President’s report

Proposed loan and grant to the Republic of Turkey for the Uplands Rural Development Programme

Note to Executive Board representatives

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Abbreviations and acronyms

AWP/B annual workplan and budget
CIP cluster investment partnership
CPMU central programme management unit
EDC economic development cluster
KGF Kredi Garanti Fonu (Credit Guarantee Fund)
M&E monitoring and evaluation
MFAL Ministry of Food, Agriculture and Livestock
MSP multi-stakeholder platform
PDA Provincial Directorate of Food, Agriculture and Livestock
RPMU regional programme management unit
SSTC South-South and Triangular Cooperation
URDP Uplands Rural Development Programme
Map of the programme area

Uplands Rural Development Programme

Republic of Turkey
Republic of Turkey
Uplands Rural Development Programme

Financing summary

Initiating institution: IFAD
Borrower: Republic of Turkey
Executing agency: Ministry for Food, Agriculture and Livestock
Total programme cost: EUR 98.14 million
Amount of IFAD loan: EUR 35.15 million
Amount of IFAD grant: EUR 0.90 million
Terms of IFAD loan: Ordinary: Maturity period of 18 years, including a grace period of 5 years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate.
Financing gap: EUR 32.95 million
Cofinancier: Kredi Garanti Fonu (KGF)
Amount of cofinancing: EUR 2.50 million
Contribution of borrower: EUR 15.70 million
Contribution of beneficiaries: EUR 10.94 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Turkey for the Uplands Rural Development Programme, as contained in paragraph 41.

Proposed loan and grant to the Republic of Turkey for the Uplands Rural Development Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Turkey is an upper-middle-income country with a population of 80 million and a GDP of US$862 billion in 2016 (World Bank; Economist Intelligence Unit). There has been consistent poverty reduction in Turkey since the early 2000s, driven by growth in the construction and services sectors. The most recent figures show that absolute poverty decreased from 23.8 per cent in 2003 to 4.4 per cent in 2009, settling at 1.6 per cent in 2014. However, relative poverty is higher (15 per cent in 2014), as measured by the poverty rate (share of the population earning less than 50 per cent of median disposable income). Moreover, substantial socio-economic development disparities continue to exist in Turkey – between rural and urban areas, and in particular between lowland and upland areas and between the western and eastern provinces. With a rural poverty headcount ratio of approximately 5.13 per cent at the national poverty line, versus 0.64 per cent among the urban population (2013 Turkstat), there are far higher poverty rates in rural areas and a higher concentration of poverty in upland areas. Turkey’s transition to upper-middle-income country status has not ended poverty in the country.

2. Agriculture is no longer Turkey’s main driver of economic growth. The relative importance of agriculture has declined from 10 per cent of GDP in 2002 to 7 per cent in 2015, with an even stronger decline in the share employed in the sector, which partly reflects increased productivity and the effects of land consolidation. Thus, in absolute terms, agricultural GDP has more than doubled in that time frame, while exports have more than quadrupled – a testimony to Turkey’s rising status as a major international agricultural exporter. However, agriculture is developing into a dual economy. The rise of highly competitive and large-scale industrial farmers in coastal and plains areas has widened the gap with the all the rest – especially in mountain areas, where economies of scale are harder to achieve. In the latter case, farmers are also often disadvantaged by high transportation costs for both inputs and produce, with the disadvantage further compounded by fragmented smallholdings.

B. Rationale and alignment with government priorities and RB-COSOP

3. IFAD has been a partner of the Government of Turkey for more than three decades, with an unwavering focus on inclusive rural development. A consistent focus on high integrity in project execution and a robust partnership with the Ministry of Food, Agriculture and Livestock (MFAL), farmers, processors and rural service providers has enabled transformative impact and rural poverty reduction. Now more than ever, there is a need to leverage IFAD’s competencies to overcome the challenges and make Turkey’s upland areas more resilient and competitive. The main theory of change upon which the Uplands Rural Development Programme
(URDP) rests is that IFAD can help drive the transformation of the uplands’ economy. This will be achieved through support for more resilient, competitive rural farmers and agribusinesses that will generate employment for poor rural labour and enhance the incomes of small farm enterprises. Complementing this main strategy will be a specific focus on those poor smallholders – particularly women and youth – with the potential to graduate into fully commercial farming and attain the level of competitiveness required to gain market share.

4. IFAD’s added value is the experience, knowledge and learning dimensions it can bring to Turkey in dealing with poor rural smallholders. The Government requires technical support in addressing the many policy, legislative and administrative requirements associated with existing regional disparities, and in particular with remote upland areas where smallholders reside. Indeed, MFAL requires incremental capacity to articulate and deliver a plan for investing in inclusive approaches to agricultural and rural development that respond and integrate solutions to the challenges faced by poor smallholder families, who mainly live in upland areas. The request to support the URDP is an effort to fill these capacity gaps. The programme will be used as a vehicle to test and promote approaches to inclusive and sustainable agricultural development that will provide a basis for influencing pro-poor policy, strategy and investments to promote smallholder agriculture. A key instrument will be the grant to promote South-South and Triangular Cooperation.

5. IFAD sees the request as a valued opportunity to contribute to the reduction of rural poverty in Turkey and to leverage this to participate in the process of agricultural and rural policy formulation in the region at large. Two learning streams will be promoted by the URDP:

(a) The first is to work with the existing Kredi Garanti Fonu (KGF – Credit Guarantee Fund) to develop and market appropriate financial products – currently out of reach for smallholder farmers – and within this to develop a credit guarantee facility that will enable adequate access by smallholder farmers. The KGF will initially inject its own resources, approximately EUR 2.5 million, to set up this new facility. This will allow IFAD to undertake policy engagement with the Government aimed at revising its rural finance policy and legislative framework. Once proven, the facility is expected to leverage partnerships with commercial banks and other interested partners, such as the European Investment Fund, to expand rural finance services to a larger number of smallholder farmers.

(b) The second is to implement the “economic development cluster” (EDC) approach in addressing localized challenges that constrain smallholder production and the marketing of the key commodities grown in upland areas. A strong focus on innovation and knowledge generation will motivate policy engagement, which will offer the Government the opportunity to draw on the experience of implementing the approach to adjust its own policies, strategies and investments for smallholder agricultural development – including by simply replicating the approach more widely in upland areas. Embedding delivery of this programme within the structures of key local stakeholders in the Government, the private sector and farmers’ organizations augurs well for future opportunities for scaling up.

