

Document: EB 2011/104/R.35/Rev.1
Agenda: 10(e)(iv)
Date: 13 December 2011
Distribution: Public
Original: English

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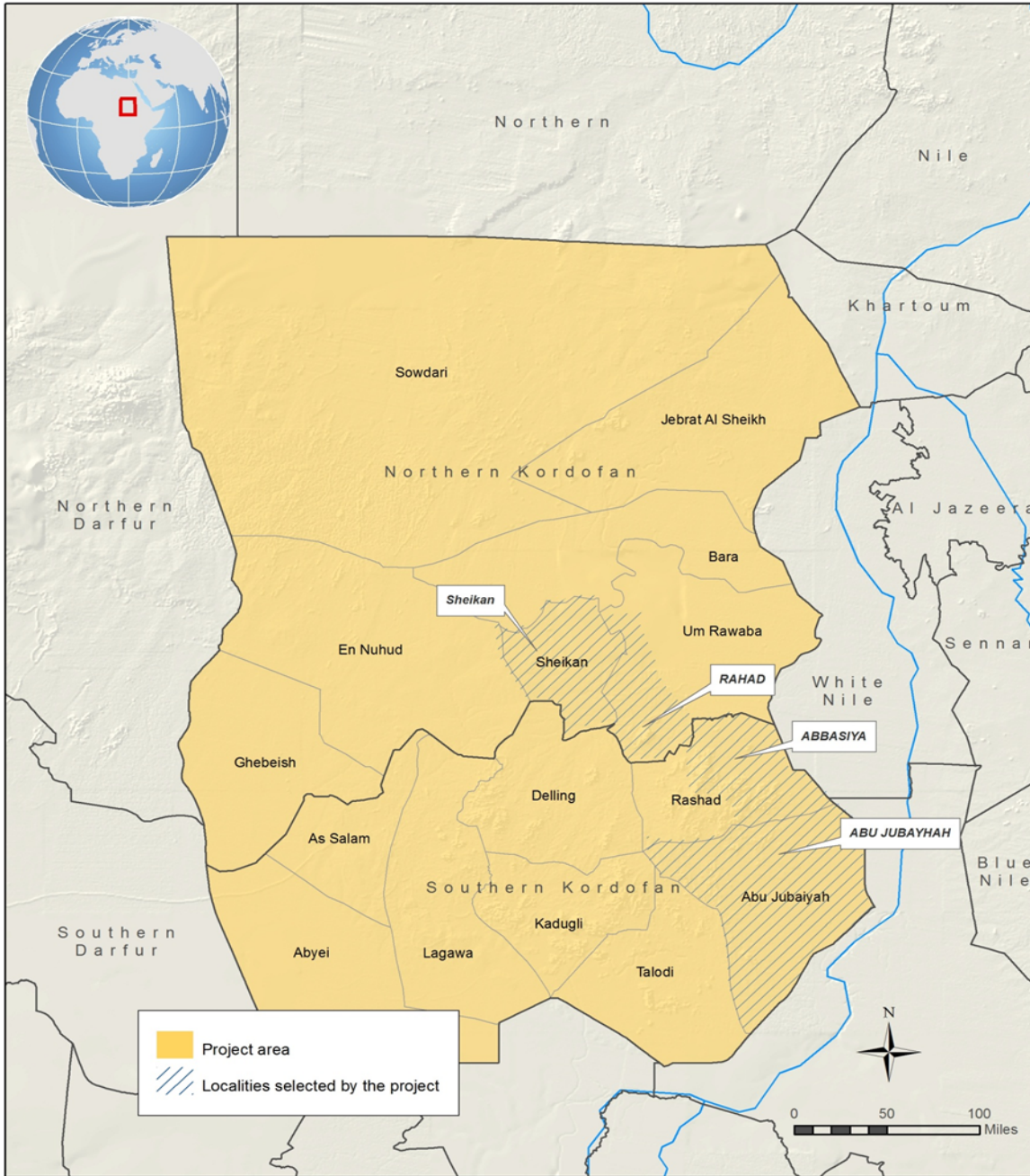
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Negotiated financing agreement: "The Republic of Sudan"

