Arab Republic of Egypt

Sustainable Transformation for Agricultural Resilience in Upper Egypt

Negotiated financing agreement
Negotiated financing agreement: “Sustainable Transformation for Agricultural Resilience in Upper Egypt”

(Negotiations concluded on 5 December 2019)

Loan No: __________
Grant No: __________

Programme name: Sustainable Transformation for Agricultural Resilience in Upper Egypt (“STAR” or “the Programme”)

The Arab Republic of Egypt (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 Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Programme described in Schedule 1 to this Agreement;

WHEREAS, the Borrower/Recipient is expected to receive contributions from co-financiers to finance the Programme;

WHEREAS, the Borrower/Recipient has undertaken to provide fifteen million five hundred thousand United States dollars (USD 15 500 000) equivalent in Egyptian Pound to the Programme;

WHEREAS, 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 the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a loan (the “Loan”) and a grant (the “Grant”) (collectively the “Financing”) to the Borrower/Recipient, 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 fifty seven million four hundred forty thousand Euros (EUR 57 440 000).

   B. The amount of the Grant is one million one hundred eighty thousand Euros (EUR 1 180 000).

2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan rate equal to the IFAD Reference Interest Rate including a fixed spread, payable semi-annually in the Loan Service Payment Currency, and have a maturity period of 18 years, including a grace period of 5 years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.

3. The Loan Service Payment Currency shall be in EUR.

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

5. Payments of principal and interest shall be payable on each 15 March and 15 September.

6. The arrangements for the Designated Accounts denominated in EUR opened by the Borrower/Recipient through which the proceeds of the IFAD Loan and Grant shall be channelled as well as the operational bank accounts for the purposes of the Programme shall be detailed in the Letter to the Borrower/Recipient.

7. The Borrower/Recipient shall provide cash and in-kind counterpart financing for the Programme in the amount of fifteen million five hundred thousand United States dollars (USD 15 500 000) equivalent in Egyptian Pound for the financing of the Programme.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture and Land Reclamation (“MALR”).

2. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Programme.

3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower/Recipient.

4. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower/Recipient’s procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines, as these may be amended from time to time.

Section D

1. The Financing will be administered by the Fund and the IFAD-financed Programme activities supervised by the Fund.
Section E

1. The following is designated as additional ground for suspension of this Agreement:
   (a) The Programme Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower/Recipient, has determined that it has had, or is likely to have, a material adverse effect on the Programme.

2. The following are designated as additional general conditions precedent to withdrawal:
   (a) the IFAD no objection to the PIM shall have been obtained;
   (b) the National Programme Coordination Unit shall have been established, under conditions satisfactory to the Fund;
   (c) key Programme staff including the National Programme Manager, STAR Programme Technical Specialist, Finance Manager, Monitoring and Evaluation Coordinator, Knowledge Management & ICT Specialist and Procurement Manager shall have been duly recruited;
   (d) An agreement, satisfactory to the Fund, shall have been entered into by and between the Lead Programme Agency and the Ministry of Water Resources and Irrigation to define the principles of engagement, flow of funds and reporting requirements.

3. The following is designated as additional specific condition precedent to withdrawal:
   (a) Feasibility studies including the necessary environmental and social impact assessment surveys, satisfactory to the Fund on the Programme activities concerning infrastructure-related works to be financed by the Fund under component 2, shall have been completed prior to requesting any withdrawal for the implementation of such works.

4. This Agreement is subject to ratification by the Borrower/Recipient.

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

For the Borrower/Recipient:

   Minister of Investment and
   International Cooperation
   Ministry of Investment and
   International Cooperation

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 and shall enter into force on the date the Fund receives the instrument of ratification.

ARAB REPUBLIC OF EGYPT

__________________________________________________
Minister of Investment and International Cooperation

Date: ________________

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

__________________________________________________
Gilbert F. Houngbo
President

Date: ________________
Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. **Target Groups.** The STAR direct beneficiaries shall be classified into six target groups: (i) very poor households who are landless or near landless; (ii) poor subsistence households who practice subsistence agriculture; (iii) market-oriented smallholder households, who own 1-3 feddans and are considered borderline poor; (iv) better-off households who are lead farmers; (v) youth, comprising those currently engaged in rural activities and those unemployed; and (vi) women with limited opportunities for economic engagement. It is expected that approximately 160,000 households will directly benefit from STAR interventions.

2. **Programme Area.** The Programme shall be implemented in the rural areas of the three governorates of Menya, Asyut and Sohag, in the Upper Egypt (the “Programme Area”).

3. **Goal.** The goal of the Programme is to contribute to improved living standards of the Target Groups in the Programme Area. The Programme will support the target households in developing resilience to future water scarcity and climate risks by increasingly adopting efficient production and irrigation technologies, improving the quality and productivity of their produce, enhancing their profitability through better market linkages and diversifying their income through a range of microenterprises.

4. **Development objective.** The development objective of the Programme is to improve the income and resilience of smallholder and landless families. This will be done through better marketing linkages, sustainable and climate change adapted agricultural intensification, development of small rural businesses and inclusive policies and strategies, building on women and youth potentials as untapped resources for family resilience.

