

Document: EB 2009/98/R.42/Rev.1
Agenda: 17(e)(iii)
Date: 17 December 2009
Distribution: Public
Original: English

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تمكين السكان الريفيين الفقراء
من التغلب على الفقر

:

1811 : +249 183 774363 :
r.omar@ifad.org :

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Deirdre McGrenra

+39 06 5459 2374 :
d.mcgrenra@ifad.org :

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Negotiated financing agreement:**"Rural Access Project" (RAP)**

(Negotiations concluded on 2 November 2009)

Grant Number: _____

Project Title: Rural Access Project (RAP) (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:

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, except for the provision identified in Section E paragraph 1 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 eight million two hundred thousand Special Drawing Rights (SDR 8 200 000).
2. The first day of the applicable Fiscal Year shall be 1 January.
3. There shall be a Project Account for the benefit of the Butana Development Agency in a commercial bank acceptable to the Fund.
4. The Recipient shall provide counterpart financing for the Project to reimburse all taxes and duties paid by the Project.

Section C

1. The Lead Project Agency shall be the Butana Development Agency (BDA).

2. The following are designated as additional Project Parties: the State Ministry of Physical Planning and Public Utilities (MPPPU) of Gadaref and Kassala States, the State Ministries of Agriculture and Irrigation in Gadaref and Kassala States, the National Highways and Bridges Authority (NHBA), the localities in Butana and River Atbara, the community development committees and the Community Road Fund.

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 the Fund.

Section E

1. The following provision of the General Conditions shall not apply to this Agreement: as an exception to Section 4.08 (a) (ii), the expenses set out in paragraph 2 of Schedule 2 shall be considered Eligible Expenditures notwithstanding the fact that they are not incurred during the Project Implementation Period.

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

For the Fund:

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

For the Recipient:

The Minister
Ministry of Finance and
National Economy
P.O. Box 700
Khartoum, 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 Recipient.

For the Fund

For the Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit the poor and less poor communities located along the road alignment in the two localities of the central Butana area namely Butana in Gadaref State and River Atbara in Kassala State (the "Project Area"). For the poor households, the Project shall target them with labour intensive activities in the context of the soil and water conservation works to protect the road from gulley erosion. For the less poor households who own vehicles, the Project shall target them with awareness campaigns to encourage them to pay road and market fees which proceeds will be used for the preventative maintenance of the road. The total number of beneficiaries is expected to be 130 000 persons, equivalent to about 15 000 producer households. It is also expected that there will be 1 700 additional women trading in the main markets serviced by the road. Poor households constitute 80% of the rural population in Butana.

2. *Goal.* The Project shall contribute to the COSOP 2009-2012 goal of empowering the rural poor to increase their food security, incomes and resilience to shocks.

3. *Objectives.* The main Project objective shall be to improve the access of the rural population to markets and social services

4. *Results.* Three key results are expected from the Project:

- (a) Rural roads are upgraded in Central Butana and regularly maintained;
- (b) Communities are trained to manage maintenance fees and to engage in labor based maintenance contracts;
- (c) State capacity is strengthened to plan, design, supervise, and maintain rural feeder roads using the spot improvement approach.

5. *Components.* The Project shall consist of the following Components:

5.1 Physical rehabilitation and construction of rural feeder roads. This component shall achieve result (a) above. This component includes the following activities: (i) the upgrading of Arab 6–Es Soubagh–Husheib road; (ii) implementation of conservation works to protect the road from dendricular erosion; (iii) commissioning of studies to support activities for road development and (iv) the establishment of Community Road Fund to finance the routine and periodic maintenance of the road.

5.2 Capacity building and institutional development. This component shall achieve results (b) and (c) above. The component shall consist of three main activities: (i) institutional support to the Road Departments in the Ministries of Physical Planning and Public Utilities (MPPUs) of Kassala and Gadaref; (ii) training of the Road Departments in the MPPUs; and (iii) training of communities on the implementation of soil and water conservation works and implementation of labour based works.

5.3. Project management. The expected result shall be to mainstream the Project approach in the National Highways and Bridges Authority (NHBA) and the MPPUs and to ensure efficient and effective management of the Project. This component shall consist of three activities: (i) recruitment of the consultancy firm by the Butana Development Agency (BDA) to coordinate Project activities and to provide supervision of the works and capacity building of the Road Departments of the MPPUs and to the participating communities; (ii) monitoring of the Project by NHBA; and (iii) coordination with Butana Integrated Rural Development Project community based and marketing activities.

