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Enabling poor rural people
to overcome poverty

President's report

Proposed grant to the Republic of The Sudan for the

Revitalizing The Sudan Gum Arabic Production and Marketing Project

Executive Board — Ninety-seventh Session
Rome, 14-15 September 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

Rasha Omar

Country Programme Manager
telephone: +39 06 5459 2100
e-mail: r.omar@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

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Abbreviations and acronyms

FNC	Forests National Corporation
GAPAs	gum arabic producers' associations
MDTF	Multi Donor Trust Fund

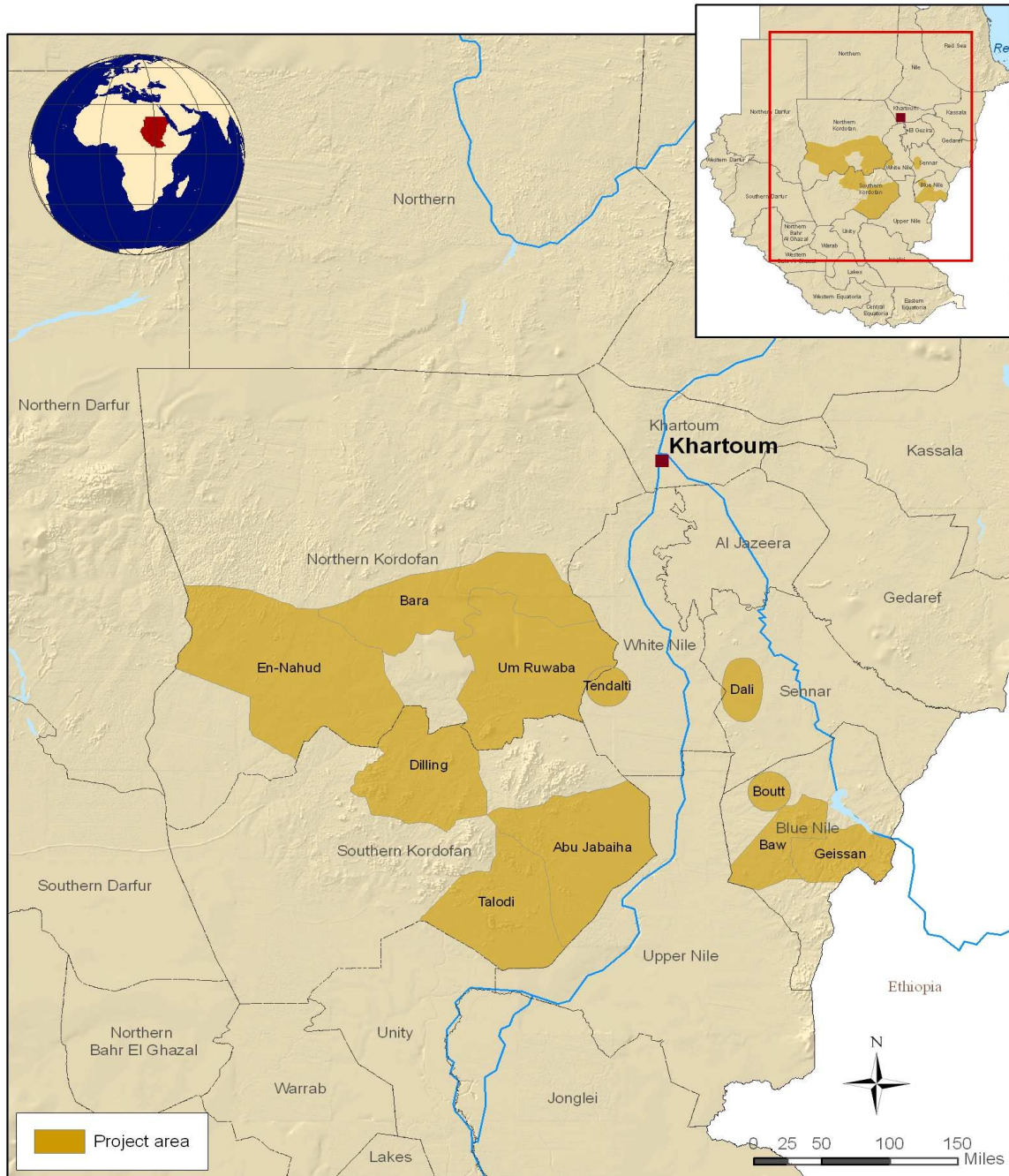
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of The Sudan for the Revitalizing The Sudan Gum Arabic Production and Marketing Project, as contained in paragraph 39.

