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IFAD

Enabling poor rural people
to overcome poverty

President's report

Proposed loan to the Republic of Turkey for the

Ardahan-Kars-Artvin Development Project

Executive Board — Ninety-eighth Session
Rome, 15-17 December 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:

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Contents

Abbreviations and acronyms

AKADP	Ardahan-Kars-Artvin Development Project
PMU	project management unit
UNDP	United Nations Development Programme

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Turkey for the Ardahan-Kars-Artvin Development Project, as contained in paragraph 37.

Map of the project area

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.

IFAD

Map compiled by IFAD

Republic of Turkey

Ardahan-Kars-Artvin Development Project

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Turkey
Executing agency:	Ministry of Agriculture and Rural Affairs
Total project cost:	US$26.4 million
Amount of IFAD loan:	SDR 12.08 million (equivalent to approximately US$19.2 million)
Terms of IFAD loan:	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 semi-annually
Contribution of borrower:	US$3.2 million
Contribution of beneficiaries:	US$4.0 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan to the Republic of Turkey for the Ardahan-Kars-Artvin Development Project

I. The project

A. Main development opportunity addressed by the project

1. The main thrust of the Ardahan-Kars-Artvin Development Project (AKADP) is to increase the incomes of smallholders and small rural entrepreneurs willing to move towards commercial agriculture and other income generating activities, within the areas of improved livestock, horticultural production and village service industries. These subsectors constitute the main livelihood source of rural people in the poor easternmost provinces of Turkey. This goal is in line with the Government's policy of eliminating the substantial socio-economic development disparities that continue to exist among the regions and provinces of the country.

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 12.08 million (equivalent to approximately US$19.2 million) on ordinary terms to help finance the Ardahan-Kars-Artvin 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 semi-annually.

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

3. The allocation defined for Turkey under the PBAS is US$19.2 million over the 2007-2009 allocation cycle.

Relationship to national medium-term expenditure framework criteria

4. The AKADP, like all IFAD-financed projects, is integrated into the Government's medium-term budget programme.

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

5. The project is in line with the objectives of the Government's Agricultural Strategy 2006-2010 and National Rural Development Strategy in terms of assistance to: (i) sustained agricultural growth, improved food security and safety; (ii) increased competitiveness of farms; (iii) strengthened farm-to-market linkages; and (iv) enhanced rural incomes and living conditions in the most disadvantaged areas.

Country debt burden and absorptive capacity of the State

6. The relevant debt solvency indicators are below the applicable thresholds. Macroeconomic management is sound, and debt incurred in relation to the project is negligible in the context of Turkey. The country's repayments of IFAD loans have always been on schedule.

Flow of funds

7. As is the case with the two current IFAD-financed projects in Turkey, the proceeds of the IFAD loan will be channelled through a standard financing agreement between IFAD and the Government. The Treasury will open an account for the IFAD share of expenditures. The United Nations Development Programme (UNDP) will facilitate the internal flow of funds according to the service agreement between the Ministry of Agriculture and Rural Affairs and UNDP.

Supervision arrangements

8. IFAD will administer the loan, supervise the project and provide implementation support as required.

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

9. No exceptions are foreseen.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) annual audit of project accounts and financial statements in accordance with international standards; (ii) frequent supervision and implementation support; (iii) partnership with UNDP for in situ quality assurance of project implementation; and (iv) covenants in the financing agreement concerning the operation and maintenance of project-financed infrastructure and technical assistance for supervision of cofinancing arrangements for on-farm investments.

C. Target group and participation

Target group

11. The project will target poor women and men smallholders and non-farm small enterprises having the practical potential and personal willingness to move towards more commercial agricultural production and other income generating activities. The project makes specific provisions for support to women farmers, who play an important role in livestock and horticultural production systems.

Targeting approach

12. In accordance with the IFAD Policy on Targeting, the targeting strategy combines a demand-driven modality with geographical targeting, and self-targeting in terms of the types of project benefits available. Project geographical targeting is determined by poverty, but also takes into consideration agroecological conditions and the technical feasibility of agricultural investments.