II. Programme description

A. Programme area and target group

6. During the first phase, the programme will be implemented in six provinces in two regions: the Eastern Mediterranean (Adana, Mersin, Osmaniye) and the Western Black Sea (Bartin, Kastamonu, Sinop) covering 35 districts and targeting 30,000 households. In the second phase, the programme will assess the feasibility of including two additional provinces: Kahramanmaras (Eastern Mediterranean) and
Çankiri (Western Black Sea), reaching an additional 30,000 households. The intervention will focus its activities on upland and transitional areas in the programme provinces, where farmland and pasture are mostly above 600 metres and where most forest villages are located. However, some villages located below 600 metres (between 400 metres and 600 metres) may also be selected on the basis of topographic factors and characteristics similar to the upland villages (being particularly disadvantaged due to their location).

7. The URDP's focus will be mainly on the economically active poor – those remaining in rural areas and having the potential to invest time, effort and capital and thus catalyse this transformation. Beneficiaries can be divided into three main target groups: (i) the economically active poor producing at semi-subsistence level; (ii) the economically active poor with upside potential; and (iii) transformation drivers (suppliers, traders or agribusinesses). The targeting strategy will include a mix of methods and approaches. Self-targeting will be one of them, as many activities will be of immediate relevance to economically active farmers (poor and better off) and other value chain actors, who will have a genuine interest and motivation – at least initially – in participating in meetings and/or activities of the clusters. Targeted activities will also be directed to women and youth – who will make up 30 per cent and 10 per cent of programme beneficiaries respectively – and to transhumant pastoralist households (120 to 150 families).

B. Programme development objective

8. The overall goal is to enhance the prosperity and resilience of upland smallholder farmers. This will be accomplished by strengthening economic opportunities for poor rural people, based on competitive farms and agribusinesses connected to and integrated into more profitable economic clusters, making sustainable use of Turkey's natural resources. The core strategy is to build on and accentuate the valued characteristics of rural production, ensuring that sustainable land- and water-use practices are promoted, while also increasing the climate-adaptive capacity of smallholders.

9. The strategy is geared to two core complementary outcomes. The first will build critical support for agribusiness development through better natural resource management and higher added value for rural transformation, using an economic clustering approach. The second will seek to improve smallholder access to financial services, leveraging private financial resources in the process. The two core outcomes have been chosen to achieve optimal impact in terms of addressing the core constraints facing poor smallholders in upland areas. The combined outcomes will thus deliver more than the sum of their parts by ensuring that a multiplicity of challenges are addressed simultaneously, where and when needed. Moreover, the outcomes also reflect the areas in which IFAD has a comparative advantage vis-à-vis other development partners, most notably in catalysing inclusive rural transformation for smallholders.

C. Components/outcomes

10. Operationally, the two outcomes have been translated into two concrete components:

   (a) **Component 1: Clustering for resilient rural transformation.** The EDC constitutes the entry point for addressing local challenges in developing the main value chains. This component will increase the volume of production and trade for agricultural products within each EDC, through individual investments and support to key economic infrastructure co-managed by the stakeholders. This will increase the profitability of upland farming and agribusinesses and will thus improve the attractiveness to young farmers remaining in these areas. It will also deliver on cluster investment partnerships (CIPs) in which both private and public investments will be leveraged, with the URDP providing part of the investment finance as a grant.
Component 1 is subdivided into five subcomponents: (i) establishment of multi-stakeholder platforms (MSP) focusing on social mobilization activities; (ii) building of economic infrastructure to support the clusters, focusing on civil engineering activities; (iii) support to farmer skills training and organization; (iv) support to targeted individual investment, focusing on cofinancing activities through CIPs; and (v) regional branding and geographical indication, focusing on studies of products and quality assessment activities.

(b) **Component 2: Inclusive rural finance.** This component will promote financial inclusion in targeted areas, thus expanding agricultural and agribusiness investment plans and consequently improving livelihoods and increasing employment opportunities for rural youth, women, smallholder farmers and the target group in general. It intends to set up a rural credit guarantee facility (subcomponent 2.1) to reduce collateral requirements for new investment loans, and a rural finance support facility (subcomponent 2.2) to improve the bankability of new investment loan proposals and strengthen the ability of the poorest segments to graduate into businesses that can undertake profitable rural initiatives. In the longer term, participating financial institutions will improve their understanding of the rural sector and eventually develop agricultural risk assessment tools and mechanisms, thus eliminating the issue of collateral.

(c) **Component 3: Programme management.** Implementation of the above activities will be managed through project management.

### III. Programme implementation

#### A. Approach

11. The URDP's delivery approach distinguishes two mutually reinforcing investment components – EDCs and access to finance – with each serving a wider purpose in support of the desired rural transformation. Consequently, while the programme will actively seek to fully develop operational synergies between the two components where requested and relevant, access to guaranteed financing through KGF may well go beyond the EDCs when an initiative (with a clear business plan) clearly demonstrates that it will indirectly benefit EDC actors in the long run – or could be an external actor influencing the envisaged local transformation. The crafting of both public and private investment packages will be differentiated and flexible, premised on the choice of multi-stakeholder platform (MSP) actors and the commercial benefits to be gained.

#### B. Organizational framework

12. MFAL is the lead implementing agency. Overall URDP management will be carried out by the General Directorate of Agricultural Reform of MFAL, which is responsible for providing overall policy guidance and oversight. Day-to-day management and implementation of the programme will be executed by the existing Central Programme Management Unit (CPMU), which has a robust track record of competent and diligent programme management, but will need additional technical staff. Its principal functions will be to carry out the overall programming and budgeting of activities – in cooperation with the two regional programme management units (RPMUs) and implementing partners – and to monitor and document programme progress. The RPMUs will be responsible for overseeing and guiding implementation in the initial six provinces. Farmers’ support teams will be formed, one in each province, under the Provincial Directorates of Food, Agriculture and Livestock (PDAs).

13. The MSP will consist of representatives of all main sectors of the value chains: producers (farmers, pastoralists and agropastoralists), brokers, traders, processors, input suppliers and transporters. It will be the main interface with PDAs and
potentially other business development partners. Its main role is to facilitate relationships and linkages among its members so as to ensure proper use and sustainability of investments.

