Nepal

Value Chains for Inclusive Transformation of Agriculture Programme

Negotiated financing agreement
Negotiated financing agreement:
"Value Chains for Inclusive Transformation of Agriculture Programme (VITA)"
(Negotiations concluded on 31 August 2020)

Loan No: __________

Project name: Value Chains for Inclusive Transformation of Agriculture Programme ("VITA" or "the Programme")

Nepal (the “Borrower”)

and

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

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

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Programme described in Schedule 1 to this Agreement;

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 “Financing”) to the Borrower, which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the loan is ninety-seven million and six hundred seventy thousand U.S. Dollars (US$ 97 670 000).

2. The Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be in U.S. Dollars.

4. The first day of the applicable Fiscal Year shall be 16 July.
5. Payments of principal and service charge shall be payable on each 1 March and 1 September.

6. There shall be a Designated Account, for the exclusive use of the Programme opened in Nepal Rastra Bank (NRB). The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.

7. There shall be (a) Programme Account(s) in Nepalese Rupees (NPR) for the benefit of Lead Programme Agency in the Agricultural Development Bank Limited.

8. The Borrower shall provide or cause to provide counterpart financing of USD 9.9 million for Programme in the form of taxes, duties and other investments, in case of component 3. Supply Chain Infrastructure.

Section C

1. The Lead Programme Agency shall be the Agriculture Development Bank, Ltd. (ADBL). The ADBL shall implement Components 1 and 2, and the Ministry of Land Management, Agriculture and Cooperatives (MoLMAC), State No.5 shall implement Component 3.

2. Implementing partners are described in Schedule 1, Part II (10).

3. 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.

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

5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower's procurement regulations, which are consistent with the IFAD Procurement Guidelines.

Section D

1. The Fund will administer the Loan and supervise the Programme.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

   (a) The Fund, in consultation with the Borrower, assesses that the appointment and/or transfer of the Programme Coordinator has adversely affected the Programme activities.

   (b) Two separate PIMs shall have been prepared, one each for Component 1 & 2, and for Component 3. The PIM(s) shall not have been waived, suspended, terminated, amended or modified without prior agreement of the Fund.

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

   (a) A Service Level Agreement (SLA), acceptable to the Fund, shall have been signed between the Ministry of Finance (MOF) and the LPA.

   (b) A Memorandum of Understanding (MoU) shall have been signed between the LPA and the implementing partner/s.
(c) The Project Steering Committee (PSC) shall have been established and members selected.

(d) The State Level Coordination Committee (SCC) shall have been established and members selected.

(e) The IFAD no objections to the Programme Implementation Manual(s) (PIMs) shall have been separately obtained for Component 1&2 and Component 3 for withdrawal for the corresponding components.

(f) The Programme Coordinator and the Component 3 Coordinator shall have been appointed.

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

For the Borrower:

Secretary/Joint Secretary for
International Economic Cooperation Coordination Division (IECCD)
Ministry of Finance
Kathmandu, Nepal

For the Fund:

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

[Copy to:]

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.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: ______________
Schedule 1

**Programme Description and Implementation Arrangements**

**I. Programme Description**

1. **Target Population.** The Programme shall benefit small-scale producers, including landowners and landless, and labourers involved in supported supply chains. VITA will have at least sixty percent women beneficiaries and thirty percent youth beneficiaries. Disadvantaged individuals including Dalits, Janjatis and other disadvantaged groups will also be specifically targeted. It is expected that the Programme will directly benefit 120,000 small-scale producers, in around 111,000 distinct households with around 530,000 household members in total.

2. **Programme area.** The Programme will focus intensive activities in 28 districts in States 2, 3, and 5. VITA will also extend financial services to targeted bankable beneficiaries of IFAD supported Rural Enterprises and Remittances Project ("RERP") in State 1 and 2, and Agriculture Sector Development Project ("ASDP") in State 6 in partnership with ongoing projects providing similar business-focused support to that provided under VITA Component 1 (the "Programme Area").

3. **Goal.** The goal of the Programme is to improve livelihoods and nutrition of poor and vulnerable people.

4. **Objectives.** The objective of the Programme is to increase profitability of sustainable farm enterprises of poor and vulnerable rural people, strengthen their market linkages and use appropriate financial services.

