
People's Republic of China

**Hunan Specialized Forestry Industry Development
Project**

Negotiated financing agreement

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Negotiated financing agreement

Hunan Specialized Forestry Industry Development Project

(Negotiated 13 September 2024)

Loan No: _____

Project name: Hunan Specialized Forestry Industry Development Project (the "Project")

People's Republic of China (the "Borrower")

and

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

(each a "Party" and together 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 2022, 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-two million six hundred twenty thousand Euros (EUR 72 620 000).

2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate including a variable spread, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years, starting from the date 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 Euros.
4. The first day of the applicable Fiscal Year shall be the 1st of January.
5. Payments of principal and interest shall be payable on each 1st May and 1st November.
6. There shall be a Designated Account in Euros (EUR) for the exclusive use of the Project opened at the Hunan Provincial Department of Finance. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. The Borrower shall, through Hunan Province, provide counterpart financing for the Project in the amount of approximately twenty three million six hundred thousand Euros (EUR 23 600 000) in cash and / or in kind. The contributions from Project cofinanciers and Project beneficiaries will be approximately one hundred seventeen million two hundred and eighty thousand Euros (EUR 117 280 000), in cash and / or in kind based on estimates made during Project design.

Section C

1. The Lead Project Agency shall be the Provincial Forestry Bureau ("PFB") in Hunan Province.
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 Project.
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund may designate in consultation with the Borrower.
4. Procurement of goods, works and services financed by 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 is designated as additional grounds for cancellation of this Agreement:
 - (a) The Borrower did not request a disbursement of the Financing for a period of at least twelve (12) consecutive months without justification subsequent to the first eighteen (18) months from the Effective Date.
2. The following are designated as additional specific conditions precedent to withdrawal:
 - (a) The IFAD no objection to the PIM shall have been obtained.
 - (b) Key Project personnel has been appointed as per paragraph 11, Schedule 3 of this Agreement.
 - (c) IFAD must receive, a duly completed Authorised User(s) Letter, from the designated representative or a sufficiently senior delegated official, designating

the name(s) of official(s) authorised to approve Withdrawal Application(s) and Interim Financial Reports (IFR).

- (d) The first Annual Work Plan Budget (AWBP) shall have been submitted and received a no-objection from IFAD.

3. 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 has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

PEOPLE'S REPUBLIC OF CHINA

"[Authorised Representative title]"

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall primarily benefit former registered poor and low-income households, specifically engaging women, youth and ethnic minorities.
2. *Project area.* The Project will cover seven counties – Taojiang, Hengshan, Yanling, Pingjiang, Heshan, Yuanling and Xupu (*the "Project Area"*). These have been selected based on (i) willingness and commitment of government and beneficiaries to participate; (ii) high potential for smallholders to produce the commodities; and (iii) willing private sector enterprises to invest in the selected value chains.
3. *Goal.* The goal of the Project is to promote rural revitalization and enable smallholders to benefit from rural transformation through an enterprise led inclusive green growth model.
4. *Objectives.* The development objective of the Project is to increase the capacity of approximately 128,000 smallholder beneficiaries for enhanced production and access to markets and employment, while optimizing environmental sustainability, climate resilience and contributing to China carbon neutrality goal, focusing on three value chains – bamboo, camelia oleifera, and medicinal plants. It is expected that women beneficiaries will be around 60% and youth will constitute around 30%.
5. *Components.* The Project shall consist of the following Components:

Component 1: Smallholder Integration in Value Chains with emphasis on women and youth smallholders: Consists of four sub-components focusing on enhancing the production quality, productivity, and inclusivity of the selected value chains, including (i) Developing inclusive and sustainable production management plans, (ii) Implementation of sustainable and climate smart management practices, (iii) Key climate resilient infrastructure investments for cultivating the selected high value chain crops, and (iv) Enhancing carbon sequestration, resilience and monitoring and accounting. The Forestry Bureau will lead the implementation in partnership with the County Development Investment Company (CDIC), the forest farm, private enterprises, cooperatives, and the village implementation groups. Production will be mainly bamboo shoots and wood, camellia oleifera fruits, and medicinal plants.