C. Planning, monitoring and evaluation, and learning and knowledge management

14. The main planning tool will be the annual workplan and budget (AWP/B), which will be prepared using a participatory bottom-up approach within the economic clusters and is in line with the programme logical framework. Once priorities have been set at the cluster level and activities defined, an AWP/B will be compiled by the RPMUs for each province, consolidated for their respective regions and from there submitted to the CPMU for consolidation and transmission to the Strategic Planning Department of MFAL for inclusion in the budget. The draft AWP/B will be sent to IFAD for review and "no objection". It will guide implementation of activities in the clusters and provide benchmarks against which implementation progress will be measured each year.

15. Monitoring and evaluation (M&E). The M&E system will take a results-based approach – accounting for progress against AWP/B targets and periodically assessing movement towards achievement of impact. While the two RPMU M&E assistants will have primary responsibility for the system, all other implementation agencies at provincial, district and cluster levels will play important roles in collecting and analysing data to assess the outcomes and impact of programme activities. The CPMU M&E specialist will have overall coordination responsibility. The new core indicators of IFAD’s Results and Impact Management System (RIMS) will be incorporated into the M&E system, along with the annual outcome survey tool, which will enable effective monitoring of the diverse indicators. The programme will adopt the georeferencing methodology to support implementation and M&E processes.

16. Learning. Building on lessons from the IFAD country programme, special attention will be paid to ensuring: (i) effective programme launching in terms of visibility; (ii) early recruitment of key staff; (iii) inclusion of knowledge management indicators in the M&E system; (iv) the setting up of solid information management systems; (v) clarification of knowledge management roles and responsibilities within the programme management and implementation teams; (vi) facilitation of internal programme learning and cross-project exchanges; and (vii) organization of exchanges with other projects and agencies (e.g. the Turkish Cooperation and Coordination Agency), targeted workshops and other activities to disseminate results and to attract the interest of government and development partners in improving their practices and in replicating and scaling up tested, documented innovations.

17. Knowledge management. The URDP has the potential to bring immense field experience to the policy discourse on clustering and rural youth and women’s agribusiness development in Turkey. Both IFAD and the Government perceive the URDP to be a considerable investment in countering increasing isolation, depopulation and inequality between rural and urban areas. Consequently, the learning and knowledge generated will contribute significantly to the design and implementation of agricultural interventions empowering youth within the agriculture sector as a whole. MSPs present a powerful mechanism for improving information flow among diverse stakeholders.

D. Financial management, procurement and governance

18. Governance and financial management risks. The inherent country risk is rated medium. The 2014 Governance Diagnostic Assessment for Turkey confirmed the findings of the World Bank’s 2009 Public Financial Management Performance Benchmarking Study, showing major transformation of public-sector management
as a result of the reform initiatives. Implementation challenges remain, and there are still areas where improvement is required.

19. **Financial management.** In previous projects, financial management and procurement have been outsourced to the United Nations Development Programme (UNDP) and were rated satisfactory. However, for the URDP, MFAL will carry out financial management and procurement. This will offer the advantages of decreasing programme management costs and increasing the ownership and capacity of the Ministry in managing donor-funded projects. Overall, financial management risk is rated as medium, improving to low after the conditions for disbursement and proposed mitigation measures have been met. The main mitigation measures include: (i) recruitment of professional financial management staff at the CPMU and RPMUs; (ii) installation of an accounting software system; (iii) drafting of a programme implementation manual acceptable to IFAD; (iv) a memorandum of understanding between MFAL and KGF; and (v) internal and external audits.

20. **Disbursement arrangements and flow of funds.** Two designated accounts will be opened at the central bank of the Republic of Turkey in euro, for the IFAD loan and grant separately. Payments in local currency will be converted using the prevailing exchange rates on the date of payment.

21. **Accounting and financial reporting arrangements.** The programme will adopt accounting procedures and policies consistent with acceptable international accounting standards and government requirements. Accounts and financial reporting will be managed at the CPMU, which will also be responsible for ensuring that funds have been used for the purposes intended. The programme will use the Government Public Expenditures System developed by the Ministry of Finance to process all payments from the government counterpart contribution. The CPMU will acquire and install an accounting software package designed (or customizable) for programme accounting that is capable of producing all required reports in line with IFAD’s requirements.

22. **Internal and external audit arrangements.** The Internal Audit Department (IAD) of MFAL will audit the programme as part of the IAD annual work programme, including the use of funds by the intended end beneficiaries. IAD will review the effectiveness of the internal control systems. Annual programme financial statements will be audited by the Treasury Controller, which currently performs the external audits for all World Bank and IFAD projects, in accordance with International Standards on Auditing (ISA) under terms of reference approved by IFAD each year. The credit guarantee facility will be audited as part of the annual audit by the external auditor.

23. **Governance.** Achievement of good governance is the primary responsibility of governments. In line with IFAD’s anticorruption policy, programme staff and stakeholders are expected to reinforce good practices. Additionally, in accordance with IFAD guidelines, procurement of goods, works and services financed from resources funded or administered by IFAD will require that bidding documents and contracts include a provision requiring suppliers, contractors and consultants to: (i) ensure compliance with IFAD’s anticorruption policy; and (ii) allow IFAD to inspect their accounts, records and other documents relating to bid submission and contract performance, and have them audited if deemed necessary. Lastly, the programme will promote good governance through the involvement of communities and beneficiaries in: (i) preparation of the annual workplans and budgets; (ii) the procurement process (at the community level); and (iii) M&E of programme activities.

24. **Procurement.** The existing legal framework for public procurement in Turkey is assessed to be broadly in compliance with international standards.
E. **Supervision**
25. Supervision will be carried out directly by IFAD as an ongoing process of implementation support, with frequent communication and engagement with the Ministry, the CPMU and other relevant stakeholders. It is thus envisaged that one supervision mission and one follow-up mission will be undertaken each year, in line with current IFAD practice.

IV. **Programme costs, financing and benefits**

A. **Programme costs**
26. The URDP is financed over an eight-year period at an estimated total cost of EUR 98.14 million, of which EUR 50 million covers the first phase. It will be implemented in two phases, over two funding cycles. Each of the two phases is expected to run for five years, with an overlap of two years. The financing gap of EUR 32.9 million may be sourced by subsequent performance-based allocation system (PBAS) cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing as identified during implementation.