(Negotiations concluded on 17 November 2011)

FINANCING AGREEMENT

Grant Number: _____

Project Title: Seed Development Project (SDP) (the "Project")

The Republic of the Sudan (the "Recipient")

and

the International Fund for Agricultural Development ("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) and the Allocation Table (Schedule 2).
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. IFAD shall provide a Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is SDR 6 350 000.
2. The first day of the applicable Fiscal Year shall be 1 January.
3. There shall be a Project Account denominated in local currency for the benefit of the Programme Coordination Unit in a commercial bank acceptable to IFAD.
4. In accordance with Section 4.04(d) of the General Conditions, amounts withdrawn by the Recipient in advance shall be held in an account designated in EURO for that purpose in a bank acceptable to IFAD.
5. The Recipient shall provide counterpart financing for the Project in local currency equivalent to USD 3.42 million, broken down as follows: USD 1.46 million to cover taxes and duties, USD 1.57 million to cover insurance premium as per government policy and USD 0.39 million as contribution to recurrent costs.

Section C

1. The Lead Project Agency shall be the Federal Ministry of Agriculture.
2. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by IFAD.

Section E

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

For the Recipient:

Minister
Ministry of Finance and National Economy
P.O. Box 700
Khartoum, Sudan

For IFAD:

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 in six (6) original copies, three (3) for IFAD and three (3) for the Recipient.

REPUBLIC OF THE SUDAN

Authorized Representative

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Project area and target population:** The Project area consists of four localities: (i) in North Kordofan state, the localities of Rahad and Sheikan; (ii) in South Kordofan state, the localities of Abbassiya and Abu Gubeiha. These four localities are contiguous, easily accessible by road and have diversified production systems. The target population is composed of smallholder producers, traders/ agro-dealers, women and women headed households, youth.
2. **Project financing.** The total cost of the Project is USD 17.46 million with USD 3.42 million contribution from the Government of Sudan, USD 10.07 million from IFAD, USD 2.5 million from the Seed Growers and Grain Producers and USD 1.48 million from the Private Sector Seed Company.
3. **Project goal and objective:** The Project's overall goal is to improve food security, incomes and resilience to shocks of the smallholder producers (including youth and women) in rainfed areas of North and South Kordofan. Its development objective is to increase crop productivity for about 108,000 smallholder producers adopting certified seeds in North and South Kordofan.
4. **Project phasing.** The Project shall be implemented over six years in three inter-linked stages: (i) a pre-entry into force phase where activities necessary for the timely start-up of the project will need to be undertaken during the period December 2011 to entry into force; (ii) a calibration phase during 2012-2014, and (iii) an intensification/ up-scaling stage and consolidation phase during 2015-2017. At the conclusion of the calibration phase, the Recipient and IFAD shall assess the achievement of the following 7 indicators:
 - (i) The average net profits of the private seed company reach SDG 245,000 by 2014;
 - (ii) Average cash returns per seed growing household reach SDG 1700/HHd/yr in 2014
 - (iii) The average yearly net demand for certified seeds by GPG and other farmers is at least 300 Metric Tons (MT);
 - (iv) 10,000 smallholders purchase certified seeds in 2014;
 - (v) Agricultural Research Corporation (ARC) has on hand 2 years' supply of registered seeds required by the Private Seed Company (PSC) which is equivalent to about 90 MT for the period 2013-2014;
 - (vi) Plant variety protection (PVP) legislation promulgated in 2012 and in full enforcement in 2014;
 - (vii) National Seed Administration (NSA) laboratory receives International Seed Testing Association (ISTA) accreditation.

Project activities shall be adjusted according to the recommendations of the mid-term review.

5. **Project components and outcomes:** The Project shall have four main components, as follows.

