Islamic Republic of Pakistan

Khyber Pakhtunkhwa Rural Economic Transformation Project

Negotiated financing agreement
Negotiated financing agreement:

"Khyber Pakhtunkhwa Rural Economic Transformation Project (KP-RETP)"

(Negotiations concluded on 03 December 2021)

Loan No: __________

Project name: Khyber Pakhtunkhwa Rural Economic Transformation Project ("the KP-RETP"/ "the Project")

The Islamic Republic of Pakistan (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 Project described in Schedule 1 to this Agreement;

WHEREAS, the Fund has agreed to provide financing for the Project;

NOW THEREFORE, 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 the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2020, 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 Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is seventy four million and ninety thousand Euros (EUR 74 090 000).

2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Loan by the Fund’s Executive Board. The interest rate and service charge
determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency.

The Loan shall have a maturity period of twenty five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board. The principal of the Loan will be repaid in equal instalments.

3. The Loan Service Payment Currency shall be in Euros (EUR).

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

5. Payments of principal, interest and service charge shall be payable on 1 May and 1 November of each year.

6. As per practice in the Islamic Republic of Pakistan, IFAD will transfer the proceeds of the Loan to the State Bank of Pakistan foreign aid account in EUR. The State Bank of Pakistan will channel the equivalent amounts of the Loan, in Pakistani Rupees, in the Project Designated Account.

7. There shall be one Project Designated Account in Pakistani Rupees, for the exclusive use of the Project opened at the National Bank of Pakistan. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.

8. The Borrower shall cause the provincial Government of Khyber Pakhtunkhwa to provide counterpart financing for the Project:

   (a) in the equivalent amount of twenty five million four hundred and sixty thousand Euros (EUR 25 460 000); for which eight million Euros (EUR 8 000 000) will be in the form of taxes, duties and project management related expenditures; and

   (b) the remaining amount of seventeen million four hundred and sixty thousand Euros (EUR 17 460 000) will be leveraged through ongoing projects under provincial Annual Development Plan (ADP).

9. The project beneficiaries will provide a contribution equivalent to the amount of forty three million one hundred and seventy thousand Euros (EUR 43 170 000).

Section C

1. The Lead Project Agency shall be the Ministry of Economic Affairs of the Government of Pakistan ("MoEA").

2. The Planning and Development Department of the Government of Khyber Pakhtunkhwa ("P&DD") is designated as an additional Project Party.

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 Project.

4. The Project Completion Date shall be the 7th 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.

5. Procurement of goods, works and services financed under the Financing shall be carried out in accordance with procurement methods and any other measures identified by IFAD.
Section D

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

Section E

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

   (a) The Project 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, has determined that it has had, or is likely to have, a material adverse effect on the Project.

   (b) Project Management Unit (PMU) Key Staff have been replaced without the prior written consent of IFAD.

2. The following are designated as additional (general/specific) conditions precedent to withdrawal:

   (a) Project Director, Finance Manager, Procurement Specialist and Monitoring & Evaluation Officer have been appointed after receiving IFAD no objection certificate.

   (b) The project draft PIM has received IFAD no objection certificate.

   (c) The first year AWPB and Procurement Plan has received IFAD no objection certificate.

   (d) IFAD has received, from the Borrower, evidence (in form satisfactory to IFAD) that the following accounts have been opened:

      i. Designated Account has been opened (PKR denominated); and

      ii. One project account has been opened by the PMU in order to receive and use the Borrower’s government counterpart funds for taxes and project management.

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

For the Borrower:

Secretary  
Ministry of Economic Affairs  
Government of Pakistan  
Pakistan Secretariat  
Islamabad - Pakistan  
secretary@ead.gov.pk

For the Fund:

The President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy
This Agreement, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

THE ISLAMIC REPUBLIC OF PAKISTAN

"[Authorised Representative Name]"
Secretary, Ministry of Economic Affairs

Date: ______________

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

___________________
Gilbert F. Houngbo
President

Date: ______________
Schedule 1

*Project Description and Implementation Arrangements*

I. Project Description

1. **Target Population and beneficiaries.** The Project shall benefit small farmers, women and youth and landless households (HH), with prioritisation being given to those in the Poverty Scorecard data of 0 – 34. The Project will directly or indirectly benefit seven hundred and eighty five thousand (785,000) households.

2. **Project area.** The Project will cover the province of Khyber Pakhtunkhwa (the “Project Area”).

3. **Goal.** The goal of the Project is to contribute to poverty reduction, food and nutrition security and strengthened resilience of rural households.

4. **Objectives.** The objective of the Project is to improve the incomes of rural households through climate-resilient, high-value agriculture and off-farm/non-farm employment opportunities.

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

5.1. Component 1: **Agribusiness Development.** This Component shall consist of four mutually reinforcing sub-components including: (i) Professional Farmers Organizations (PFOs); (ii) Public-Private-Producers Partnerships (4Ps); (iii) Farm Service Companies (FSCs); and (iv) Institutional Support Services.

