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IFAD
Investing in rural people

President's Report

Proposed loan and grant to the Hashemite Kingdom of Jordan for the Rural Economic Growth and Employment Project

Note to Executive Board representatives

Focal points:

Technical questions:

Tarek Kotb
Country Programme Manager
Tel.: +39 06 5459 2965
e-mail: t.kotb@ifad.org

Khalida Bouzar
Director
Near East, North Africa and Europe Division
Tel.: +39 06 5459 2321
e-mail: k.bouzar@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

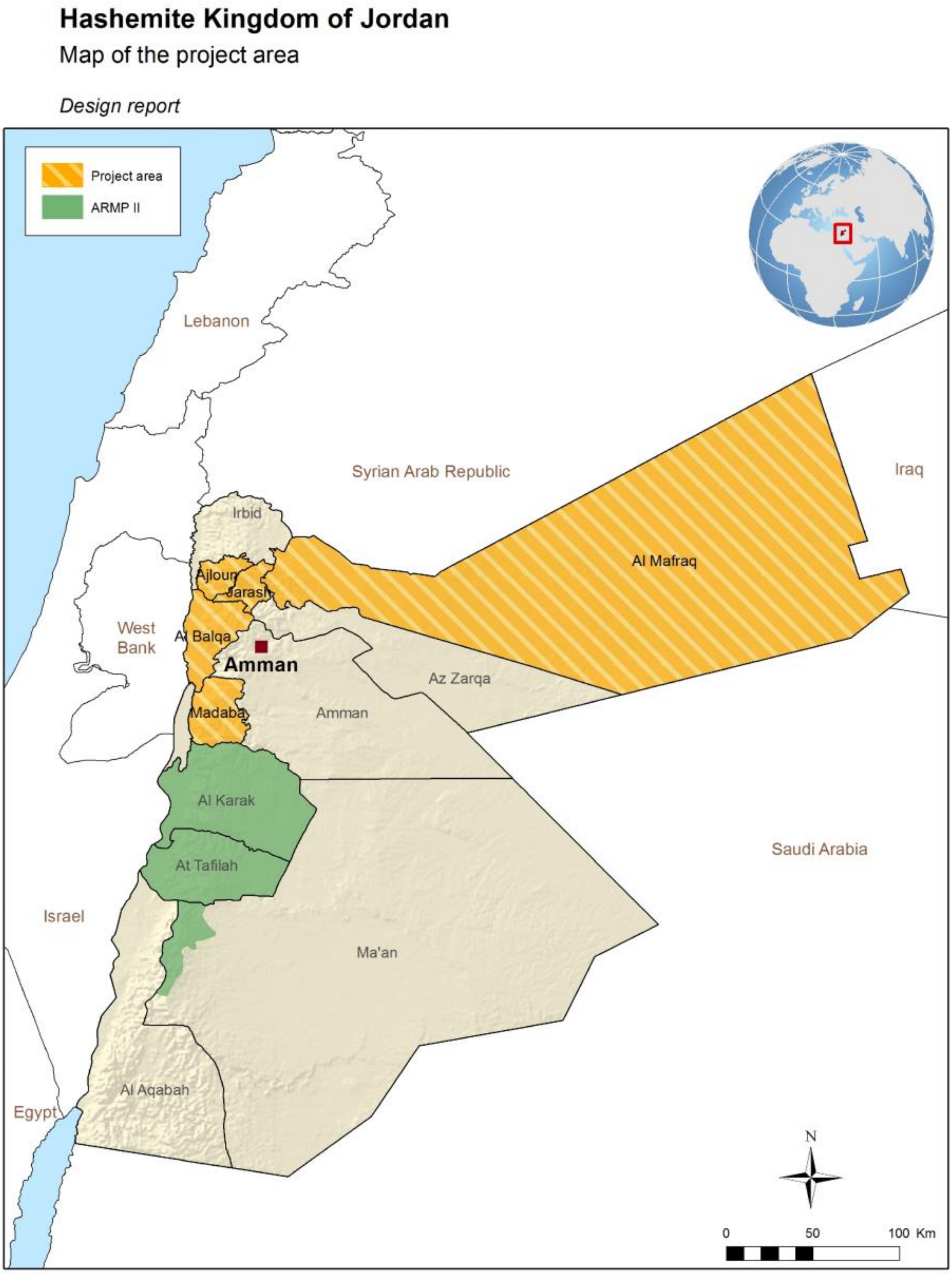
For: **Approval**

Contents

Abbreviations and acronyms

AWP/B	annual workplan and budget
DCEO	Directorate on Corruption and Economic Offences
DEF	Development and Employment Fund
DOS	Department of Statistics
HWVC	high-water-value crop
JEDCO	Jordan Enterprise Development Corporation
JEPA	Jordan Exporters and Producers Association for Fruit and Vegetables
JSMO	Jordan Standards and Metrology Organization
MFI	microfinance institution
MSME	micro, small and medium-sized enterprise
NCARE	National Center for Agricultural Research and Extension
PEFA	Public Expenditure and Financial Accountability
PMCU	project management and coordination unit
PRS	Poverty Reduction Strategy
REGEP	Rural Economic Growth and Employment Project

