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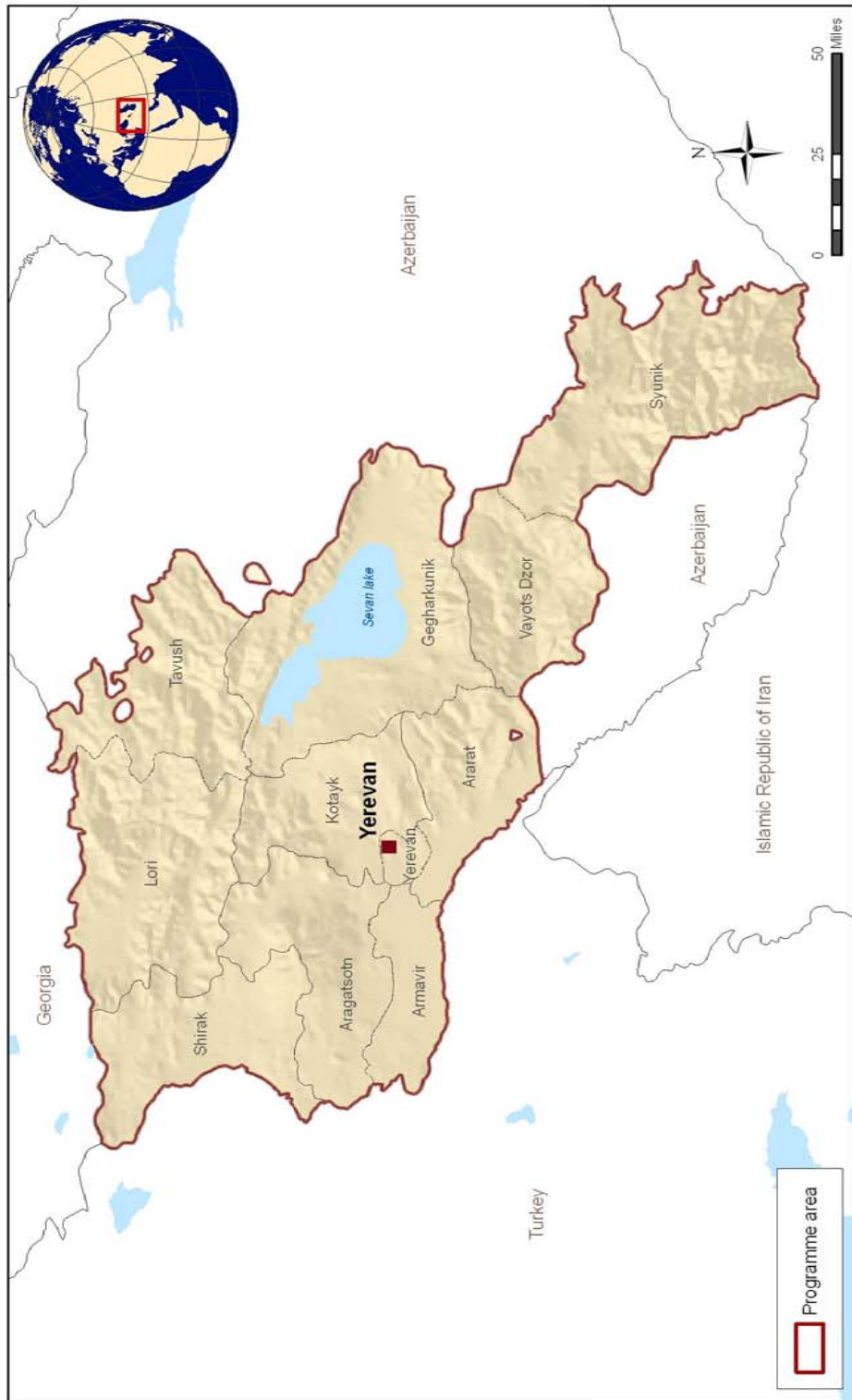
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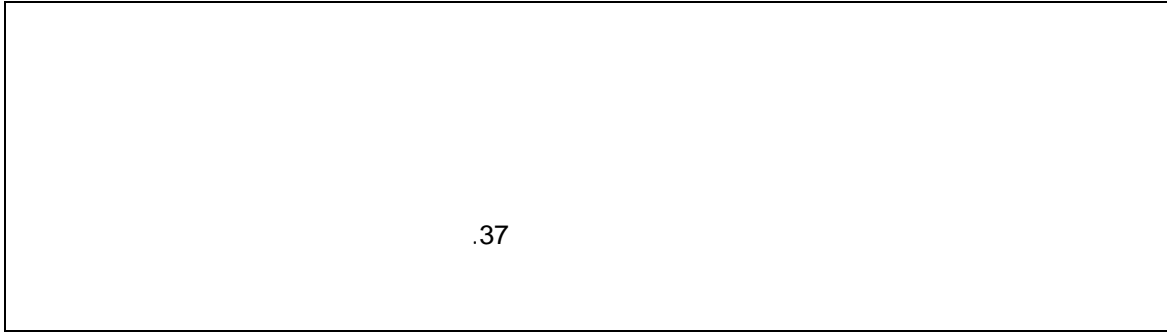


