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Investing in rural people

People's Republic of China

Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi

Negotiated financing agreement

Executive Board — 123rd Session
Rome, 16-17 April 2018

For: Information

Negotiated financing agreement: "Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi (SPRAD-SS)"

(Negotiations concluded on 10 April 2018)

Loan Number: ____________

Project Title: Sustaining Poverty Reduction through Agribusiness Development in South Shaanxi (SPRAD-SS) (the "Project")

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

and

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

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

hereby agree as follows:

Section A

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

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, 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 as provided for in paragraph 2 of Schedule 2. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

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

Section B

1. The amount of the Loan is seventy two million United States dollars (USD 72 000 000)

2. The Loan is granted on ordinary terms, and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of five (5) years, starting from the date that the Fund has determined that all of the general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.

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

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

5. Payments of principal and interest shall be payable on each 1 March and 1 September.

6. There shall be a Designated Account (DA) denominated in US dollars, to be opened for the IFAD loan, through which IFAD funding shall be channelled. The DA shall be set up and managed by the Department of Finance (DOF). DOF will be directly responsible for the management, maintenance and reconciliation of the DA activities. Supporting documents required for IFAD disbursements will be prepared and submitted by County Project Management Offices (CPMOs) through Provincial Project Management Office (PPMO) for review and verification before sending to DOF for further disbursement processing.

7. Counterpart contributions of the Borrower, and beneficiaries to the Project will be approximately seventy nine million five hundred thousand United States dollars (USD 79 500 000), and three million and three hundred thousand United States dollars (USD 3 300 000), in cash or in kind, respectively. Contributions of participating enterprises and cooperatives expected to be leveraged by the Project are estimated to approximately one hundred one million, nine hundred thousand United States dollars (USD 101 900 000) in cash or in kind, based on estimates made during Project design.

Section C

1. The Lead Project Agency shall be the Shaanxi Provincial Development and Reform Commission.

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

Section D

The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions, the Fund shall conduct a mid-term review to be carried out towards the mid-term of the Project as provided for in Section 8.03 (b) of the General Conditions and a completion review before the Project Closing Date.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:

(a) The PPMO) and at least one CPMO shall have been duly established and staffed with at least the following staff: a director, an accountant, and a cashier;

(b) The Designated Accounts shall have been duly opened and the names of the authorized signatories shall have been submitted to the Fund;

(c) The Borrower, through the Lead Project Agency, shall have caused the PPMO to submit, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Project Year;

(d) A computerized accounting system acceptable to the Fund shall have been identified and selected by the PPMO.

(e) The Project Implementation Manual (PIM) shall have been approved by IFAD

2. The following is designated as additional ground for suspension of the right of the Borrower to request disbursements:

(a) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that it has had, or is likely to have, a material adverse effect on the Project.

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

For the Borrower:

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

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.

PEOPLE'S REPUBLIC OF CHINA

____
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. Project Area. The Project will be implemented in nine nationally-designated poor counties within the three municipalities of Hanzhong, Ankang, and Shangluo in the Qinba Mountains poverty block in south Shaanxi province (i.e. Zhenba, Nanzheng, Xixiang, and Mianxian counties in Hanzhong prefecture; Hanyin, Pingli, and Langao counties in Ankang prefecture, and Danfeng, and Shanyang counties in Shangluo prefecture).

2. Target population. The Project shall target townships and villages according to: (i) higher than average poverty incidence at township and administrative village level would be considered a priority; and (ii) geographical contiguity to the maximum possible extent to ensure some level of economy of scale. The Project shall specifically target, either through direct targeting or through self-targeting, the nationally registered poor with a specific priority on those eligible for the “Poverty Reduction through Agribusiness Enterprise Development” and “rural financial services” poverty eradication pathways.

3. Project Development objective. The objective shall be to bring and maintain the target population in selected areas out of poverty through the development of inclusive, equitable and sustainable value chains.

4. Components. The Project is organized around three complementary components: (1) Pro-Poor Value Chains and Agribusiness Development; (2) Public Infrastructure and Services; and (3) Project management and coordination.

4.1 Component 1: <u>Pro-Poor Value Chains and Agribusiness Development</u>. This component aims at promoting the sustainable inclusion of target poor households in profitable value chains by engaging with agribusiness entities (enterprises or cooperatives) on a fair and mutually beneficial way conducive to poverty reduction. The component comprises three subcomponents:

4.1.1 Subcomponent 1.1: Development of pro-poor business plans : this subcomponent aims at providing the necessary technical support to develop profitable, equitable, and inclusive business plans.

4.1.2 Subcomponent 1.2: Value Chain Development Fund: this subcomponent aims at providing financial resources, as funding provided by IFAD loan not to be repaid by the participating enterprises and cooperatives, to finance viable and inclusive business plans, leveraging public and private funds.