Map of the project area

Republic of The Sudan

Revitalizing The Sudan Gum Arabic Production and Marketing Project



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.

Republic of The Sudan

Revitalizing The Sudan Gum Arabic Production and Marketing Project

Financing summary

Initiating institution:	World Bank
Recipient:	Republic of The Sudan
Executing agency:	Forests National Corporation
Total project cost:	US\$10.88 million
Amount of IFAD grant:	SDR 1.932 million (equivalent to approximately US\$3 million)
Cofinancier:	Multi-Donor Trust Fund
Amount of cofinancing:	US\$7 million
Terms of cofinancing:	Grant
Contribution of recipient:	US\$380,000
Contribution of beneficiaries:	US\$500,000
Appraising institution:	World Bank
Cooperating institution:	World Bank

Proposed grant to the Republic of The Sudan for the Revitalizing The Sudan Gum Arabic Production and Marketing Project

I. The project

A. Main development opportunity addressed by the project

1. The Sudan is the world's largest producer of gum arabic and exporter of raw gum. One million poor households currently depend on revenue from gum arabic production, which represents 50 per cent of their total cash income. At present, revenue from gum arabic is depressed as a result of the monopoly on its export. High taxes are also imposed on its processing. As a consequence, producers obtain only 15 per cent of free-on-board (f.o.b.) prices and have limited access to market information and formal credit.
2. There is a strong consensus among the sector's stakeholders, including the Government, on the need to reform gum arabic marketing¹ as a pre-requisite for increasing smallholders' revenue and for alleviating their poverty.
3. The Forests National Corporation (FNC), a parastatal company operating under the Federal Ministry of Agriculture and Forestry, has led efforts to organize producers into gum arabic producers' associations (GAPAs)The proposed project will support the ongoing reform process with a view to ensuring that it has pro-poor impact. It will also strengthen the capacity of GAPAs to benefit from a liberalized market.

B. Proposed financing

Terms and conditions

4. It is proposed that IFAD provide a grant under the Debt Sustainability Framework to the Republic of The Sudan in the amount of SDR 1.932 million (equivalent to approximately US\$3 million), to help finance the Revitalizing The Sudan Gum Arabic Production and Marketing Project.

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

5. The funding for this project is within the PBAS 2007-2009 allocation for the Republic of The Sudan.

Relationship to national sector-wide approaches or other joint funding instruments

6. The project is aligned with the objectives and activities of the Agricultural Revival Programme of the Government of National Unity as well as with the Joint Assessment Mission Framework for Sustained Peace, Development and Poverty Eradication, which is the result of collaboration by the Government of The Sudan, the Sudan People's Liberation Movement, the United Nations and the World Bank. Both strategies call for the removal of the concession for the export of raw gum accorded to the Gum Arabic Company in 1969, and for the provision of financial and technical support to producers to enable them to benefit from liberalized trade and to participate in the export of processed gum arabic.

¹ On 1 June 2009, the President issued a decree announcing the liberalization of the production, processing, marketing and export of gum arabic.

Country debt burden and absorptive capacity of the State

7. Under IFAD's Debt Sustainability Framework, which was approved at the April 2007 session of the Executive Board, The Sudan is categorized as a "red light" country, making it eligible for 100 per cent grant financing over the period 2007-2009.

Flow of funds

8. A project account in Sudanese pounds will be opened in the Central Bank of Sudan and directly managed by FNC under the responsibility of the project coordinator and the financial manager. A designated account in euros will be opened at the Central Bank of Sudan to receive Multi-Donor Trust Fund (MDTF) funding and IFAD cofinancing.