(a) Component 1: Institutional and Regulatory Environment Strengthening and Development. The outcome of this Component shall be a conducive policy and institutional environment for the seed industry. There shall be three outputs: (i) drafting and enforcing a plant variety protection legislation which will encourage private sector investment in plant breeding, seed production and other

agricultural activities that exploit plant varietal uniqueness; (ii) improving the National Seed Administration's (NSA) capacity to carry out its legal mandate of monitoring the national seed system by providing resources for human capacity development, mobility, outposting of staff and upgrading of laboratories; and (iii) establishing a multi-stakeholder dialogue forum that brings together Government, the private sector, UN agencies and NGOs active in agricultural development and farmers to discuss seed issues on a regular basis.

(b) Component 2: Improvement of the Seed Production System. The outcome of this Component shall be an economically viable seed production system that meets farmers' demands and expectations is in place. There shall be four outputs: (i) the improvement of the Agricultural Research Corporation's (ARC) capacity to carry out demand driven research through participatory research; (ii) the production of breeder, foundation and registered seed for the Project by the ARC; (iii) the third output is an extension system that has been empowered to provide technical support to seed producer enterprises and other community farmers. Empowerment will be through the provision of resources for mobility, human capacity development and extension tools notably demonstrations and farmer field schools; and (iv) the smallholder farmers are enabled to produce certified seed through mobilisation, training and input supply.

(c) Component 3: Support Seed Supply/Market Development. The outcome of this Component shall be an improved seed supply system with improved market delivery mechanisms in place. There shall be three outputs: (i) to establish marketing channels and make the marketing channels operational; (ii) to develop the effective demand for certified seed; and (iii) to link seed producer enterprises to financial institutions, input suppliers, commodity traders and agro processors.

(d) Component 4: Project Management and Coordination. The outcome of this Component shall be that the Project is efficiently and effectively managed to achieve Project results with knowledge management in the seed industry. The Component shall have three outputs namely: (i) establish a Project management and coordination structure; (ii) systematise the financial management, audit and procurement procedures; and (iii) reinforce the existing Monitoring and Evaluation (M&E) and Knowledge Management (KM) systems.

II. Implementation arrangements

6. **Governance of the Project.** The Project shall adopt the same governing bodies at national and state levels as the Western Sudan Resources Management Programme (WSRMP). The membership of the governing bodies will be rightsized to reflect the participation of the key stakeholders in the implementation of the Project. The composition and operation of the governing bodies will be detailed in the project implementation manual (PIM).

7. **Programme Coordination Unit.** The Project shall be managed by the Programme Coordination Unit (PCU) of the WSRMP. The composition of the PCU will be expanded to reflect the technical and financial expertise required to implement the Project. Recruitment and termination of professional staff will be subjected to IFAD no objection. The composition of the PCU will be detailed in the Project Implementation Manual.

8. **Component-wise implementation.** The role of each participating agency is summarized below and shall be further detailed in the Project Implementation Manual.

(a) Component 1. The National Seed Administration (NSA) shall be responsible for the implementation of the activities under this Component with the aim to build its regulatory capacity. NSA shall prepare the plant variety protection legislation and ensure its subsequent enforcement, as well as formulate in a participatory manner a breeding

strategy. It shall refurbish its central laboratory for seed testing and complete the formalities for its accreditation by the International Seed Testing Association (ISTA). It shall organize relevant training for its staff as well as the staff of State Ministries of Agriculture and the breeders. In order to be more effective at field level, the NSA shall outpost its staff in North and South Kordofan and shall work in collaboration with the Ministries of Agriculture in the states of North and South Kordofan in seed certification, with the understanding that by law, NSA is the sole entity responsible for seed inspection and certification in Sudan. The NSA shall commission the design of M&E system that allows it to perform its regulatory role. As part of its efforts to support the seed industry, the NSA shall convene on a bi-annual basis, a stakeholder forum to promote dialogue between the regulatory, business and users' entities, at both federal and state levels.

(b) Component 2. The Component activities cover the production chain from foundation seeds to the processing and storage of certified seeds. The Agriculture Research Corporation (ARC) shall be responsible for the production of foundation and registered seeds which it shall supply to the selected seed companies. Over the Project Implementation Period about 1-2 seed companies are expected to be competitively recruited by the Project to enter into contract farming arrangements with seed growers' groups. The seed multiplication extension sub-teams shall be responsible for the formation of the seed growers' groups and preparing them for contract farming with the seed companies. The ARC shall undertake a participatory breeding research to develop improved varieties based on the landraces.

