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People's Republic of China

Hunan Rural Revitalization Demonstration Project

Negotiated financing agreement

Executive Board — 131st Session
Rome, 7-9 December 2020

For: Information

Negotiated financing agreement: "Hunan Rural Revitalization Demonstration Project"

(Negotiations concluded on 2 December 2020)

Loan Number:

Project Title: (Hunan Rural Revitalization Demonstration *Project*) (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), 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 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, except as provided for in paragraph 4 below and in paragraph 4 of Schedule 2 (retroactive financing). 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, through Hunan Province, shall use to implement the Project in accordance with the terms and conditions of this Agreement, concretely:

(a) the "Project components" as described in Part 1 of Schedule 1 to this Agreement; and

(b) the "RBL sub-component" as described in Part 2 of Schedule 1 to this Agreement, which will build on the use of government systems.

(the Project components and the RBL component hereinafter jointly referred to as the "Project").

4. For the purposes of this Agreement:

"Disbursement Linked Indicator" or "DLI" means in respect of a given Category, the indicator related to said Category that will be used to trigger the disbursement of funds, and as set forth in the table in paragraph 2 of Schedule 2 to this Agreement and as further specified in the Project Implementation Manual (PIM).

"Disbursement Linked Result" or "DLR" means in respect of a given Category, the result under said Category as set forth in the table in paragraph 2 of Schedule 2 to this Agreement, and as further specified in the Project Implementation Manual (PIM), on the basis of the achievement of which, the amount of the Financing allocated to said result could be withdrawn.

5.1 The following exceptions to Section 4.02 a), and Section 4.03 d) of the General Conditions are applicable to RBL sub-component:

- (i) disbursement will be triggered by verifiable DLIs instead of eligible expenditures;
- (ii) the Fund will not require the Borrower to provide evidence showing that previous withdrawals have been properly spent on eligible expenditures, but rather, evidence that agreed DLRs have been met;
- (iii) expenditures will be considered eligible when agreed DLRs are met;
- (iv) the Borrower may withdraw the proceeds of the Financing to finance, with respect to the RBL sub-component, expenditures on the basis of the results ("Disbursement Linked Results" or "DLRs") achieved by the Borrower, as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs") in the amount allocated against the Category of the table in paragraph 2 of Schedule 2.

5.2 The following exceptions to the Conceptual Framework for Financial Reporting and Auditing of IFAD-financed Projects and Related Handbook referred to in Section 9.03 of the General Conditions, are applicable to RBL sub-component, in line with the Borrower's applicable laws and regulations:

- (i) Audits are not required to trace IFAD funds to the final recipients;
- (ii) The minimum prescribed content, as provided for in table 3 of the Handbook, of annual project financial statements is not required to be submitted to IFAD; and
- (iii) The requirement of an audit to confirm whether the financial statements provide a true and fair view in all material respects of the financial activities, as provided for in paragraph 33 of the Handbook, is not required to be submitted to IFAD.

6. With respect to the Project components, the Borrower may withdraw the proceeds of the Financing to finance eligible expenditures as provided for in the General Conditions.

Section B

7. The amount of the Loan is sixty million two hundred thousand United State dollars (USD 60 200 000).

8. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding at a rate equal to the IFAD Reference Interest Rate with fixed spread, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty four (24) years, including a grace period of five (5) years starting from the date that the Fund has determined that all General Conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b).

9. The Loan Service Payment Currency shall be the United States dollars (USD).
10. The first day of the applicable Fiscal Year shall be 1 January.
11. Payments of principal and interest shall be payable on each 1st May and 1st November.
12. There shall be one Designated Account denominated in USD opened and maintained by Hunan Provincial Department of Finance (DOF) in a commercial bank for the exclusive use of the Project to receive the Loan proceeds (the "Designated Account").
13. The Borrower through Hunan Province shall provide counterpart financing for the Project in a total amount equivalent to indicatively USD 90.9 million in cash and in kind. Project beneficiaries, participating enterprises, cooperatives and others are expected to provide contribution in cash or in kind of indicatively USD 22.2 million, based on estimates made during Project design. The Project costs in cash or in kind shall be recorded in the Project accounting software.

Section C

14. The Lead Implementing Agency shall be the Provincial Department of Agriculture and Rural Affairs (DARA).
15. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

16. The Financing will be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out every six months, the Fund shall conduct in accordance with Section 8.03 (b) and (c) of the General Conditions a mid-term review to be carried out towards the third year of Project implementation.