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.
Map compiled by IFAD | 29-05-2014

Hashemite Kingdom of Jordan

Rural Economic Growth and Employment Project

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Hashemite Kingdom of Jordan
Executing agency:	Jordan Enterprise Development Corporation (JEDCO)
Total project cost:	US$15.18 million
Amount of IFAD loan:	SDR 7.33 million (equivalent to approximately US$10.84 million).
Terms of IFAD loan:	Ordinary terms: 18 years, including a grace period of three years, with an interest rate equal to the reference interest rate per annum as determined by IFAD semi-annually
Amount of IFAD grant:	SDR 0.34 million (equivalent to approximately US$0.50 million)
Cofinancier(s):	National Center for Agricultural Research and Extension (NCARE) Development and Employment Fund (DEF) JEDCO Jordan Standards and Metrology Organization (JSMO)
Amount of cofinancing:	NCARE: US$1.48 million: DEF, JEDCO and JSMO: US$0.328 million
Contribution of borrower/recipient:	US$1.43 million
Contribution of beneficiaries:	US$0.60 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Hashemite Kingdom of Jordan for the Rural Economic Growth and Employment Project, as contained in paragraph 48.

Proposed loan and grant to the Hashemite Kingdom of Jordan for the Rural Economic Growth and Employment Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Jordan is an upper middle income country with a population of 6.39 million, a per capita GNI of US$4,670 (World Bank 2012) and medium-high human development. Unemployment is 13 per cent overall, 11 per cent for men and 22 per cent for women (Department of Statistics [DOS] 2013), and young people aged 15 to 24 account for 50 per cent of all unemployment. However, labour-force participation of Jordanians is extremely low, at just 38 per cent of the working age population and just 14 per cent for women. Non-Jordanians make up about 25 per cent of the labour force or about 350,000 foreign workers, while up to 1 million Jordanians work abroad. In 2010 14.4 per cent of Jordanians were living below the absolute poverty line, rising to 16.8 per cent in rural areas. On average, poor households are deeper in poverty than they were a decade ago. Approximately 22.5 per cent of all households (255,231) sit just above the poverty line and are vulnerable to falling below it; this rises to 28.8 per cent in rural areas (Poverty Reduction Strategy [PRS] 2013-2020).

2. Agriculture's contribution to GDP is 3.4 per cent and it officially employs 2.7 per cent of the formal labour force, but it is estimated that 20 per cent of the rural population depends on agriculture for some part of their income.

3. Over the past 5-10 years, agricultural exports have grown at over 15 per cent per annum, and in 2011 they were seven times higher than in 1996, reaching US$1.1 billion and accounting for some 16 per cent of total exports.

4. Following the country programme evaluation completed by the Independent Office of Evaluation of IFAD in 2012, IFAD and the Government of Jordan agreed to establish a renewed lending programme with a sharper and more realistic focus and an improved poverty orientation. The Rural Economic Growth and Employment Project (REGEP) will be the first project designed under this approach. The REGEP benefits from important lessons learned from past experiences in Jordan and from a new range of partnerships across government, civil society and the private sector.

B. Rationale and alignment with government priorities and RB-COSOP

5. The project rationale is based on the need to address poverty, vulnerability and unemployment in rural areas of Jordan while taking into account natural resource scarcity, Jordan's specific comparative advantages in the fruit and vegetable subsectors, and opportunities in the off-farm sector. Key strategies to which the project will contribute are Jordan's PRS 2013-2020, the National Export Strategy 2014-2019 and the Water Strategy 2008-2022.

II. Project description

A. Project area and target group

6. The project will be national in scope but will initially focus on rural areas of the governorates of Ajloun, Balqa, Jerash, Madaba and Mafraq. Criteria used to prioritize these governorates were: (i) large numbers and high density of poor, vulnerable rural households (including smallholder farmers); (ii) proximity to urban and tourist markets; (iii) presence of private-sector partners; (iv) suitability for production of high-water-value crops (HWVCs), including fruit and vegetable crops and herbal, medicinal and aromatic plants; and (v) opportunities for off-farm income generation and for micro, small and medium-sized enterprises (MSMEs).