Supervision arrangements

9. The IFAD grant will be supervised by the World Bank. IFAD will participate in the biannual missions fielded by the World Bank.

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

10. The arrangements for audit, procurement, disbursement, and progress and financial reporting under the Multi-Donor Trust Fund grant will apply to the IFAD grant. In line with the harmonization principles embodied in the Paris Declaration on Aid Effectiveness, IFAD will adopt the World Bank's policies and procedures for procurement and loan disbursement, and the recipient's Public Procurement Rules, when permitted by the World Bank. This implies the non-application of the associated sections of the IFAD General Conditions for Agricultural Development Financing in favour of World Bank policies and procedures.

Governance

11. The following measures are intended to enhance the governance aspects of funds provided by the Multi-Donor Trust Fund-National (MDTF-N) and IFAD: (i) the FNC's internal audit unit will review project operations and report any exceptions; (ii) the project will be subject to annual audits; (iii) the World Bank will undertake prior review of procurement and six-monthly supervision missions thereafter to review procurement actions at the field level; and (iv) the World Bank will provide project management staff with regular training in financial management and in World Bank procedures, especially with regard to anticorruption measures.

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

12. The project's target group is composed of small-scale producers who work in the traditional rainfed sector, possess about 25-50 feddan² of acacia trees in selected areas of the gum belt and are organized into GAPAs. About 125 GAPAs will participate in the project. GAPAs operating in the localities of Bara, Um Rawaba and En-Nahud in North Kordofan State; Dilling, Talodi and Abu Jabaiha in South Kordofan State; Tendalti in White Nile State; Dali in Sennar State; and Boutt, Baw and Geissan in Blue Nile State will be selected. Of the 11 localities in the implementation area, three were previously under the control of the Sudan People's Liberation Movement. The target group has been identified in accordance with the IFAD Policy on Targeting.

Targeting approach

13. The process for selecting participating GAPAs takes into account the poverty level of the associations' members as well as the amount of women represented within their membership. The size of gum arabic holdings is used as the poverty indicator: households with less than 25 feddan of gum arabic cultivation are considered poor. Training in gum arabic production and marketing will be oriented towards seasonal labourers, sharecroppers and women. The project monitoring system will also assess

² A feddan equals to 4,200 m² or 1.038 acre.

the extent to which benefits from the policy reform and project activities accrue to the poor.

Participation

14. The participatory approach will entail empowering the GAPAs through knowledge, skills, and access to productive assets/financial resources and markets. This will be achieved through training, a system of matching grants for productive infrastructure (water, and grading and storage facilities), provision of credit, and strengthening of linkages between the GAPAs and GAPA unions and the processors and exporters.

D. Development objectives

Key project objectives

15. The overall goal of the project is to increase the production and income of small-scale gum producers in selected areas of the gum belt through improved performance of production and marketing systems. This will be achieved through (i) the implementation of the gum arabic sector reform, creating equal opportunity and competition among all market actors; and (ii) strengthening GAPA organization and capacity in order to improve their bargaining position.

Policy and institutional objectives

16. The policy objective of the project has largely been achieved as a result of the Government's decision in June 2009 to decontrol gum arabic exports and abolish the Gum Arabic Company's exclusive concession for exporting raw gum. The project will support the enforcement of the reform by developing proposals for an alternative tax regime, providing incentive packages for processors and exporters, and improving the bargaining position of GAPAs and their unions.

IFAD policy and strategy alignment

17. This project is included in the project pipeline under the results-based country opportunities programme for 2009-2012, which was endorsed by the Executive Board in April 2009. It is aligned with the country programme strategic objective of increased access of poor rural women and men to markets and microfinance.

