

Document: EB 2009/98/R.43/Rev.1
Agenda: 17(e)(iv)
Date: 17 December 2009
Distribution: Public
Original: English

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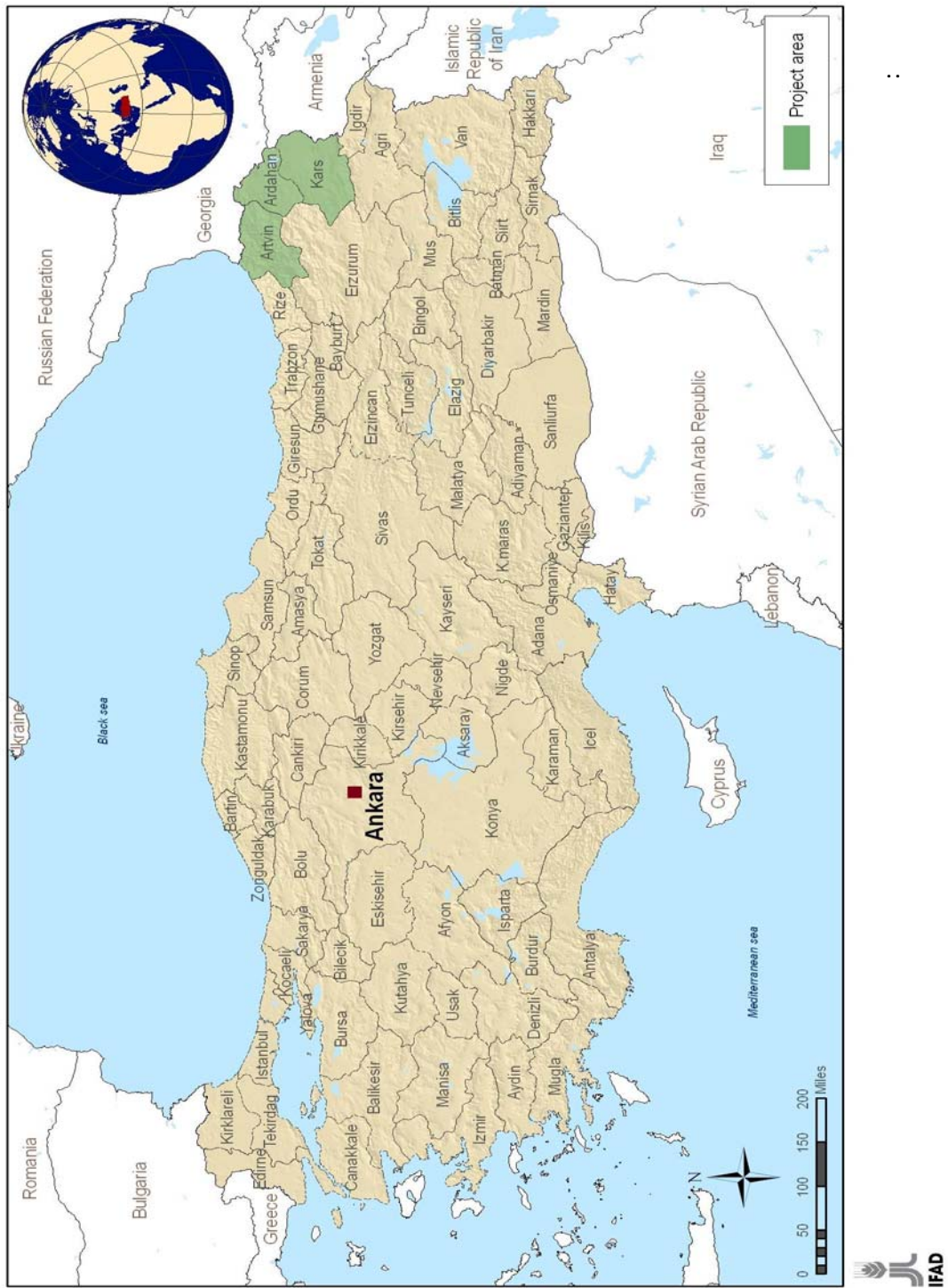
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Negotiated financing agreement: "Ardahan-Kars-Artvin Development Project"

(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.

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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 Indicators	Means of Verification	Assumptions and Risks
Goal Rural poverty in the Provinces of Ardahan, Kars and Artvin reduced	By end of PY5: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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 Sub-component 1.2: Horticulture production improved	By end PY5 in target districts <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 800 farmers using newly constructed hay shelters. By end of PY5, in 3 selected project districts: <ul style="list-style-type: none"> 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. 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.
Village infrastructure upgraded/established	By PY5: <ul style="list-style-type: none"> 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 Project effectively and efficiently managed	Each PY: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 10% increase in number of farmers applying to P/DDA for information. Each PY following PY1: <ul style="list-style-type: none"> 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. 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. Farmer survey. PDA and DDA data. PMU reports. AWPB. Review by IFAD and the Government.	Required "culture" change towards responsiveness to clients supported by ministerial, district leaders.