Component 2: Enterprise-led inclusive Business Development: This component will invest in upstream businesses and selected government enterprises. It includes three sub-components focusing on enhancing the business development and growth of enterprises in the valuechains, assisting enterprises to partner with smallholder farmers, and enhancing enterprises' processing capacity, product development, diversification, and marketing. The sub-components include: (i) Inclusive Business Plan Development, (ii) Establishment of energy efficient productive infrastructure, and (iii) Product development and marketing.

Component 3: Project Management and Capacity Building: This component will focus on building management capacity for implementation. The Lead Project Agency and Forest Bureaus will provide office accommodation, logistical support, staff and manage the Project. Arrangements for monitoring and evaluation, knowledge management, and opportunities for South-South Triangular Cooperation (SSTC) with the support of the International Bamboo and Rattan Organization will be included.

II. Implementation Arrangements

1. *Lead Project Agency.* The Project will be executed and coordinated by the Provincial Forestry Bureau (PFB) in Hunan Province. A Provincial Project Management Office (PPMO) will be set up in the PFB. Specifically, the Provincial Forestry Fund Station (PFFS) will undertake the day-to-day coordination and implementation management of the Project.
2. *Project Oversight Committee.* An inter-agency coordination mechanism will be established at provincial level to provide policy guidance and implementation oversight of the Project, as well to ensure implementation of China's environmental and social safeguards policy. At the county level, a County Vice Governor will lead the county level coordination and supervision through a leading group with member agencies including forestry, finance, agriculture and rural affairs, development reform, water, natural resources, and environment protection.
3. *County Project Management Offices (CPMO).* County Project Management Offices (CPMO) will be established at the County Forestry Bureaus (CFB) to manage the project (including targeting beneficiary and implementation planning, overseeing business planning, coordinating with CDICs for value chain investment, and coordinating with institutions responsible for social and environmental safeguards).
4. *Key Project Personnel.* Each PMO will be staffed adequately including but not limited to an executive Project Director; a Finance Officer and Accountant; as well as officers coordinating: Agriculture and Agribusiness Development; Planning, M&E and Knowledge Management; Procurement; and SECAP-related work including Gender and Youth/ Social Inclusion (the "Key Project Personnel").
5. *County Development Investment Company (CDIC).* The CDIC will receive the loan funds directly through the Bureau of Finance and will work in partnership with the CFBs in the production and processing in each county. They will use the loan to support smallholders, cooperatives, and small and medium enterprises (either private or State owned), both for the production and the processing side of the value chain and operate under strict socio-environmental safeguards. Investment criteria to ensure participation of smallholders, women and youth in both the production and processing will be used.
6. *Village Implementation Groups (VIGs).* VIGs will be established in the administrative villages of the Project to support the Project implementation locally. Each VIG shall be headed by the Chief of the village committee and composed of 5 to 6 members including 3 to 4 farmer representatives with a minimum women representation of 50% and at least one or two youth representatives.
7. *AWPB.* The Project will be implemented based on an AWPB which identifies the activities that will be carried out in each Fiscal Year, the Lead Project Agency, the resources, and the time needed to complete them and a procurement plan. The PPMO will consolidate the draft AWPBs prepared by each county and submit for IFAD's No Objection prior to its effectiveness.
8. *Monitoring and Evaluation.* An M&E system will be established from the outset of the Project spanning the entire Project cycle, for tracking progress and supporting decision-making. Key elements of the M&E system will be aligned to the logframe and will include specific responsibilities for monitoring targeted performance on environment and climate (including carbon sequestration, adoptions of sustainable practices, training of groups on sustainable natural resource management etc.) and for beneficiary monitoring, especially women, youth and vulnerable groups (e.g. persons with disabilities).