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

5.1 **Component 1: Inclusive Supply Chain Development.** This component will target high potential commodity supply chains. It provides intensive training in foundational business skills to farmer and producer groups, so they are more confident and able to engage in the supply chains and manage their farming as a business. It encourages like-minded farmers to organize themselves into producer organizations (POs) to achieve the necessary scale to better interact with buyers and service providers and increase efficiencies and competitiveness of their local supply chains. It establishes rolling cycles of multi-stakeholder platforms (MSPs) that includes Production Organizations, agribusinesses, financial institutions, service providers and other stakeholders, to build networks and business relationships, facilitate market linkages and stimulate investment opportunities for producers and MSMEs. It provides sustained mentoring to producer groups so they can take advantages of the opportunities that emerge through MSP processes. It promotes complementary investments by small and larger commercial service providers and co-operatives serving the clusters with direct or embedded services, including on climate smart agriculture technologies and practices. The MSPs are open platforms that provide a practical mechanism for financial service providers (FSPs) to better understand local demand and opportunities for them in offering financial services to various supply chain actors. Similarly, the MSPs provide a mechanism for local, state and federal government to understand specific needs for enabling public infrastructure and services to complement private investment. The expected close collaboration with municipal authorities is also important in achieving complementary public and private investment in technical services.

In the context of COVID-19 and the potential prolonged need for safe social distancing practices, the substantial increase in collective marketing of farm produce through POs, with trucks collecting produce in bulk directly from the village, will dramatically reduce the number of small-scale producers having to regularly go to the market to sell their produce one by one. Greater use of electronic payments between buyers and producers will also
reduce the need for face-to-face transactions. However, physical produce will still need to be aggregated and transported along the supply chain in a safe manner. Similarly, there will still need to be some safe face-to-face interaction, especially in the early stages as relationships are built, for example via safe MSPs. VITA will support the widespread adoption and adherence to such safe working practices in supported supply chains.

5.1.1 Sub-component 1: Farm business capacity development. Two major intervention areas will focus on building the business capacity of small-scale producers and their producer groups to transform themselves into successful farm businesses, empowered and capable of being resilient and reliable actors in their supply chains. Activities within this sub-component will focus on (i) mentoring and mobilization of small-scale producers and (ii) providing business skills training to small-scale producers.

5.1.2 Sub-component 2: Brokering and investment facilitation. Brokering and cluster facilitation will improve linkages between farmers, buyers and service providers and better exploit market opportunities. A supply chain development facility (SDF) will make small “public good” investments to address issues that emerge from the supply chains.

5.1.3 Sub-component 3: Inclusive supply chains knowledge and policy. Monitoring and evaluation within supply chains will actively monitor the commercial development of each cluster from season to season, providing insights back to producers and businesses as well as data for evidence-based management of activities and results, including on targeting and inclusion. As evidence is built, VITA will prepare a series of evidence-based policy discussion inputs relevant to federals, state and local levels.

5.2 Component 2: Expanding Financial Services to Agriculture. Component 2 tackles supply-side constraints for appropriate financial services to agriculture, including systemic shortages of term finance, due to term mismatches between sources of funds and borrowers’ requirements. This will be via a subsidiary loan to ADBL and wholesale term loans to partner FSPs for on-lending to small-scale producers and MSME in the supported supply chains. The component also addresses other capacity issues within partner FSPs that are limiting their capacity to offer relevant financial services and new products at the scale required to increase rural financial inclusion.

5.2.1 Sub-component 1: Private investment financing. The subsidiary loan to ADBL is specifically for increased provision of medium- and longer-term credit to farmers and MSMEs in supported supply chains. It is expected that a large majority of the investments by small-scale producers financed under the sub-component will be to upgrade their farm production practices including adapting to climate risks.

5.2.2 Sub-component 2: Capacity enhancement and policy support. The Capacity Enhancement and Policy Development Facility will provide for capacity enhancement across all its activities pertaining to financial inclusion and supply of financial services to agriculture and rural communities. The Programme will use this facility for any relevant technical support during implementation.