<table>
<thead>
<tr>
<th>Component</th>
<th>IFAD loan Amount</th>
<th>IFAD loan %</th>
<th>IFAD grant Amount</th>
<th>IFAD grant %</th>
<th>Financing gap Amount</th>
<th>Financing gap %</th>
<th>KGF Amount</th>
<th>KGF %</th>
<th>Beneficiaries Amount</th>
<th>Beneficiaries %</th>
<th>Borrower/counterpart Amount</th>
<th>Borrower/counterpart %</th>
<th>Total Amount</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Clustering for resilient rural transformation</td>
<td>29,532</td>
<td>35.2</td>
<td>361</td>
<td>0.4</td>
<td>27,964</td>
<td>33.3</td>
<td></td>
<td></td>
<td>10,940</td>
<td>13.0</td>
<td>15,110</td>
<td>18.0</td>
<td>83,907</td>
<td>85.5</td>
</tr>
<tr>
<td>2. Inclusive rural finance</td>
<td>2,508</td>
<td>30.1</td>
<td>270</td>
<td>3.2</td>
<td>2,974</td>
<td>35.7</td>
<td>2,500</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>83</td>
<td>1.0</td>
</tr>
<tr>
<td>3. Project management</td>
<td>3,112</td>
<td>30.1</td>
<td>270</td>
<td>3.2</td>
<td>2,974</td>
<td>35.7</td>
<td>2,500</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35,152</strong></td>
<td><strong>35.8</strong></td>
<td><strong>901</strong></td>
<td><strong>0.9</strong></td>
<td><strong>32,948</strong></td>
<td><strong>33.6</strong></td>
<td><strong>2,500</strong></td>
<td><strong>2.5</strong></td>
<td><strong>10,940</strong></td>
<td><strong>11.1</strong></td>
<td><strong>15,702</strong></td>
<td><strong>16.0</strong></td>
<td><strong>98,142</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

B. **Programme financing**
27. The total programme cost of EUR 98.14 million will be financed by an IFAD loan of EUR 35.15 million and – subject to availability and agreement with the Government – by a second IFAD loan of approximately EUR 32.95 million. An IFAD grant of EUR 0.90 million has been allocated, mainly for knowledge management and South–South Cooperation activities. Establishment of the credit guarantee facility will be cofinanced in the amount of EUR 2.50 million by the KGF’s private and public implementing partners. The Government’s contribution will be approximately EUR 15.70 million over the two phases, and beneficiary contributions are estimated at EUR 10.94 million. Government cofinancing will be allocated to: (i) seconding programme staff at provincial and regional levels; (ii) construction of roads; and (iii) all taxes and duties on procured goods and services.
Table 2
Programme costs by expenditure category and financier
(Thousands of euro)

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>IFAD loan</th>
<th>IFAD grant</th>
<th>Financing gap</th>
<th>KGF</th>
<th>Beneficiaries</th>
<th>Borrower/counterpart</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount %</td>
<td>Amount %</td>
<td>Amount %</td>
<td>Amount %</td>
<td>Amount %</td>
<td>Amount %</td>
<td>Amount %</td>
</tr>
<tr>
<td>1. Consultancies</td>
<td>2 711</td>
<td>37.9</td>
<td>901</td>
<td>12.6</td>
<td>2 431</td>
<td>34.0</td>
<td>1 106</td>
</tr>
<tr>
<td>2. Goods, services and equipment</td>
<td>2 363</td>
<td>59.4</td>
<td>-</td>
<td>-</td>
<td>899</td>
<td>22.6</td>
<td>-</td>
</tr>
<tr>
<td>3. Grants and subsidies</td>
<td>15 289</td>
<td>36.7</td>
<td>-</td>
<td>-</td>
<td>15 406</td>
<td>37.0</td>
<td>-</td>
</tr>
<tr>
<td>4. Training and workshops</td>
<td>4 229</td>
<td>42.1</td>
<td>-</td>
<td>-</td>
<td>4 014</td>
<td>39.9</td>
<td>-</td>
</tr>
<tr>
<td>5. Works</td>
<td>5 391</td>
<td>31.0</td>
<td>-</td>
<td>-</td>
<td>5 440</td>
<td>31.3</td>
<td>-</td>
</tr>
<tr>
<td>6. Credit guarantee facility</td>
<td>2 220</td>
<td>29.6</td>
<td>-</td>
<td>-</td>
<td>2 779</td>
<td>37.1</td>
<td>2 500</td>
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<td>7. Salaries and allowances</td>
<td>2 362</td>
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<td>-</td>
<td>-</td>
<td>1 546</td>
<td>16.8</td>
<td>-</td>
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<tr>
<td>8. Operating costs</td>
<td>587</td>
<td>47.2</td>
<td>-</td>
<td>-</td>
<td>432</td>
<td>34.8</td>
<td>-</td>
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<tr>
<td>Total</td>
<td>35 152</td>
<td>35.8</td>
<td>32 948</td>
<td>33.6</td>
<td>2 500</td>
<td>8.0</td>
<td>10 940</td>
</tr>
</tbody>
</table>

C. Summary benefit and economic analysis
28. Programme benefits are expected to derive from: (i) promoting expansion of competitive clusters for a portfolio of products where smallholders may have a comparative advantage; (ii) investing in specific crops and livestock that give high returns to smallholders and to other actors along the value chains; (iii) providing households with business skills; (iv) improving access to market infrastructure; and (v) improving access to financial services for both smallholders and small and medium-sized enterprises. The main impact will come through a more equitable, balanced and inclusive development process that reduces the divide between the coastal/plains and uplands regions. Consequently, smallholders in upland areas will see increased incomes from farming, processing and employment opportunities brought about by clustering and financial inclusion.

29. The overall economic internal rate of return of the programme is estimated at 22 per cent for the base case. The net present value of the net benefit stream, discounted at 10 per cent, is EUR 98.8 million.

D. Sustainability
30. There are robust built-in sustainability mechanisms. Most importantly, the strong focus on profitability – for both individual economic agents and groups – will drive commercial sustainability and build strong incentives for maintaining the structures after programme end. A supportive infrastructure component is also built into design of the cluster in critical ways: (i) by application of a demand-driven, cost-sharing approach; and (ii) by enhancing the target group’s capacity for increasing the productivity of existing resources, with the goal of more efficient and more profitable use of existing natural resources (farmland, pasture and water). This, in turn, will enable target groups to increase their resilience to commercial and environmental challenges – and to have a financial incentive and the means to finance recurrent costs of investments.