5.1.1. **Sub-Component 1.1:** Professional Farmers Organizations Development: the Project will establish five hundred and fifty (550) PFOs by the end of the first five (5) years of the project interventions. These PFOs will be composed each, of three hundred (300) to five hundred (500) small farmers, on average, and will develop multi-purpose / multi-seasonal agri-business activities. In general, one village or cluster of village (between one thousand (1,000) to two thousand (2,000) families) will have one PFO. Each PFO will have a business Plan.

5.1.2. **Sub-Component 1.2:** Public-Private-Producers Partnerships: the Project will develop twenty (20) 4Ps, with a minimum of one thousand (1,000) producers per 4P. The Project will make a call for proposals open to local, national, and multinational private firms/companies already in the business and with financial capacity as well as demonstrated market share.

5.1.3. **Sub-Component 1.3:** Farm Service Companies, the Project will consolidate or establish one fully functional, autonomous and sustainable New Farm Service Centre (NFSC) per district, with PFOs and individual farmers as shareholders. This NFSC will be managed as a private company offering services to the PFO mainly supply of good quality seed, agrochemicals, improved technology, and packaging material and may also assist in matchmaking with end buyers/suppliers.
5.1.4. **Sub-Component 1.4: Institutional Support Services.** The Project will provide demand driven institutional services to PFOs/4Ps/FSCs, to meet the market demand and buyers’ requirements. The PMU will enter into multiple results-based MoUs with the relevant private or public/Government departments (academic, research and extension services) for different activities with clear responsibilities and deliverables. The scope of work will emerge from the aggregated needs of PFOs/4Ps/FSCs and will be translated into work plans, timelines and cost estimates. The engagement plan will be developed by the PMU.

5.2. **Component 2: Skills development and Employment Promotion.** This Component shall consist of three mutually reinforcing sub-components as follows: (i) Skills Development; (ii) Employment Promotion; and (iii) Job placement of graduated students.

5.2.1. **Sub-Component 2.1: Vocation and entrepreneurship skill training.** The overall objective will be to improve or to develop the skills of individuals, staff or members, based on the active and effective roles of the individuals in the institutions supported and the personal needs expressed / assessed (backed by the business plan and capacity building plan of the institutions supported). Special focus will be given to the youth and women. The training needs will emerge from the business plans of PFOs/4Ps/FSCs and the capacity building investment will be incorporated in the same.

The overall implementation of Component 1 and consequently subcomponent 2.1 will be progressive (phasing approach). Each implementing partner in charge of Component 1 (agri-business development) will also be responsible for the implementation of subcomponent 2.1 (skill development for agribusiness entities). The implementing partner will either directly train the beneficiaries or (for specific areas) will engage service providers at provincial or national level. The implementing partner will be responsible for the quality and efficiency of the training and will consequently manage the contractual relationship with the ‘skill development’ service providers subject to No Objection from the PMU.

5.2.2. **Sub-Component 2.2: Employment promotion.** The Project will contribute (i) to create jobs (including self-employment) for the ultra-poor and poor households having limited access to land, with a specific focus on youth (50%) and women (25%), and (ii) to facilitate the employability and the active integration in the economy of newly graduated students. The Project will provide start up grants for this two objectives.

5.2.3. **Sub-Component 2.3: Job market integration / induction.** Each student will have the possibility to do two (2) internships of six (6) months each. The recruiting enterprise will be allowed to keep the same student for a second period of six (6) months only if it provides a formal offer of employment to the student. In case of non-compliance, the enterprise will no longer be eligible to participate in the programme. Each enterprise will have a maximum of two (2) students at the same time. Around one hundred and forty five (145) interns per district and per year will be eligible to this programme. Priority will be given to those coming from the poorest families.

5.3. **Component 3: Project Management, Policy, and Institutional Support.** An autonomous Project Management Unit will be established at Peshawar and five (5) additional regional offices will be set up to better manage the distance / geographic coverage / diversity of the project area. The PMU will report at least once a year to the Project Steering Committee (PSC). The PSC will determine the need for additional meetings as and when required. The cost allocation includes the running cost and equipment of the PMU, as well as a provision for the policy support, equipment, and MOUs with the relevant line departments.
II. Implementation Arrangements

6. **Lead Project Agency.** Ministry of Economic Affairs (MoEA) shall be the Lead Project Agency and shall have an overall responsibility for Project Implementation through the government of Khyber Pakhtunkhwa.

7. **Project Steering Committee.** The Project Steering Committee (“PSC”) shall be headed by the Additional Chief Secretary of P&D Department, which shall provide the policy level guidance, oversight, and coordination. The PSC will grant approval of AWPB, and conduct regular progress reviews.