7. These governorates have a total population of 1.23 million people, of whom over 450,000 (some 85,000 households) live in rural areas. On average, they are more rural (the population of the project area is 37 per cent rural compared with a national average of 17.4 per cent), poorer (the rural poverty rate is 19.7 per cent compared with an average rural poverty rate of 16.8 per cent) and more vulnerable than the national average (an estimated 26.1 per cent of households compared with a national average of 22.5 per cent). The combined rural poverty and vulnerability rate is 45.9 per cent, compared with a national average of 39.3 per cent.

8. In line with government policy, the project will target rural households below the poverty line, and vulnerable rural households above the poverty line that are at high risk of falling into poverty. It uses household typologies established in the Government's PRS 2013-2020.

9. Rural households account for 37.1 per cent of the population of the target area (85,821 households), and poor and vulnerable households combined make up 46.5 per cent of the rural population (38,699 households). The project expects to reach some 25 per cent of the poor and vulnerable rural households during the implementation period (i.e. about 9,675 households). The estimated total number of jobs to be created/secured by the project amounts to more than 9,000.

B. Project development objective

10. The development objective is the creation of productive employment and income-generating opportunities for poor, vulnerable rural people (especially women and young people).

11. The project will directly address key priorities of all relevant government strategies including: improving access to finance in rural areas; integrating smallholder farmers into value chains and improving value chain efficiency and organization; increasing exports of high-water-value fruit and vegetables; and creating employment opportunities in rural areas.

C. Components/outcomes

12. The project consists of two closely linked technical components: value chain and enterprise development; and rural finance, and a project management and coordination component.

13. **Component 1: value chain and enterprise development.** The component will be managed by JEDCO, in close partnership with NCARE, Jordan Exporters and Producers Association for Fruit and Vegetables (JEPA), JSMO and a national NGO. It consists of three subcomponents: (i) mobilization, capacity-building and enterprise development – to mobilize the target group, build their technical and business capacity, and encourage the formation of associations and groups to facilitate their participation in value chains; (ii) value chain upgrading – to address key constraints in the fruit and vegetable value chains to enhance market access, improve quality standards and strengthen value chain linkages; and (iii) knowledge management, learning and policy support – to extract lessons learned and best

practices from the above activities for wide dissemination and input into national policy and strategy development.

14. **Component 2: rural finance**, consists of two subcomponents: (i) a rural finance fund; and (ii) knowledge management (KM), learning and policy support – which together aim to increase access to a range of appropriate financial products for members of the target group, producers' associations and rural MSMEs. In addition to providing finance, the project aims to demonstrate the viability of rural microfinance and to establish appropriate and scalable products and delivery mechanisms that enable lower-cost access to finance, especially for agricultural production and post-harvest activities. This will unlock the potential of rural-sector lending and ensure availability of financing for bankable smallholders, entrepreneurs and MSMEs in project-supported sectors and locations, through a set of structural, operational and market development interventions as presented below. This component will be implemented entirely by DEF, in partnership with a small number of competitively selected microfinance institutions, and will strengthen the role of DEF as an apex institution and wholesaler of credit for the microfinance sector.

III. Project implementation

A. Approach

15. **Main principles.** Project implementation will be based on the following:

(i) **Market-oriented.** The project will adopt a market-oriented approach to production, marketing and exporting. Selection of priority crops will be driven by market analysis combined with considerations such as water-use efficiency and suitability for smallholder farmers. JEPA will be involved at all stages to ensure that market considerations drive project implementation.

(ii) **Strong partnerships.** This approach will require developing strong partnerships with the private sector, particularly processors, wholesalers and exporters of high-value crops that are willing to work with smallholder producers' associations; and with financial institutions willing to provide or develop appropriate financial products for smallholders and rural MSMEs, particularly microfinance institutions prepared to engage in group- or contract-based lending, rather than asset- or salary-based collateral.

(iii) **Demand-driven.** Development of producers' associations will build on existing community-level institutions to the extent possible. Their institutional development will only be sustainable if members themselves lead the organizations and are strongly motivated to ensure their success.

(iv) **Value chain approach.** The project will work with all value chain actors to build synergies and ensure win-win outcomes from value chain upgrading. This will create the necessary incentives for sustainability and for long-term partnerships of value chain actors. The project will ensure strong linkages between rural finance and marketing activities on the value chain, as this has been identified as a key weak link.

(v) **Women- and youth-focused.** Women's role, and opportunities for employment and self-employment for women and youth will be the priority. The majority of poor, unemployed and underemployed people in Jordan are women and youth.

(vi) **Sustainability and scaling up.** To the extent possible, implementation mechanisms adopted for delivery of support to the value chain and rural financial services at all levels will be formulated with potential replication and scaling up in mind.