E. Risk identification and mitigation
31. At the macro level, governance and political commitment risks are deemed low, as there has been robust continuity for more than three decades. The overall direction of the most relevant rural policies (for example, on improving rural inclusion and adapting to climate change) is unlikely to change substantially. The Government and IFAD will intensify policy dialogue as a risk mitigation instrument. The opening
of an IFAD country office will be a key driver. The component-specific risks and mitigation measures identified are deemed to be within acceptable levels, provided they are monitored attentively by the CPMU and mitigation strategies applied consistently.

V. Corporate considerations

A. Compliance with IFAD policies

32. The URDP is fully aligned with IFAD’s Strategic Framework 2016-2025 for enabling, inclusive and sustainable rural transformation. Indeed, it aims to transform Turkey’s upland smallholders towards commercial competitiveness and greater climatic resilience. The programme is also in compliance with IFAD’s private-sector strategy and its policies on rural enterprise, women’s empowerment and gender equality, and targeting.

B. Alignment and harmonization

33. The policy framework objectives are consistent with IFAD’s mandate. At the macro level, Turkey’s 10th development plan aims to increase the living standards of the Turkish population and the quality of life of every individual. Of particular relevance to IFAD is the plan’s ambition to reduce rural poverty through increased competitiveness and by linking rural areas to better commercial opportunities. This is also reflected in the National Rural Development Strategy (NRDS) 2014-2020. The NRDS aims to increase the productivity of the rural population and decrease the gap between income levels of the rural and urban populations.

34. Models and approaches used by previous IFAD projects are being mainstreamed by MFAL, including strategic investment plans. The matching grant programme, originally developed by the World Bank, was adapted by IFAD into a pro-poor instrument. Through its knowledge management agenda, the CPMU will contribute to better harmonization of donor-funded and government programmes for rural development.

C. Innovations and scaling up

35. The EDC approach and the establishment of MSPs are deemed by practitioners on the ground to be an innovative way of engaging the rural poor, particularly in mountainous regions. Implementation of this approach will be monitored closely, and when tested and proven successful, an assessment will be carried out and a knowledge product developed for sharing – and possibly for promoting the scaling up of relevant aspects in other provinces.

36. A stronger focus on innovation, knowledge management and policy engagement will offer the Government the opportunity to draw on the programme implementation experience in improving its own policies, strategies and investments for smallholder agricultural development, including by simply replicating the concepts more widely. In this process, strong government budgetary commitment to the programme augurs well for future scaling up. Scaling up will also be achieved by promoting financial partnerships with the private sector. Moreover, in engaging local partners from the outset, IFAD will expand core institutional and organizational spaces, enabling scaling up that is domestically led and financed.

D. Policy engagement

37. The URDP seeks to bring immense field experience into the policy discourse on the proposed economic clustering approach in Turkey. Both the Government and IFAD recognize the URDP as a considerable investment in learning, one that will contribute significantly to replication of the design and implementation of agricultural interventions empowering youth within other upland areas as a whole. These include knowledge of implementation of the EDC approach – which will inform policy adjustment for rural development in upland regions – and the
potential to replicate similar projects that smallholders, the private sector and Government will drive forward after the programme ends. IFAD’s investment in Turkey, to date, has been strategically applied to policy dialogue aimed at influencing the Government’s allocation of resources in impoverished areas.

VI. Legal instruments and authority

38. A programme financing agreement between the Republic of Turkey and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached in appendix I.

39. The Republic of Turkey is empowered under its laws to receive financing from IFAD.

40. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

41. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Turkey in the amount of thirty-five million one hundred fifty thousand euro (EUR 35,150,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Turkey in the amount of nine hundred thousand euro (EUR 900,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President
Negotiated financing agreement

Uplands Rural Development Programme

(Negotiations concluded on 23 November 2017)

Loan Number: ___________
Grant Number: ___________

Programme Title: Uplands Rural Development Programme ("URDP" or "the Programme")
(Kırsal Dezavantajlı Alanlar Kalkınma Projesi (1. Aşama))

the Republic of Turkey (the “Borrower/Recipient”)

and

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the 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, amended as of April 2014, 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.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is thirty five million one hundred fifty thousand Euro (EUR 35 150 000).

   B. The amount of the Grant is nine hundred thousand Euro (EUR 900 000).

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, payable semiannually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of five (5) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.
3. The Loan Service Payment Currency shall be the Euro.

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

5. Payments of principal and interest shall be payable on each 1\textsuperscript{st} June and 1\textsuperscript{st} December.

6. There shall be two Designated Accounts in EUR (one for the Loan and one for the Grant) to be maintained in the Central Bank of Turkey. In addition, the funds related to the Rural Credit Guarantee Facility will be maintained in an interest bearing bank account and will not be mingled with other funds.

7. The Borrower/Recipient shall provide counterpart financing for the Programme in an amount equivalent to approximately sixteen million Euro (EUR 16 000 000).

Section C

1. The Lead Programme Agency shall be the Ministry of Food, Agriculture and Livestock (MFAL).

2. 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 will be supervised by the Fund.

Section E

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

   (i) The key programme personnel of the Central Program Management Unit (CPMU) shall have been appointed with terms of reference acceptable to the Fund; and a suitable financial management system shall have been installed;

   (ii) The draft Programme Implementation Manuel (PIM) as described in paragraph 12 of Schedule 1 shall have been prepared in form and substance satisfactory to the Fund.

(b) The following is designated as an additional specific condition precedent to withdrawal from the Rural Credit Guarantee Facility cost category as provided in Schedule 2 hereto: the Rural Credit Guarantee Facility (RCGF) shall have been established with an initial capital contribution from Credit Guarantee Fund (Kredi Garanti Fonu – KGF) and the agreement between MFAL and KGF shall have entered into force in terms and conditions acceptable to the Fund.

2. This Agreement is subject to ratification by the Borrower/Recipient.

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

For the Borrower/Recipient:

Undersecretariat of Treasury, Prime Ministry
Inonu Bulvari, No. 36
06510 Emek, Ankara
Turkey
For the Fund:

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 two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

THE REPUBLIC OF TURKEY

Authorized Representative
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President
1. **Programme Area.** During the first phase, the Programme will be implemented in two regions in a total of six provinces: the Eastern Mediterranean (Adana, Mersin, Osmaniye) and Western Black Sea (Bartin, Kastamonu, Sinop) covering approximately 35 districts. The intervention will focus its activities in upland and transitional areas in the programme provinces where farm and pasture land is mostly above 600 m and where most of the forest villages and neighbouring forest villages are located. However, some villages located below 600 m (i.e. between 400 and 600 m) may also be selected on the basis of topographic factors: i.e. located in steep, sloping areas and presenting characteristics similar to upland villages (being particularly disadvantaged due to their location) to make them eligible for programme support. In the second phase, and based on the lessons learned in the first phase, the Programme will assess the feasibility of including additional neighbouring provinces, i.e. Kahramanmaraş and Çankırı, with similar characteristics and with potential for scaling up in line with available resources.