Section E

17. The following are designated as additional conditions precedent to withdrawal under the Loan:
 - (a) The Provincial Project Management Office (PPMO) and at least one County Project Management Office (CPMO), shall have been established and the respective key Project staff shall have been selected;
 - (b) The Borrower, through the Lead Implementing Agency, shall have submitted, and the Fund shall have received, an official document confirming the availability of counterpart funds for the first Project Year;
 - (c) The Designated Account shall have been duly opened and the names of authorized signatories shall have been duly submitted to the Fund;
 - (d) The PIM shall have been approved by IFAD; and
 - (e) A Management Information System (MIS) including a computerized accounting system in compliance with national standards and acceptable to the Fund, shall have been identified and selected by the PPMO.

18. No disbursements shall be made under Category IV of the table in paragraph 2 of Schedule 2, for the purposes of the RBL subcomponent, until and unless the Borrower, through the Lead Implementing Agency, has furnished evidence satisfactory to IFAD (verification report) that the DLRs have been achieved, and confirmed by an independent third-party verification agency according to the verification protocol, as provided for in the PIM.

19. The following is designated as an additional ground for suspension of the right of the Borrower to request disbursements under the Loan: The PIM, or any provision thereof, has been waived, suspended, terminated, or modified without the prior consent of the Fund, and after consultation with the Borrower through the Lead Implementing Agency, 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 Project.

20. Without prejudice to the provisions of the General Conditions, the deadline for making the first disbursement under the Loan is the date no later than 18 months from the entry into force date of this Agreement.

21. 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 of the People's Republic of China
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 and is agreed in two (2) original copies one (1) for the Fund and one (1) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Huongbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Project area.* The project will be implemented in 10 counties within the four municipalities/prefectures of Chengde, Xiangxi, Shaoyang and Chenzhou in the North-East and Western part of Hunan Province (i.e. Shimen and Taoyunan counties in Chengde prefecture; Guzhang, Fenghuang, Luxi and Longshan counties in Xiangxi Tujia and Miao Autonomous prefecture; Shaodong, Daxiang and Longhui counties in Shaoyang prefecture; and Rucheng county in Chenzhou prefecture). Possible changes of county also need to reflect the criteria of being former nationally- or provincially-designated poor counties in the same municipalities/prefectures, with prior no objection of IFAD.

2. *Target Population.* Within these counties, the project will primarily target the villages and communities with per capita income lower than county average level. Among the project beneficiaries, specific focus will be given to vulnerable groups (i) women; (ii) youth; and (iii) ethnic minorities.

3. *Goal and development objective of the Project.* The project goal is to advance poverty alleviation and increase the production and economic resilience of vulnerable households. The project development objective is to improve income-generating opportunities for vulnerable rural people, particularly youth and women, increase the inclusiveness of the benefit-sharing mechanisms from agro-industries/private sector linkages, and increase the resilience of the rural population to climate change impacts

4. *Components.* The Project consists of the Project components and RBL sub-component as follows:

4.1 Part 1 - Project components:

Component 1: Inclusive Private Sector Investment Models: This component will create profitable livelihood and diversified income opportunities in the project area by (i) promoting inclusive private sector investment models that will generate new and more diversified income opportunities; (ii) supporting talented young people and women to start their own business.

Component 2: Climate-proofed public infrastructure planning, development and improvement: This component will address gaps in the current infrastructure which may limit or constrain the implementation of the project activities. Improvement of the infrastructure system will be achieved through a combination of physical improvements, institutional strengthening and technical assistance, which will also result in a reduction of the risks and the impacts associated to changing weather and climate conditions, and a more sustainable and climate resilient agricultural production.

Component 3: Project Management, Knowledge Management, M&E, and Policy Engagement: This component will support the planning, coordinating, monitoring, reporting, knowledge management and policy engagement functions, and overall management functions of the Project Management Offices (PMOs) at provincial and county level.

4.2 Part 2 - RBL sub-component:

Sub-component1.(iii): Promoting Gender Sensitive Professional Farmer

Training (PFT): This sub-component will provide incentives to the county governments to (i) increase the number of farmers participating and getting accredited under the PFT; (ii) attract and increase the proportion of women participating in PFT ; and (iii) attract and increase the proportion of younger people participating to PFT. The RBL sub-component will build on the use of government systems.

II. Implementation Arrangements

A. Organization and Management

1. Lead implementing agency: The Provincial Department of Agriculture and Rural Affairs (DARA) has been appointed as lead implementing agency. Specifically, the Hunan Agricultural Foreign Economic Cooperation Center within DARA will take lead responsibility for project management, supervision and evaluation, and will act as the Provincial Project Management Office (PPMO).