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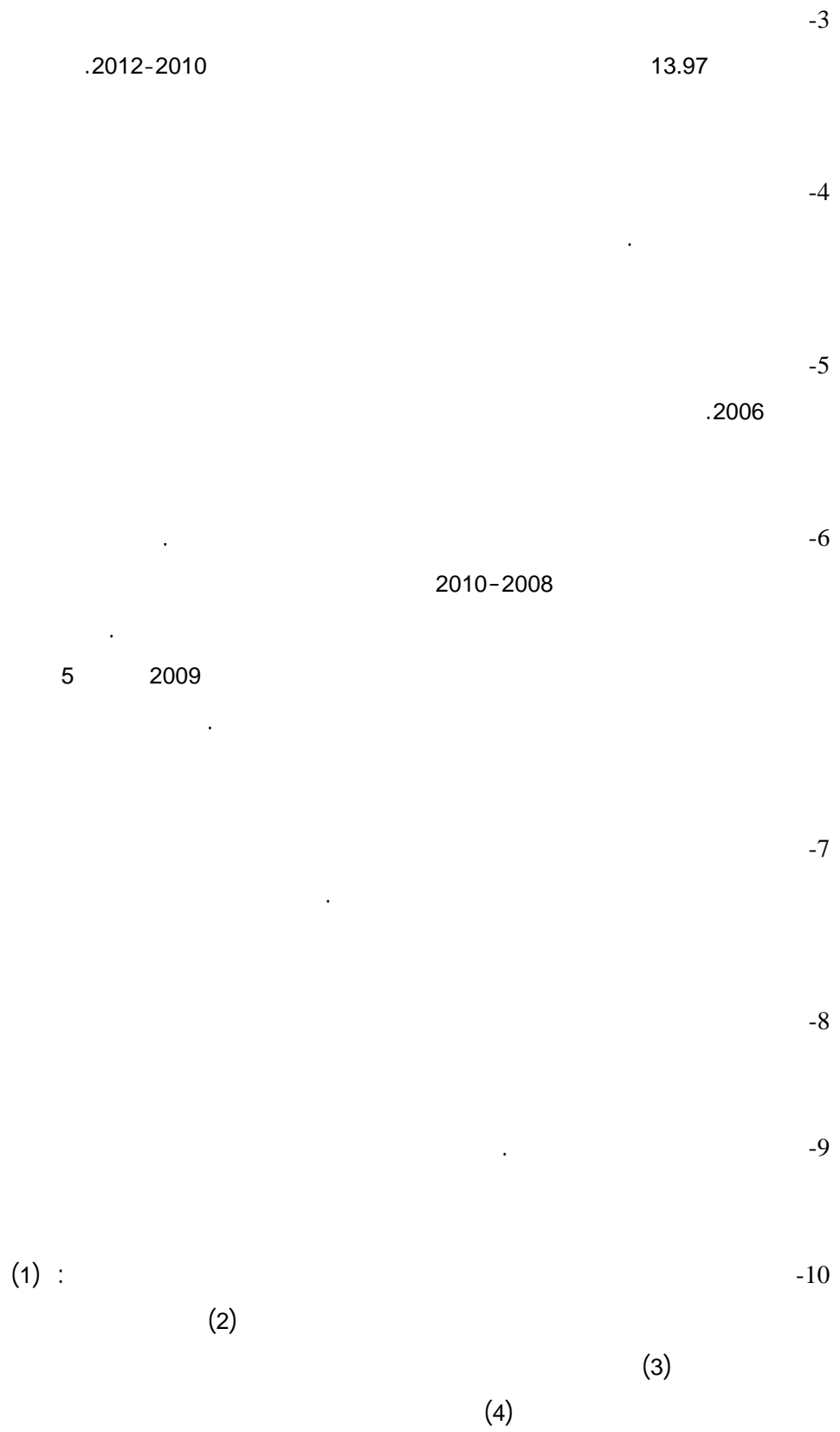
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Negotiated financing agreement: "Rural Assets Creation Programme"