E. Harmonization and alignment

Alignment with national priorities

18. The Government of National Unity has launched the Agricultural Revival Programme 2007-2012, which focuses on a number of policy reforms and investments to stimulate agricultural growth and the competitiveness of strategic commodities with a view to increasing incomes and food security in rural areas. Gum arabic constitutes a strategic commodity for export development and rural poverty reduction. To ensure that small producers benefit from the reform, the Government of National Unity's decision to liberalize gum arabic trade and export needs to be supported.

Harmonization with development partners

19. Two key features support harmonization: (i) cofinancing with the MDTF-N to ensure that smallholders benefit from the reform of the gum arabic trade; and (ii) collaboration with the European Commission-financed Sudan Food Security Information for Action for the development of a gum arabic market information system.

F. Components and expenditure categories

Main components

20. The project has three components: (i) gum arabic sector reform and support (17 per cent of costs); (ii) institutional capacity-building and support to GAPAs (55 per cent of costs); and (iii) project management and supervision (28 per cent of costs).

Expenditure categories

21. There are nine expenditure categories: (i) civil works (13 per cent of costs); (ii) vehicles (4 per cent); (iii) equipment (5 per cent); (iv) technical assistance (18 per cent); (v) training and workshops (2 per cent); (vi) rural credit/grants (31 per cent); (vii) technical assistance fees for staff and consultants (20 per cent); (viii) allowances (2 per cent); and (ix) operation and maintenance (5 per cent).

G. Management, implementation responsibilities and partnerships**Key implementing partners**

22. The main implementing partners are the Forests National Corporation, a microfinance institution to be recruited competitively and the GAPAs.

Implementation responsibilities

23. The FNC is responsible for the management and implementation of the project through a dedicated project coordination unit. The FNC will also establish locality-based project coordination units to deal with awareness-raising, beneficiary mobilization and strengthening of the GAPAs to enable them derive maximum benefit from the project. The microfinance institution will be responsible for establishing a revolving fund to finance seasonal credit for GAPAs and it will also define the terms of credit.
24. GAPA leaders will be responsible for organizing training activities for their members, both women and men; mobilizing their members' contributions to finance – on a matching basis with the project – productive infrastructure supporting production and marketing by the associations; and facilitating members' access to credit.

Role of technical assistance

25. In terms of technical assistance, experts will be recruited internationally to carry out the value chain analysis and complementary studies; the project's baseline study and provision of training to the GAPAs will be undertaken by nationally recruited experts. The total cost of technical assistance is estimated at US\$1.84 million.

Status of key implementation agreements

26. The MDTF-N and IFAD have approved the financing of the first phase of the project; the second phase will depend on satisfactory progress in the implementation of necessary reform measures. The trigger indicators for the second phase will be incorporated into the two financing agreements. The International Development Association (IDA), acting as administrator of the Multi-Donor Trust Fund for The Sudan, has entered into a grant agreement, dated 20 August 2009, with the Republic of The Sudan to provide financing for the project.

Key financing partners and amounts committed

27. The total project cost is US\$10.88 million over four years. The sources of financing are an IFAD grant of US\$3 million (30 per cent) and a grant from the MDTF of US\$7 million (70 per cent). The Government's contribution totals US\$380,000, in the form of taxes, and the project beneficiaries will contribute US\$500,000.

H. Benefits and economic and financial justification**Main categories of benefits generated**

28. Small-scale gum arabic producers will benefit from: (i) increased income thanks to higher farm gate prices; (ii) increased production as a result of afforestation in gum arabic and expansion of gum arabic trees; and (iii) increased vegetative cover in the long term.

Economic and financial viability

29. The financial analysis projects an increase in gum arabic export production from 20,000 tons in 2007 to 30,000 tons in 2015, and a growth in revenue from US\$61.1 million to US\$96.0 million. It is expected that the revenue of small-scale

producers cultivating 5 feddan of gum arabic trees will increase from US\$30 to US\$65.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

30. The project will organize experience sharing and exposure visits among project staff and participating communities. The mid-term review of the project will provide evidence-based knowledge on how the market reform has affected small-scale gum arabic producers, thus enabling better steering and enforcement of the marketing reform process.