5.3 Component 3: Supply Chain Infrastructure. Component 3 supports investment in critical public infrastructure at different points along the supply chains – from upgrading of regional hub markets and establishing networks of satellite wholesale markets, to investments in productive community level infrastructure – especially linked to water for production and multi-use systems, as well as farm access roads, to help mitigate climate risks. Importantly, the priorities for infrastructure development will be determined through the MSP processes driven by producers and MSMEs within the supply chains. The design of new market infrastructure will also take into account the likely need for greater physical spaces as well as improved hygiene facilities in physical markets and other changes to market operating practices to adapt to COVID. However, the existing infrastructure in the local levels, if any, will be assessed and utilized.
II. Implementation Arrangements

6. **Lead Programme Agency.** The Agriculture Development Bank Ltd. ("ADBL"), or any legal successor authorised by the Borrower, shall be the LPA. The LPA will be responsible for the component 1 and 2 and MoLMAC, State 5 will be responsible for component 3.

7. **Programme Steering Committee.** The Programme Steering Committee ("PSC") will provide overall policy guidance, coordination and supervision. The PSC will be chaired by the Ministry of Finance (MoF). Members of the PSC will include representatives of Ministry of Agriculture and Livestock Development (MoALD), Ministry of Federal Affairs and Federal Administration (MoFAGA), IECCD MOF, Nepal Rastra Bank (NRB), Ministry of Land Management, Agriculture and Cooperatives, State 5 and ADBL (as member secretary). Representatives in the PSC may include the other financier(s), implementing agencies, stakeholders and others.

8. **Programme Management Unit (PMU).**

   8.1 **Establishment.** There will be a dedicated PMU within the ADBL, responsible for all aspects of programme management and reporting on behalf of the LPA. The ADBL Chief Executive Officer will act as the VITA Programme Director. The PMU will work closely with the heads of the relevant departments in ADBL Head Office and the Provincial Directors in the five provincial structures, supplemented where necessary with targeted technical assistance and additional human resources. The PMU will be managed by the VITA Programme Coordinator, and will work together with the ADBL PMU Director, Staff of ADBL and implementing partner(s).

   8.2 **Responsibilities.** The PMU shall facilitate the Programme implementation by working with private and public-sector implementation agencies and through more direct implementation. The PMU shall have the responsibility to ensure: (i) the coordination and synergy of the co-implementing agencies and technical service providers, and the local 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.

9. **State Level Coordination Committee (SCC):** A State Level Coordination Committee (SCC) chaired by the Secretary of the Ministry of Land Management, Agriculture and Cooperatives State 5, with Component 3 Coordinator as member secretary, shall be formed. Other members include two Regional Directors of ADBL and one member from the local level. The SCC shall meet as required to (i) coordinate the planning across the components under State 5, (ii) review the technical aspects of progress of implementation, (iii) component 3 AWPB before submission to PSC, (iv) to liaise with the multi-stakeholders platform (MSP) groups to discuss technical constraints to efficient supply chain development.

10. **Implementing partners.**

   10.1 **Government partners.** Ministry of Land Management, Agriculture and Cooperatives (MoLMAC) shall be the executing agency for Component 3. The Food Security and Agribusiness Promotion Division shall act as the Programme Implementation Unit (PIU) led by the Division Chief as the Component 3 Coordinator supported with required technical and other staff. The PIU shall be responsible for (i) institutional coordination and day-to-day management, and (ii) Programme budgeting, disbursement, financial management, procurement, monitoring, evaluation, reporting and related procedures. Other stakeholders at State and local level will be closely involved, including via local MSPs and
co-ordinated planning, investments and reporting in supply chain infrastructure and other initiatives, including co-financing investments under Component 3.

10.2 Other partners. ADBL will enter into a Memorandum of Understanding (MoU) with the selected partner(s) with particular responsibilities under Component 1 on aspects of socio-economic mobilization and supply chain development.

11. Monitoring and Evaluation. The M&E system developed and run by the PMU M&E team will cover (i) monitoring of implementation performance, execution of the AWPB, outreach and effectiveness of the targeting strategy, and (ii) periodic measurement of programme results (outputs, outcomes, and impact) versus agreed targets. Both executing agencies and the implementing partner(s) will contribute to a single VITA M&E system and have access to the data generated. There will be a single M&E unit which will meet the information requirements of the PMU, ADBL, other co-financier(s), the implementing partner(s), or any other partner financial institutions or implementing agencies. The PMU M&E team will include full-time M&E staff – one each from ADBL and from each implementing partner(s) – supported by their related permanent teams and departments.

