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Enabling the rural poor
to overcome poverty

President's report

Proposed loan to the Republic of Turkey for the

Diyarbakir, Batman and Siirt Development Project

Executive Board — Eighty-ninth Session
Rome, 12-14 December 2006

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

| | |
|-------|---|
| COSOP | country strategic opportunities paper |
| IPARD | Instrument for Pre-accession Assistance – Rural Development |
| MARA | Ministry of Agriculture and Rural Affairs |
| UNDP | United Nations Development Programme |

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Republic of Turkey for the Diyarbakir, Batman and Siirt Development Project, as contained in paragraph 35.



Turkey
Country map



Source: IFAD
The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof

Map of the project area

Republic of Turkey

Diyarbakir, Batman and Siirt Development Project

Loan summary

| | |
|---------------------------------------|--|
| Initiating institution: | IFAD |
| Borrower: | Republic of Turkey |
| Executing agency: | Ministry of Agriculture and Rural Affairs |
| Total project cost: | US\$37.36 million |
| Amount of IFAD loan: | SDR 16.30 million (equivalent to approximately US\$24.10 million) |
| Terms of IFAD loan: | 18 years, including a grace period of 3 years, with an interest rate equal to the variable reference interest rate per annum, as determined by the Fund annually |
| Cofinancier: | United Nations Development Programme (UNDP) |
| Amount of cofinancing: | UNDP: US\$0.75 million |
| Contribution of borrower: | US\$4.75 million |
| Clients/investors/communities: | US\$7.76 million |
| Appraising institution: | IFAD |
| Cooperating institution: | Directly supervised by IFAD |

Proposed loan to the Republic of Turkey for the Diyarbakir, Batman and Siirt Development Project

I. The project

A. Main development opportunity addressed by the project

1. The proposed project is the first of two investments envisaged under the new strategic framework developed by IFAD and the Government of Turkey in the 2006 country strategic opportunities paper (COSOP) aimed at reducing regional disparities and rural poverty. Appropriately positioned within the Government's rural development and agricultural strategies, the project seeks to support the poorest mountain and upland villages in the poorest south-eastern provinces of Turkey, recognizing the importance of expanding both farming-related and non-farming employment opportunities.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Republic of Turkey in the amount of SDR 16.30 million (equivalent to approximately US\$24.10 million) on ordinary terms to help finance the Diyarbakir, Batman and Siirt Development Project. The loan will have a term of 18 years, including a grace period of 3 years, with an interest rate equal to the reference interest rate per annum, as determined by the Fund annually.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The annual allocation defined for Turkey under the PBAS is about US\$8 million. This project is the first within the current PBAS cycle and the total loan amount falls within this three-year allocation.

Country debt burden and absorptive capacity of the State

4. Turkey has always handled its external debt in a prompt fashion. In 2004 the total external debt service ratio as a percentage of gross national income amounted to 11 per cent. IFAD has supported six projects for a total amount of approximately US\$99 million. These projects have supported the Government's goal of reducing social and economic disparities across the country and have targeted poorer areas with inadequate social and physical infrastructure. Turkey's disbursement record has been mixed; hence the introduction of the new flow of funds and implementation support arrangements under the proposed project. The repayment record of the Government has been fully satisfactory.

Flow of funds

5. The IFAD loan will be channelled through a standard IFAD loan agreement between IFAD and the Government. In view of the disbursement difficulties encountered by the previous projects financed by IFAD in Turkey, the National Treasury will, for the current project, transfer funds from the project special account in the Central Bank to a designated project account to be held and administered by the United Nations Development Programme (UNDP). Subsequently, payments from the project account will be made by UNDP to the provincial levels, suppliers and service providers.

Supervision arrangements

6. The loan will be administered by IFAD. The project will be supervised by IFAD in terms of programming, accounting and audit, recruitment and assistance for the procurement of goods and services. In view of the challenging nature of the project, both geographically and conceptually, two supervision/implementation support missions will be undertaken each year.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen. The procurement plan will be finalized at negotiations.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) the partnership with UNDP for in situ quality assurance of project implementation; (ii) increased frequency of the IFAD supervision and implementation support missions; and (iii) considerable emphasis on the establishment of high-quality management information, monitoring and impact assessment systems.

C. Target group and participation

Target group

9. The target groups will be (i) poor farm households with at least two resident members of active working age; (ii) rural poor women; (iii) poor male and female seasonal workers; and (iv) poor unemployed male and female rural youth over 16 years of age. All the above target groups would be expected, in the first instance, to be members of upland, mountain and forest villages located in the proposed project area.