B. Organizational framework

16. **Overview of institutional landscape.** Project implementers include: the Ministry of Planning and International Cooperation; the Ministry of Agriculture; together with NCARE, JEDCO (a public organization mandated to increase the competitiveness of Jordanian small and medium-sized enterprises) and DEF (the Government's microfinance arm and the biggest microfinance institution [MFI] in Jordan); the wide range of MFIs existing in Jordan, with many good candidates for supporting implementation of the REGEP; and JEPA (a key private-sector partner in the horticulture sector).

17. JEDCO has been selected as the lead implementing agency, with implementation of specific components and activities outsourced to a network of partners, based on expertise and mandate. JEDCO's selection was based on: (i) the relevance of their mandate; (ii) previous experience in implementing similar donor projects; (iii) experience in promoting export-oriented private-sector development; and (iv) strong relationships with key private-sector actors such as JEPA. JEDCO's internal financial management and accountability frameworks are compatible with IFAD's requirements.

18. The main implementing partners with whom JEDCO will establish formal agreements include:

    (i) **DEF** will be wholly responsible for implementation of component 2, rural finance.

    (ii) **NCARE** will be responsible for implementing farmer field schools and other training and extension activities.

    (iii) **JSMO** will be the project's main partner for training and certification in Global Good Agricultural Practice and will undertake farm assurance assessments and certification of project-supported producers.

    (iv) **JEPA** will be the project's main linkage with the private sector, will support the identification of priority crops on which to base farmer field schools and will assist in planning and implementing aspects of the training farmers will receive.

    (v) **National NGO.** As JEDCO has limited outreach at the field level, it will contract a national NGO, through a competitive process, to have overall responsibility for beneficiary outreach, mobilization and field-level coordination of project activities with individuals and groups, and to implement a range of activities under component 1.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. Annual workplans and budgets (AWP/Bs) will be prepared by the project management and coordination unit (PMCU) through a participatory process with stakeholders, incorporating information from the monitoring and evaluation (M&E) system, recommendations by IFAD supervision and implementation support missions, and the guidance of PMCU staff. Draft AWP/Bs will be submitted by the project manager to the project steering committee for approval. The PSC-approved AWP/B will be subject to no objection by IFAD.

20. The PMCU will conduct a start-up workshop, with the aim of sensitizing PMCU staff, implementing partners, target groups and other stakeholders on project objectives, scope and implementation approach. The project's logical framework will be reviewed and M&E indicators defined at this workshop. A draft AWP/B for the first year will also be reviewed and finalized based on the outcomes of the workshop.

21. The project will promote new approaches to value chain development, rural finance and the integration of small-scale producers into commercial and export-oriented value chains. Knowledge captured from these experiences will generate lessons and best practices to be shared with public institutions, the IFAD country team, partners and others, and publicized widely. To this effect, the project will develop an effective communication strategy to support the learning goals of the project. It will promote: (i) in-country knowledge networking through periodic seminars and workshops; and (ii) regional knowledge networking through institutions such as KariaNet and partners such as the International Center for Agricultural Research in the Dry Areas (ICARDA). The IFAD country team will contribute to in-house knowledge-sharing and networking. Efforts will also be continued in developing closer partnerships with the European Union, World Bank, United Nations Development Programme and bilateral partners.

D. Financial management, procurement and governance

22. **Governance and financial management risks.** The country risk is rated as medium. Transparency International's Corruption Perceptions Index ranked Jordan 66^{th} of 177 countries in 2013. Although the 2011 Public Expenditure and Financial Accountability (PEFA) assessment showed significant improvement over the report from 2007, there are still areas that require attention.

23. **Financial management**. To determine project-specific control risks, a financial management (FM) risk assessment of the proposed project and its fiduciary arrangements has been completed. A detailed FM assessment was performed of the Ministry of Agriculture, JEDCO and DEF. It concluded that project FM arrangements and internal control systems would satisfy IFAD's minimum requirements to provide accurate and timely information on the progress of project implementation and to guarantee the separation of functions through several levels of independent controls. It rated the residual FM risk as medium after implementation of appropriate risk mitigation measures to ensure accountability of funds.

24. A designated account will be opened for the project at the central bank of Jordan in Jordanian dinars (JD) or United States dollars, with an authorized allocation equivalent to a maximum of eight months of projected project expenditures. The account will receive funds from IFAD and will be managed by the JEDCO PMCU. JEDCO will open a separate segregated project account in dinars in a commercial bank acceptable to IFAD. This account will receive funds from the project designated account, with an initial allocation for six months of forecast project expenditures. DEF will open a separate project account in dinars, in a commercial bank acceptable to IFAD, to receive funds from the project designated account based on expenditure forecasts and a subsidiary agreement with JEDCO. All payments for eligible expenditures to be incurred by DEF under the approved budget will be made from this bank account.

