAD includes national/international capacity building, workshops and consultancies.

“Grants and Subsidies” financed by IFAD includes co-financing of investment costs and multi-stakeholder platforms.

“Equipment and Materials” financed by IFAD includes vehicles, goods, services and inputs.

“Salaries and Allowances” financed by IFAD includes staff costs.

2. Counterpart financing. The Borrower/Recipient shall provide counterpart financing for the Programme in the approximate amount of eleven million five hundred thousand United States dollars (USD 11 500 000) to mainly cover duties and taxes related to the Programme expenditures.

3. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 400 000 equivalent and shall be charged under Category 2 (Training), Category 4 (Equipment and Material) and Category 5 (Salaries and Allowances).

## Schedule 3

### Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions:

1. The Borrower/Recipient shall ensure that the High Value Agriculture Project in Hill and Mountain Areas (HVAP) beneficiaries shall not be eligible to this Programme financing under the Value Chain Component.