Targeting approach

10. A two-pronged approach for targeting will be adopted. Location-specific socio-economic criteria have been developed to identify participating villages under the village improvement component of the project. With regard to the rural economic growth component, targeting would be based on the application of two main sets of criteria, the first being related to business viability and the second to the business's capacity to generate incremental employment income among the project's primary target group of the rural poor.

Participation

11. Traditional governance structures within villages and strengthened village development associations will play a crucial role in setting priorities for (i) farmer education and training activities; (ii) identification of village development needs; (iii) market linkages and participation in improved supply-chain support measures; and (iv) development of training curricula for rural youth to obtain gainful employment outside the village. In accordance with IFAD policy, gender will be mainstreamed in all activities supported by the project. Consequently, male and female beneficiaries will participate equally in the design and implementation of project components. All workshops that are part of start-up activities will consider gender issues, and a follow-up workshop for project stakeholders, specifically on gender awareness, will be held in project year 2. All materials generated by the project's management information, monitoring and impact assessment systems will be disaggregated by gender.

D. Development objectives

Key project objectives

12. In line with Turkey's national strategy for poverty reduction, the goal of the project is to improve the economic and social status of rural poor people in the provinces of Diyarbakir, Batman and Siirt. Specific objectives are to (i) improve economic efficiency and socio-economic livelihoods in poor rural villages in the project area within the framework of the current production and employment patterns; (ii) where feasible, diversify income sources and increase employment through the establishment of new – and the expansion of existing – profitable businesses, both on- and off-farm, mainly through measures to improve supply chain management; and (iii) optimize employability of members of the target groups through support to enhancing the individual and organizational skills necessary to achieve objectives (i) and (ii).

Policy and institutional objectives

13. In Turkey, the development agenda has shifted towards increased market liberalization, economic policy and institutional reform, and the proposed project's design fits into and supports these changes. Noting that the policy environment is now much more open-market-oriented, the project places greater emphasis on (i) profitability and marketability in agricultural interventions; (ii) taking advantage of site-specific opportunities in terms of sustainable natural-resource use, market linkages and private-sector involvement; and (iii) support for small and medium-sized enterprises to provide market linkages and to increase self-employment and job availability.

IFAD policy and strategy alignment

14. The positioning of IFAD support for the project is articulated in the COSOP for Turkey, approved by the Executive Board in September 2006. In the COSOP, a key point that guided the design of the project is that – in the prevailing conditions of the poorest south-eastern provinces, the centre of IFAD support – agricultural development cannot be viewed as the sole instrument through which to reduce rural poverty in any given locality. Future investment directed to rural poverty reduction should adopt a wider perspective. The project is aligned with the IFAD strategic objective 1 (strengthening the capacity of the rural poor and their organizations) and strategic objective 3 (increasing access to financial services and markets), mostly through measures for improved supply-chain management.

E. Harmonization and alignment

Alignment with national priorities

15. The rationale for the project originates with the Government's aim to reduce economic and social disparities, and is consistent with priorities articulated in its agricultural and rural development strategies, approved in 2004 and 2006 respectively. The main thrust of the rural development strategy is to increase social welfare in rural areas where human resources and quality of life are constantly developing, with an emerging competitive production structure that creates employment opportunities and eliminates disparities of socio-economic development.

Harmonization with development partners

16. The strategy and design of the project are in line with the ongoing and prospective European Union convergence process in Turkey and with the World Bank and UNDP operations in the country. More specifically, key elements of the project are contributory grant procedures implemented by the World Bank and UNDP implementation support processes. It is also expected that strong relationships will be developed between the project and the European Union Instrument for Pre-accession Assistance – Rural Development (IPARD), with the project acting as the facilitator of financial support to be provided for small and medium-sized enterprises and farmers' organizations.

F. Components and expenditure categories

Main components

17. Investment activities would be implemented under three components: (i) village improvement programme; (ii) rural economic growth; and (iii) capacity-building for employment.

Expenditure categories

18. There are seven expenditure categories: (i) civil works (20 per cent of base costs); (ii) equipment and materials (2 per cent); (iii) training, workshops and studies (14 per cent); (iv) technical assistance (3 per cent); (v) contributory grants (37 per cent); (vi) recurrent costs, including salaries and operation and maintenance, and implementation support (16 per cent); and (vii) unallocated (8 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. Overall responsibility for project implementation will rest with the Ministry of Agriculture and Rural Affairs (MARA). More specifically, the project will be implemented under the authority of a project coordinator, liaising with the Head of MARA's General Directorate of Agricultural Development and Production. The Provincial Directorate of Agriculture in each of the three provinces will establish a project administration unit to facilitate the implementation of project-sponsored activities. In each province, a provincial project coordinating committee will be established to oversee project implementation at that level.

