

Document: EB 2007/90/R.17/Rev.1  
Agenda: 9(d)  
Date: 18 April 2007  
Distribution: Public  
Original: English

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Enabling the rural poor  
to overcome poverty

## **President's report**

### **Proposed loan to the Syrian Arab Republic for the**

### **North-eastern Region Rural Development Project**

Executive Board — Ninetieth Session  
Rome, 17-18 April 2007

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For: **Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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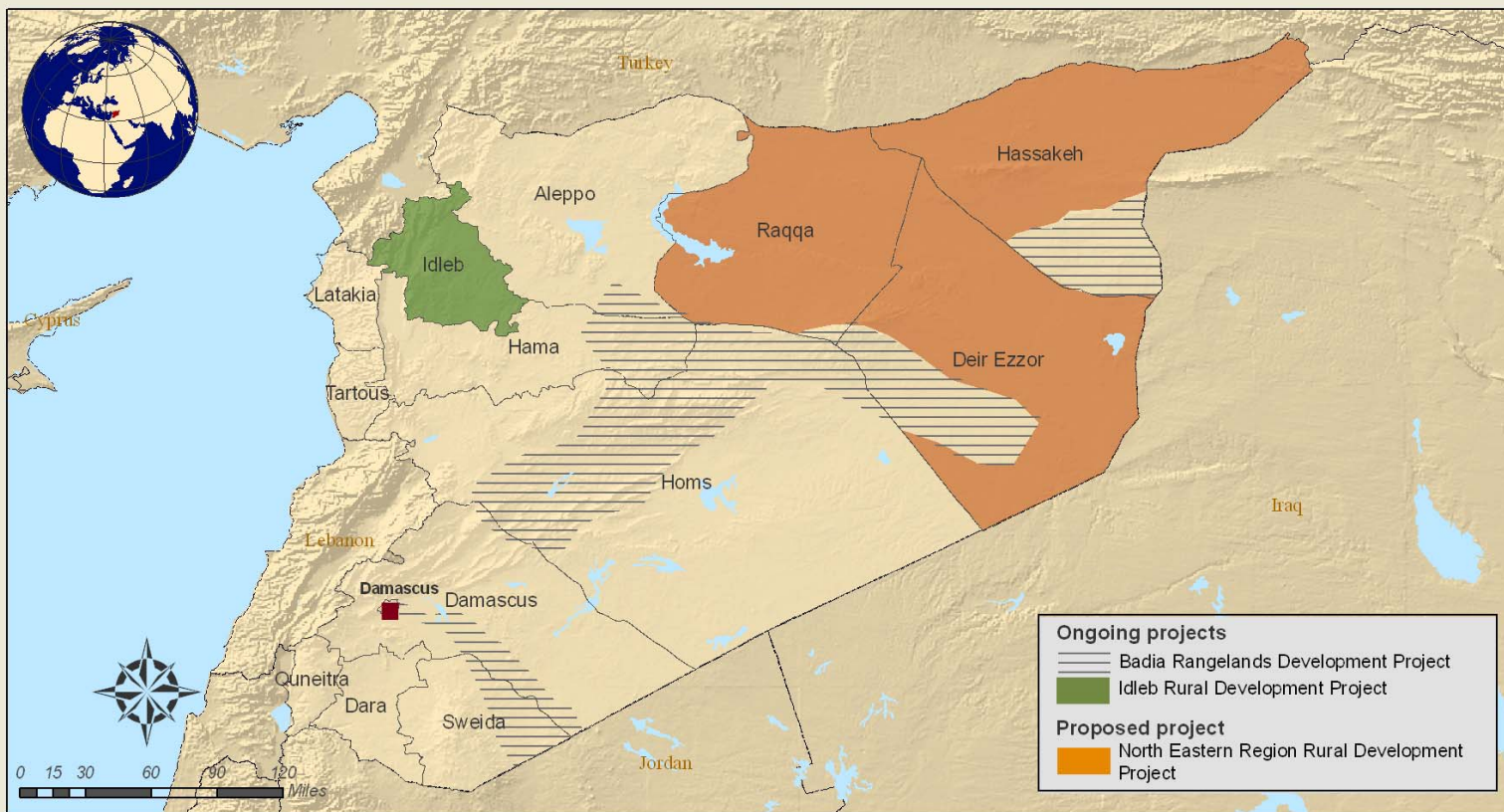
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## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed loan to the Syrian Arab Republic for the North-eastern Region Rural Development Project, as contained in paragraph 35.