5. **Components.** The Programme shall consist of the following Components:

5.1 **Component 1:** Strengthening rural institutions, enterprises and markets. This component shall increase the marketing of healthy and nutritious produce and the profitability of the target households by strengthening their community institutions (CIs) and microenterprises, and linking these institutions to domestic and export markets. This component will consist of:

   (i) **Sub-component 1.1:** Strengthening marketing institutions and partnerships. This sub-component will increase the profitability of the target households by strengthening CIs, facilitating business plans (BPs) development and credit support for BPs implementation, brokering improved marketing linkages, facilitating access to marketing infrastructure, promoting post-harvest technologies and supporting digital market technologies. STAR will promote knowledge exchange visits and events for institutional strengthening.

   (ii) **Sub-component 1.2:** Microenterprise development. This sub-component will reduce women and youth dependence on their families and increase smallholder family resilience to income shocks by engaging them in income generation and microenterprise activities. STAR will provide entrepreneurship and skills training, create youth enterprises and promote women income-generation activities and nutrition awareness, in addition to professional certification in quality and food safety standards.

5.2 **Component 2:** Improvement of smallholders’ productivity and resilience. This component will improve smallholder crop producers’ resilience to climate change, secure their access to water resources and enhance the efficiency and sustainability of soil and
water resources. It will also support the lowering of production costs, compliance with market standards and production of safe, pesticide residue-free food. This component will consist of:

(i) **Sub-component 2.1: Investments in irrigation infrastructure and management.** This sub-component will improve climate-adaptive water management and supply in branch canals and on-farm irrigation efficiency in the command areas through improved irrigation water planning and management, strengthening of water users associations and improved on-farm irrigation systems. Digital technologies in water management resources will be introduced.

(ii) **Sub-component 2.2: Improved crop farming practices.** This sub-component will facilitate smallholders’ adoption of improved crop cultivation practices, achieved through the strengthening of public, private and digital extension services, participatory analysis of crop production challenges, capacity building of farmer groups, and improving access to machinery. It will also support the adoption of practices that builds resilience to climate change especially against heatwaves and the adoption of actions responding to early warning of reduced Nile water availability.

5.3 **Component 3: Programme management and policy engagement.** This component will consist of:

(i) **Sub-component 3.1: Programme management.** This sub-component will support the setting up of Programme management, including monitoring and evaluation and knowledge management.

(ii) **Sub-component 3.2: Policy engagement.** Policy engagement will be pursued through evidence-based policy dialogue to strengthen the regulatory environment for CIs, promote inclusive rural financial systems, foster inter-Ministerial collaboration on irrigation water management and provide digital solutions for agricultural and rural development.

5.4 The Financing provided by IFAD will be used to support all three Programme components.

### II. Implementation Arrangements

6. **Lead Programme Agency.** The Lead Programme Agency shall be the Ministry of Agriculture and Land Reclamation ("MALR") and shall have overall responsibility for the execution of the Programme. MALR shall closely cooperate with the concerned Line Ministries.

7. **Programme Steering Committee (PSC).**

7.1 **Establishment and composition.** An inter-ministerial PSC shall be set up at the national level, composed of representatives as listed in the PIM. The Chair of the PSC shall be designated by the Minister of MALR.

7.2 **Responsibilities.** The PSC shall provide strategic guidance on Programme implementation activities and in all matters of Programme policy. The PSC shall, among other things, be responsible for: ensuring that the Programme activities are in line with the Government’s policies; approving the consolidated STAR AWPBs; overseeing and monitoring the systematic implementation of the Programme and recommend changes where necessary in coordination with the Fund.
8. **Governorate Steering Committees (GSCs).**

8.1 **Establishment.** A Governorate Steering Committee (GSC) shall be established in each of the three governorates of the Programme, composed of representatives as listed in the PIM. The Head of the MALR in the Governorate shall chair the GSC.

8.2 **Responsibilities.** Each GSC shall, among other things, oversee planning, review progress and remove bottlenecks affecting smooth implementation.

9. **National Programme Coordination Unit (NPCU).**

9.1 **Establishment and composition.** A NPCU, headed by a National Programme Manager, shall be established at the national level in Cairo at the MALR. All NPCU staff shall be competitively selected in accordance with the PIM.

9.2 **Responsibilities.** The NPCU shall serve as the unified coordination unit for managing all IFAD projects in Egypt, including STAR. As a centralized apex unit, the NPCU will have the mandate to manage the flow of funds from IFAD and all co-financiers. The NPCU shall assume responsibility for the overall implementation of the Programme on the ground and shall, among other things, be responsible for consolidating the AWPBs and the progress reports prepared by the GSCs, and for submitting them to the PSC and to the Fund.

10. **Governorate Programme Coordination Units (GPCUs).**

10.1 **Establishment and composition.** Three GPCUs shall be established, one in each Programme governorate, as separate offices within the Directorate of MALR and will be headed by a Governorate Programme Coordinator from the MALR Directorate.

10.2 **Responsibilities.** The GPCUs shall be dedicated only to the implementation of STAR. GPCUs shall carry out the Programme implementation at the village level with the support of partner entities.