(Negotiations concluded on 26 August 2010)

Loan Number: _____

Grant Number: _____

Programme Title: Rural Assets Creation Programme (the "Programme")

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

and

the Republic of Armenia (the "Borrower")

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

hereby agree as follows:

WHEREAS:

- A) The Fund has agreed to provide financing to support the Rural Assets Creation Programme in the Republic of Armenia;
- B) The Borrower intends to obtain from the Organisation of the Petroleum Exporting Countries ("OPEC") Fund for International Development ("OFID") financial assistance approximately in the amount of twenty million United States dollars (USD 20 000 000) to assist on financing 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, as may be amended 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.
3. The Fund shall provide a Loan and a Grant to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.
4. The term Borrower shall be used in this Agreement to refer both to the Borrower of the Loan and to the Recipient of the Grant.

Section B

- 1 (a) The amount of the Loan is eight million nine hundred thousand Special Drawing Rights (SDR 8 900 000).
- 1 (b) The amount of the Grant is three hundred and thirty thousand Special Drawing Rights (SDR 330 000).
- 2 The Loan is granted on hardened terms.
- 3 The Loan Service Payment Currency shall be the US dollar.
- 4 The first day of the applicable Fiscal Year shall be 1st January.
- 5 Payments of principal and service charge shall be payable on each 1st February and 1st August.
- 6 The Programme Analysis and Administration Unit ("PAAU") shall operate three Programme Accounts: (a) a Programme Account for operational expenses ("Operational Programme Account"), a Programme Account for infrastructure expenses ("Infrastructure Programme Account") and a Programme Account for support to the fruits and nuts sector ("Fruit and nuts sector Programme Account"). The PAAU shall also operate two accounts designated to receive funds in advance in USD, one for the Loan and one for the Grant ("Designated Accounts"). The Programme Accounts and Designated Accounts shall be managed by the Director of the PAAU or any other person designated to act on his or her behalf by the Borrower.
- 7 The Borrower shall provide counterpart financing for the Programme in the amount of about USD 3 300 000 for infrastructure in cash contribution, as well as necessary funds to cover taxes, including customs and social payments.

Section C

- 1 The Lead Programme Agency ("LPA") shall be the Prime Minister's Office of the Borrower.
- 2 The following are designated as additional Programme Parties:
 - (a) the PAAU as described in paragraph 6 of Schedule 1 hereto; and
 - (b) Fruit Armenia ("FA") as described in paragraph 7 of Schedule 1 hereto.
- 3 The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Programme supervised by the Fund.

Section E

- 1 The following is designated as an additional ground for suspension of this Agreement: the Borrower has not entered into a Subsidiary Financing Agreement as described in paragraph 7.3 of Schedule 1 by the end of the first Programme Year.

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

- (i) the Governmental Decree, confirming PAAU, shall have been issued in accordance with paragraph 6.1 of Schedule 1; and
- (ii) A Programme Steering Committee ("PSC"), as described in paragraph 5 of Schedule 1, shall have been established.
- (iii) The Borrower shall have made a deposit in the Infrastructure Programme Account in an amount equivalent to one million and one hundred thousand US Dollars (USD 1 100 000) to support infrastructure investment under the Programme.