Participation

13. The project is based on participatory and systematic identification of investment opportunities, prioritized with respect to their potential impact on poverty and their return-to-investment sustainability. Two of the components (see section F) and activities supported by the project require the active participation of clients and beneficiaries in terms of initiatives and cofinancing.

D. Development objectives

Key project objectives

14. The overall goal of the AKADP is to reduce rural poverty in the project area. The objectives of the project are to: (i) increase the assets and incomes of poor women and men smallholders and of small rural entrepreneurs, who have the potential and personal willingness to move towards commercial agriculture and other income generating activities; (ii) improve poor rural people's access to infrastructure providing direct and indirect benefits to primary producers and small enterprises; and (iii) strengthen institutional advisory services and project management capacity.

Policy and institutional objectives

15. IFAD's policy dialogue in Turkey seeks to reinforce and support the Government's efforts to reduce the significant prevailing regional economic and social disparities within the country through investments in the rural and agriculture sectors. An institutional objective is to strengthen Provincial Directorates of Agriculture to effectively deliver services in the context of a market-based agricultural environment.

IFAD policy and strategy alignment

16. Considerations that have shaped the design of the AKADP include: (i) compliance with IFAD's strategies and policies as identified in the current IFAD Policy on Targeting and the 2006 country strategic opportunities paper; (ii) the urgent and well-recognized need to support traditional and potentially more efficient farmers (technically, economically and financially) in moving towards sustainable, more-

commercially oriented agriculture in a way that improves their livelihoods in general and, in particular, enhances their incomes, food security and nutrition; (iii) simplicity of implementation; and (iv) complementarities with and lessons learned from the two ongoing IFAD-financed projects in Turkey.

E. Harmonization and alignment

Alignment with national priorities

17. As noted, the project is fully compliant with the Government's strategies and policies, as well as with prevailing regional development plans.

Harmonization with development partners

18. The AKADP has strong links with plans for: (i) follow-up activities of the recently closed World Bank-supported Agricultural Reform Implementation Project; and (ii) the forthcoming European Union-sponsored Instrument for Pre-Accession Assistance in Rural Development (IPARD) programme, which is seeking to modernize the agriculture sector in line with 'EU *acquis*' (the total body of European Union law accumulated to date) and to contribute to the sustainable development of rural areas. AKADP will precede the IPARD programme and will benefit poorer smallholders who, under present conditions, are unlikely to be reached by IPARD. Finally, as noted, the project is aligned with the UNDP country programme through a collaborative implementation framework.

F. Components and expenditure categories

Main components

19. The project has three components: (i) smallholder and non-farm enterprise investments; (ii) village infrastructure investments; and (iii) institutional strengthening and project management.

Expenditure categories

20. There are six expenditure categories foreseen: (i) civil works (39.8 per cent); (ii) vehicles, equipment and goods (3.7 per cent); (iii) technical assistance, training and workshops (9.0 per cent); (iv) cofinancing of investments (33.8 per cent); (v) agricultural inputs (5.7 per cent); and (vi) recurrent costs (8.0 per cent).

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. Overall, responsibility for the management and implementation of the project will rest with the Ministry of Agriculture and Rural Affairs through its General Directorate of Agricultural Production and Development.

Implementation responsibilities

22. As is the case with other IFAD-financed projects in the country under the Ministry of Agriculture and Rural Affairs' leadership, a decentralized management structure will be established. A project management unit (PMU) covering all three provinces will be established in or near the Provincial Directorate of Agriculture in Kars and will be charged with overall and day-to-day management and implementation of the project. PMU staff will be nationally recruited on a competitive basis with the assistance of UNDP. In each of the three participating provinces, the Provincial Directorates of Agriculture will second approximately two staff members as project rural development coordinators, on a full-time basis, to assist project implementation. In the course of implementation, the functions of the PMU will gradually be assumed by the Provincial Directorates of Agriculture.