Development innovations that the project will promote

31. The reform of gum arabic marketing has been on the agenda for the past five years. What is innovative about this project is the fact that the preparatory design work has achieved consensus on the need for reform, which culminated in the Government's decision to liberalize gum arabic export in June 2009. The project will support the effective implementation of this policy decision, and assist small-scale producers in adapting to the new marketing arrangements in a way that is beneficial to them.

Scaling-up approach

32. The two main instruments for scaling up will be: (i) the policy reform process and its enforcement; and (ii) developing capacity within the FNC to provide technical and marketing support to GAPAs.

J. Main risks

Main risks and mitigation measures

33. The main risk is government commitment to the liberalization of gum arabic trade and export. The Government's decision in June 2009 to abolish the exclusive concession granted to the Gum Arabic Company for export of raw gum is a positive sign. The project's support to GAPAs and GAPA unions, which will link them to processors and export markets, should ensure that this market liberalization is enforced.

Environmental classification

34. Pursuant to the World Bank's and 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

35. Given the fact that the policy decision to implement trade liberalization measures has been initiated by the Government, commitment to the project interventions and the likelihood of their sustainability are high. Moreover, since the project implementation arrangements are designed to be handled through the existing institutional structure of FNC, innovative ideas introduced via the project should remain even after the project is closed.

II. Legal instruments and authority

36. A project financing agreement between the Republic of The Sudan and IFAD will constitute the legal instrument for extending the proposed financing to the recipient. A copy of the negotiated financing agreement is attached as an annex.
37. The Sudan is empowered under its laws to receive financing from IFAD.
38. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

39. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant to the Republic of The Sudan in an amount equivalent to one million nine hundred thirty-two thousand special drawing rights (SDR 1.932 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

(Negotiations concluded on 26 August 2009)

Grant Number: _____

Project Title: Revitalizing the Sudan Gum Arabic Production and Marketing Project (the "Project")

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

the Republic of The Sudan (the "Recipient")

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

hereby agree as follows:

WHEREAS, the Recipient and the International Development Association ("IDA"), acting as administrator of the Multi-Donor Trust Fund for the Sudan, have entered into a Grant Agreement dated 20 August 2009 (the "IDA Grant Agreement") to provide financing for the Project; and

WHEREAS, the Recipient has requested the Fund to provide additional financing for the Project.

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenant (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement except for the provisions identified in Section E paragraph 3 below. 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 Grant to the Recipient (the "Financing"), which the Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Grant is one million nine hundred thirty two thousand Special Drawing Rights (SDR 1 932 000).
2. The first day of the applicable Fiscal Year shall be 1 January.
3. There shall be a Project account in Sudanese Pounds for the benefit of the Forests National Corporation in the Central Bank of Sudan.

4. The Recipient shall provide counterpart financing for the Project to reimburse all taxes paid by the Project. The estimated amount of counterpart funds is USD 380 000.

Section C

1. The Lead Project Agency shall be the Forests National Corporation of the Ministry of Agriculture and Forests.

2. The following are designated as additional Project Parties: the Ministry of Finance and National Economy and the Ministry of Agriculture and Forests.

3. The Project Completion Date shall be the fourth anniversary of the date of entry into force of this Agreement.

Section D

The Grant will be administered and the Project supervised by IDA as the Cooperating Institution.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: the IDA Grant Agreement shall have been suspended.

2. The following are designated as additional grounds for cancellation of this Agreement:

(a) the IDA Financing Agreement shall have been cancelled;

(b) the trigger indicators stipulated in Schedule 1 (I. Project Description), paragraph 3.1 have not been achieved at the end of Phase One of the Project.

3. The following provisions of the General Conditions shall not apply to this Agreement:

(a) Section 7.05 (Procurement): all goods, works and consulting services to be financed out of the proceeds of the Grant shall be subject to the IDA Grant Agreement, as such may be amended from time to time.

(b) Section 2.01 (General Definitions): the Project Implementation Period shall begin on the latter of: (i) the date of entry into force of this Agreement; and (ii) the Effective Date of the IDA Grant Agreement.