(b) Withdrawals to finance Fruit Armenia under category IV of Schedule 2 hereto shall be limited to USD 300 000 until a Performance Contract, as described in paragraph 7.4 of Schedule 1, has been entered into between the Borrower and FA.

3. This Agreement is subject to ratification by the Borrower, and shall enter into force upon receipt by the Fund of an instrument of ratification in accordance with the Borrower's legislation.

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

For the Fund:

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

For the Recipient:

Ministry of Finance
1 Melik – Adamyan Str.
Yerevan 0010
Republic of Armenia

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population.* The beneficiaries of the Programme shall be poor smallholder women and men and key stakeholders in the fruit and nut value chains as well as the general population of disadvantaged mountain area communities of Armenia.

The Programme Area shall cover the marzes of Shirak, Lori, Tavush, Aragatsotn, Gegharkunik, Vayots Dzor and Syunik ("Programme Area").

2. *Goal.* The overall goal of the Programme is to reduce rural poverty in Armenia.

3. *Objective.* The Programme's objectives are: (i) the establishment of an economically viable fruits and nuts sector with backwards linkages to poor rural smallholders; (ii) the establishment of an entity to be fully privatised for delivery of services to the fruits and nuts sector; and (iii) the removal of infrastructure bottlenecks that inhibit increasing participation of the economically active rural poor in enhanced commercialization of the rural economy.

4. *Components.* The Programme shall consist of three components: (i) Support to Fruits and Nuts Sector; (ii) Rural Infrastructure; and (iii) Programme Management.

4.1. Component 1: Support to Fruits and Nuts Sector. This component seeks to increase poor smallholder assets and incomes in the Programme Area through linking them to the Armenian fruit and nut value chains. This will comprise the establishment of Fruit Armenia (FA) as a Joint Stock Company. FA shall carry out the following functions:

- (a) Maintaining a central nursery, a tissue laboratory, and mother trees for multiplication of root stock and other selected varieties;
- (b) Orchard establishment, contracting farmers in the nuts and fruit sector and training of contract farmers in all aspects of orchard management;
- (c) Maintaining a pack house and processing units for fruits and nuts; and
- (d) Providing support for marketing on domestic and international markets, organizing the logistics of sales, branding and advertising, and post-sales services.

This component shall further improve the overall reputation and visibility of Armenia's horticultural produce on the international market. To this end the support shall be provided for (i) agro-related laboratories; (ii) export promotion through the Union of Exporters of Armenia; and (iii) training of poor smallholder fruits and nuts producers not contracted by FA as well as private sector nurseries.

4.2. Component 2: Rural Infrastructure. This Component shall support investments in rural infrastructure in order to: (i) improve livelihoods and economic growth in disadvantaged rural communities; and (ii) support the achievement of the full economic potential of the beneficiary clusters identified under the support given to the fruits and nuts sector under the Programme. This shall comprise support to the construction or rehabilitation of public utilities located in disadvantaged mountain areas with high poverty incidence, including the construction of water supplies, natural gas supplies, and storm water drainages, as well as supporting the construction of rural roads and ancillary structures that complement and strengthen Programme investments.

4.3. Component 3: Programme Management. This component shall support Programme management as outlined in Section II below.

II. Implementation Arrangements

A. General

5. *Programme Steering Committee ("PSC")*

5.1 A Programme Steering Committee with a composition acceptable to the Fund shall be established. The PSC shall have the overall responsibility for management and implementation of the Programme and shall report to the Lead Programme Agency.

6. *Programme Analysis and Administration Unit ("PAAU")*

6.1. A Government Decree shall be issued to confirm that the current PAAU of the Farmer Access Market Programme ("FMAP"), partially financed by the Fund through a Programme Financing Agreement dated 8 January 2008, shall carry out the administrative, financial and operational responsibilities of the Programme. The PAAU shall enjoy administrative, financial and operational autonomy and shall be empowered to enter into contractual relations with third parties. The staff recruitment and final composition of the PAAU shall be subject to no objection by the Fund. The PAAU shall report to the Lead Programme Agency.