(c) Component 3. During the calibration phase, the competitively selected seed company shall receive financial support from the Project in form of a one-off grant to cover the costs of the purchase of the production of certified seeds from the seed growers groups at harvest. The grant shall be the subject of a subsidiary agreement between the Recipient and the private sector company. The subsidiary agreement shall be reviewed and endorsed by the Ministry of Finance and National Economy and submitted to IFAD for no objection. The grant shall be disbursed against a business plan to be developed by the seed company as part of the tendering process. As part of their contractual obligations with the Project, the seed companies shall be required to develop their network for retail sale of certified seeds to smallholders in the project area. The multi-disciplinary extension teams shall be responsible for building the capacity of established and new farmers' groups – also called grain producer groups - in the adoption and renewal of certified seed varieties and use of the appropriate agricultural practices. The Ministries of Agriculture in the states of North and South Kordofan in collaboration with NSA shall establish and operate a seed market database. The extension teams shall facilitate the linkages between the grain producers and the seed agents, other input suppliers, rural finance service providers, insurance companies and the farmers' groups. These linkages would enable grain producers to develop an effective demand for certified seeds and renew their stock periodically.

(d) Component 4. The implementation and coordination of the Project shall be assimilated within the WSRMP for efficiency and effectiveness reasons. The PCU of the WSRMP shall be expanded to include a Seed Specialist who shall provide technical backstopping and participate in the monitoring of SDP implementation; as well as an accountant to handle SDP accounts under the supervision of the financial manager of the PCU. As of Project Year 3 the state level management of the project shall be streamlined in the State Ministries of Agriculture, while the PCU shall remain under Federal Ministry of Agriculture as the lead agency.

9. **Project Planning.** While the first AWPB shall be prepared within three months after Project start-up at State level, subsequent AWPBs shall be prepared at Locality level during the third quarter of each Project Year for the following year. The process for the preparation, discussion and endorsement of the AWPB shall be described in detail in the

Project Implementation Manual. The AWPB shall be submitted to IFAD for no objection in November of each year.

10. **Monitoring and Evaluation (M&E).** The M&E system of WSRMP shall be expanded to incorporate the Project. The M&E system shall be aligned with the Government's monitoring framework for agricultural development projects as well as with the Results and Impact Measurement System developed by IFAD. The M&E system shall be elaborated in the Project Implementation Manual.

11. **Project Implementation Manual.** The Project Implementation Manual shall be formulated, validated by the national and state governing bodies and submitted for IFAD no objection within 6 months from the date of entry into force of this Agreement. The Project Implementation Manual may be amended or otherwise modified only with the prior consent of the IFAD.

Schedule 2*Allocation Table*

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

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Civil Works	150 000	100% net of taxes
II. Fund	330 000	100% net of Government, beneficiaries and PSC contribution
III. Vehicles	550 000	100% net of taxes
IV. Equipment	760 000	100% net of taxes
V. Technical Assistance		
a. International TA	220 000	100% net of taxes
b. National TA	1 100 000	100% net of taxes
VI. Training	1 800 000	100% net of taxes
VII. Contracted services	210 000	100% net of taxes
VIII. Recurrent Costs	630 000	100% net of taxes
Unallocated	600 000	
TOTAL	6 350 000	

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

"Fund" means the contribution of the Project to the insurance premium for seed growers and a one-off grant to the Private Seed Company (PSC) during the calibration phase.

"National technical assistance" refers to all assignments requiring national expertise for the development of thematic studies and strategies supporting Project objectives, establishment of an M&E and knowledge management system, and project coordination.

"Contracted services" means the costs incurred by the project during supervision by the governing bodies of the Project, the Government and IFAD, the annual audit and the contract with the Central Coordination Unit for procurement services.