Role of technical assistance

23. International and, most notably, national technical assistance will be provided for programming of project activities, training of provincial directorate staff and farmers, finalization of project manuals as appropriate, and supervision of the implementation of components.

Status of key implementation agreements

24. The implementation manuals developed by ongoing IFAD-supported projects (for small works, infrastructure for village improvement, and grant cofinancing) will serve as the basis for preparation of a project implementation manual covering both main components. A detailed outline of the smallholder investments component has been completed. Finalization of the manual, which will be supported by IFAD, constitutes a key project start-up activity.

Key financing partners and amounts committed

25. Total project cost is US$26.4 million over five years. The sources of financing are IFAD (US$19.2 million, 73 per cent), the Government (US$3.2 million, 12 per cent) and beneficiaries (US$4.0 million, 15 per cent).

H. Benefits and economic and financial justification

Main categories of benefits generated

26. Benefits from project investments will derive from: (i) increased livestock and related crop productivity; (ii) increased land and labour productivity; (iii) increased production of horticultural crops; (iv) enhanced access to finance through cofinancing of farm investment; (v) improved knowledge of business and farm management; (vi) improved economic and social infrastructure; (vii) improved access to pasture lands and rangeland; and (viii) incremental tax revenues as a result of the increased volume of taxable production. Unquantifiable benefits include: (i) improvements in standards of living in villages through the establishment of social infrastructure and strengthened capacity of Provincial Directorates of Agriculture to manage services; (ii) a positive impact on natural resource management in the project area through the introduction of improved methods for fodder crop production, thus putting less stress on rangeland; and (iii) the introduction of higher-yielding varieties.

Economic and financial viability

27. An economic analysis has been carried out, based on indicative models, showing an overall project rate of return of about 15 per cent. In terms of financial analysis, illustrative models have been prepared to demonstrate the financial viability of potential investments. The main results are significant increases in gross and net returns from each model and satisfactory cost/benefit ratios.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. Knowledge products and learning processes of the AKADP stem from its provisions for annual stakeholder review and planning workshops, sector studies, reporting, monitoring and evaluation, and its field experience with demonstrations, farmer training and implementation of cofinancing funds. Multimedia publication of the experience gained will be the project’s main contribution to regional and national knowledge.

Development innovations that the project will promote

29. The project aims to sensitize, educate and otherwise enable both farmers and provincial agricultural staff to develop a business and growth-oriented approach to agriculture, thus preparing them for future developments, including possible European Union accession. An important mechanism is the public/private partnerships fostered by the cofinancing arrangements between the Government and smallholders.

Scaling-up approach

30. At the provincial level, the project seeks to contribute to establishment of a modern public service-delivery structure for the agriculture and rural sectors based on market opportunities. The existence of such structures is a necessary condition for the development of rural, eastern Turkey. It is expected that the experience under

the project could be scaled-up and transferred as an investment model for other provinces of Turkey.

J. Main risks

Main risks and mitigation measures

31. The project faces two principal risks: assuring outreach of its benefits to the poorest possible smallholders in the project area, compatible with the need for self-sustaining incremental growth; and the implementation capacity of Provincial Directorates of Agriculture. As far as outreach is concerned, project design seeks to address the risk not simply by offering investments focused on rural poverty reduction, but which are also technically and financially feasible. In terms of implementation capacity, project design includes national technical assistance to address this risk, both through staff training and by assisting other delivery tasks. During project design, assurances were given that the Government intends to recruit the additional staff required for project implementation. These assurances were confirmed during loan negotiations.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category B operation in that it is unlikely to have any significant negative environmental impact. On the contrary, as noted in the benefit section above, several investments will have clear positive environmental impacts.

K. Sustainability

33. Project design factors that will contribute to post-project sustainability include: (i) a focus on more commercially-oriented agriculture, which, if implemented properly, should result in sustainable investments; (ii) beneficiary cofinancing requirements, which will assure commitment and sustainable returns on investments; and finally, (iii) the realistic assumption that the provincial directorates will gradually assume the role and responsibilities of the PMU, as is currently happening under the other IFAD-financed projects in Turkey.