11. **Monitoring and Evaluation.** The results-based approach will be adopted through the M&E system. This will be through accounting for progress against AWPB targets; and periodic assessments of movement towards achievement of beneficiary impact. The key responsibilities for Monitoring and Evaluation (M&E) shall rely on the M&E unit at the NPCU, while all other implementation agencies at governorate, district and cluster level will play important roles in collecting and analysing data to assess outcomes and impact of programme activities. The Operational and Results Management System (ORMS) will be incorporated within the M&E system.

12. **Knowledge Management.** A knowledge management and communication strategy will be developed and integrated into STAR management. The strategy will include which thematic areas of learning (e.g. economic development cluster approach, multi-stakeholders platforms, access to markets, credit guarantee schemes, etc.) and outline how the knowledge generated will be disseminated through appropriate channels. The NPCU shall coordinate the overall implementation of the strategy.

13. **Programme Implementation Manual.** MALR shall finalise the PIM and forward it to the Fund for no objection. MALR shall adopt the PIM, substantially in the form approved by the Fund, and MALR 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, without the prior written consent of the Fund.
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. The percentages of expenditures for items to be financed in each Category is detailed in b below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Loan Amount Allocated (expressed in EUR)</th>
<th>Grant Amount Allocated (expressed in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Works</td>
<td>5 806 000</td>
<td>-</td>
</tr>
<tr>
<td>II. Goods and Services</td>
<td>20 310 000</td>
<td>340 000</td>
</tr>
<tr>
<td>III. Consultancies, and Workshops and Training</td>
<td>10 315 000</td>
<td>722 000</td>
</tr>
<tr>
<td>IV. Credit facility</td>
<td>13 295 000</td>
<td>-</td>
</tr>
<tr>
<td>V. Operating Costs</td>
<td>1 970 000</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated</td>
<td>5 744 000</td>
<td>118 000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>57 440 000</td>
<td>1 180 000</td>
</tr>
</tbody>
</table>

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

Category I “Works” to be financed 100% from IFAD loan net of taxes, counterpart and co-financiers contributions.

Category II “Goods and services” to be financed 100% net of tax and duties from IFAD loan and grant net of taxes, counterpart, co-financiers and beneficiaries contributions.

Category III “Consultancies and Workshop and Training” includes: (i) Technical assistance and (ii) Training and Workshops to be financed 100% net of tax and duties, counterpart and co-financiers contributions.

Category IV “Credit Facility” to be financed 100% from IFAD loan net of beneficiaries and co-financiers contributions.

Category V “Operating Costs” to be financed 100% from IFAD loan net of taxes, counterpart and co-financiers contributions.
Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan/Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

1. Within 6 months of entry into force of the Financing Agreement, the Borrower/Recipient through the Lead Programme Agency will procure and install a customized accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD’s requirements.

2. Within six (6) months of entry into force of the Financing Agreement, the Borrower/Recipient through the Lead Programme Agency will enter into Memoranda of Understanding (MoU), as may be required, with key implementing partners, satisfactory to the Fund, that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.

3. Planning, Monitoring and Evaluation. The Borrower/Recipient through the Lead Programme Agency shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.

4. Land tenure security. The Borrower/Recipient through the Lead Programme Agency shall ensure that the land acquisition process has already been completed and that compensation processes were consistent with international best practice and free prior and informed consent principles.

5. Compliance with the Social Environmental and Climate Assessment Procedures (SECAP). The Borrower/Recipient through the Lead Programme Agency shall ensure that the IFAD financed Programme activities will be implemented in compliance with IFAD SECAP, as may be amended from time to time. The Borrower/Recipient shall follow the Programme’s Environmental and Social Management Plan and its monitoring framework.

6. Environment and Social Safeguards. The Borrower/Recipient through the Lead Programme Agency shall ensure that: (a) all IFAD-financed Programme activities are implemented in strict conformity with the Borrower/Recipient’s relevant laws/regulations; (b) all IFAD-financed Programme activities give special consideration to the participation and practices of ethnic minority population in compliance with IFAD’s Policy on Indigenous Peoples, as appropriate; (c) proposals for civil works include confirmation that no involuntary land acquisition or resettlement is required under the Programme. In the event of unforeseen land acquisition or involuntary resettlement under the Programme, the Borrower/Recipient shall immediately inform the Fund and prepare the necessary planning documents; (d) women and men shall be paid equal remuneration for work of equal value under the Programme; (e) recourse to child labour is not made under the Programme; (f) the measures included in the Gender Action Plan prepared for the Programme are undertaken, and the resources needed for their implementation are made available, in a timely manner; and (g) all necessary and appropriate measures to implement the Gender Action Plan to ensure that women can participate and benefit equitably under the Programme are duly taken.
7. **Anticorruption Measures.** The Borrower/Recipient, the Lead Programme Agency shall comply with *IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations*, as may be amended from time to time.

8. **Sexual Harassment, Sexual Exploitation and Abuse.** The Borrower/Recipient, the Lead Programme Agency and the implementing partners shall ensure that the IFAD-funded Programme activities are carried out in accordance with the provisions of the *IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse*, as may be amended from time to time.