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Investing in rural people

People's Republic of China

Innovative Poverty Reduction Programme:  
Specialized Agribusiness Development in  
Sichuan and Ningxia

Negotiated financing agreement

Executive Board — 124<sup>th</sup> Session  
Rome, 11-13 September 2018

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For: Information

# Negotiated financing agreement: "Innovative Poverty Reduction Programme: Specialized Agribusiness Development in Sichuan and Ningxia"

(Negotiations concluded on 6 September 2018)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Innovative Poverty Reduction Programme: Specialized Agribusiness Development in Sichuan and Ningxia("IPRAD-SN" or the "Programme")

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

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 Programme 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. 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 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 seventy nine million five hundred thousand United States dollars (USD 79 500 000).
  - B. The amount of the Grant is five hundred thousand United States dollars (USD 500 000).
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 three (3) 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, interest and service charge shall be payable on each 1 June and 1 December.
6. There shall be three Designated Accounts denominated in USD for IFAD financing: one should be opened and maintained by the Ministry of Agricultural and Rural Affairs (MARA) with two separate sub-ledgers, one for the Loan and one for the Grant, and the other two opened and maintained by the Departments of Finance in Sichuan and Ningxia respectively.
7. The Borrower/Recipient and the participating provinces shall provide counterpart financing for the Programme in an amount equivalent to not less than eighty million United States Dollars in cash and in kind. Participating cooperatives and enterprises are expected to contribute with additional resources in line with the business plans cofinancing requirements.

#### Section C

1. The Lead Programme Agency shall be MARA.
2. The following are designated as additional Programme Parties: the Provincial Offices for Comprehensive Agricultural Development (POCADs) in Sichuan and Ningxia, or any successor thereto.
3. The Programme Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

#### Section D

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

#### Section E

1. The following are designated as additional general conditions precedent to withdrawal:
  - (a) The National Programme Management Office (NPMO), the two provincial PMOs (PPMOs) and at least one county PMO (CPMO) in each province shall have been duly established and staffed with at least the following staff: a director, an accountant, and a cashier;
  - (b) The respective Designated Account shall have been duly opened and the names of the authorized signatories shall have been submitted to the Fund;
  - (c) The Borrower/Recipient, through the Lead Programme Agency, shall have caused the NPMO to submit, and the Fund shall have received, an official document confirming the availability of adequate counterpart funds for the first Programme Year;
  - (d) A computerized accounting system acceptable to the Fund shall have been identified and selected by the national and provincial PMOs.

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

For the Borrower/Recipient:

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/Recipient.

PEOPLE'S REPUBLIC OF CHINA

\_\_\_\_\_  
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. Programme area. The Programme shall be implemented in the following ten counties/districts in Sichuan and Ningxia provinces: Cangxi, Xuanhan, Guang'an, Xuzhou (previously Yibin at design), and Yilong in Sichuan and Pengyang, Yuanzhou, Sunjiatan, Hongsipu and Xingqing in Ningxia. The Programme shall specifically target poor townships and villages (i.e. townships or villages whose poverty incidence is higher than the average poverty incidence in the county) in the identified Programme area.

2. Target population. The Programme shall primarily target poor smallholder farmers with economic potential (i.e. registered poor with either labour power or land who have the potential and are interested in participating in production and/or agribusiness activities). It is however expected that all the individuals in the Programme area shall directly benefit from the Programme's investments in public infrastructure schemes. The Programme shall also promote the participation of women and ethnic minorities in the Programme activities.

3. Programme objective. The objective of the Programme is to bring and maintain the target population in the target area out of poverty through the development of inclusive, equitable, and sustainable value chains, and the provision of an integrated package of public infrastructures.

4. Components. The Programme consists of the following three complementary components: (1) infrastructure development and climate-smart production; (2) pro-poor value chain development; and (3) Programme management and coordination.

4.1 Component 1: infrastructure development and climate-smart production. This component aims at providing the basic conditions for developing the target area through the provision of an integrated package of public, climate-smart infrastructures and services. The component comprises two subcomponents:

4.1.1 Subcomponent 1.1: infrastructure development: this subcomponent aims at improving, developing and/or rehabilitating the common infrastructure base in the Programme area (e.g. irrigation, drainage and water conservation systems; drinking water supply systems; electricity supply systems; on-farm and off-farm roads), including operation and maintenance.