II. Legal instruments and authority

34. A project financing agreement between the Republic of Turkey and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.

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

36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

> RESOLVED: that the Fund shall make a loan on ordinary terms to the Republic of Turkey in an amount equivalent to twelve million and eighty thousand special drawing rights (SDR 12,080,000), 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: "Ardahan-Kars-Artvin Development Project"

(Negotiations concluded on 24 November 2009)

Loan Number: ________________________

Project Title: Ardahan –Kars - Artvin Development Project (the "Project")

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

and

the Republic of Turkey (the "Borrower")

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, 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. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

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

Section B

1 The amount of the Loan is SDR 12 080 000.

2. The Loan is granted on ordinary terms.

3. The Loan Service Payment Currency shall be the currency of the United States of America.

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

5. Payments of principal and interest shall be payable on each 1 June and 1 December.

6. A Project account shall be established by the Government of Turkey in the Central Bank of Turkey for Project purposes.

7. The Borrower shall provide counterpart financing for the Project in the amount of approximately USD 1 100 000 in cash contribution and approximately USD 2 100 000 to cover taxes.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Rural Affairs (MARA).

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

Section D

The Loan will be administered and the Project supervised by IFAD.

Section E

1. (a) The following is designated as an additional general condition precedent to withdrawal: The MARA- United Nations Development Programme ("UNDP") Service Agreement shall have been finalized in accordance with Schedule 1 paragraph 7.

(b) The following is designated as an additional specific condition precedent to disbursement under Component 1 (Smallholder and Non-Farm Enterprise Investments): The sections of the Project Implementation Manual (PIM) pertinent to Component 1 (Smallholder and Non-Farm Enterprise Investments) shall have been completed, in a manner satisfactory to the Fund.

(c) The following is designated as an additional specific condition precedent to disbursement under Component 2 (Village Infrastructure Investments): The sections of the PIM pertinent to Component 2 (Village Infrastructure Investments) shall have been completed, in a manner satisfactory to the Fund.

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

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

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

Facsimile Number: (3906) 504 3463

For the Recipient:

Prime Ministry
Undersecretariat of the
Treasury
Inönü, Bulvari
06510 Emek
Ankara, Turkey

Facsimile Number:
(0090) 312 1218737
(0090) 312 2128550

Copy to:

General Directorate of Public Finance
Inönü Bulvari
06510 Emek
Ankara
Turkey

Facsimile Number:
(0090) 312 212 8786

Copy (for Loan disbursement only) to:

Ministry of Agriculture and Rural Affairs
General Directorate of Agricultural Production and Development
Eskisehir Yolu 9 k.m.
06530 Lodumlu
Ankara
Turkey

Facsimile Number:
(0090) 312 2863830

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's target group will be poor women and men in the provinces of Ardahan, Kars and Artvin (individually "Project Provinces" and collectively "Project Area").

2. *Goal.* The overall goal of the Project is to reduce rural poverty in the Project Area.

3. *Objectives.* The objectives of the Project are: (i) to increase the assets and incomes of poor women and men smallholders as well as small rural enterprises, who have the potential and willingness to move towards commercial agriculture and other income generating activities; (ii) to improve poor rural people's access to infrastructure providing direct and indirect benefits to primary producers and small enterprises; and (iii) to strengthen institutional advisory services and capacitate Project management.

4. *Components.* The Project shall comprise three components: (i) Smallholder and Non-Farm Enterprise Investments; (ii) Village Infrastructure Investments; and (iii) Institutional Strengthening and Project Management.