12. Knowledge Management. The Programme will invest in good quality, evidence-based knowledge management to contribute to policy development processes. An effective Knowledge Management and Communications strategy will be integrated into the management of the Programme.


13.1 Preparation. Two separate PIMs, in accordance with terms of reference acceptable to the Fund will be prepared by the executing agencies, 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.

13.2 Agreement and Adoption. The LPA shall forward the draft PIMs to the Fund for comments and agreement. The LPA shall adopt the PIM, substantially in the form agreed to by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Borrower 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.

14. Mid-term Review (MTR). As a six-year programme, a MTR will be undertaken at the end of year three of implementation. The MTR will be jointly organized by the Government of Nepal and IFAD in close collaboration with the other stakeholders.
Schedule 2

Allocation Table

1. Allocation of Loan/Grant Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Loan Amount Allocated (expressed in USD)</th>
<th>Percentage Net of tax, co-financier and beneficiary contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Works</td>
<td>17,335,000</td>
<td>100%</td>
</tr>
<tr>
<td>II. Credit, Guarantee funds</td>
<td>80,336,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>97,670,000</td>
<td></td>
</tr>
</tbody>
</table>

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

(i) “Works” means civil work relating to integrated market, satellite market, rural roads and irrigation scheme

(ii) “Credit, guarantee funds” means the costs relating to Private Investment Financing.

2. Disbursement arrangements. The Disbursement Arrangements will be set forth in detail in the Letter to the Borrower.

3. Audit arrangements. An Independent Auditor appointed by the Annual General Meeting (AGM) of the Lead Programme Agency (LPA), licensed/approved by the Auditor General, under the terms of reference satisfactory to the IFAD, will carry out audits of the account related to Component 1 and 2 whereas the Auditor General of Nepal will carry out the audits of the accounts related to Component 3 annually. The LPA shall submit the consolidated audit report and Interim Financial Reports to the Fund.
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 to request withdrawals from the Loan Account if the Borrower 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 six (6) months of entry into force of the Financing Agreement, the Programme will procure and install or customize accounting software as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.

2. Planning, Monitoring and Evaluation. The Borrower 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.

3. Gender. The Borrower shall ensure that (i) a Gender and Social Inclusion Strategy is developed in the first year with clear Gender Action Plan for each programme year, and (ii) women and men shall be paid equal remuneration for work of equal value under the Programme.

4. Indigenous People Concerns. The Borrower shall ensure that the concerns of IPs are given due consideration in implementing the Programme and, to this end, shall ensure that:

   (a) the Programme is carried out in accordance with the applicable provisions of the relevant IP national legislation;
   (b) Indigenous people are adequately and fairly represented in all local planning for Programme activities;
   (c) IP rights are duly respected;
   (d) IP communities participate in policy dialogue and local governance;
   (e) The terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected;
   (f) The Programme will not involve encroachment on traditional territories used or occupied by indigenous communities.

5. Land tenure security. The Borrower 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.

6. Compliance with the Social Environmental and Climate Assessment Procedures (SECAP). The Borrower shall ensure that the Programme will be implemented in compliance with IFAD's SECAP and more specifically that the following measures shall be taken:

   Environment and Social Safeguards. The Borrower shall ensure that: (a) all Programme activities are implemented in strict conformity with the Borrower's relevant laws/regulations; (b) all Programme activities give special consideration to the participation and practices of ethnic minority population in compliance with IFAD's Policy on Indigenous Peoples (2009), 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 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 shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

8. **Sexual Harassment, Sexual Exploitation and Abuse.** The Borrower and the Programme Parties shall ensure that the Programme is 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.

9. **Use of Programme Vehicles and Other Equipment.** The Borrower shall ensure that:

   (a) all vehicles and other equipment procured under the Programme are allocated to the ADBL and other Implementing Agencies for Programme implementation;

   (b) The types of vehicles and other equipment procured under the Programme are appropriate to the needs of the Programme; and

   (c) All vehicles and other equipment transferred to or procured under the Programme are dedicated solely to Programme use.