**Syrian Arab Republic**  
**North Eastern Region Rural Development Project**

Map 1 - IFAD-financed ongoing and proposed projects



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 compiled by IFAD

## Syrian Arab Republic

### North-eastern Region Rural Development Project

#### Loan summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Syrian Arab Republic
<b>Executing agency:</b>	Ministry of Agriculture and Agrarian Reform
<b>Total project cost:</b>	US\$58.0 million
<b>Amount of IFAD loan:</b>	SDR 13.38 million (equivalent to approximately US\$20.1 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinancier(s):</b>	OPEC Fund for International Development
<b>Amount of cofinancing:</b>	US\$17.0 million
<b>Terms of cofinancing:</b>	To be determined
<b>Contribution of borrower:</b>	US\$20.0 million
<b>Contribution of beneficiaries:</b>	US\$0.9 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	United Nations Office for Project Services

# Proposed loan to the Syrian Arab Republic for the North-eastern Region Rural Development Project

## I. The project

### A. Main development opportunity addressed by the project

1. The main issue addressed by the project is the growing stress between available natural resources and a rapidly increasing population with greater demands and expectations. In addition to reversing the severe water deficit and improving the efficient use of irrigation, the project will promote microfinance and microenterprise development, marketing and partnerships with the private sector.

### B. Proposed financing

#### Terms and conditions

2. It is proposed that IFAD provide a loan to the Syrian Arab Republic in the amount of SDR 13.38 million (equivalent to approximately US\$20.1 million) on highly concessional terms to help finance the North-eastern Region Rural Development Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

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

3. The annual PBAS allocation for the Syrian Arab Republic is US\$6.8 million. The IFAD loan for this project falls within the three-year allocation (2007-2009).

#### Country debt burden and absorptive capacity of the State

4. The country's handling of its external debt has improved in terms of both debt volume and debt servicing. A mild recovery has been under way since early 2004, aided by a strong rebound in exports and a surge in private investment; both reflect the success of ongoing reforms. External and public debt remains manageable, at 25 per cent and 39 per cent respectively of GDP, and official foreign assets cover more than 2.5 years of imports. Total annual disbursements from all ongoing projects in the country average SDR 2 million. The Government has a good repayment record on IFAD loans.

#### Flow of funds

5. The IFAD loan proceeds will be channelled through two special accounts: a special account for the Savings Bank (in charge of the microfinance subcomponent) and one for the project management unit (in charge of other project components).

#### Supervision arrangements

6. The IFAD loan will be administered by the United Nations Office for Project Services. In addition, IFAD will undertake at least one follow-up mission per year, stressing IFAD targeting specificity, governance and technical requirements. Similarly, one supervision mission will be undertaken each year. Supervision missions will be scheduled to coincide with the annual review workshop, providing an opportunity for the mission to work closely with all stakeholders in order to identify progress and constraints, and facilitating the review and approval of workplans and the budget.

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

7. No exceptions are foreseen.

#### Governance

8. The following planned measures are intended to enhance the governance aspects of IFAD financing: (i) use of a private auditing firm and full adherence to IFAD's guidelines for audit reporting; (ii) competitive service provision through competition for contracts between the public, private and NGO sectors and international/regional institutions, such as the Food and Agriculture Organization of the United Nations, the

International Center for Agricultural Research in the Dry Areas, the Arab Center for the Studies of Arid Zones and Dry Lands, and the Arab Organization for Agricultural Development; and (iii) introduction of best practices of the Consultative Group to Assist the Poor for the promotion of microfinance by providing technical assistance to the Savings Bank.