II. Implementation Arrangements

The BDA shall play the role of financier and quality assurance. Its role shall be to ensure synergy of the interventions targeting the Butana, particularly the Butana Integrated Rural Development Project and the Project in order to effectively reduce poverty and ensure sustainable management of natural resources; financing Project interventions and accounting for fund use; ensuring the quality of works by hiring qualified consultancy firm to carry out the training of the Road Departments of the MPPPUs and the communities; monitoring Project performance and deciding on corrective actions as needed. The BDA Board of Directors shall be expanded to include representation from the MPPPUs in Kassala and Gadaref.

The consultancy firm hired by the BDA shall provide a technical team responsible for supervising the constructions works of the road as well as provision of training and backstopping to the Road Department and the communities.

The MPPPUs in both Gadaref and Kassala States shall be the contracting authorities for the proposed road. The Road Departments in the MPPPUs shall be responsible for the adaptation of the road design to the field realities, the certification of the contractors' payments, and the planning and supervision of the road maintenance works. As the capacity of the Road Department to undertake these activities is currently limited, the staff of the Road Department will be receiving formal and on-the-job training to build their capacities in road planning, design, management, supervision and maintenance. The Road Department in the MPPPU shall be responsible for the final commissioning of the road.

The NHBA shall undertake monitoring of the Project with a view to mainstreaming its approach in the Government policy and programmes for rural roads, and to replicating the approach under the rural roads programme of the Agricultural Revival Programme and other similar programmes.

The community development committees shall establish road committees to participate in the following: (i) validation of the design works and maintenance works proposed for the road; (ii) supervision of the construction of the road and reporting any mishandling to the localities and the BDA; (iii) reporting road breeches during the rainy season; (iv) applying for labour based contracts for the maintenance of the road; (v) supervision of maintenance works; (vi) monitoring the number, gender, age and socio-economic profile of the community members participating in the training and employed for the soil and water conservation and maintenance works.

The Community Road Fund shall be a committee established within the BDA responsible for planning and financing the maintenance of the road. The committee shall have its own by-laws stipulating the role of each party with regards the collection of fees for the maintenance works, the planning of the works, the design and supervision of the works, the contracting of the works and finally the monitoring.

The Project shall call on other partners to assist in the implementation: (i) the private contractors selected for the implementation of road improvement and maintenance works; and (ii) the State Ministries of Agriculture to assist in the design and implementation of conservation and water control works.

Component-wise implementation

Component 1 – Physical rehabilitation and construction of rural feeder roads. A qualified contractor shall be recruited through national competitive bidding and following a prequalification process. The Road Departments of the MPPPUs shall monitor the performance of the contractor and will certify the payments for the completed works. The MPPPUs shall be the contracting authority for the construction of the road. The consultancy firm will carry out the role of construction supervision and will also assist the BDA in the set up of the Community Road Fund. The Community Road Fund shall be established within the BDA and will be responsible for planning, financing and reporting on road maintenance works.

Component 2 - Capacity building and institutional development. The BDA shall hire a consultancy firm to organize and implement the training targeting the Road Departments of the MPPPUs and the communities. The Gender and Community Development Officer of the BDA with assistance from the 2 locality development teams based in Es Soubagh and New Halfa and

the Natural Resources Management Officer will carry out the community awareness raising, mobilization and organization to form road committees, sensitize them to their role and launch a campaign to encourage users to pay for the road maintenance. The Gender and Community Development Officer and the locality development teams will also mobilize the road committees to nominate both men and women for the training on soil and water conservation and for the labour opportunities created by the maintenance works.

Component 3 - Project management: The BDA shall be responsible for the Project coordination and financial management, as well as for synchronizing activities between the Butana Integrated Rural Development Project and the Project in order to improve incomes in the beneficiary communities. The NHBA shall carry out regular monitoring of the Project to assess the performance of the contractor and consultancy firm, to monitor the progress of works, and to analyze the results of the spot improvement and preventative maintenance approach with those of more conventional road construction methods.

Monitoring

11. The monitoring system of the Project shall collect and report on the distribution of Project benefits including increase in farm gate prices, income from women entrepreneurial activities in the trade and saving in vehicle operation cost 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 poor are limited, appropriate corrective measures shall be introduced.

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)	Percentage of Eligible Expenditures to be Financed
I. Civil Works	5 680 000	100% net of taxes
II. Vehicles and Equipment	120 000	100% net of taxes
III. Training, Technical Assistance and Studies	1 280 000	100% net of taxes
IV. Other Recurrent Costs	215 000	100% net of taxes
V. IFAD Financed Road Maintenance	85 000	100% net of taxes
VI. Unallocated	820 000	
TOTAL	8 200 000	

2. *Retroactive Financing.* The Grant shall retroactively finance the Butana Development Agency for survey and design work which has been undertaken in 2009 for the road alignment Arab 6 – Es Soubagh – Husheib, as well as for the pre-qualification of contractors and the issuing of tender documents. Such retroactive finance shall be provided up to a limit of SDP 300 000 (USD 120 000) under Category III.