Implementation responsibilities

20. The project coordinator will provide oversight and guidance to the project administration units at the provincial level to ensure smooth implementation of the project, and will collaborate closely with the administrative personnel of UNDP/Ankara in their support role to the project. The project coordinator will receive and collate the annual workplans and budgets from the provinces, and confirm their consistency with project design and their appropriateness in relation to the project's financing situation; the coordinator will also assume similar responsibility for the collation and forwarding of the provinces' annual and semi-annual reports to the Government and IFAD. The project coordinator will take the lead in commissioning studies and surveys that cut across all three project provinces and will initiate recruitment of technical assistance personnel, in accordance with the IFAD loan agreement as reflected in the consolidated annual workplan and budget for the project. Where appropriate, memorandums of understanding will be drawn up between MARA and the lead agencies for other programmes, for instance with the Special Provincial Administration (for support to village public infrastructure) and the Ministry of National Education (for delivery of project activities related to vocational skills training).

Role of technical assistance

21. Because the project will introduce a range of new concepts in the context of south-eastern Turkey, such as public-private partnerships, supply chain analysis, strategic investment programmes for sound investment analysis, and potential beneficiary and rural financial services institution-building, a substantial amount of local and foreign technical assistance has been incorporated into the project design. UNDP will finance all foreign technical assistance (US\$0.43 million), while IFAD will finance US\$1.8 million for local technical assistance.

Status of key implementation agreements

22. As noted, the disbursement of the IFAD loan will be governed by the standard IFAD loan agreement. In order to provide a sound basis for early implementation, the role of UNDP as a cofinancier and implementation support partner will be incorporated into the IFAD loan agreement with the Government of Turkey.

Key financing partners and amounts committed

23. The total project cost is US\$37.36 million over a five-year implementation period. The sources of financing are IFAD (with a loan of US\$24.10 million on ordinary terms); the Government (US\$4.75 million); clients/investors/communities (US\$7.76 million); and UNDP (US\$0.75 million). Although not part of the financing plan, it is expected that the proposed project will leverage substantial support from the IPARD programme, once effective in 2008/09.

H. Benefits and economic and financial justification

Main categories of benefits generated

24. For the village improvement component, benefits include (i) greater drawdown by project beneficiaries of their entitlements under ongoing development and social support programmes for which they are eligible; (ii) increased and sustainable

returns in kind and, to some extent, cash from subsistence-oriented agriculture as a result of greater productivity arising from agricultural education and training; (iii) enhanced ability to access better-paid employment opportunities in the emergent non-farm rural economy as a result of skills training; and (iv) enhanced village living conditions associated with improvements to existing social and economic infrastructure. Benefits from the rural economic growth component would derive from an expansion in the number of functioning and sustainable enterprises in the three provinces, generating positive effects through induced growth in levels of self-employment and wage-based employment, hence contributing to improved incomes among those who are currently under- or unemployed.

Economic and financial viability

25. In view of the demand-driven nature of the major part of the project, no overall economic analysis is feasible. On the financial side, a series of on- and off-farm enterprise models were developed: while the on-farm models relating to the village improvement programme showed – not surprisingly – only modest results, off-farm investment models showed a satisfactory return.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

26. Arrangements have been incorporated into the project's management information system to document the impact of new approaches such as public-private partnerships, supply chain analysis, strategic investment programmes and potential beneficiary and rural financial services institution-building. Lessons learned will be shared throughout project implementation and, at completion, with the relevant development actors.

Development innovations that the project will promote

27. The project's combination of an integrated, bottom-up and market-oriented private-sector approach to rural poverty reduction and socio-economic development is a major innovation in the project area and in Turkey generally. Contrary to earlier investments supported by the Fund, which, to a large degree, focused on agricultural productivity increases as the sole means of poverty reduction, this project seeks to situate development assistance in a context of more localized and flexible responses to a rapidly changing environment. Depending on the economic opportunities of the target groups and their own priorities, activities may vary from improved supply-chain management to support for basic infrastructure improvements.