## **C. Target group and participation**

### **Target group**

9. In compliance with the IFAD Targeting Policy, the target group will be made up of poor smallholders, tenant farmers, the landless, rural women and unemployed youths. The group is estimated to comprise 190,000 households (70 per cent of the rural population in the project area). A further 10 per cent of households (30,000 households) are considered to be vulnerable to poverty and therefore will be included as being suitable for project support.

### **Targeting approach**

10. Targeting will be effected on two levels (village and household), it will be participatory, and it will focus on identifying the poorest areas with the highest proportion of productive poor people in poor villages. Area targeting will be implemented at the local and regional levels.

### **Participation**

11. Through the community empowerment teams of the province project management units, the project will assist the target group in forming community-based associations, such as farmers' and craftworkers' marketing associations and water users' associations (WUAs). These associations, which will be strengthened by the project, will play a vital role in implementing project activities through (i) identification and prioritizing of village development needs; (ii) market linkages and supply chain analysis; (iii) technical advisory services; (iv) joint or individual investment in small and microenterprises; (v) dissemination of marketing information; (vi) combined procurement of inputs, and (vii) joint management of water resources. Women will, in particular, be encouraged and supported to form marketing associations for livestock and handicraft production and marketing.

## **D. Development objectives**

### **Key project objectives**

12. The overall project goal is to contribute to poverty reduction and improved livelihoods of the target population in the project area. This objective will be achieved through (i) rural community organizations with sustainable resource management and commercial operations; (ii) optimal management and rational use of water resources for irrigation; (iii) farmers' access to effective and relevant advisory services; and (iv) private-sector investments creating employment and boosting incomes.

### **Policy and institutional objectives**

13. An important objective of the project is to help establish a sustainable microfinance system by extending microfinance support from the Savings Bank into the rural areas of the North-eastern Region. The project will also support the establishment of an irrigation water management policy development unit within the Ministry of Irrigation, at the national level, to harmonize and streamline the process of formation of WUAs. It is also anticipated that project support for the establishment, empowerment and training of WUAs will contribute to the establishment of a sustainable and fully participatory system for water management.

### **IFAD policy and strategy alignment**

14. The project will seek to implement the country strategic opportunities paper strategic objective of contributing to rural employment creation, income generation and natural resources conservation. It is fully aligned with IFAD's strategic



objectives, as stated in the IFAD Strategic Framework 2007-2010, of strengthening the capacity of the rural poor and their organizations, and increasing access to financial services and markets.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

15. The project is aligned with the Government's poverty reduction strategy as articulated in the Tenth Five-Year Plan 2006-2010. The Government's main strategic objectives for alleviating poverty are to (i) raise the educational levels of poor households and combat illiteracy; (ii) improve social services in the poorest regions; (iii) develop social safety nets; (iv) develop financial policies targeting the poor and better income distribution; (v) ensure access of the poor to financial resources by developing microfinancing; and (vi) empower local communities in the development process. The plan places special emphasis on gender balance and creation of employment, especially for the poor and unemployed youth and women.

### **Harmonization with development partners**

16. In addition to the project cofinancing of US\$17.0 million from the OPEC Fund for International Development, the project will enable cross-fertilization with several donor-supported activities. In particular, it will benefit from the institution-building activities provided by the Consultative Group to Assist the Poor to the Savings Bank and by the United Nations Development Programme's Support to the Business Innovation and Development Centers. The project will also coordinate with the pipeline project for Integrated Sustainable Land Management in the Eastern Region, submitted to the Global Environment Facility for grant financing.

## **F. Components and expenditure categories**

### **Main components**

17. The project has five components: (i) community empowerment; (ii) natural resources management and irrigation; (iii) farm productivity; (iv) small and microenterprise development; and (v) coordination and management.

### **Expenditure categories**

18. There are nine expenditure categories: (i) civil works (6.2 per cent of total cost); (ii) equipment (6 per cent); (iii) vehicles (4.5 per cent); (iv) studies and technical assistance (6.5 per cent); (v) database establishment (4.2 per cent); (vi) training (12.5 per cent); (vii) modern irrigation systems and microfinance (44.6 per cent); (viii) incremental salaries, allowances and incentives (7.6 per cent); and (ix) operating and maintenance (8 per cent).