25. In order to ensure that the project has funds to initiate start up and for IFAD to address the FM risks, the first disbursement will be limited to US$100,000 for start-up costs. The second disbursement to complete the authorized allocation will be conditional on fulfilment of withdrawal conditions specified in the financing agreement.

26. The executing agency (JEDCO) will maintain financial accounts for all eligible expenditures incurred by the project management unit and other implementing partners (excluding DEF) (following accrual accounting standards) using accounting software. JEDCO will prepare consolidated financial reports on a quarterly basis (unaudited) and annual financial statements (audited).

27. The project will conduct implementation in accordance with the 2005 IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations and with the

Prevention of Corruption and Economic Offences Act No.5 of 1999, which established the Directorate on Corruption and Economic Offences (DCEO).

28. **Procurement and governance.** Jordan's national procurement systems are generally highly rated compared with others in the Middle East and North Africa region. PEFA-compliant assessments were undertaken in 2007 and 2011 with support from the European Union, and these have found an overall positive situation with a trend towards further improvement. Nonetheless, IFAD's portfolio in Jordan has suffered from low procurement capacity of the Ministry of Agriculture and, in some cases, failure to fully comply with IFAD's Project Procurement Guidelines. All procurement will be undertaken by JEDCO and other implementing partners on the basis of IFAD and government procurement guidelines as the case may require.

29. **Service providers.** The project will be managed by the PMCU and implemented by contracted service providers through performance-based contracts. Service providers will include: (i) preselected public institutions (such as JEDCO, DEF, NCARE, JSMO, JEPA), which may have the status of project parties and may be required to ensure that procurement actions undertaken by them and financed by IFAD or the Government are compliant with the stipulated procedures of IFAD and the Government; and (ii) non-preselected civil society or private-sector entities (e.g. NGOs, consultancy firms and MFIs).

E. Supervision

30. The project will be directly supervised by IFAD. Supervision missions will be undertaken annually and complemented by focused follow-up missions as appropriate.

IV. Project costs, financing, benefits

A. Project costs

31. The project will be financed over a six-year period. Total project costs, including physical and price contingencies, duties and taxes, are estimated at US$15.18 million (JD 10.75 million). Of the total financing amount, US$1.00 million (6 per cent) represents the foreign exchange content, and US$1.432 million (5.9 per cent) duties and taxes.

B. Project financing

32. Overall project financing comprises: IFAD – 74.7 per cent (US$11.34 million, consisting of a loan in special drawing rights equivalent to US$10.84 million and a grant in special drawing rights equivalent to US$0.5 million); NCARE – 9.8 per cent (US$1.48 million); the Government – 9.4 per cent (US$1.432 million); beneficiaries – 4 per cent (US$0.60 million); and DEF, JEDCO and JSMO – 2.1 per cent (US$0.328 million). In line with the practice for externally financed projects in Jordan, the Government will finance identifiable taxes and duties, as no taxes or duties will be financed from the proceeds of the IFAD loan. The DEF, JEDCO, JSMO and NCARE contributions are in kind.

33. The 2013-2015 performance-based allocation system (PBAS) allocation for Jordan was originally US$6.34 million as approved by the Executive Board in 2013. In accordance with the IFAD Policy On Crisis Prevention and Recovery, and in order to provide the needed fiscal support to the Government for the rural sector and this project – at a time of severe demands on the national budget and increased requirements for national food security – it was decided to provide an additional US$5 million during this cycle.

Table 1
Project costs by component and financier
(Thousands of United States dollars)

	Government		*IFAD Loan*		*IFAD Grant*		*Beneficiaries*		*NCARE*		*JEDCO, DEF & JSMO*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
Value chain and enterprise development	1 055.7	14	5 085.2	66	-	-	-	-	1 480.7	19	71.2	1	7 692.8	51
Rural finance	150.9	3	3 816.0	73	500	10	600	12	-	-	144.1	3	5 211.0	34
Project management	225.6	10	1 941.0	85	-	-	-	-	-	-	113.4	5	2 280.0	15
Total project costs	**1 432.2**	**9**	**10 842.2**	**71**	**500**	**3**	**600**	**4**	**1 480.7**	**10**	**328.7**	**2**	**15 183.8**	**100**

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

	Government		*IFAD Loan*		*IFAD Grant*		*Beneficiaries*		*NCARE*		*JEDCO, DEF & JSMO*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
Equipment and materials	226	22	805.5	78	-	-	-	-	-	-	-	-	1 031.5	7
Consultancies	711.5	16	2 163.8	49	-	-	-	-	1 480.7	33	71.2	2	4 427.2	29
Credit and guarantee Funds	-	-	3 221.6	84	-	-	600.0	16	-	-	-	-	3 821.6	25
Training	432.6	14	2 271.4	71	500.0	16	-	-	-	-	-	-	3 204.0	21
Grants	-	-	1 380.0	100	-	-	-	-	-	-	-	-	1 380.0	9
Salaries, allowances, and operating costs	62.0	5	1 000.0	76	-	-	-	-	-	-	257.5	20	1 319.5	9
Total project costs	**1 432.2**	**9**	**10 842.2**	**71**	**500.0**	**3**	**600.0**	**4**	**1 480.7**	**10**	**328.7**	**2**	**15 183.8**	**100**