Scaling-up approach

28. The obvious opportunity for scaling up project activities is within the European Union pre-accession process. During design consultations, European Union officials already noted that a significant part of the project addresses analysis, assessment and institution-building elements for disbursements of funds under the IPARD facility.

J. Main risks

Main risks and mitigation measures

29. The main potential risks for the project are (i) capacity in terms of knowledge, skills and numbers of Provincial/District Directorate of Agriculture staff to implement the project; and (ii) absorptive capacity in terms of finance and labour of the project area's rural economy. The planned mitigated measures are (i) staff training and project emphasis on contracting out activities, wherever possible, to private service providers; and (ii) direct supervision by IFAD, UNDP involvement, competitive recruitment of project-specific staff, substantial technical assistance, and consideration at the time of the mid-term review of expansion into other provinces in the region.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

31. The project design seeks to assure post-project sustainability based on (i) comprehensive individual and organizational capacity-building of government staff and beneficiaries; (ii) stimulating growth and diversification of the project area's rural economy on the basis of sound investment analysis to identify profitable enterprise opportunities; and (iii) initiation, through its package of complementary and mutually reinforcing components, of a set of commercially based stakeholder relationships, which are both necessary and feasible in a market-oriented, privately owned rural economy.

II. Legal instruments and authority

32. A loan agreement between the Republic of Turkey and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated agreement is attached as an annex.
33. The Republic of Turkey is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation

35. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Turkey in various currencies in an amount equivalent to sixteen million three hundred thousand special drawing rights (SDR 16,300,000) to mature on or prior to 1 December 2024 and to bear an interest rate equal to the variable reference interest rate per annum as determined by the Fund annually, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President

Summary of important supplementary assurances included in the negotiated loan agreement

(Negotiations concluded on 28 November 2006)

UNDP service agreement

1. The Government will enter into an agreement with UNDP (UNDP service agreement), acceptable to IFAD, to provide the Government with facilitation support for project administration (e.g. flow of funds arrangements, programming, accounting and audit, recruitment and assistance for procurement of goods and services) and quality assurance for project implementation. The UNDP service agreement will serve as the overall guidance and legal framework for the involvement of UNDP in the project.

Compatibility with other programmes

2. All activities under the project will be carried out in a manner compatible with other ongoing agricultural and rural development initiatives in the project area. Where appropriate, it is envisaged that protocols or memorandums of understanding will be drawn up between MARA and lead agencies for other donor- and Government-financed programmes.

Pest management practices

3. The Government will ensure that pesticides procured under the project do not include any pesticides proscribed by the Food and Agriculture Organization of the United Nations or classified as "extremely hazardous" or "highly hazardous" by the World Health Organization.

Monitoring

4. The project administrators will have lead responsibility for the design and operation of the project management and information system (MIS) and monitoring and evaluation (M&E) system in their respective project province. The MIS and M&E systems are designed to achieve and measure project results and impact, and will take an integrated approach to rural poverty reduction in the project area. The systems will stress the importance of thoroughly documenting the project's implementation, results and impact as a self-evident knowledge management function in relation to possible future replication and/or scaling up.
5. In setting up and maintaining the MIS and M&E systems, the following will be done: an initial benchmark assessment, annual programming workshops, a mid-term review, impact assessments, and a project completion report. A targeting and integration study and a land tenure study will also be conducted under the project, the findings of which would be reflected in the project's performance indicators. The identification and selection of performance indicators will be informed by the discussions and various workshops.

Insurance of project personnel

6. The Government will insure project personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

Gender focus

7. As per the established legal framework of the Government, gender equality will be mainstreamed in all activities to be supported by the project.

Additional events of suspension

8. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account upon the occurrence of any of the events set forth below: (i) the right of the Government to withdraw

proceeds under the UNDP grant agreement has been suspended, cancelled or terminated, in whole or in part, or any event has occurred that, with notice or the passage of time, could result in any of the foregoing; (ii) the project implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had a material adverse effect on the project.

- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account if the audit report has not been satisfactorily completed within the 12 months following the financial reporting period set forth in the project loan agreement.

Conditions precedent to withdrawals

- 9. No withdrawals may be made in a project province from the loan until the project administration unit has been established and the project administration unit's professional staff has been recruited and appointed in accordance with the project loan agreement.