Component 1: Smallholder and Non-Farm Enterprise Investments

4.1 The Project shall support the delivery of comprehensive and complementary measures to improve animal husbandry and horticulture production for smallholders in the Project Area. Important considerations for the provision of such support shall include: (i) maintaining a clear focus on productivity, profitability and livelihood improvement; (ii) empowering women; (iii) mobilizing modest smallholder resources by leveraging with Project funds; (iv) creating an enabling environment for participation of rural society in decision making, implementation and monitoring and evaluation; and (v) setting examples of sound environmental farming practices. The initial range of activities related to livestock production shall include provision for capital assets such as modern barns, drinking troughs, manure pits, hay storage premises, mobile veterinary clinics, and various equipment provided on a co-financing basis between the Project and the identified smallholders. Certain items such as seeds and disinfectants shall be fully financed by the Project. This shall also include support for on-farm demonstrations, farmers' training courses and farmers' exchange visits for animal husbandry.

4.2 For horticultural activities, Project support shall initially include provision for equipment and materials such as greenhouses, drip irrigation equipment, knapsack sprayers, to be co-financed with identified farmers. Likewise, such items shall be co-financed between the Project and smallholders. Other items such as farm inputs, on-farm demonstrations, farmers' training courses, farmers' exchange visits for fruit and vegetable production shall be fully financed by the Project.

4.3 Non-farm enterprise investments shall comprise investments in village industries such as tourism and other services' industries.

4.4 Co-financing with respect to the provision of Project support as outlined in paragraphs 4.1 and 4.2 above shall be determined taking into consideration, among other things, the financial returns of the investments and the capacity of the smallholder to provide working capital.

4.5 Technical Assistance to beneficiaries shall be provided for the preparation and supervision of investment plans for both livestock and horticultural production as required. Training under the component will make specific provision for the interests and involvement of women. Co-financing ratios shall be subject to no objection from the Fund and may be adjusted in the course of Project implementation as required.

Component 2: Village Infrastructure Investments

The Project shall support investments in economic and social infrastructure in villages to complement, *inter alia,* the smallholder investments that have been identified and approved under Component 1. Possible investments may include: livestock watering facilities on pastures and range lands; piped distribution networks for irrigation; access roads, and access road ancillaries such as retaining walls and culverts; village sanitation networks, treatment facilities and rehabilitation of schools and health clinics. Support may also include the establishment of livestock marketing facilities. Technical assistance shall be provided by the Project to assist in the selection and preparation of infrastructure investments. All infrastructure investment shall include a contribution from participating villages.

Component 3: Institutional Strengthening and Project Management

The Project shall support the development of capacities and capabilities at the smallholder, village, and Provincial Directorate levels. This shall include the training of provincial and district staff in areas of improved service delivery, including training of farmers, monitoring and evaluation, development of business skills and new technology. Technical Assistance for the training shall be provided to support these activities including assistance in delivering training to farmers and small enterprises in the areas of adoption of new technologies and investment planning. The Project shall provide funding for the establishment and operation of the Project management structure at the Project Area level. Support shall also be provided for Project related rehabilitation of the Provincial Directorate of Agriculture (PDA) and District Directorate of Agriculture (DDA) offices; purchase, operation and maintenance of vehicles; information technology equipment; office and meeting room furniture; office operating costs; travel allowances and air fares; translation services; and expenditures associated with the MARA-UNDP Service Agreement described in paragraph 7 below.

II. Implementation Arrangements

A. General

5. The Project shall be implemented over a period of five years in the Project Area.

6. The overall responsibility for the management and implementation of the Project shall rest with the Ministry of Agriculture and Rural Affairs (MARA) through its General Directorate of Agricultural Production and Development (GDAPD). Under MARA's leadership, a Project Management Unit (PMU) covering all three Project Provinces, shall be established and charged with overall and day-to-day management and implementation of the Project. Project staff shall be nationally recruited on a competitive basis. Staff positions shall cover the areas of Project management, agricultural economics, civil and rural engineering, monitoring and evaluation, procurement and finance. In each Project Province, the Provincial Agricultural Directorates shall second two staff members as Project Rural Development Coordinators (RDCs) on a full-time basis, to be based in each of the Project Provinces and to assist Project implementation.