3. The Grant shall finance 100% of the Community Road Fund up to year 3 of the Project and the beneficiaries shall finance 100% of year 4 of the Project and thereafter.

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 Recipient to request withdrawals from the Grant Account if the Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project.

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 Section B, paragraph 4 hereof.
2. *Fees for financing road maintenance.* The Recipient shall ensure by 2010 that Kassala and Gedaref States have issued an administrative decree on the fees for financing road maintenance, which may include market fees and road tolls, specifying the arrangement for management and fee collection as well as the use of its proceeds.
3. *Framework for good governance.* The Recipient shall develop and endorse by 2010 a framework for good governance for the Project specifying the required safeguards to ensure competitiveness, transparency and value for money in the rural road sector.
4. *Environmental safeguards.* The Recipient and the Butana Development Agency shall take all necessary measures to ensure that the award of contract for the construction of the rural road, the construction process itself and the maintenance works are all in compliance with the environmental regulations of the Republic of the Sudan.

Key reference documents

Country reference documents

The Agricultural Revival Programme, April 2008

IFAD reference documents

Project design document (PDD) and key files of the Rural Access Project, September 2009

Result-Based COSOP for Sudan, April 2009

Sudan, Butana Integrated Rural Development Project, Project Appraisal report, 2006

Sudan, North Kordofan Rural Development Project, Project Completion Report, 2008

Administrative Procedures on Environmental Assessment

Sudan Country Programme Evaluation, OE, 2008

Case Study for Sudan, Empowering Rural Poor in a volatile Policy Context, IFAD/IFPRI, 2005

IFAD, Comprehensive Review of IFAD Rural Roads, Travel and Transport (RTT) Experiences, 1994-2007

IFAD, Yemen, Pilot Community-Based Rural Infrastructure Project in Highland Areas - Loan 669-YE, Appraisal report

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			
COSOP Goal: contribute to empower the rural poor to increase their food security, incomes and resilience to shocks.	<ul style="list-style-type: none"> ▪ Increase of rural incomes from USD 500/ capita to USD 800/ capita, in country programme areas ▪ Reduction in the prevalence of malnutrition in children under 5 ▪ households with improvement in household asset index 	UNICEF survey in the concerned states. RIMS survey at baseline and completion	<ul style="list-style-type: none"> - Sustained and increasing investments for social and productive services in drought and conflict affected areas. - Increased GoNU support to the rainfed agriculture sector.
Project objective: Improved access of the rural population in Central Butana to markets and social services.	<ul style="list-style-type: none"> ▪ 15 000 producers benefiting from market access by project end. ▪ 1700 additional women trading in the markets served by rural feeder roads by project end. ▪ Decrease in transportation from 2 days at Es Sadda to 1 hour during rainy season ▪ Decrease in transportation tariff from approx 15 SDG to 8 SDG/ trip ▪ Increase in road traffic volume: from an average of 71 vehicles/day to 96 by mid term and to 124 by project end. 	Baseline survey, mid-term and completion reports Road traffic survey BIRDP Progress reports	<ul style="list-style-type: none"> - Increased agriculture surplus as a result of production support received from the BIRDP - Increased producers' gross margin by 80 per cent as a combined effect between the BIRDP and RAP; - Increase in sale prices for livestock by 25 per cent in rainy season
Results of the project			
1) Rural roads upgraded in Central Butana and regularly maintained	<ul style="list-style-type: none"> ▪ 144 km of roads improved in Butana by year 3 of project ▪ 144 km of road maintained by project end. 	<ul style="list-style-type: none"> ▪ Project progress report 	Administrative decree for road toll and market fee levies passed, complied with by road users and enforced by communities and localities.
2) Communities are trained to manage road tolls and to engage in labor based maintenance contracts.	<ul style="list-style-type: none"> ▪ Tolls collected cover annual O&M costs. Target USD 95 000 as of project year 3 ▪ Number of labor days in labor based contracts, by gender and by poverty group. Target: 10 000 labour day aggregate by project end, at least 50 per cent women and 50 per cent below 30 years. 	<ul style="list-style-type: none"> ▪ Project progress report 	
3) State capacity strengthened to plan, design, supervise, and maintain rural feeder roads, using the spot improvement approach	<ul style="list-style-type: none"> • at least 200 km of new roads designed using the spot improvement approach: by project end • Road network plan established by year 2. • State budget allocation based on the road network plan. • Community Road Fund expanded to other rural road networks in Kassala and Gadaref by project end. 	<ul style="list-style-type: none"> ▪ Project progress report ▪ Consultancy firm assessment of the performance of the Road Departments in Gadaref and Kassala 	