2. *Retroactive financing* As an exception to Section 4.08(a) (ii) of the General Conditions, expenditures of up to the equivalent of USD 473 000 incurred after 1 December 2011 but before the entry into force of this Agreement for (a) the costs of rehabilitation of the National Seed Administration office, staff accommodation and out-posting of its staff to the state level (categories I and III); and (b) support to the Agricultural Research Corporation in the production of breeder and foundation seeds (category IV (b) and (c)) and for carrying out a detailed assessment of the private seed companies (category IV (a) and IV (b)), may be considered Eligible Expenditures, notwithstanding the fact that they have been incurred before the start of the Project Implementation Period.

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
COSOP Goal			
Food security, incomes and resilience to shocks of the smallholder producers (including youth and women) in rainfed areas of North and South Kordofan improved.	<ul style="list-style-type: none"> Prevalence of malnutrition in children under age of five years reduced : rate reduced from 29% to 26% (RIMS) Improved food security : food insecurity reduced from 55% to 40%. (RIMS) Increase in HH asset index: production 5 fed in qoz soils, 3 fed in gardud soils and 10 fed in clay soils doubles. 	<ul style="list-style-type: none"> RIMS baseline survey and impact survey Anthropometric and UNICEF periodic surveys Official gvt. statistical yearbooks; censuses HH income and expenditure surveys 	<ul style="list-style-type: none"> Macro-economic stability Contained insecurity events
Development Objective			
Increased crop productivity for about 100,000 smallholders using certified seeds in North and South Kordofan	<ul style="list-style-type: none"> Increase in yields of sorghum from 280 to 540 Kg/fed; groundnut from 340 to 640 Kg/ fed; sesame from 140 to 270 Kg/fed; cowpea from 180 to 340 Kg/ fed. 70,000 smallholder men and 30,000 smallholder women reporting increase in yields for all crops (RIMS) 	<ul style="list-style-type: none"> Baseline survey, Mid Term Review (MTR) and completion assessments Ministry of Agriculture crop cutting surveys and annual crop assessment Agricultural Research Corporation (ARC) and National Seed Administration (NSA) reports 	<ul style="list-style-type: none"> Expanding access to input suppliers, extension advisory services, credit and insurance
Component 1 – Strengthening and Development of Institutional and Regulatory Environment			
Outcome: Conducive policy and institutional environment for the seed industry in place	<ul style="list-style-type: none"> By laws of Seed Act 2010 in place by mid-2012 and fully enforced by 2012 Operational self-sufficiency for National Seed Administration by 2014 (RIMS) 	<ul style="list-style-type: none"> Client survey Institutional performance assessment Record on law enforcement 	<ul style="list-style-type: none"> NSA operates in an autonomous way Gvt phases out distribution of free or subsidized seeds Seed policy for the UN agencies operating in Sudan is harmonized
Outputs			
<p>1.1 Plant variety protection legislation drafted, approved and enforced.</p> <p>1.2 National Seed Administration (NSA) is capacitated to effectively monitor the multiplication and certification standards.</p> <p>1.3 Multi-stakeholder policy dialogue, with participation from youth and women in seed sector is established.</p>	<ul style="list-style-type: none"> PVP legislation promulgated by end 2012. 70 NSA staff and extension agents trained (RIMS), 30% women 1 central laboratory at the Federal level accredited to the International Seed Testing Association (ISTA) standards by 2014. 2 laboratories established and equipped in each State Bi-annual forums convened regularly from 2012 at National and State levels. 	<ul style="list-style-type: none"> Legislation document National Seed Administration activity report on number of seed crop fields certified per year, number of seed samples tested per year, no. staff trained per year National seed policy document Proceedings of bi-annual meetings 	<ul style="list-style-type: none"> Seed Council is timely appointed by the Government (target date: end 2011).
Component 2 - Improvement of the Seed Production System			
Outcome: An economically viable seed production system that meets farmers' expectations and demands in place	<ul style="list-style-type: none"> Private sector generate about SDG 245,000 net profit from sale of certified seeds in 2014 and SDG 1 million net profit in 2017 8 SGG operational in 2014; 32 operational in 2017 	<ul style="list-style-type: none"> Seed company activity report Surveys at MTR and completion 	<ul style="list-style-type: none"> Interest of the seed companies to develop seed retail market for smallholders