8. **Project Management Unit.** A PMU shall be established by P&DD and operate as an autonomous institution headed by a Project Director under the guidance of the steering committee, and shall be responsible for project planning and budgeting, coordination, monitoring, procurement, recruitment, financial management, reporting and annual audits. The PMU shall also assist government departments with policy development and implementation. The PCU shall ensure that gender, youth, environment, knowledge management and communication considerations are integrated into all aspects of Programme management and implementation. The Fund’s no objection shall be received before the appointment or dismissal of the Project Director and other Key Project personnel.

9. **Implementing partners.** The Project will engage with different implementing partners, including Vocational and Management training institutes, agro-business firms / organizations, Farm Services Centres, Farmer Organisations / cooperatives / private and public service providers and relevant line departments.

10. **Project Implementation Manual.** A draft Project Implementation Manual (PIM) should be prepared and receive IFAD Non Objection Certificate (NOC). The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund. The PIM shall include, *inter alia*:

    (i) Qualifications, terms of reference and detailed implementation responsibilities of Programme parties;
    (ii) Recruitment and appointment procedures for key project personnel;
    (iii) Criteria for the performance appraisal of the project personnel and adequate internal control system;
    (iv) Targeting and selection criteria for participating beneficiaries;
    (v) Project operational, financial and procurement procedures, including an accounting procedure for bookkeeping and reporting, implementation and monitoring procedures; and
    (vi) Financial management mechanism and flow of funds for all outputs and activities.
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 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</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>expressed in EUR</td>
<td></td>
</tr>
<tr>
<td>I.  Vehicles, Equipment &amp;</td>
<td>790 000</td>
<td>100% net of taxes</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II. Trainings, Studies and</td>
<td>17 290 000</td>
<td>100% net of taxes, government and beneficiaries contribution</td>
</tr>
<tr>
<td>Services Providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>III. Grants to beneficiaries</td>
<td>41 040 000</td>
<td>100% net of taxes, government and beneficiaries contribution</td>
</tr>
<tr>
<td>IV. Operating costs</td>
<td>7 570 000</td>
<td>100% net of taxes and government contribution</td>
</tr>
<tr>
<td>Unallocated</td>
<td>7 400 000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>74 090 000</td>
<td></td>
</tr>
</tbody>
</table>

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

(i) Category I “Vehicles, Equipment & Materials” includes inter alia costs of equipment, materials, goods and vehicles for PMU and RCU offices to be financed from IFAD loan net of taxes.

(ii) Category II “Trainings, Studies and TA/Service Providers” includes inter alia costs of Professional Farmers Organisations (PFOs) Development, Strengthening of Public-Private Partnerships, Farm Services Companies, Strengthening Institutional Services, Vocational and Entrepreneurship Training, Institutional support services & strengthening, Service Providers and Technical assistance.

(iii) Category III “Grants to beneficiaries” includes inter alia costs of Leveraging PFOs, Private Sector and Farm Services Companies Investments and Start-up Capital for Self-Employment.

(iv) Category IV “Operating costs” includes inter alia costs of PMU and RCUs salaries and allowances, offices running costs and staff travel as per government of Khyber Pakhtunkhwa’s policies.

2. Disbursement arrangements

Retroactive financing. As an exception to section 4.08(a) (ii) of the General Conditions, specific eligible expenditures incurred as of the date it is approved by the Executive Board in the December 2021 session, until the date of entry into force of this Agreement shall be considered eligible up to an amount equivalent to one million Euros (EUR 1 000 000)
for activities relating to: recruitment of the PMU staff, undertake preparation of bidding documents, work on readiness for selection of partner organisations, hiring of staff and operational costs of PMU. Activities to be financed by retroactive financing and their respective category of expenditures and source of financing will require prior no objection from IFAD to be considered eligible. Pre-financed eligible expenditures shall be reimbursed to the Borrower once additional conditions precedent to the first disbursement of funds specified in Section E.2 are fulfilled.
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 Project:

1. **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.

2. **Compliance with the Social Environmental and Climate Assessment Procedures (SECAP).** The Borrower shall ensure that the Project will be implemented in compliance with IFAD’s 2017 SECAP.

3. **Anticorruption Measures.** The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

4. **Sexual Harassment, Sexual Exploitation and Abuse.** The Borrower and the Project Parties shall ensure that the Project 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.

5. **Use of Project Vehicles and Other Equipment.** The Borrower shall ensure that all vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.

6. **IFAD Client Portal (ICP) Contract Monitoring Tool.** The Borrower shall ensure that a request is sent to IFAD to access the project procurement Contract Monitoring Tool in the ICP. The Borrower shall ensure that all contracts, memoranda of understanding, purchase orders and related payments are registered in the Project Procurement Contract Monitoring Tool in the ICP in relation to the procurement of goods, works, services, consultancy, non-consulting services, community contracts, grants and financing contracts. The Borrower shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project/Program.