C. Summary benefit and economic analysis

34. The project will create a wide range of financial and non-financial benefits for the target group. Overall, individual activities will reach some 23,155 direct beneficiaries, but there will be considerable overlap with participants benefiting from several project activities. The project expects to create or secure some 9,000 jobs, ultimately reaching a total number of 66,500 beneficiaries, including household members.

35. Total cost per beneficiary is estimated at US$233 or US$1,681 per job/beneficiary household. These figures compare favourably with the National Assistance Fund's estimated annual cost of US$1,237 to keep someone above the poverty line through social assistance, and with other recent comparable estimates of the cost of job creation in Jordan (World Bank and International Monetary Fund), which range from about US$2,500 to US$5,000.

D. Sustainability

36. The approach to capacity-building of institutions, through long-term coaching and mentoring support rather than one-time training, will increase the chances of success and long-term sustainability. Building the capacity of small-scale farmers, through farmer field schools, to work together and share knowledge and information will build trust over time and become a sustainable basis for farmers to establish more-formal farmers' groups or associations and to cooperate in activities related to the production and marketing of their products. Implementing partners of the project (i.e. JEDCO, DEF, NCARE, etc.) will each be undertaking activities close to their core mandates, which will build their capacity and strengthen them as institutions.

37. The NGO will act as an advocate for members of the target group, engaging in contracts with other value chain actors.

38. The project is expected to generate a positive return, at the level of both individual enterprises and the project overall. Partnership with the private sector and a market-driven approach to the selection of priority crops will also support the project's economic and financial sustainability.

39. Technical sustainability is not an area of risk for the project. Water scarcity is at the heart of the project rationale, from selection of the target sector to the target area to the priority crops. To ensure that the project contributes to improved water management and water-use efficiency through the value chain, the following measures and activities are included: (i) updating studies on water use for crops and financial and economic analysis of water use in target crops to assist in crop prioritization; (ii) updating the training of NCARE extension agents involved in farmer field schools in water management and water-use efficiency; (iii) a focus in farmer field schools on efficient water use and management; and (iv) incorporation of good water management practices in the criteria for access to project investment funds (i.e. by requiring applicants for funding to prepare a water management plan).

E. Risk identification and mitigation

40. The project's risks have been assessed and mitigation measures incorporated during design. Residual risk is moderate or exogenous. The main risks identified and mitigation measures incorporated are described below, and ,where relevant, have also been included in the sensitivity analysis performed on estimates of the project economic internal rate of return.

V. Corporate considerations

A. Compliance with IFAD policies

41. The project goal is to contain and reduce rural poverty, vulnerability and inequality. Its development objective is to create productive employment and income-generating opportunities for the rural poor and vulnerable, especially women and youth. The project intends to work with rural women and men and their organizations to enhance their capacities and enable them to engage in and contribute to more competitive value chains for HWVCs, boosting their resilience to economic and climate shocks. Its expected outcomes are: (i) sustainable growth and technological improvement of HWVC value chains and generation of rural MSMEs; and (ii) access by the target group to sustainable, timely rural financial services, and enhanced rural MSMEs. Achievement of these outcomes will contribute to meeting the objectives of the IFAD Strategic Framework 2011-2015.

B. Alignment and harmonization

42. The project goal and objectives are aligned with those of the PRS 2013-2020: containment and reduction of poverty, vulnerability and inequality in rural areas through the creation of productive employment and income-generating opportunities for rural poor and vulnerable people, especially women and youth.

C. Innovation and scaling up

43. **Project innovations.** The REGEP will promote four types of innovation: (i) rural institution innovation in the Jordanian context, exemplified by the formation of strong producers' associations of smallholders and capacity-building to sustain market access, increase bargaining power, and reduce risk for buyers and sellers; (ii) marketing innovation – the project will innovate to integrate HWVC products into the value chain of the tourism sector by including "herbal tourism" as part of a marketing strategy of various tourism packages; it will promote HWVCs in their various commercial forms in and around historical and heritage tourist sites in the project area; (iii) innovation in delivering extension services to smallholder HWVC farmers – the project will support the public extension service by partnering with NCARE, enhancing complementarity with private extension service providers

(exporters and seed and input suppliers), and will carve out niches for both types of extension to optimize quality services to smallholders; (iv) innovation in delivering financial services to poor rural people – innovative delivery mechanisms and products in the Jordanian context, such as equity financing, lease financing and alternative Islamic products; and (v) process innovation – the project will support the use of limited public funds to attract and leverage larger private funds to develop the HWVC sector by working with smallholder farmers and all actors in the value chain, including processors, traders and exporters; it will involve stakeholders from financial institutions and public and private sectors in upgrading the value chain, based on various piloted business models, which will lead to the evolution of innovative processes for replication and scaling up within the project and beyond.