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

19. These will be the Savings Bank; the Agricultural Cooperative Bank; the Ministry of Agriculture and Agrarian Reform through its provincial directorates of agriculture and gender units in the three provinces; the Ministry of Irrigation through its provincial directorates in the three provinces; and project beneficiaries through the following village-based associations: farmers' associations, marketing associations and water users' associations.

### **Implementation responsibilities**

20. The Ministry of Agriculture and Agrarian Reform will be responsible for overall coordination and for project operations in agriculture and modern on-farm irrigation. The Ministry of Irrigation will be responsible for all aspects of the project's involvement in management of water resources above the farm level. The Agricultural Cooperative Bank will manage, on behalf of the Government, credit for investment in modern irrigation equipment and working capital for the revised cropping patterns. The Savings Bank will manage funds for lending to target group investors in small and microenterprises. Successful implementation of the project

depends on full participation of farmers, rural women and other investors; thus, participant organizations such as water users' associations and marketing associations will be developed to be integral parts of the framework of institutions working to achieve for the project's purposes, as mentioned in paragraph 11.

#### **Role of technical assistance**

21. The IFAD loan proceeds include US\$722,000 for technical assistance intended mainly for building the capacities of the Savings Bank and of community-based associations. The Savings Bank will receive support to implement best practices at the three project area branches and to upgrade the bank's management information system. Support to the community-based associations will focus on community organization, group management, and business development skills for small and microenterprises (SMEs) and natural resources management. Funds will also be allocated to assist the project management units of IFAD-funded projects in the Syrian Arab Republic in developing a monitoring and evaluation system based on the Results and Impact Management System.

#### **Status of key implementation agreements**

22. In addition to the standard loan agreement between IFAD and the Government, a subsidiary agreement will be executed between the State Planning Commission and the Savings Bank specifying the conditions for implementing the microfinance component.

#### **Key financing partners and amounts committed**

23. An OPEC Fund for International Development loan of US\$17.0 million, approved in December 2006, will finance 29 per cent of the total cost. Government financing of about US\$20.0 million (34 per cent of the total) will cover the costs of taxes and other activities, among which the most important will be the loans for farmers' investments in modern irrigation equipment. This is part of an ongoing national programme for irrigation modernization. The beneficiaries' contribution of US\$0.9 million (2 per cent) will be mainly through equity contributions to financing their investments.

## **H. Benefits and economic and financial justification**

#### **Main categories of benefits generated**

24. The project will benefit rural poor households by creating on- and off-farm jobs and increasing income, production and food security. These gains will stem from the use of improved production technology and investments in on- and off-farm enterprises; improved irrigation-water management practices; better margins on sales of produce; better employment prospects, associated with enhanced business development opportunities; and greater participatory involvement in marketing associations, which will help these groups achieve the production scale necessary to strengthen their bargaining power.

#### **Economic and financial viability**

25. A series of representative enterprise models were developed for investments by SMEs in dairy production, investments by microenterprises in on- and off-farm activities, and investments by individual smallholders in the production of strategic and high-value crops in an efficient crop-livestock system. The financial results show that the incremental returns are attractive and the net annual farm family benefit after financing will increase substantially, ranging between 64 per cent and 150 per cent.

## **I. Knowledge management, innovation and scaling up**

#### **Knowledge management arrangements**

26. The IFAD proxy field presence representative in Damascus will organize yearly national project implementation workshops allowing project staff and other implementing partners to communicate and share lessons learned across projects.

Small brochures, recording the lessons learned, will be produced following each workshop. In addition, the project will make substantial use of KariaNet, the IFAD-supported regional knowledge management network based in Cairo, which will enable it to learn from and share experiences with other IFAD projects and partners in the Near East and North Africa region.

