Document:	EB 2017/122/R.26/Sup.1
Agenda:	6(e)(iv)
Date:	28 November 2017
Distribution:	Public
Original:	English

E

Investing in rural people

Republic of Turkey

Uplands Rural Development Programme

Negotiated financing agreement

Executive Board — 122nd Session
Rome, 11-12 December 2017

For: Information

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 1st June and 1st 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

Schedule 1

Programme Description and Implementation Arrangements

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 a well as pastoralist 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:

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

(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.