D. Policy engagement

44. A number of key policies and strategies have been adopted to facilitate and guide the country's socio-economic performance, particularly: the National Agenda 2006-2015 defines a comprehensive political and socio-economic reform agenda and key strategic directions; the PRS 2013-2020 provides a detailed roadmap for implementing the poverty reduction components of the National Agenda; the National Strategy for Agricultural Development 2002-2010 aims to achieve sustainable agricultural and rural development; the National Employment Strategy 2011-2020 lays the foundation for enhancing employability, with a major emphasis on MSMEs; the Jordanian National Policy Framework for Microfinance (2012) stresses increased access by poor rural people to a range of inclusive financial services; the National Strategy for Women 2011-2020 aims to ensure equal economic opportunity for women and increase their participation; the National Climate Change Policy 2013-2020 aims to achieve a proactive, climate-risk-resilient Jordan; and the main pillar of the National Tourism Strategy 2011-2015 is diversification of tourism products and services and ensuring the spread of its economic benefits to all Jordanians. The design features of the REGEP are fully aligned with these strategies and policies.

VI. Legal instruments and authority

45. A financing agreement between the Hashemite Kingdom of Jordan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.

46. The Hashemite Kingdom of Jordan is empowered under its laws to receive financing from IFAD.

47. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

48. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

> RESOLVED: that the Fund shall provide a loan on ordinary terms to the Hashemite Kingdom of Jordan in an amount equivalent to seven million three hundred and thirty thousand special drawing rights (SDR 7,330,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein;

FURTHER RESOLVED: that the Fund shall provide a grant to the Hashemite Kingdom of Jordan in an amount equivalent to three hundred and forty thousand special drawing rights (SDR 340,000) 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: "Rural Economic Growth and Employment Project"

(Negotiations concluded on 18 November 2014)

Loan Number: ______________
Grant Number: ______________

Project Title: Rural Economic Growth and Employment Project ("the Project")

The Government of the Hashemite Kingdom of Jordan (the "Borrower/Recipient")

and

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

(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) and the Allocation Table (Schedule 2).

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 and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is seven million three hundred and thirty thousand special drawing rights (SDR 7 330 000).

B. The amount of the Grant is three hundred and forty thousand special drawing rights (SDR 340 000).

2. The Loan shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all General Conditions precedent to withdrawal have been fulfilled.

3. The Loan Service Payment Currency shall be the USD.

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

5. Payments of principal and interest shall be payable on each 31 March and 30 September.

6. There shall be two Project Accounts denominated in Jordanian Dinar, in a commercial bank acceptable to the Fund and in favour of respectively JEDCO and DEF.

7. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of approximately USD 1.4 million in the form of exemption from taxes or payment of taxes by beneficiaries.

Section C

1. The Borrower/Recipient shall authorize the Jordan Enterprise Development Corporation (JEDCO) to act as the Lead Project Agency.

2. The following are designated as additional Project Parties: the Development and Employment Fund (DEF); the Jordan Exporters and Producers Association for Fruit and Vegetables (JEPA); the Jordan Standards and Metrology Organization (JSMO); and the National Centre for Agricultural Research and Extension (NCARE), as well as the national NGO chosen to implement Component 1.

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

Section D

The Financing will be administered and the Project supervised by the Fund.

Section E

1. The following is designated as an additional general condition precedent to withdrawal: Implementation agreements acceptable to the Fund between the Lead Project Agency and each of DEF, JEPA, and NCARE shall have been agreed upon by the respective parties.

2. The following is designated as an additional specific condition precedent to withdrawal from the Credit and Guarantee Fund cost category as provided in Schedule 2 hereto: the Subsidiary Financing Agreement referred to in paragraph II A 4 of Schedule 1 shall have entered into force.

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

For the Borrower/Recipient:

The Minister
Ministry of Planning and International Cooperation
P.O. Box 555
Amman 11118

For the Fund:

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

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/Recipient.

GOVERNMENT OF THE HASHEMITE OF THE KINGDOM OF JORDAN

____
(Authorized Representative)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
(Authorized Representative)

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project's direct target group consists of rural households below the poverty line, and vulnerable rural households above the poverty who are at high risk of falling into poverty. Particular priority will be placed on youth and women members of the target households.