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

For the Fund:

Kanayo F. Nwanze
President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Recipient:

Awad Al Gazz
Ministry of Finance and
National Economy
POBox 298
Khartoum, The Sudan

This Agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit the smallholder producers of Gum Arabic who own less than 50 feddans and are members of the Gum Arabic Producers Associations (GAPAs), share croppers of Gum Arabic gardens, and women and seasonal labourers. The target population resides in El-Dilling, Talodi and Abu Jabaiha localities in South Kordofan State; Um Rawaba En-Nahud and Bara in North Kordofan State; Al-Dali locality in Sennar State; Baw, Boutt and Gaisan localities in Blue Nile State; and Tendalti locality in White Nile State.

2. *Goal.* The goal of the Project shall be to increase the production and income of small-scale gum producers in selected areas of the gum belt through improved performance of the production and marketing systems.

3. *Outcomes.* The key outcomes of the Project shall be: increase in the income of beneficiary smallholder households from Gum Arabic activities after Project intervention; increased number and percentage of GAPAs with effective saving and credit systems; increased percentage of the FOB price received by small-scale gum producers after Project intervention.

3.1 *Phasing of the Project.* The Project shall have a phased implementation arrangement. Under Phase One (two years), the Project shall focus on preparatory activities to guide the sector policy reform initiatives, training and capacity building efforts to the market actors – including the GAPAs - to benefit from a liberalized market. Under Phase Two, the Project shall monitor the sector reform process and expand the support to GAPAs. The progress of the Project from Phase One to Phase Two is conditional on the achievement of the following trigger indicators.

- (a) establishment and operation of a reliable market information system;
- (b) implementation of incentive packages to encourage the export of processed gum (e.g., tax holiday for investors engaged in spray dry processing);
- (c) export licenses made available to union of GAPAs at State level irrespective of their holding size, and investors with 20,000 feddans of gum Arabic garden;
- (d) reform of the tax and VAT systems of the Gum Arabic sector; and
- (e) removal of the floor price policy.

Non fulfillment of these trigger indicators will lead to cancellation of this Agreement.

4. *Components.* The Project shall consist of the following three Components:

4.1. Component 1: Gum Arabic Sector Reform and Support. The desired result from this component shall be equal opportunity and competition for all market actors. The component includes the following activities: (i) analytical studies and Gum Arabic promotion activities; (ii) establishment of a market information system and website; and (iii) matching grants to strengthen Gum Arabic quality, marketing and promotion.

4.2. Component 2: Institutional Capacity Building and Support to Gum Arabic Producers Associations. The desired results from this component shall be organized and empowered GAPAs with established linkages to higher value markets. This component includes the following activities: (i) capacity building support to GAPAs; (ii) matching grants to GAPAs composed of seed capital to the saving and revolving credit scheme of GAPAs; as well as support to economic infrastructure for GAPAs. It also includes provisions for institutional support to the Forests National Corporation for outreach and for nurseries' development.

4.3. Component 3: Project Management and Supervision. The desired results from this component shall be a well managed and coordinated Project at the national, state and locality/county levels through the institutional structure of the Forests National Corporation. This component includes the following activities: the establishment and operation of the Project Coordination Unit (PCU) and the Locality/County Project Coordination Units.

II. Implementation Arrangements

1. The Recipient shall establish and thereafter at all time maintain until completion of the Project, a Project Steering Committee (PSC), with composition, staffing, functions and resources acceptable to IDA.

2. In order to streamline its decision making process, the PSC shall form a Technical Committee chaired by the General Manager of the Forest National Corporation (FNC) or his delegate and composed of: (i) the Director of Technical Affairs – FNC; (ii) the representative of the Gum Arabic Board; (iii) the Director of the Forestry Research Centre, Agriculture Research Corporation; (iv) the representative of the Gum Arabic Producers Union; (v) the Head of Gum section- Sudanese Standard and Metrology Organization; and (vi) the representative of the Ministry of Agriculture and Forests.