6.2. The main tasks of the PAAU shall be to carry out the monitoring and overall programming and budgeting of Programme activities, establishing the FA and oversee the implementation of infrastructure activities.

B. Component Management

7. *Fruit Armenia (FA)*

7.1. The Borrower, through the PAAU, shall establish FA as a Joint Stock Company under Armenian law. FA's Statutes shall be subject to no objection by the Fund and shall outline that, apart from commercial viability, its purpose is poverty reduction through economic development in rural Armenia. The FA shall draw a 3-5 year business plan, subject to no objection by the Fund, which shall include a divestment strategy regarding the public ownership of FA.

7.2. Ownership of all shares in FA shall initially be with the Borrower, but gradually transferred to strategic investors and farmers contracted by FA through the sale of shares in FA. A Shareholders' Agreement, subject to no objection by the Fund, shall define the shareholders' relations in FA.

7.3. The Borrower shall enter into a Subsidiary Financing Agreement with FA, which shall provide that the Borrower will enter into contracts with FA to provide financing to FA as follows: (i) USD 1.7 million in the form of equity; (ii) USD 1.5 million in the form of a grant; and (iii) USD 7 million in the form of a loan. Both the Subsidiary Financing Agreement and the above-mentioned contracts shall be subject to no objection by the Fund.

7.4. The Borrower shall enter into a Performance Contract with FA to define, among others: (i) the development and commercial objectives and targets of FA; (ii) compensation of Management of FA, as described in paragraph 7.6 below; and (iii) the modalities for subcontracting services provided by FA to the private sector. The contents of the Performance Contract shall be subject to no objection by the Fund.

7.5. The FA shall have a Board of Directors, comprising of a majority of representatives of the private business sector with interest in the successful development of FA, and Government representatives. Chairmanship of the Board of Directors shall rotate annually. Each appointment by the Borrower of a member of the Board of Directors shall be subject to no objection by the Fund.

7.6. The Board of Directors shall recruit on a competitive basis the Management of FA including a locally recruited Executive Director, an internationally recruited Deputy Executive Director, a Senior Technical Advisor, a Financial Manager, an Accountant, a Lawyer, a Value Chain Manager and a Business Development Advisor. The Borrower, in its capacity as shareholder in FA, shall ascertain that the terms of reference, qualifications as well as recruitment of the Management of FA receive no objection by the Fund.

7.7. The PAAU shall initially assist in the establishment of FA. This shall entail, among others, assistance in recruitment of staff, procurement, transfer of funds and financial management. Once fully established, FA shall function fully independently of PAAU and be governed solely by its Board of Directors and shareholders. The PAAU shall also provide support to: (i) agro-related laboratories; (ii) export promotion through the Union of Exporters of Armenia; and (iii) training of poor smallholder fruits and nuts producers not contracted by FA as well as private sector nurseries.

7.8. Implementation of Component 2 'Rural Infrastructure', shall be the responsibility of the PAAU. The main tasks of the PAAU shall include: (i) pre-qualification of rural infrastructure investments; (ii) screening and ranking of rural infrastructure investments; (iii) final selection of rural infrastructure investments; (iv) procurement of civil works; (v) contracting of persons or entities for the supervision of civil works; and (vi) providing of guidance to persons or entities that have been contracted for the supervision of civil works.

7.9. The PAAU shall continue to support and monitor the activities carried out by the Revolving Funds established under the previous IFAD projects (the North-West Agricultural Services Project, the Agricultural Services Project, the Rural Areas Economic Development Programme and the FMAP), as well as any other activity, as appropriate, provided for in the financing agreements between IFAD and the Borrower regarding said IFAD projects.