2. Prefecture and County Project Management Offices: The major implementation responsibilities of the project lie with the Prefecture/ Counties. County Project Management Offices (CPMO) will be established at the County Bureau of Agriculture and Rural Affairs. A prefectural PMO will be established in Xiangxi. Relevant technical bureaus in the counties will be mobilized to support implementation of the related project activities. The CPMOs are responsible for preparing the annual work plan and budget and submitting to Provincial PMO for consolidation

3. Implementing Support Units: Implementing Support Units will be established in the project townships to facilitate project implementation, targeting and related monitoring activities.

4. Village Implementation Groups (VIGs): VIGs will be established in the project supported villages to mobilize participation of farmers in the project such as in the consultative process of developing business partnership with agro-entities; oversee public rural infrastructure construction and maintenance; promote project prioritization to women and youth, etc.

5. Project Leading Group: At county level, a Project Leading Group will be established to be chaired by the county government leader, comprising at least the County Bureaux of Finance (BOF), County Agriculture and Rural Affairs (CARA), and Poverty Alleviation Office, Women Federation etc. The Project Leading Group will provide overall guidance and coordination of the project implementation

6. Provincial Project Coordination Leading Group: A coordinating Leading Group comprising at least the Hunan Provincial Department of Finance (DOF), the Provincial Department of Agriculture and Rural Affairs (DARA), the Provincial Development and Reform Commission (PDRC), and the Provincial Office of Poverty Alleviation is foreseen to provide overall guidance and coordination of the project implementation.

7. Department/Bureaus of Finance: The Department/Bureau of Finance at Provincial/County level and at Xiangxi Prefecture and Shaoyang City will be responsible for supervising project resources, including the allocation, disbursement and monitoring of IFAD loan and counterpart funds.

8. Women Federation: The Women Federation (WF) in the counties will be also be assigned responsibilities in undertaking women related activities designed for the project. The Chairperson of county Women Federation will be assigned the role of deputy project

director at the county CPMO, with a specific role in overseeing the gender related aspects and activities of the project, and facilitating gender transformation in the project context.

9. Youth Leagues: The Youth League (YL) in the counties will be also be assigned responsibilities in undertaking youth related activities designed for the project. These include mobilisation of youth participation, facilitation of youth employment and business development activities and services, participation in project M&E and sharing related experience of youth development from and for the project.

10. Service Providers and Technical Specialists will be engaged by the PMOs to support the implementation especially in areas where existing capacity may be inadequate, for this purpose appropriate budget has been envisaged in the Project costing.

11. Organisation and staffing. The Project Management Office (PMO) organization structure is composed of the Director who has overall responsibility for Project management and a finance officer who has responsibility for overall financial management. In addition, PMOs will be staffed with officers who have experience in and would be responsible for accounting, cashing, project planning and implementation, financial management, procurement, monitoring and evaluation, gender and youth mainstreaming. They will also be assisted by officers from the technical line bureaus of Water Resources, Agriculture, Forestry, Women Federation and Finance at the corresponding level.

B. Result-based lending

1. Independent third-party verification agency: An independent third-party verification agency will be contracted by the Project after the no objection of IFAD to the selected agency, in accordance with terms of reference satisfactory to IFAD, to verify the data and other evidence supporting the achievement of one or more DLRs as set forth in the table in Schedule 2.

2. Verification protocol: The Project will ensure that the verification agency carries out verification and process (es) in accordance with a detailed DLR verification protocol jointly endorsed by the Project and IFAD; and submit to IFAD the corresponding verification reports in a timely manner and in form and substance satisfactory to IFAD. Confirmation that the DLR has been achieved will be through a letter of confirmation or verification report to IFAD.

B. Implementation

1. 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.

2. Monitoring and evaluation (M&E). The Project shall establish an M&E system, which will integrate IFAD Core Indicators (CIs) 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 advancing poverty alleviation of the Project, relying on the applicable national poor registration system, and the performance of supported cooperatives, through annual cooperative performance assessments; (iii) make M&E data accessible and available in line with relevant laws and regulations in China, through a user-friendly management information system (MIS) that integrates information and allow regular 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.

3. Project Implementation Manual (PIM). The PPMO shall prepare, a draft PIM and submit it to the Fund for approval. The draft PIM 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 also for DLIs/DLRs; (v) M&E system and procedures; (vi) DLIs/DLRs; (vii) The Financial Management Manual; (viii) Verification protocol.