#### **Development innovations that the project will promote**

27. Project features that are innovative in the Syrian context include (i) promotion of sustainable access to financial services in rural areas through partnership with the Savings Bank and the possible establishment of a microfinance bank for the Syrian Arab Republic; (ii) introduction of a market-driven, business-oriented approach to agriculture production, which will link private exporters to producers through contractual arrangements with farmers' associations; and (iii) promotion of participatory water resource management through the establishment of WUAs.

#### **Scaling-up approach**

28. At the end of project implementation and possibly even at mid-term, the project will have generated valuable lessons to expand its approaches and pilot activities throughout the country's rural areas. These initiatives, reflecting local conditions, and their scaling up by the Government and other partners will contribute to making rural microfinance, market-driven agricultural production systems and participatory water resource management mainstream activities of rural development programmes.

### **J. Main risks**

#### **Main risks and mitigation measures**

29. There are two main risks. The risk that rural women will have limited access to microfinance will be mitigated through participatory targeting and promotion of enterprises of interest to these women (e.g. in the livestock and handicraft sectors). The risk of a high rate of delinquency will be mitigated through strong investment in the capacity-building of the Savings Bank and the adoption of best practices.

#### **Environmental classification**

30. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category A operation due to the fragile environment and severity of ground and surface water situation throughout the project area. An environmental assessment was conducted concurrent with the project appraisal exercise. The assessment concluded that the project interventions as designed will not cause any permanent damage to the landscape, soil or other environmental features. The assessment made several recommendations aimed at reducing potential environmental side effects, and all these recommendations have been incorporated into the project design.

### **K. Sustainability**

31. By promoting microfinance best practices, the project will ensure that credit operations are financially viable and sustainable for the Savings Bank. With regard to natural resources management, the project will create ample opportunity for community-based organizations, such as the WUAs, to contribute to the management, operation and maintenance of water conservation and irrigation systems.

## **II. Legal instruments and authority**

32. A project loan agreement between the Syrian Arab Republic and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. The important assurances included in the negotiated agreement are attached as an annex.
33. The Syrian Arab Republic 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 Syrian Arab Republic in various currencies in an amount equivalent to thirteen million three hundred and eighty thousand special drawing rights (SDR 13,380,000) to mature on or prior to 1 December 2046 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge  
President

## Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 14 March 2007)

### Environmental impact

1. The Government of the Syrian Arab Republic will make all necessary arrangements for implementation and enforcement of the new Water Law and its regulations in the three project area governorates of Hassakeh, Raqqa and Deir Ezzor.

### Gender focus

2. Given the problems arising from poverty and gender inequality in the project area, the project will focus **largely** on targeting project activities to reach poor rural women and men through all the project components.

### Pest management practices

3. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the project do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

### Insurance of project personnel

4. 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.

### Fraud and corruption

5. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the project of which it has knowledge or become aware.

### Suspension

6. (a) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals of funds from the loan account if the audit has not been conducted satisfactorily within 12 months of the financial reporting date.
- (b) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals of funds from the loan account in the event that:
  - (i) IFAD, after consultation with the Government, has determined that the material benefits of the project are not reaching the target group, or are benefiting persons outside the target group to the detriment of target group members;
  - (ii) the subsidiary loan agreement, or any provision thereof, has been violated or has been waived, suspended, terminated, amended or otherwise modified without the prior written consent of IFAD, and IFAD has determined that such violation or waiver, suspension, termination, amendment or other modification has had, or is likely to have, a material adverse effect on any portion of the project;
  - (iii) 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, or is likely to have, a material adverse effect on the project;
  - (iv) the Government has defaulted in the performance of any covenant and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the project;

- (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD; and
- (vi) procurement has not been or is not being carried out in accordance with the project loan agreement.

**Conditions precedent to withdrawal**

- 7. (a) No withdrawals will be made under the project loan agreement until:
  - (i) the subsidiary loan agreement has been accepted by IFAD in draft and a signed copy of such agreement has been delivered to IFAD;
  - (ii) the special accounts A and B and project accounts A and B have been duly opened;
  - (iii) the draft first annual workplan and budget has been approved by IFAD; and
  - (iv) the Government has made an initial budgetary allocation of counterpart funds.
- (b) No withdrawals will be made in respect of expenditures under the credit line until the credit manual has been approved by IFAD.
- (c) No withdrawal will be made in respect of expenditures under the equity contribution to the microfinance bank until the feasibility study has been accepted by IFAD and the Government decree establishing the microfinance bank has been issued.