Schedule 2*Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (SDR)	Grant Amount Allocated (SDR)	Percentage of financing under the Loan and Grant
I. Civil works:			
a) Contracted works for rural transportation infrastructure	730 000		75% net of taxes
b) Design and supervision for rural transportation infrastructure	65 000		100% net of taxes
II. Equipment, Goods and Vehicles	110 000		100% net of taxes
III. Training, Technical Assistance and specialist services	370 000		100% net of taxes
IV. Fruit Armenia financing	6 720 000	330 000	100% net of taxes exclusive of government contribution for land
V. Recurrent costs	755 000		50% net of taxes
VI. Unallocated	150 000		
TOTAL	8 900 000	330 000	

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 and the Grant Account if the Borrower has defaulted in the performance of the 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. IFAD loan and grant proceeds shall not be used to social security charges for Programme staff to the Social Security Fund. For all such charges, the Borrower shall use the financial assistance provided by OFID, as mentioned in paragraph B) of the Preamble to this Agreement. Income taxes shall be paid by the contracted staff and individual service providers directly and shall not be retained by the PAAU or other implementing agencies.

Key reference documents

IFAD reference documents

Administrative Procedures on Environmental Assessment

COSOP 2003

IFAD Strategic Framework 2007-2010

Programme design document (PDD) and key files

Private-Sector Development and Partnership Strategy

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks	
Goal				
Rural poverty in Armenia reduced.	<ul style="list-style-type: none"> • 10% reduction in the number of rural people living on < USD 4.30/day. • At least 20% of households involved in RACP activities increase household asset ownership. 	National Statistics (NSS Poverty Profiles). Household surveys (e.g., ILCS, ADHS, RIMS). Impact assessment studies.	<p>Macro-economic environment and related policies remain conducive to investment, private sector development and trade.</p> <p>No deterioration in existing markets for fruit and nuts.</p> <p>No distortions introduced in markets for land.</p> <p>Sustainable mechanism put in place for operation and maintenance of infrastructure.</p>	
Objective				
<p>Viable fruits and nuts sector with backward linkages to poor rural smallholders established.</p> <p>Fruit Armenia fully privatised.</p>	<ul style="list-style-type: none"> • At least 10% increase in exports of fruits and nuts by PY5. • At least 10% of commercially oriented farmers in the sector have established contractual arrangements by PY5. • At least 1500 full-time and seasonal jobs created by PY5. • A minimum of 1 500 additional rural poor smallholder farmers take up at least one of improved technologies by PY5. • At least 3 000 ha of land put under fruits/nut production. • A business plan detailing key milestones for privatisation developed by PY 3. • Fruit Armenia fully privatised by PY 8. 	<p>Government export statistics.</p> <p>Farmer interviews.</p> <p>Government agricultural statistics.</p> <p>Enterprise statistics, including farms.</p> <p>Government employment records.</p> <p>Household interviews.</p> <p>Business Plan.</p> <p>Fruit Armenia accounts.</p>		
Outcomes				
Human and financial assets of participating households sustainably improved.	<ul style="list-style-type: none"> • At least a fivefold increase in the value of fruit/nut orchard land. • A reduction of at least 50% in wood used for heating/cooking in villages where gasification introduced by PY5. • At least 10% reduction in work days lost. 	Cadastral values/market studies. Government forestry/agricultural statistics. Household interviews.		
Outputs				
1. Private sector based joint stock company set up.	<ol style="list-style-type: none"> 1.1. Fruit Armenia breaks even by PY4. 1.2. At least 7 nurseries procure stocks from Fruit Armenia by PY 5. 1.3. Fruit Armenia establishes contract farming arrangements with at least 450 poor smallholder farmers by PY5. 1.4. At least 300 ha of new orchard land put under production by PY3. 	Fruit Armenia financial statements. Records from Fruit Armenia and nurseries. Fruit Armenia records. Government agricultural statistics and farmer interviews.		
2. Internationally acceptable certification facilities established.	<ol style="list-style-type: none"> 2.1. 40% increase of fruit and nut production that meets international quality standards by PY 5. 2.2. At least two certification facilities financially sustainable by PY 5. 	Laboratory/facilities records.		
3. Rural infrastructure that facilitates commercial farming put in place.	<ol style="list-style-type: none"> 3.1. At least 15 villages connected to markets by feeder roads (40 km) by PY5. 3.2. At least 20% reduction in post-harvest losses after road construction. 3.3. Gasification of 95 villages (about 100 000 households) completed by PY 5. 3.4. Improved drinking water supply provided to at least 35 villages (33 000 households) by PY 5. 	PAAU records (contracts). Farmer interviews.		

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