4.1.3 Subcomponent 1.3: Value Chain Rural Finance development: this subcomponent aims at improving access to suitable value chain and business plans funding.

4.2 Component 2: <u>Public Infrastructure and Services</u>. This component aims at improving the access to public goods and services (common/village infrastructure, access to climate change adaptation/mitigation best practices, normative and regulatory services associated with food safety) in the targeted Project area through a combination of physical improvement, institutional strengthening, technical assistance and policy advisory, in order to promote sustainable, climate resilient and food safe agricultural production. The component comprises two subcomponents:

4.2.1 Subcomponent 2.1: Climate smart Infrastructure Development. This subcomponent aims at enhancing a climate resilient production basis;

4.2.2 Subcomponent 2.2: Public Services and Regulations for Pro-poor Agribusiness Development. This sub componenent aims at enhancing capacity in agricultural knowledge dissemination and food safety

4.3 Component 3: Project Management and Coordination. This component will support the planning, coordinating, monitoring, reporting, and overall management functions of the Project management offices (PMOs) at provincial and county levels

II. Implementation Arrangements

5. Lead Implementing Agency. The Shaanxi Provincial Development and Reform Commission (PDRC) will take a lead role in project coordination and management. Specifically, PDRC will establish a Provincial Project Management Office (PPMO) within PDRC to take lead responsibility for Project management, supervision and evaluation. The PPMO will have the primary responsibility for coordinating and supervising the Project implementation, administration of Project resources, and monitoring and evaluation.

6. Implementation arrangements.

6.1 Project Leading Groups (PLGs). Project Leading Groups (PLG) shall be established at Province and each Project county to provide overall guidance and coordination of the project implementation. The key responsibilities of PLG at each level include: (i) Overall supervision of the PMOs' operations; (ii) Coordination of counterpart funds for carrying out the Project; (iii) Review and approval of project Annual Work Plan and Budgets (AWPB); (iv) Coordination of implementing agencies in project implementation; and (v) General oversight of the Project implementation address key issues/decisions important for the Project.

6.2 Project Management Offices (PMOs) shall be established by the PLGs at provincial, and county levels and located at the appropriate agencies at the respective level. PMOs shall focus on planning, coordinating, monitoring and reporting of the project under the guidance of PLG of the same level.

6.3 County Project Management Offices (CPMOs). The CPMOs shall be hosted at an appropriate bureau of the counties, depending on its relevance of the program and the focus of activities in each county. CPMOs shall be headed by the Director of the Bureau and reports directly to the county PLG. Regardless whichever technical bureau is hosting the CPMO, the CPMO has the duty and responsibility of maintaining direct and close coordination with the PPMO in all project related business. Between the county and provincial levels, CPMOs will follow the overall leadership from the PPMO.

6.4 An expert panel consisting of both government officials and agribusiness specialists shall be established at provincial level to support the preparation and implementation of the PPPP business plans, and to provide capacity building, facilitation and review of business plan and value chain related activities.

6.5 A Business Plan Evaluation Committee (BEC) shall be established at the county level to technically review the business plans for PPPP financing. The BEC will include representatives from public institutions (e.g. the Poverty Alleviation and Development Bureau, a relevant technical Bureau) and external experts from the private and the financial sector.

6.6 County PMOs will submit BPs approved by BEC to the BP County Approval Committee (BAC) for official approval. The BAC will be chaired by the Head of the Leading Group, and will include representatives of other public institutions and of the beneficiaries. The final composition of both the BEC and BAC will be defined in the PIM.

6.7 At the township level, a Township Implementation Support Office (TISO) shall be established consisting of 3-4 existing staff within the township government. The main responsibility of TISO is on planning, implementation support, monitoring and reporting of Project activities in Project villages.

6.8 At the village level, a Village Implementation Group (VIG) shall be established in the Project-targeted villages to ensure appropriate targeting, mobilize household participation and monitor Project activities. These VIG shall be led by the head of the villages with the inclusion of 3-4 poor beneficiaries, not less than 40% of the members will be women representatives.

6.9 The Department/Bureau of Finance at Provincial/County level will undertake the majority of the fiduciary roles of the Project under the overall leadership of the Ministry of Finance including: (i) opening and management of the Designated/Project Accounts; (ii) administering the Project resources including the IFAD loan and counterpart funds; (iii) review and approval of the financing needs of Project implementation; (iv) overseeing the use of Project resources; (v) ensuring effective flow of funds for Project implementation; (vi) providing appropriate training to the financial officers of PMOs in terms of financial management; and (vii) reviewing/processing disbursements and Withdrawal Applications (WAs) on a timely basis.