**Conditions precedent to effectiveness**

- 8. The project loan agreement will become effective subject to the fulfilment of the following conditions: (i) the project director has been duly appointed and is acceptable to IFAD; (ii) the central project directorate at the central level and the provincial project directorate units at the provincial level have been duly established; (iii) the project steering committee has been duly established; (iv) the 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 (v) the Government has delivered to IFAD a legal opinion issued by the State Planning Commission or other legal counsel authorized by the Government.

## **Key reference documents**

### **Country reference documents**

National Strategy for Poverty Alleviation: Tenth Five-Year Plan 2006-2010  
National Water Strategy  
National Strategy for Environment  
National Strategy for Women

### **IFAD reference documents**

PDD and Key Files  
Syria COSOP (2001)  
Rural Poverty Assessment and Mapping Report (2005)  
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**

World Bank Irrigation Sector report (2001)  
CGAP-DAI: Savings Bank Assessment and Micro-finance environment (2006)  
UNDP: Human Development Report (2005)

# Logical framework

<i>Narrative summary</i>	<i>Verifiable indicators</i>	<i>Means of verification</i>	<i>Critical assumptions</i>
<b>Goal</b>			
<ul style="list-style-type: none"> <li>Improved socio-economic well-being of poorer rural households in the Project Area.</li> </ul>	<ul style="list-style-type: none"> <li>Poverty indicators. (Improvements in HH assets);</li> <li>Reduction in the prevalence of malnutrition for children under five;</li> <li>Reduction of gender gap rate in unemployment</li> </ul>	<ul style="list-style-type: none"> <li>National Household Living Standard Surveys for project Governorates</li> <li>UNDP poverty and HDI reports</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>Government maintains its commitment to pro-poor macro-economic policies and institutional reforms</li> <li>Government implements Eastern Region development programme</li> </ul>
<b>Purpose/Objectives</b>			
<ul style="list-style-type: none"> <li>Empowerment of project target group (smallholder households, the landless, rural women and the unemployed youth) to create sustainable employment and increase income.</li> <li>Optimal management and rational use of water resources for irrigation</li> </ul>	<ul style="list-style-type: none"> <li>Per cent increase in employment and income of project target group, by gender</li> <li>Reduction in irrigation water losses for optimum crop yield and production</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>GOS employment statistics;</li> <li>Baseline, socio-economic surveys and project completion report (gender-disaggregated);</li> <li>Independent assessments</li> <li>Project monitoring reports and impact assessment studies</li> </ul>	<ul style="list-style-type: none"> <li>Recent economic reforms maintained</li> <li>Government implements irrigation modernization programme</li> </ul>
<b>Outputs Sought</b>			
<ul style="list-style-type: none"> <li>SMEs developed ;</li> <li>Capacities of FMAs, HMAs improved; their productivity, competitiveness and marketing enhanced;</li> <li>Financial services enhanced and accessible on sustainable basis.</li> </ul>	<ul style="list-style-type: none"> <li>Number of sustainable SMEs promoted</li> <li>Number of sustainable FMAs, HMAs established and their membership by gender ;</li> </ul>	<ul style="list-style-type: none"> <li>Project monitoring reports;</li> <li>Annual progress and supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>Best practice by Savings Bank implemented</li> </ul>
<ul style="list-style-type: none"> <li>Modern on-farm irrigation and improved water management practices</li> </ul>	<ul style="list-style-type: none"> <li>Area equipped with modern irrigation system</li> <li>Number of WUAs established and functional, area served</li> </ul>	<ul style="list-style-type: none"> <li>Project monitoring reports and Annual progress and supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>WUAs enforce groundwater management and control mechanisms</li> <li>Ministry of Irrigation enacts regulations and procedures to promote WUAs</li> </ul>