2. **Target Population.** The beneficiaries of the Programme can be divided into three main target groups: (i) economically active poor producing at semi-subsistence level; (ii) economically active poor with upside potential (iii) transformation drivers (suppliers, traders or agri-enterprises).

The first phase of the Programme will target about 30,000 households. It will focus mainly on the economically active poor, those remaining in rural areas that have a potential to invest time, effort and capital and thus catalyse this transformation.

3. **Goal.** The overall goal of the Programme is to *enhance the prosperity and resilience of upland smallholder farmers*. This will be accomplished by strengthening their resilience and improving economic opportunities for the rural poor based on competitive farms and agribusinesses that are connected to and integrated into more profitable economic clusters, making sustainable use of Turkey’s natural resources. The strategy is geared at *two core complementary outcomes*. The first will aim at critical agri-business development support through better natural resource management and higher added value for rural transformation, utilising an economic clustering approach. The second outcome will aim at improving smallholders’ access to financial services, leveraging private financial resources in the process.

4. **Components.** The Programme will have two core components that envisage a number of complementarities between initiatives and subcomponents.

4.1. **Component 1:** *Clustering for resilient rural transformation*: This component will increase the volume of the production and trade of agricultural products within each economic development cluster (EDC) through individual investment and support to key economic infrastructure co-managed by the stakeholders. This will lead to increased profitability of upland farming and agribusinesses and hence improve the attractiveness for young farmers to remain in these areas. Multi-stakeholder platforms (MSP), based in each EDC, will facilitate production and semi-wholesale market development and link up the main value chain stakeholders: producers, traders, transporters and agro-processors. The component will engage in 40 economic development clusters (for the first 5-year phase). This component will also deliver on cluster investment partnerships (CIPs) in which both private and public investments will be leveraged with the Programme providing part of the investment finance as a grant.
4.1.1. The component is subdivided into **five subcomponents** namely, (i) the establishment of the MSPs focusing on social mobilisation activities; (ii) the building of cluster supporting economic infrastructure focusing on civil engineering activities; (iii) the support to farmers skills and organisation focusing on stakeholders’ training activities; (iv) the support to targeted individual investment focusing on co-financing activities through cluster investment partnerships; and (v) the regional branding and geographical indication focusing on studies on products and quality assessment and certification activities.

4.2. **Component 2. Inclusive rural finance.** This component aims at improving smallholders’ access to financial services, leveraging private financial resources in the process. Through promoting financial inclusion in the targeted areas, it intends to expand agricultural and agribusiness investment plans, consequently improving livelihoods and increasing employment opportunities for the rural youth, women, smallholder farmers and the focus group in general. To do so, it intends to setup a Rural Credit Guarantee Facility (RCGF) that will reduce collateral requirements for new investment loans and a rural finance support facility that will improve the bankability of new investment loan proposals and will strengthen the ability of the poorest segments to graduate as business people who can undertake profitable rural initiatives. This component of inclusive finance will address the financing needs of all three of its target groups responsively and comprehensively through its two subcomponents:

4.2.1. **Component 2 is divided into two subcomponents namely, (i) a Rural Credit Guarantee Facility (RCGF) to support the development of rural Micro-Small and Medium Sized Enterprise (MSMEs) in the Programme areas; and (ii) a Rural Finance Support Facility that will facilitate and improve the creditworthiness of all three target groups.** Through the Rural Credit Guarantee Facility, the Programme will cater mainly (but not exclusively) for the financing needs of “active households” and “transformation drivers” and through its cooperation with MFIs, it will engage “poor households” in viable commercial operations in order to improve their livelihoods. The Programme foresees a rural finance support network that will liaise with the banks, the cooperatives and the MFIs and enhance their seamless cooperation and multilateral capacity development with the target group. Within this component, women will be assisted in accessing financial services to purchase relevant assets and inputs for their economic activities.

**II. Implementation Arrangements**

5. **Approach.** The Programme's approach is premised on the basis that IFAD can help drive the transformation of the uplands’ economy through support for more resilient and competitive rural farmers and agribusinesses that will generate employment and higher incomes of small farm enterprises. Complementing this main strategy will be the specific focus on rural poor with a potential to graduate into fully commercial farmers that can attain the level of competitiveness required to gain market share. While the Programme’s main thrust is to support commercialisation and transformation of smallholder agriculture, this will be complemented by targeted measures to ensure that this transformation leaves no one behind, with specific focus on youth, micro-entrepreneurs, vulnerable women and agro-pastoralists.

6. **Duration.** The Programme is expected to be implemented over a period of 8 years in two phases of 5 years each, with an overlap of two years. It is expected to operate over two IFAD funding cycles. The financing gap may be sourced by additional financing to be provided by the Fund (under financing terms to be determined and subject to availability of funds and internal procedures) or by co-financing identified during implementation. During the first year, activities will be centred around awareness raising, sensitisation and comprehensive training and establishment of MSPs. The
establishment of the Rural Credit Guarantee Facility (RCGF) may necessitate minor legal and regulatory adjustments, hence the investment in this facility may be postponed by 1 to 2 years.

7. **Lead Programme Agency.** The Lead Programme Agency shall be the General Directorate for Agrarian Reform (GDAR) in the Ministry of Food, Agriculture and Livestock (MFAL) which will have the overall responsibility for the Programme management and implementation and for providing the overall policy guidance and oversight.

8. **Central Programme Management Unit (CPMU).** Day-to-day management and implementation of the Programme will rest with the existing CPMU. It will be necessary to ensure that the CPMU is adequately staffed with additional technical staff to cope with the increasing workload. Principal functions of the CPMU will be to carry out the overall programming and budgeting of Programme activities, take the lead in implementation - in cooperation with the Regional Programme Management Unit (RPMU), Farmer Support Teams (FSTs), service providers, infrastructure contractors, beneficiary institutions, such as farmer-based organisations, with participating financial institutions - and to monitor and document Programme progress. Core tasks, including procurement and financial management (which is integral to Programme execution and integrity) will increasingly be done by the CPMU using more aligned and nationally harmonised procedures.