Key M&E deliverables required throughout the Project cycle by Project stage would be: Start up: recruitment of M&E service provider if PMO is not able to assume due functions

by itself; assignment of M&E focal points at all levels followed by capacity building; validation of Project; Theory of Change (TOC) and Log frame; making M&E plan; set-up of Management Information System (MIS); undertaking Core Outcome Indicator(COI) baseline survey and reporting. Implementation: elaboration of AWPB; semi-annual and annual progress and results reports; contribution to annual supervision missions; mid-term review survey and report; training on M&E. Completion: COI completion survey and reporting; Project completion report; impact assessment when required. Key elements of the monitoring and evaluation system will be aligned to the logframe and will include specific responsibilities for monitoring targeted performance on environment and climate (including carbon sequestration, adoptions of sustainable practices, training of groups on sustainable natural resource management etc.) and for beneficiary monitoring, especially women, youth and vulnerable groups (e.g., persons with disabilities).

9. *Knowledge Management.* The Knowledge Management activities/approaches would focus on capturing and documenting experiences, lessons, and successful cases from Project activities that would inform policymaking and shared with other countries through SSTC and participation in knowledge sharing fora. Knowledge Management will be used both as an adaptive management tool to help the Project to build practical and actionable knowledge and know-how that lead to improved project performance and results, and supports innovation, scaling up and country-level policy engagement. The Project will ensure KM related activities are included and budgeted in the AWPBs. KM responsibilities will be assigned to focal points at PMOs of all levels, who shall orient project staff through guidance and training for KM implementation. The Project KM activities/approaches will focus on, among others: (i) capturing and documenting experiences, lessons, and successful cases resulting from Project activities, especially regarding the project's innovative models and approaches that could be replicated and scaled-up, inform policy-making - or shared with other developing countries through south-south cooperation; (ii) study tours, exposure and exchange visits, both within and outside the country for peer learning and sharing knowledge; (iii) organizing and participating workshops to share knowledge, innovations and best practices; and (iv) well designed and operational information management systems, including electronic archives that enable easy access to data, reports and other documentation.

10. *Project Implementation Manual.* The PIM provides guidelines for implementation of the Project. The PIM indicates the overall Project framework and highlights the principles of engagement for the Project; it provides a Project description detailing components, subcomponents, and activities as Project interventions in support of the Project's development objective and expected outcomes. The PIM also provides guidance on the structure and operations of the planning, monitoring, evaluation and knowledge management, policy engagement, and SSTC functions which will be put in place by the Project. The PIM is a living document that may be amended from time to time as agreed between IFAD and the Borrower (through Hunan Province). Prior to dissemination of the PIM to counties, IFAD must provide a no-objection.

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:

Category	Loan Amount Allocated (expressed in EUR)	Percentage eligible for IFAD financing including indirect taxes as applicable
Goods, Services, Inputs, Works, Equipment & Material	72 620 000	100%
TOTAL	72 620 000	

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

“Goods, Services and Inputs”: includes goods and consultancy and non-consultancy services.

“Works”: includes works and infrastructure-related expenditures.

“Equipment and materials”: include equipment and materials only.

The Percentage is applied to Project expenditures, including indirect taxes and shares of other financiers.

2. *Disbursement arrangements*

(a) *Retroactive financing*

As an exception to section 4.07 (a)(ii) of the General Conditions for Agricultural Development Financing, specific eligible expenditures incurred as after the date the project has been approved by the IFAD Executive Board until the date of entry in force of this Agreement shall be considered eligible up to an amount equivalent to seven million two hundred and sixty-two thousand Euros (EUR 7 262 000) for activities relating to the project’s start-up and preparation project activities such as: (i) purchase of essential items (including equipment and procurement of MIS system) for the PMOs; (ii) recruitment of project staff; (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 requirements 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 MI; (vi) exposure visits for knowledge and experiences sharing; (vii) surveys and feasibility studies; (viii) training and technical assistance for cooperatives, including recruitment of service providers.

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 of the Agreement are fulfilled.