6.10 Staff in each PMO shall cover at least the following minimum functions: director, deputy director, accountant, cashier, planning officer, M&E officer, value-chain facilitator, implementation coordinator, and gender coordinator. Qualified staff shall be selected and/or appointed according to the Borrower’s applicable procedures, and perform their functions in line with the terms of reference contained in the Project Implementation Manual. Staffing the CPMOs with additional staff members seconded from the related technical bureaus or outsourcing certain functions is an acceptable practice. Given the nature of the Project, a value chain facilitator will be positioned in the CPMO to facilitate and oversee the Project implementation in this respect.

7. Planning. The annual work plan and budgets (AWPBs), reflecting planned activities and budget requirements for each year of Project implementation, will be the main management tool for Project planning and implementation.

8. Monitoring and evaluation (M&E). The Project shall establish an M&E system, which will integrate Results and Impact Management System (RIMS) indicators, from provincial to village level. The M&E system of the Project shall: (i) underpin the knowledge management functions of the Project; (ii) give emphasis to assessing the impact on poverty alleviation of the Project, relying on the national poor registration system, and the performance of supported cooperatives, through annual cooperative performance assessments; and (iii) make M&E data accessible and available, through a user-friendly management information system (MIS) that integrates information and allow real-time reporting. Progress against the achievement of results will be measured through comprehensive baseline, mid-term and end-line surveys, and through annual outcome surveys in intervening years.

9. Project Implementation Manual (PIM). The PPMO shall prepare, with inputs from the CPMOs, a draft PIM and submit it to the Fund for approval. If the Fund does not approve it within thirty (30) days after receipt, the draft PIM shall be considered approved. The draft PIM which shall include, among other things: (i) terms of reference and implementation responsibilities of the Project staff, consultants and service providers; (ii) eligibility and selection criteria for the implementation of project activities, including training and development of business plans; (iii) targeting, eligibility and selection criteria for participating villages, cooperatives/enterprises and other beneficiaries; (iv) Project operational, financial and procurement procedures, including implementation and monitoring procedures; (v) M&E system and procedures; and (vi) criteria and procedures for staff performance assessment. The PIM may be amended

if and when necessary, provided no-objection from the Fund within thirty days (30) from submission of the proposed amendments, to introduce changes and/or clarification in procedures; eligibility, selection and/or targeting criteria; terms of reference; and/or implementation responsibilities.

10. Business Plans (BPs) financing agreement. Agribusiness entities and county PMOs shall sign a financing agreement for each approved business plan. The agreement shall state the rights and obligations of both sides, the commitments of the proponent agribusiness entity, targets and agreed verifiable physical, financial, economic and social indicators for the committed targets. A financing plan for the BP, compliant with the agreed financing rules as detailed in the PIM, shall be part of the financing agreement. Key information of the finance agreement shall be publicized in the village.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in USD)	Percentage (net of Government, Participating enterprises, cooperatives and Beneficiary Contributions)
I. Consultancies	15 218 000	100%
II. Goods, services and inputs	19 016 000	100%
III. Works	12 796 000	100%
IV. Equipment and materials	17 770 000	100%
Unallocated	7 200 000	
TOTAL	72 000 000	

IFAD will contribute to the Project in the amount of USD 72 000 000 for "Consultancies", "Goods, services and inputs", "Works" and "Equipment and materials" under Category I, II, III, IV which IFAD will finance 100% net of contribution from Government, Beneficiaries and Participating enterprises and cooperatives list below:

The Borrower shall contribute to the Project in the amount of USD 79 500 000 (i) about USD 4 400 000 under the sub-component 1.3 to cover the loan risk under commercial lending leveraging (ii) about USD 70 700 000 under the Subcomponent 2.1 for climate resilience infrastructure of development for works, goods, inputs and services consultancies and operating cost, (iii) USD 4 400 000 under component 3 of Project management and coordination

Participating enterprises and cooperatives are expected to contribute an estimated amount of approximately USD 101 900 000 as required co-financing for the business plans (mostly on works, equipment and materials for post-harvest investments under sub –component 1.2

Beneficiaries' contribution will be USD 3 300 000 under Subcomponent 1.2, value chain development fund for inputs acquisition of farm inputs and small equipment and consultancies which representing 10% of the total costs under the relevant categories this subcomponent.

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

"Consultancies" means technical expenditures relating to business plan development and funding, rural finance services, public services in component II, and project management;

"Goods, Services and Inputs" means project financing to the Business Plans, publicity inputs for the BPs, insurance subsidies, as well as office equipment and car rent for the PMOs;

"Works" means project financing to the Business Plans in their civil works;

"Equipment and Materials" means project financing to the Business Plans in terms of equipment and materials;

2. Retroactive financing. As an exception to Section 4.08(a)(ii) of the General Conditions, specific eligible expenditures up to the equivalent of seven million two hundred thousand United States Dollars (USD 7 200 000) incurred from 29 November 2017 to the date of entry into force of the Financing Agreement may be pre-financed by the Government and reimbursed from the Financing after this Agreement has entered into force and the conditions precedent to withdrawal have been met.