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none"> ▪ Cash returns per seed growing HH reach SDG 1700/HH/y in 2014 and SDG 2800/HH/ y in 2017) 		
<p>Outputs</p> <p>2.1 ARC capacitated for implementation of participatory breeding research</p> <p>2.2 High quality and sufficient quantity of breeder/foundation/registered seeds produced by Agricultural Research Corporation (ARC).</p> <p>2.3 The extension system is strengthened to support target seed producer enterprises.</p> <p>2.4 Community-based Seed Grower Groups enterprises are enabled to produce certified seeds of improved and traditional varieties.</p>	<ul style="list-style-type: none"> ▪ Appropriate sorghum seed variety and cultivation practices for gardud soils tested and ready for dissemination by 2014 ▪ At least 1 new variety of millet in NK, and sesame for NK and SK ▪ Number of participatory research committees operating for ARC stations in El Obeid and Kadugli. ▪ Production of 23 MT of registered seeds in 2012, 90 MT for 2013 and 2014. ▪ 30 men and 15 women extension agents trained on seed production and marketing ▪ 400 MT of certified seeds produced by 2014, and 2500 MT produced by 2017 ▪ 100 women and 220 men accessing advisory services for seed production by 2014; and 380 women and 900 men by 2017 (RIMS) 	<ul style="list-style-type: none"> ▪ ARC reports on number of varieties released per year and maintenance record of released varieties ▪ ARC activity report on breeder/foundation/registered seed production statistics for the two States; frequency of varietal replacement in the national varietal catalogue; ▪ Project monitoring reports ▪ Baseline survey, MTR and completion assessments ▪ Project monitoring reports on quantity and quality of seed produced by groups in project years 	<p>Procedures for ARC-ASARECA collaboration timely implemented</p> <p>ARC adequately equipped to produce sufficient quantities of breeder & foundation/registered seed</p> <p>Sufficient human resources for two 4 member team mobilized</p> <p>SGG and seed companies adhere to respective contractual obligations</p>
Component 3 - Support Seed Market Development			
<p>Outcome: <i>Improved seed supply system with improved market delivery mechanisms in place.</i></p>	<ul style="list-style-type: none"> ▪ 105 000 fed cultivated with certified seeds in the project area in 2014; 690 000 fed in 2017 and 1 million by 2018 (RIMS) ▪ 10 500 farmers use certified seeds and SWC by 2014 in project area and 69 000 farmers by 2017; 30% women (RIMS) 	<ul style="list-style-type: none"> ▪ Baseline survey, MTR and completion assessments 	<p>Seed companies able to mobilize SDG 6 million for scaling up phase</p>
<p>Outputs</p> <p>3.1 Marketing of certified seeds to smallholder producers established</p> <p>3.2 Farmers empowered to use certified seeds and improved techniques.</p> <p>3.3. Seed Market Database in place</p> <p>3.4 Increased access of farmers/ grain producers to credit and microfinance</p>	<ul style="list-style-type: none"> ▪ Number of farmers reached through the PSC marketing: 10 500 in 2014 and 69 000 in 2017 ; with 30% women ▪ Demand for certified seeds reaches at least 300 MT in 2014 and at least 2200 MT in 2017 ▪ No. users of the seed monitoring database, by type ▪ ABSUMI branch operational in Sheikan in 2012 ▪ Total borrowers are at least 3,000 in 2014 and at least 40,000 in 2017 	<ul style="list-style-type: none"> ▪ Seed company reports ▪ Client survey for farmers ▪ Baseline survey, MTR and completion assessments ▪ Project monitoring reports ▪ Records from Bara'ah, ABSUMI, ABS and other banks ▪ Records from Sheikan Insurance Co. 	<p>Farmers satisfied with quality of seeds provided by licensed seed agents</p> <p>Farmers access to credit and insurance facilitate purchase of certified seeds</p> <p>SMoA and NSA agree on procedures for data collection and dissemination</p> <p>MoU signed between PCU and banks/ MFI to facilitate access of farmers/grain producers to micro-credit SDG 500-600/ loan</p>