Conditions precedent to effectiveness

- 10. The following are the additional conditions precedent to the effectiveness of the project loan agreement:
 - (a) a programme coordinator acceptable to IFAD has been duly recruited and appointed;
 - (b) the three provincial programme coordination committees have been duly established;
 - (c) the UNDP service agreement has been duly signed;
 - (d) the UNDP grant agreement has been duly signed;
 - (e) the Government has duly opened the special account;
 - (f) the project loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
 - (g) a favourable legal opinion, issued by the First Legal Adviser of the Undersecretariat of the Treasury in respect of the matters set forth in the agreement and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

Key reference documents

Country reference documents

National Rural Development Strategy (2006)
Agricultural Strategy (2006-2010)
Long Term Strategy and Eighth Development Plan (State Planning Organisation)

IFAD reference documents

Project design document (PDD) and key files
Turkey COSOP 2006
Learning Notes
Policy on Rural Finance
Administrative Procedures on Environmental Assessment
Prerequisites of Gender Sensitive Design
Private-Sector Partnership and Development Strategy

Other miscellaneous reference documents

WB Turkey: Policy and Investment Priorities for Agricultural and Rural Development
WB Turkey: Rural Finance Study

Logical framework

| Objective hierarchy | Key performance indicators and targets | Monitoring mechanisms and information sources | Assumptions and risks |
|---|--|--|--|
| Goal | | | |
| Socio-economic improvement of poor rural households in the project area | <ul style="list-style-type: none"> Improvements of Human Poverty and Human Development Index Increase in household asset ownership (physical, capital, financial, natural, social, human) | <ul style="list-style-type: none"> UNDP Poverty and Human Development Reports SIS household surveys Project documentation and impact assessment surveys | <ul style="list-style-type: none"> Macroeconomic stability, govt commitment to private sector development, to the NSPR, the agricultural strategy, the NRDS, and the Long Term Strategy Institutional reforms consistent with EU convergence |
| Purpose of components | | | |
| 1. Livelihood improvement in poor rural villages in the project area | <ul style="list-style-type: none"> Increase in the number of households with access to natural resources (including pastures, forest, and water) Number of people accessing technical and income support services. Quality of support services (gender disaggregated) Changes in the economic participation and decision-making (disaggregated by primary and secondary target groups and gender) | <ul style="list-style-type: none"> MARA/PDA records MOEF records Social Assistance and Solidarity Fund records Project surveys and documentation | <ul style="list-style-type: none"> Security and availability of adequate access to natural resources Project design and implementation consistent with people's livelihood strategies |
| 2. Diversify income sources and increase employment | <ul style="list-style-type: none"> Changes in the ratio existing income generation activities/diversified income generation activities Number of jobs generated | <ul style="list-style-type: none"> Local government records Employee records Project surveys and documentation | <ul style="list-style-type: none"> Investment-conducive-environment Functioning relationship between elected and appointed officials |
| 3. Developing and enhancing employability skills of the target group | <ul style="list-style-type: none"> Number of people trained in employability skills and % increase in literacy and numeracy rate (disaggregated by gender, age, and type of training) Benefits accruing to employers (private or public) | <ul style="list-style-type: none"> VDA records Employers records Project surveys and documentation | <ul style="list-style-type: none"> Representation of Project target groups in VDAs Project activities and delivery mechanisms consistent with people's livelihood strategies and private sector development |
| Output by component | | | |
| Output 1. Poverty mitigation at the village level | <ul style="list-style-type: none"> Sustainable improvement (%) in crop and livestock productivity Height f/age and weight f/age boys and girls Improved business environment at local level Improved access to market or infrastructure | <ul style="list-style-type: none"> MARA/PDA production data and records SPO Poverty assessments MOH data/nutrition surveys Project surveys and documentation | <ul style="list-style-type: none"> Level of economic activity in project area sufficient to sustain village population levels Investment-conducive-environment |
| Output 2. Rural economic growth | <ul style="list-style-type: none"> Number and size of on and off-farm businesses established Improved access to finance Changes in the ratio of new small business/business failures Increase the profitability of existing small businesses | <ul style="list-style-type: none"> Provincial/SPA records Chambers of Commerce and Chambers of Agriculture records Project surveys and documentation | <ul style="list-style-type: none"> Participation and attendance to proposed activities Project activities and delivery mechanisms consistent with people's livelihood strategies and private sector development |
| Output 3. Enhanced employability | <ul style="list-style-type: none"> Number of people trained in employability skills and % increase in literacy and numeracy rate (disaggregated by gender, age, and type of training) Number of full time equivalent jobs created and changes in village employment patterns | <ul style="list-style-type: none"> Local government records Project benchmark assessment and subsequent impact assessments | |