7. The principal functions of the PMU shall be to carry out the overall programming and budgeting of Project activities, take the lead in Project implementation in cooperation with the RDCs/PDAs and monitor and document Project progress.

Specifically, the PMU shall assume the responsibility for generating the Project's Annual Work Plans and Budgets (AWPBs) to be submitted to the GDAPD for review and approval and to IFAD for prior review and no objection. Likewise, the PMU, in collaboration with RDCs/PDAs, shall take the lead in the procurement of civil works and goods and services, notably short and long-term Technical Assistance. MARA and UNDP shall enter into a service agreement acceptable to the Fund ("MARA-UNDP Service Agreement"). Under the MARA-UNDP Service Agreement, UNDP shall, as required, support the Project in dealing with the flow of funds arrangements, recruitment of PMU staff and contracting of technical assistance, accounting and auditing, assistance in procurement of goods, civil works and services.

8. The draft AWPB shall include, among other things, a procurement plan, a detailed description of planned Project activities during the coming Project year, and the sources and uses of funds. The draft AWPBs shall subsequently be submitted to the Fund for no objection. The PMU shall submit six-monthly and annual progress reports in English to the GPADP and the Fund outlining the physical and financial progress of Project activities and regular assessment of Project impact using a format that shall be agreed at the time of Project start-up. The PMU shall establish a results-based monitoring and evaluation system based on the Logical Framework for the Project. A Mid-Term Review shall be conducted towards the end of the Project's third year. The Review shall cover physical and financial progress as measured against the AWPBs, performance and management of contracted implementing partners and an assessment of the efficacy of technical assistance and training programmes.

B. Component Management

9. Implementation of the Smallholder and Non-Farm Enterprise Investments component shall be through PDAs and supported by the PMU. This shall include training programmes supported by technical assistance, planning and procurement of goods and services, investment analysis and distribution of farm inputs. Implementation of the component activities shall be based on targeting criteria and methodologies as outlined in the PIM.

10. The management of village infrastructure investments shall rest with the PMU Rural Engineering section. It shall include three main areas: identification and design of potential infrastructure investments; construction supervision and acceptance of works; and directing implementation of Project-supported infrastructure investments. Screening, initial ranking, and qualification of infrastructure investments shall in be in accordance with the methodologies outlined in the PIM.

11. The management of institutional strengthening activities shall be the responsibility of the PMU, supported by Project financed Technical Assistance.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Percentage
I. Civil Works	5 130 000	100% net of taxes, net of counterpart financing and net of beneficiary contribution
II. Vehicles, Equipment and Goods	330 000	100% net of taxes
III. Technical Assistance, Training and Workshops	1 470 000	100% net of taxes
IV. Co-financing of Investments	3 370 000	100% net of taxes and net of beneficiary contribution
V. Agricultural Inputs	940 000	100% net of taxes
VI. Recurrent Costs	800 000	100% net of counterpart financing
Unallocated	40 000	
TOTAL	12 080 000	

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

"Civil Works" includes the costs of Physical Works, Feasibility Studies, Design and Site Supervision.

"Technical Assistance, Training and Workshops" includes the costs of the Management Fee under the MARA-UNDP Service Agreement.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Taxes. The Borrower shall, to the fullest extent possible, exempt the proceeds of the Loan from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Borrower and the amount so reimbursed shall be credited against the counterpart financing obligation set forth in paragraph B7 hereof.

Key reference documents

IFAD reference documents
Administrative Procedures on Environmental Assessment
COSOP 2006
IFAD Strategic Framework 2007-2010
Project design document (PDD) and key files
Private Sector Development and Partnership Strategy