3. The terms of reference of the Technical Committee shall be as follows:

- (a) Review and provide technical advice to the PSC on the annual work plan and proposed budget of the Project;
- (b) Review and provide technical recommendations on grant proposals for product promotion, market access, research and development;
- (c) Provide technical recommendations to address implementation hurdles for smooth implementation;
- (d) Review and monitor agreed studies and analytical work and that they are completed as planned, provide comments and suggestions on the studies, ensure that recommendations of the studies are used to rehabilitate the sector, and facilitate dissemination of main findings of the studies; and
- (e) Provide technical advice on details of the policy reform package and its implementation.

4. The management and implementation responsibility of the Project shall rest with the FNC through a dedicated PCU. At the headquarters' level, FNC will recruit a Project Coordinator (PC) and other members of the PCU, including a credit and marketing specialist, a procurement specialist, a financial management specialist, and a monitoring and evaluation officer, on a competitive basis for the duration of the Project. The terms of reference and the selection committee reports for each position shall be reviewed and cleared by IDA. The Project Coordinator will report to the Director General of FNC and

represent the Project in the PSC meetings and provide feedback on implementation progress of the Project.

5. Locality/county Project Coordination Units (LPCU) shall be established at locality or county levels to provide support to the GAPAs under Component 2. Each LPCU shall be composed of a coordinator, a forestry extension officer and a financial management officer who will be recruited on competitive basis. The LPCUs shall report to the State Director of FNC, with copy to Assistant Manager of the FNC locality/county office.

6. *Component-wise Implementation Plan.* Studies under Component 1 shall be implemented by individual consultants and/or consulting firms contracted by FNC with the endorsement of the PSC. Facilitation and operational support will be provided by the PCU. The implementation of the communication plan and the promotion campaign shall be tendered out by FNC to a reputable international public relations or advertising firm. The tendering, selection and management of the contracts shall follow IDA guidelines.

7. Activities under Component 2 shall be managed by the PCU and LPCUs in consultation with the FNC and its line offices at State and Locality/county levels. The savings and credit scheme will be contracted out to a reputable Microfinance Institution selected on a competitive basis.

8. *Monitoring.* The monitoring system of the Project shall collect and report on the distribution of Project benefits by the poverty level of the beneficiaries as well as on the results of the Project taking into consideration the Result and Impact Measurement System of the Fund. In the event that the benefits accruing to the smallholders are limited, appropriate corrective measures shall be introduced to improve the Project poverty targeting measures.

9. *Project Implementation Manual.* The FNC shall prepare a Project Implementation Manual (PIM) that shall detail the procedures to be used in all aspects of implementation of the Project. The PIM shall be used by the Project Coordination Unit at National level, the Locality/ County Project Units, the Project Steering Committee and any other relevant actors in the implementation of the Project. The guidelines and procedures laid out in the PIM shall reflect the terms and conditions set out in the Final Project Proposal (FPP) dated May 2009 of the World Bank, the IDA Grant Agreement and the subsidiary Agreement between the Ministry of Finance and National Economy and the Forests National Corporation. The PIM shall be approved by the PSC within one month of the beginning of the Project Implementation Period and submitted for no objection to the IDA and the Fund.

Schedule 2*Allocation Table*

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

Category	Grant Amount Allocated (expressed in SDR)	% of eligible expenditures to be financed
I. Civil works	302 000	100% net of taxes
II. Vehicles and Equipments	77 000	100% net of taxes
III. Technical Assistance/Training and Workshops	284 000	100% net of taxes
IV. Rural Credit/Grants	277 000	100%
V. Recurrent Costs		
a) Technical Assistance Fees for Staff and Consultants	610 000	100% net of taxes
b) Allowances	64 000	100%
c) Operation and maintenance/ Other recurrent costs	125 000	100% net of taxes
VI. Unallocated	193 000	
TOTAL	1 932 000	

Schedule 3*Special Covenant*

1. *Tax Exemption.* The Recipient shall, to the fullest extent possible, exempt the proceeds of the Grant from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Recipient and the amount so reimbursed shall be credited against the counterpart financing obligation of the Recipient set forth in paragraph B4 hereof.