4.1.2 Subcomponent 1.2: land improvement and climate-smart production: this subcomponent aims at improving the agricultural production systems in the target area, and making them environmentally sustainable and climate-benign or -resilient (e.g. land rehabilitation or improvements; demonstration plots of climate-smart agriculture).

4.2 Component 2: pro-poor value chain development. This component aims at increasing the income of the target population by integrating it into inclusive and pro-poor value chains. This will be achieved by providing incentives (e.g. capacity, assets, and access to financing) to agribusiness entities (i.e. cooperatives and agro-enterprises) to develop inclusive, pro-poor value chains. The component comprises three subcomponents:

- 4.2.1 Subcomponent 2.1: capacity development: This subcomponent aims at providing the cooperatives in the Programme area with the essential capacity (technical, organizational, awareness) to participate in and benefit from the Programme activities.
- 4.2.2 Subcomponent 2.2: business plans financing: This subcomponent aims at supporting agribusiness entities in the Programme area in funding viable and sustainable business proposals that respond to emerging market opportunities and have a demonstrated impact on poverty reduction, including production-based infrastructures for beneficiaries in Ningxia.
- 4.2.3 Subcomponent 2.3: rural finance: This subcomponent aims at enhancing the opportunities of target beneficiaries (individuals and cooperatives) to access financial resources by supporting/partnering with financial institutions in the Programme area to expand their range of financial products and improve their risk management capacity so to better respond to the demands of the Programme's beneficiaries.
- 4.3 Component 3: Programme management and coordination. This component will support the planning, coordinating, monitoring, reporting, knowledge management and overall management functions of the PMOs at central, provincial and county levels.

## II. Implementation Arrangements

5. Lead implementing agency. The Ministry of Agricultural and Rural Affairs (MARA) shall bear the overall management and implementation responsibilities of the Programme. MARA will coordinate and supervise the implementation of the pilot projects in two provinces: Sichuan and Ningxia. At provincial and county level, management and implementation responsibilities shall be borne by the respective Provincial and County Offices for Comprehensive Agricultural Development (POCADs and COCADs) or any successor thereto.

6. Implementation arrangements.

6.1 At central level, a NPMO shall be established within MARA and will be responsible for overall Programme coordination, management, supervision, administration of Programme resources, monitoring, ensuring adherence to agreed standards, guidelines and procedures, and for providing policy guidance and implementation support to provinces during Programme implementation. The NPMO shall have in addition the overall responsibility in managing the knowledge generated from Programme activities, and for making the necessary arrangements for replication and upscaling of best practices within and beyond the Programme.

6.2 At provincial and county level, PPMOs and CPMOs shall be established within the existing POCADs and COCADs or any successor thereto in the two provinces; Programme leading groups (PLGs) shall be established at provincial and county level; and, whenever necessary, line bureaus and farmer/interest groups' organizations shall be mobilized:

6.2.1 The Sichuan and Ningxia PPMOs shall be responsible for overseeing Programme implementation, supervising Programme activities and arranging counterpart funds in their respective province.

6.2.2 CPMOs shall be responsible for day-to-day Programme management and implementation coordination within the counties.

6.2.3 PLGs shall oversee Programme planning and implementation, coordinate counterpart funds, and provide strategic guidance on policy matters to implementing agencies. Each PLG shall be chaired by a senior official of government and include the representatives from relevant departments, bureaus and institutions as appropriate.

6.2.4 Whenever necessary, line bureaus shall be mobilized to participate in the execution of specific Programme activities, in line with their respective mandate.

6.2.5 Whenever necessary, farmer or other interest groups' organizations (e.g. water user associations, farmer cooperatives, farmer associations, women federation) shall be mobilized to participate in the execution and monitoring of Programme activities. Particularly, water user associations (WUAs) shall participate in the planning, design, construction and supervision of the irrigation and drainage systems, and shall gradually take over the responsibility of operation and maintenance.