The PIM may be amended if and when necessary, and the Project shall adopt the amended PIM substantially in the form approved by the Fund.

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 -IFAD | Loan Amount Allocated (expressed in USD) | % of Eligible Expenditures net of all other contribution |
|-------------------------------|---|--|
| I Works | 10 880 000 | 100% |
| II Goods, services and inputs | 6 930 000 | 100% |
| III Training | 1 800 000 | 100% |
| IV Training -RBL | 2 370 000 | 100% |
| V Grants and Subsidies | 31 060 000 | 100% |
| VI Operating Costs | 1 160 000 | 100% |
| Unallocated | 6 000 000 | |
| Total | 60 200 000 | |

2. The Borrower may withdraw the proceeds of the Loan to finance the following category on the basis of Results (DLR or Disbursement linked results) achieved against specific indicators (DLI).

| Category (including DLI) | Disbursement Linked Result (DLR) | Amount of the loan allocated in USD |
|-----------------------------|--|--|
| IV Training -RBL | <ol style="list-style-type: none"> 1. DLR-1 - Incremental number of farmers completing the New Professional Farmer Development training program 2. DLR-2 - Incremental number of women completing the New Professional Farmer Development training program 3. DLR-3 - Reduced average age of the trainees completing the New Professional Farmer Development training program | 2 370 000 |
| TOTAL | | 2,370,000 |

4. The terms used in the Tables above are defined as follows:

"Category I Works" shall mean eligible expenditures for Climate resilient infrastructure under Component 2 as described in Schedule 1.

"Category II Goods, Services and Inputs" shall mean eligible expenditures for goods, service, inputs, equipment , materials, technical assistance and consultancies.

"Category III Training" shall mean eligible expenditures for trainings and workshops under all components except for Sub-component 1(iii).

"Category IV Training-RBL", for Promoting Gender Sensitive Professional Farmer Training under sub component 1 (iii), shall mean eligible expenditures on the basis of the results ("DLRs") achieved by the Borrower, as measured against specific indicators ("DLIs") in the amount allocated against this Category.

"Category V Grants and Subsidies" shall mean eligible expenditures for Business Plan under Inclusive Private Sector Investment Models of the Sub -component 1 (i)

"Category VI Operating Costs" shall mean eligible expenditures of salaries and allowances, operating costs under the Sub-Component 1(ii) and Component 3.

4. *Retroactive Financing.* As an exception to section 4.08(a)(ii) of the General conditions, eligible expenditures such as the start-up and preparation project activities (except for subcomponent A.3-Category IV) not exceeding USD 6 million incurred from 19 June 2020 to the date of the entry in force of this 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.

Eligible expenditures are start-up and preparation project activities such as: (i) purchase of essential items (including equipment and procurement of necessary software) for the PMOs; (ii) recruitment of project staff and/or consultants and procurement of technical assistance; (iii) costs related to tendering, selection, and recruitment of service providers; (iv) costs related to the finalization of the program implementation manual, customization of accounting software to fit IFAD requirement and license fees, start-up trainings and workshops; (v) establishment of the M&E system, including carrying-out of the baseline survey and development of MIS; (vi) exposure visits for knowledge and experiences sharing; (vii) surveys and feasibility studies; (viii) recruitment of service providers.

Schedule 3

Special Covenants

1. *Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).* The Borrower shall ensure that the Project will be implemented in compliance with national laws and regulations regarding social, environmental and climate-related safeguards as well as the Fund's Social, Environmental and Climate Assessment Procedures. The Borrower shall ensure that project and in particular the RBL component, excludes any activities which are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.
2. *Anticorruption Measures.* Without prejudice to the provisions of the General Conditions, the Borrower shall cause Hunan Province to comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, taking appropriate action to prevent, mitigate and combat Prohibited Practices in implementing the Project.
3. *Grievance redress mechanism.* Lead implementing agency shall maintain and operate, throughout the period of implementation of the Project, a grievance redress mechanism for the handling of any stakeholder complaints arising out of the implementation of the Project.
4. *RBL sub-component implementation.* The Borrower shall carry out the RBL sub-component, or cause the Program to be carried out, in accordance with this Agreement and with the financial management, procurement, and environmental and social management systems acceptable to IFAD, which are designed to ensure that: (i) the Loan proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and (ii) the actual and potential adverse environmental and social impacts of the Project are identified, avoided, minimized, or mitigated, as the case may be.