9. **Regional level.** Overall responsibility for Programme outreach among the target groups will lie with the Regional Programme Management Unit (RPMU). Two RPMUs will be responsible for overseeing and guiding implementation in the (initially) six provinces and have staff based in Kastamonu and Adana respectively. There will be (six, initially) FSTs, one in each province and under the Provincial Directorate of Food, Agriculture and Livestock (PDA).

10. **Multi-stakeholder platform.** A multi-stakeholder platform (MSP) will be formed with representatives from all main sectors of the value chains: producers (this includes farmers as well as pastoralists and agro-pastoralists), brokers, traders, processors, input suppliers, financial institutions and transporters. The MSP will be the main interface with the Programme/(PDA) and eventually other development business partners. Its main role is to facilitate relationships and linkages amongst its members to ensure a proper use and the sustainability of the investments. The MSP will elect a steering committee constituted from representatives from the various stakeholders involved whose main role is to convene regular MSP meetings and follow-up recommendations with the concerned parties. It will meet on monthly basis to review progress of the various activities.

11. **Mid-Term Review.** The Fund and the Borrower/Recipient shall carry out a joint review of Programme implementation no later than the end of the fourth Programme year. It will assess the operational aspects such as programme management and implementation of activities and the extent to which the objectives are being fulfilled. It will focus on corrective actions needed for the Programme to achieve impact. The review shall cover, among other things: (i) overall efficiency and effectiveness of the programme in delivery programme activities and achieving its development objective; (ii) physical and financial progress as measured against Annual Work Plan and Budgets (AWPBs); (iii) performance and financial management of contracted implementing partners; (iv) an assessment of the efficacy of the institutional development and capacity building activities; (v) progress in infrastructure investments; (vi) establishing and delivering of extension services; (vii) delivering of financial services; and (viii) access to markets. The Fund will present a report on mid-term review with the conclusions and recommendations for MFAL.

12. **Programme Implementation Manual (PIM).** No later than six months after the date of entry into force of this Agreement the CPMU shall prepare a draft PIM acceptable to the Fund (including the financial and grants administration, procurement and administrative procedures manual). The PIM may be amended when necessary to
introduce clarification in procedures, eliminating constraints for Programme implementation and for facilitating access of producers to the Programme services.

13. **Planning.** The main planning tool for the Programme will be the Annual Work Plan and Budget (AWPB) which will be prepared using a participatory bottom-up approach within the economic clusters. Once the priorities have been set at the cluster level and activities defined, the AWPB will be compiled for each province and the 2 RPMUs will combine the drafted AWPBs for their respective regions and submit to the CPMU.

14. **Monitoring and evaluation (M&E).** The results-based approach will be adopted through the M&E system. This will be through: (i) accounting for progress against AWPB targets; and (ii) periodic assessments of movement towards achievement of beneficiary impact. Key M&E activities will comprise the Programme implementation manual and the baseline survey at design stage, the AWPB, quarterly progress reporting of activity and output targets and achievements, mid-term review, and the completion report along with the Programme completion survey.

14.1 No later than 90 days after the date of entry into force of this Agreement the CPMU shall undertake a comprehensive baseline survey in line with the Programme logframe indicators. The progress on those indicators will be then monitored by the RPMU on an annual basis, including for the Mid-Term Review. During the Programme’s final year, an impact survey will be conducted and results will be compared against the baseline results to assess Programme impact.
Schedule 2

Allocation Table

1. Allocation of Loan and Grant Proceeds. (a) 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 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 (expressed in EUR)</th>
<th>Grant Amount Allocated (expressed in EUR)</th>
<th>Percentage net of taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Consultancies, training and workshops</td>
<td>6 250 000</td>
<td>900 000</td>
<td>100%</td>
</tr>
<tr>
<td>II. Goods, inputs, material, services, vehicles and equipment</td>
<td>2 125 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>III. Grants and Rural Credit Guarantee Facility</td>
<td>15 760 000</td>
<td></td>
<td>See below</td>
</tr>
<tr>
<td>IV. Works</td>
<td>4 850 000</td>
<td></td>
<td>100% net of counterpart contribution</td>
</tr>
<tr>
<td>V. Operating costs</td>
<td>2 650 000</td>
<td></td>
<td>See below</td>
</tr>
<tr>
<td>Unallocated</td>
<td>3 515 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>35 150 000</td>
<td>900 000</td>
<td></td>
</tr>
</tbody>
</table>

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

The amount allocated from the Grant under Category I for consultancies shall cover eligible expenditures incurred related to knowledge management and South-South cooperation activities.

Category III "Grants and Rural Credit Guarantee Facility" includes: (i) Grants, for privately shared economic infrastructure, cluster investment partnerships and youth trained entrepreneur start-up packages and pastoral livelihood improvement to be financed 100% net of beneficiaries' contributions; and (ii) the Rural Credit Guarantee Facility (RCGF) managed by the KGF to be financed 100% net of co-financier contribution.

Category V "Operating costs" includes, inter alia, salaries and allowances. Salaries and allowances shall be financed 100% net of taxes and counterpart contribution and other eligible expenditures under this category shall be financed 100% net of tax.
2. **Start-up Costs.** Withdrawals in respect of eligible expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of EUR 390 000. These funds are intended to cover the recruitment of CPMU key personnel and their salaries for four months (EUR 40 000) under Category V; base-line survey (EUR 50 000) under Category I; and purchase of basic equipment such as computers, photocopier and printers and installation of an accounting software system (EUR 300 000) under Category II.
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/Recipient to request withdrawals from the Loan Account and the Grant Account if the Borrower/Recipient 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 Programme:

1. **Rural Credit Guarantee Facility (RCGF).** The Borrower/Recipient shall ensure that funds transferred to the KGF are deposited in a separate bank account and will not be mingled with other funds. At all times the Borrower/Recipient shall ensure that the loan proceeds funds are used for the intended purpose and made available in a timely manner in order not to adversely affect the development impact of the activity. In addition the Borrower/Recipient shall ensure that the KGF (i) keeps records of all the transactions related to the Programme in accordance with internationally acceptable accounting standards, and (ii) issues timely periodic financial reports on the use of the Programme funds to the CPMU to satisfy their reporting requirements.