6.3 At township and village level. Qualified staff shall be designated in the Programme townships and villages to support Programme implementation and management such as planning, monitoring and reporting, household targeting and participation among others.

7. Staffing. Each PMO shall cover at least the following minimum functions: financial management, procurement, planning, monitoring and evaluation, value-chain development, implementation coordination, and gender development. Qualified staff shall be appointed to perform their functions in line with the terms of reference contained in the Programme implementation manual (PIM). Staffing the PMOs with additional staff members seconded from the related technical bureaus or outsourcing certain functions is an acceptable practice.

8. Planning. Annual work plan and budgets (AWPBs) reflecting planned activities and budget requirements for each year of Programme implementation, acceptable to the Fund, shall be the main management tool for Programme planning and implementation.

9. Monitoring and evaluation (M&E). The Programme shall establish a M&E system, which will integrate Results and Impact Management System (RIMS) indicators, from national to village level. The M&E system of the Programme shall: (i) underpin the knowledge management functions of the Programme; (ii) give emphasis to assessing the impact on poverty alleviation of the Programme, relying on the national poor registration system, and the performance of supported cooperatives, through annual cooperative performance assessments; (iii) make M&E data accessible and available, through a user-friendly management information system (MIS) and innovative information and communication technology (ICT) tools. 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.

10. Supervision. The Programme shall be directly supervised by IFAD. In order to facilitate implementation of the Programme and ensure the achievement of the Programme objectives, IFAD and the Borrower/Recipient shall carry out joint annual supervision missions, a midterm review towards the third year of Programme implementation, and a completion review before the Programme closing date.

11. Programme implementation manual (PIM). The national PMO shall prepare, with inputs from the provincial and county PMOs, 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 Programme staff, consultants and service providers; (ii) eligibility and selection criteria for the

implementation of Programme activities, including training and development of business plans; (iii) targeting, eligibility and selection criteria for participating villages, cooperatives/enterprises and other beneficiaries; (iv) Programme operational, financial and procurement procedures, including implementation and monitoring procedures; (v) M&E system and procedures; 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.

12. 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 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 SC (expressed in USD)	Loan Amount Allocated-NX (expressed in USD)	Loan Amount Allocated-MARA (expressed in USD)	Grant Amount Allocated-MARA (expressed in USD)	Total Loan and Grant Amount	Percentage (net of Government and Beneficiary Contribution)
I. Equipment and Materials	3 015 000	2 025 000			5 040 000	100%
II. Consultancies	7 155 000	6 165 000	500 000	500 000	14 320 000	100%
III. Goods, Services and Inputs	9 090 000	5 310 000			14 400 000	100%
IV. Works	19 440 000	18 900 000			38 340 000	100%
Unallocated	4 300 000	3 600 000			7 900 000	
<b>TOTAL</b>	<b>43 000 000</b>	<b>36 000 000</b>	<b>500 000</b>	<b>500 000</b>	<b>80 000 000</b>	

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

“Category I Equipment and Materials” means eligible expenditures for electricity supply system, fertilizers for land improvement, canal and water system construction, capacity building of cooperatives and Programme management;

“Category II Consultancies” under the Loan means eligible expenditures for domestic and international training, study tours, workshops, technical assistance & studies for production demonstration, capacity building in agribusiness and Programme management in the two provinces and MARA;

“Category II Consultancies” under the Grant means eligible expenditures for MARA in workshops, domestic and international training, study tours, technical assistance, ICT and Programme M&E activities, except those included under the Loan;

“Category III Goods, Services and Inputs” means eligible expenditures for business plans excluding civil works;

“Category IV Works” means eligible expenditures for canal development, electricity supply, livestock production infrastructure and civil works in Business Plans.

2. Retroactive Financing. As an exception to section 4.08(a)(ii) of the General Conditions, expenditures not exceeding in the aggregate the equivalent of USD 8 million incurred between 13 September 2017 up to the date of entry into force of the Financing Agreement, shall be eligible for financing. Eligible expenditures for retroactive financing are considered those incurred to finance start up activities falling within the above categories such as: consultancies, training, workshops and equipment/software for PMOs, as well as civil works and business plan investment.