Logical framework

Narrative Summary	Impact and Results Indictors	Means of Verification	Assumptions and Risks
Goal			
Rural poverty in the Provinces of Ardahan, Kars and Artvin reduced	By end of PY5: • Reduction of at least 20% of rural people living on less than USD 4.30/day in targeted districts. • At least 20% of households increase household asset ownership in targeted districts. • Measurable decrease in chronic malnutrition among children below 5 years of age.	National statistics on income by region. Ministry of Health, WHO and UNICEF data. Baseline survey. Impact assessment study. Completion Assessments.	Macro-economic environment and policy remains conducive to investment, private sector development and trade.
Objectives			
The incomes and access to productive rural infrastructure of poor rural smallholders participating in the project improved	By end of PY5 in target districts: • 10% increase in income of targeted smallholder producers. • 20% increase in volume and value and diversity of agricultural produce sold. • At least 50 villages have improved, sustainable access to infrastructure (livestock drinking water, access to rangeland and pastures, and sewerage). • 25% of farmers using investment plans in making decisions. • 25% of farmers adopting improved production technology.	Baseline survey. Independent impact assessment study. Household survey. Farmer survey. Mid-term Review and Completion Report. Sector studies.	No deterioration in existing markets for livestock and crops.
Outputs			
Component 1: **Smallholder Investments** Sub-component 1.1: Animal husbandry and feed base improved	By end PY5 in target districts • 5% increase in average milk yields by end of PY2 and 10% by end of project. • 5% increase in weight of livestock at the end of winter of PY 2 compared to PY1 in improved barns. • 25% reduction in incidence of preventable livestock disease. • 10% increase in calving rate. • 50% increase in number of households using milking machines in 100 villages by end of project. Starting in PY2, in each PY: • 10% increase in straw and grain harvested by farmers in 100 villages. • 100 additional farmers producing silage in each project province. • 10% increase in number of farmers producing forage crops. • 2% annual increase in number of farmers producing forage seed for trade. • 10% increase in number of farmers producing quality hay. By PY5: • 800 farmers using newly constructed hay shelters.	PMU reports. Annual Farmer survey. Technical and financial feasibility reports. Participatory Impact Monitoring. PDA and DDA data.	No major changes to agro-climatic conditions. No untreatable outbreaks of infectious disease in livestock.
Sub-component 1.2: Horticulture production improved	By end of PY5, in 3 selected project districts: • 30% increase in greenhouse vegetables production by 100 farmers. • 400 producers shifting to market-oriented fruit and vegetable varieties • 20% increase in volume of horticulture produced by targeted villages • 25% increase in value of horticulture sold from targeted villages	PMU reports. Annual Farmer survey. Technical and financial feasibility reports. Participatory Impact Monitoring. PDA and DDA data.	
Village infrastructure upgraded/established	By PY5: • At least 50% of targeted smallholders have access to improved livestock water facilities. • At least 50% of targeted smallholders have access to piped irrigation. • At least 75% of targeted villages have access to improved pastures and range lands. • At least 50% of farmers in participating villages have access to improved livestock marketing facilities. • At least 75% of targeted shepherds have access to adequate shelters in pastures/rangelands. • At least 75% of households in targeted village have sustainable access to sanitation facilities. • 100% of villages have put in place plans for O&M of upgraded/established infrastructure.	PMU reports. Technical and financial feasibility reports. Participatory Impact Monitoring. PDA and DDA data. Procurement reports. Contractor reports.	
Institutional Strengthening and Project Management Institutions providing appropriate services to targeted smallholder producers sustainably strengthened	Each PY: • 10% increase in number of annual village visits by P/DDAs. • 10% increase in the number of field days conducted by DDAs. By the end of PY5: • 10% increase in number of farmers applying to P/DDA for information. Each PY following PY1: • 10% increase in number of villages where on-farm demonstrations are carried out. • 5% increase in the number of farmers applying to P-DDA for assistance in improving profitability. • At least two training seminars delivered to women in collaborating villages.	PMU reports. Farmer survey. PDA and DDA data.	Required "culture" change towards responsiveness to clients supported by ministerial, district leaders.
Project effectively and efficiently managed	• Project physical and financial progress against Final Design and AWPB targets. • All progress and financial reports submitted on time. • Quality of all audits, procurement and financial reports, acceptable to IFAD and the borrower.	PMU reports. AWPB. Review by IFAD and the Government.	