2. **Audit arrangements.** The Borrower/Recipient will appoint independent auditors acceptable to IFAD, under the terms of reference cleared by IFAD, and in line with the IFAD Guidelines for Project Audits. An audited annual consolidated financial statement for the entire Programme, together with a management letter on audit observations on internal controls, shall be submitted to the Fund within six (6) months of the fiscal year end. Moreover, the Borrower/Recipient shall ensure that the IFAD funds transferred to the KGF are part of the audit and that the auditors are granted full access to all documentation as may be required.
### Logical framework

#### Results Hierarchy

<table>
<thead>
<tr>
<th>Name</th>
<th>Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outreach:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of persons receiving services promoted or supported by the project (women)</td>
<td>Baseline: 0, YR1: 1,000, Mid-Term: 9,000, End Target: 18,000</td>
<td>Programme M&amp;E system</td>
<td>CPMU and RPMUs</td>
</tr>
<tr>
<td>Number of persons receiving services promoted or supported by the project (men)</td>
<td>Baseline: 0, YR1: 500, Mid-Term: 21,000, End Target: 42,000</td>
<td>Programme M&amp;E system</td>
<td>CPMU and RPMUs</td>
</tr>
<tr>
<td><strong>Goal:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhance prosperity and resilience of upland smallholder farmers</td>
<td>Baseline: 0, YR1: 0, Mid-Term: 15%, End Target: 40%</td>
<td>Baseline, mid-term and impact assessment surveys</td>
<td>CPMU</td>
</tr>
<tr>
<td>Percentage reduction in the number of households in targeted areas living below the national poverty line&lt;sup&gt;4&lt;/sup&gt;</td>
<td></td>
<td>Baseline Mid-term Completion</td>
<td>Continued social, political and economic stability in the country and no major sustained disruption to market access to major export markets. GoT willing to allocate finance, manpower and technical expertise. Poverty reduction remains priority agenda</td>
</tr>
<tr>
<td><strong>Development Objective:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthen the resilience of upland communities, especially youth, and improve their integration into markets.</td>
<td>Baseline: TBD, YR1: 0, Mid-Term: 30%, End Target: 90%</td>
<td>Baseline, mid-term and impact assessment surveys/Annual Outcome Surveys</td>
<td>CPMU, MSPs</td>
</tr>
<tr>
<td>Percentage of households in targeted areas with a monthly income of TRY 3,000 or higher (10% youth)</td>
<td></td>
<td>Baseline Mid-term Completion</td>
<td></td>
</tr>
<tr>
<td>Value of priority products marketed through Economic infrastructure of the clusters&lt;sup&gt;5&lt;/sup&gt;</td>
<td>Baseline: 0, YR1: 0, Mid-Term: USD 25 m, End Target: USD 32 m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in volume of priority products marketed through Economic infrastructure of the clusters (measured in tons, per product)</td>
<td>Baseline: 0, YR1: 0, Mid-Term: 25%, End Target: 30%</td>
<td>Baseline Mid-term Completion</td>
<td></td>
</tr>
<tr>
<td><strong>Outcome 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthened economic development clusters</td>
<td>Baseline: 0, YR1: 0, Mid-Term: 15%, End Target: 40%</td>
<td>Annual outcome surveys</td>
<td>CPMU, RPMU</td>
</tr>
<tr>
<td>Percentage of households reporting an increase in production (CI. 1.2.4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of households having established market linkages within EDC</td>
<td>Baseline: 0, YR1: 0, Mid-Term: 20%, End Target: 50%</td>
<td>Annual outcome surveys</td>
<td>CPMU, RPMU</td>
</tr>
</tbody>
</table>

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<sup>1</sup> Data for all household related indicators to be disaggregated by poverty status, age and gender of household head.

<sup>2</sup> Baseline figures will be updated based on baseline survey results.

<sup>3</sup> Additional external sources of data to verify performance will be identified and used wherever possible. This will include data on loans from partner banks, MFAL and MFWA statistics, market trading statistics from Dept of Commerce etc.

<sup>4</sup> Poverty measurement according to the national poverty line ($4.3 per capita per day)

<sup>5</sup> The M&E system will analyze the data by the different economic development clusters and commodity points
<table>
<thead>
<tr>
<th>Outputs</th>
<th>1.1 EDC MSPs established</th>
<th>1.2 Supported EDCs infrastructure</th>
<th>1.3 Farmers/organizations capacitated</th>
<th>1.4 Farmers/organizations investments</th>
<th>1.5 Branding and promotion of upland produce</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of MSPs established and functional(^6) (CI policy 2)</td>
<td>Value of infrastructure constructed/rehabilitated (million EUR)</td>
<td>Number of persons trained in production practices and/or technologies (CI. 1.1.4)</td>
<td>Number of hectares of land brought under climate-resilient management (CI. 3.1.4)</td>
<td>Number of products branded based on geographical origin</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>18</td>
<td>40</td>
<td>80</td>
<td>MSPs meetings</td>
</tr>
<tr>
<td></td>
<td>Programme monitoring reports</td>
<td>Semi-annually</td>
<td>Training reports</td>
<td>Quarterly</td>
<td>RPMUs</td>
</tr>
<tr>
<td></td>
<td>Programme monitoring reports</td>
<td>Semi-annually</td>
<td>Programme monitoring reports</td>
<td>Semi-annually</td>
<td>RPMUs</td>
</tr>
<tr>
<td></td>
<td>Programme monitoring reports</td>
<td>Annually</td>
<td>Programme monitoring reports</td>
<td>Annual</td>
<td>RPMUs</td>
</tr>
<tr>
<td>Outcome 2: Increased utilization of financial services among rural people in uplands</td>
<td>Percentage of households reporting using rural financial services (CI. 1.2.5)</td>
<td>Percentage decline in collateral coverage requested by participating financial institutions</td>
<td>Number of loans provided using the credit guarantee scheme (value of loans to be analyzed under the M&amp;E system) (10% youth, 30% women)</td>
<td>Number of persons in rural areas trained in financial literacy and/or use of financial products and services (CI. 1.1.7) (10% youth, 30% women)</td>
<td>Percentage of persons in rural areas accessing financial services (CI. 1.1.5, 10% youth, 30% women)</td>
</tr>
<tr>
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<td>Quarterly</td>
<td>Training reports</td>
<td>Quarterly</td>
<td>RPMUs</td>
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</table>

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\(^6\) Under the M&E system the number of participants will be captured and analyzed by sex, age, type of representatives