Key reference documents

Country reference documents

Comprehensive Peace Agreement between the government of Sudan and The Sudan People Liberalisation Movement, 2004

The Agricultural Revival Programme, April 2008

Sector Policy Note: Export Marketing of Sudanese Gum Arabic, MDTF, 2008

IFAD reference documents

IFAD Project Concept Note and Key Files, October 2008

Project Implementation Manual (PIM), June 2009

Result-Based COSOP, April 2009

Administrative Procedures on Environmental Assessment

Other miscellaneous reference documents

World Bank Final Project Proposal on a Proposed Grant to the Government of National Unity for a Revitalizing The Sudan Gum Arabic Production and Marketing Project, May 2009.

Sudan Joint Assessment Mission Report, by the World Bank, the United Nations, GoS and SPLM, March 2005.

Logical framework

Project Development Objectives	Outcome/impact indicators for the PDO	Means of verification	Assumption
Increase the production and income of small scale gum producers in selected areas of the gum belt through improved performance of the production and marketing systems.	<ul style="list-style-type: none"> Household asset index (RIMS) Prevalence of malnutrition in children under 5 (RIMS) Percentage change in the income level of beneficiary households from Gum Arabic production after project intervention; Percentage of the FOB price received by small scale gum producers after project intervention. 	<ul style="list-style-type: none"> Socio-economic surveys; baseline survey, evaluation reports at mid-term, project completion and 4 years after project termination. 	<ul style="list-style-type: none"> Political and macro-economic stability. Natural condition remains conducive.
Intermediate results by component	Result indicators for each component	Means of verification	
<p><i>Component one:</i> Gum Arabic Sector Reform and Support</p> <p>Equal opportunity and competition to all market actors</p>	<ul style="list-style-type: none"> Implementation of the agreed-on sector reform packages within two years of project effectiveness and open up the market for potential market actors; Value Chain, International Market structure and demand analysis, standards and quality of products at Auction markets, and socioeconomic studies discussed; finalized and shared with major stakeholders; Amount of Marketing Capacity Improvement and Product Promotion Matching Grant disbursed; 	<ul style="list-style-type: none"> Government decisions and directives; Auction markets records; National gum export records; Project socio-economic surveys. 	<ul style="list-style-type: none"> Government committed to reform policies.
<p><i>Component two:</i> Support to GAPAs</p> <p>Organized and empowered GAPAs</p> <p>Market conditions improved</p> <p>Environmental degradation issues in target areas addressed</p>	<ul style="list-style-type: none"> Number and % of GAPAs in target localities³ directly selling their product to processors and exporters; Number and % of GAPAs who received improved production, agro forestry and quality maintenance trainings; % change in production of Gum Arabic by GAPAs after project intervention; New GAPAs formed and registered with significant representation of women and poor producers; % of women and poor GAPA members receiving revolving funds; % change in Community Capability Index (CCI); % of GAPA members borrowing money from (sheil) local traders to finance production and marketing costs; % repayment rate of GAPAs loans from the revolving credit system; 	<ul style="list-style-type: none"> Project reports and surveys; FNC reports; Lending banks records; Records and reports of the General Secretariat for Cooperative; Auction Markets reports. State Ministries of Finance (Markets Administration) reports. 	<ul style="list-style-type: none"> Gum production conditions remain conducive.
<p><i>Component three:</i> Project Management</p> <p>The project is well managed and coordinated at the National, State and Locality levels through the existing FNC institutional structure.</p>	<ul style="list-style-type: none"> The Project Steering Committee is fully operational with regularly scheduled meetings; Project Monitoring and Learning System established, sharing forums at different levels of project management; 	<ul style="list-style-type: none"> Frequency of steering committee meetings; Project reports and evaluation (at mid-term & at completion); GACC reports; 	<ul style="list-style-type: none"> FNC fully committed to smooth running of the project