Schedule 3

Special Covenants

I. General Provisions

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. Within six (6) months of entry into force of the Financing Agreement, the Project will identify and install a customized accounting software as 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 (through Hunan Province) shall ensure that a Planning, Monitoring and Evaluation (M&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement.
3. *Gender and Social Inclusion.* The Borrower (through Hunan Province) shall ensure that the Project will increase the socio-economic empowerment of rural women including young women and women in the project areas by setting an overall outreach target at 60% women and 30% youth. The Project will pay particular attention to the empowerment of women by: (i) expanding their access to and control over resources; (ii) strengthening their agency, decision making role in community affairs, and representation in local institutions; and (iii) building on their untapped potential for sustainable development.
4. *Ethnic Minorities Concerns.* Where applicable and in compliance with the 2021 SECAP Procedures of the Fund, the Borrower (through Hunan Province) shall ensure that the concerns and rights of ethnic minorities are given due consideration and respect in implementing the Project and, to this end, shall ensure that:
 - (a) the Project is carried out in accordance with the applicable provisions of the relevant national legislation; and
 - (b) ethnic minorities are adequately and fairly represented in all local planning for Project activities.
5. *Land tenure security.* If applicable, the Borrower (through Hunan Province) shall ensure that the land acquisition process and compensation processes are consistent with the 2021 SECAP Procedures of the Fund.
6. *Anticorruption Measures.* The Borrower shall comply with IFAD's Policy on Preventing Fraud and Corruption in its Activities and Operations.
7. *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.
8. *Use of Project Equipment during Project implementation.* The Borrower (through Hunan Province) shall ensure that:

- (a) all equipment procured under the Project is exclusively allocated for the Project implementation;
- (b) the equipment procured under the Project is appropriate to the needs of the Project; and
- (c) all equipment transferred to or procured under the Project are dedicated solely to Project use.

9. *IFAD Client Portal (ICP) Contract Monitoring Tool.* The Borrower (through Hunan Province) 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, and non-consulting services. The Borrower shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project.

10. *The Key Project Personnel* is defined in Schedule 1. The Key Personnel shall be assigned or recruited based on qualifications, experience and terms of reference are satisfactory to IFAD and in accordance with Section 7.16 of the General Conditions.

II. SECAP Provisions

1. The Project is assessed as presenting moderate environmental and social risks and low climate risk. In line with IFAD's SECAP requirements, the Borrower shall carry out the implementation of the project in accordance with the measures and requirements set forth in the Environmental, Social and Climate Management Framework (ESCMF), Environmental, Social and Climate Management Plan (ESCMP), Stakeholder Engagement Plan, and Free, Prior and Informed Consent (FPIC) Plan, the "Management Plans", as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund. The Parties shall not amend, vary or waive any provision of the Management Plans, unless: (i) agreed in writing by IFAD and the Borrower (through Hunan Province) and (ii) Borrower has complied with the requirements applicable to the original adoption of the Management Plans.

2. The Borrower (through Hunan Province) shall not, and shall cause the Lead Project Agency, all its contractors, its sub-contractors, and suppliers not to commence implementation of any works, unless all Project affected persons have been consulted and compensated, as applicable, in accordance with the FPIC principles.

3. The Borrower (through Hunan Province) shall ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans prepared for the Project.

4. In the case of a serious ESHS incident, defined as a serious incident, accident, complaint with respect to environmental, social (including labor and adjacent community), health and safety (ESHS) issues that occur in the context of the loan or within the Borrower's activities. Serious ESHS incidents may involve (i) environmental; (ii) occupational; (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower¹ which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities), the Borrower (through Hunan Province) shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements;
- Adjust, as appropriate, the Project-level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

5. The Borrower (through Hunan Province) shall ensure or cause the Lead Project Agency, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the Management Plans are respected.

6. Without limitation on its other reporting obligations under this Agreement, the Borrower (through Hunan Province) shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans on a semi-annual basis upon submission of the progress and results reports - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower (through Hunan Province) will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plans promptly after becoming aware of such a breach.

7. In the event of a contradiction/conflict between the Management Plan and the Financing Agreement, the Financing Agreement shall prevail.

¹ For example, any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegations that require intervention by the police/other law enforcement authorities such as loss of life, sexual violence or child abuse.