2. *Project Area*. The Project will initially focus on rural areas of the Governorates of Ajloun, Jerash, Balqa, Madaba and Mafraq. These governorates have been selected based on criteria including suitability for production of priority crops, concentration of smallholder producers, proximity to urban markets, presence of private sector partners, and large numbers and high density of poor and vulnerable rural households. Expansion to a national scale will be considered after the Mid Term Review.

3. *Goal and Objective.* The Project's goal and objectives are aligned with those of the National Poverty Reduction Strategy 2013-2020, namely, containment and reduction of poverty, vulnerability and inequality in rural areas through creation of productive employment and income generating opportunities for the rural poor and vulnerable, especially youth and women.

4. *Outcomes*. The main outcomes will be technical capacity and competitiveness of smallholder farmers and rural micro, small and medium-sized enterprises (MSMEs) enhanced, and access to sustainable and timely rural financial services enhanced. The Project will also provide replicable and scalable models for integrating smallholders in the target value chains.

5. *Components*. The Project consists of two closely linked technical components: (i) Value Chain and Enterprise Development; and (ii) Rural Finance.

- Component 1 – Value Chain and Enterprise Development: This component will be managed by the Jordan Enterprise Development Corporation (JEDCO) in close partnership with DEF, JEPA, JSMO, NCARE, a national NGO and other service providers. It consists of three subcomponents:
  - (i) Mobilisation, Capacity Building and Enterprise Development - to mobilise the target group, build their technical and business capacity, and encourage the formation of associations and groups to facilitate their participation in value chains;
  - (ii) Value Chain Upgrading - to address key constraints in the fruits and vegetables value chain to enhance market access and marketing, improve quality standards, and strengthen value chain linkages; and
  - (iii) Knowledge Management, Learning and Policy Support - to extract lessons learned and best practices from the above activities for wide dissemination and input into national policy and strategy development.
- Component 2 – Rural Finance: This component will be implemented entirely by DEF in partnership with a small number of competitively selected microfinance institutions. It will (i) demonstrate the viability of the rural microfinance business and establish appropriate and scalable products and

delivery mechanisms which enable lower cost access to finance, especially for agricultural production and post-harvest activities to unlock the potential of rural sector lending; (ii)strengthen the role of DEF as an apex institution and wholesaler of credit for the microfinance sector; and (iii) increase access to a range of appropriate financial products for the members of the target group, producers associations and rural MSMEs. It consists of two subcomponents:

(i) Rural Finance Programme; Establishment of a Rural Finance Programme (RFP) managed by the Development and Employment Fund (DEF) and funded with an initial contribution of US$3.4 million from the Project. The funds will be used for: (i) on-lending to microfinance institutions providing small loans (<JD2,000) to members of the target group; and (ii) for direct lending to rural MSMEs by DEF for larger loans (JD2,000 – JD 50,000). The RFP may expand through contributions from other sources such as government, IFIs and development agencies or the private sector, in order to meet demand for credit in rural areas. To establish and manage the Rural Finance Programme the Project will provide capacity building support to DEF to upgrade IT systems, and to build technical capability in appraisal, financing and supervision of rural SMEs.

(ii) Knowledge Management, Learning and Policy Support to extract lessons learned and best practices from the above activities for wide dissemination and input into national policy and strategy development.

II. Implementation Arrangements

A. Project Management and Coordination Unit (PMCU)

1. JEDCO shall be the Lead Implementing Agency. A Project Management and Coordination Unit (PMCU) will be established at JEDCO Headquarters in Amman, under the overall supervision of the JEDCO CEO. The PMCU will be staffed with a Project Manager, an Agricultural Value Chain Coordinator, a Finance Officer, and a Field Officer financed by the Project; and other staff seconded from JEDCO and other institutions. JEDCO shall select and appoint the Project Manager and all technical staff through a competitive process, subject to IFAD's no objection. The Project Manager shall report to the CEO, JEDCO. The Project Manager may be changed only with IFAD no objection.

2. The PMCU will be responsible for overall management, coordination and monitoring of Project implementation including: (i) developing the Project Implementation Manual; (ii) compiling Annual Work Plans and Budgets (AWPBs) for submission to the PSC and to IFAD; (iii) financial management (managing the Designated Account and the Project Account, disbursement, preparation of withdrawal applications); (iv) procurement, contracting and contract management; (v) ensuring the Project benefits reach the target group; (vi) monitoring and evaluation, progress reporting on Project implementation, and knowledge management; (vii) preparing consolidated financial statements (including financial information from the implementing partners) on the full activities of the project (viii) organising the annual Project audit; (ix) coordination and liaison with the Government and other implementing partners and IFAD. Provisions will be made for

studies, surveys and technical support for design and installation of the Project M&E system to monitor Project implementation and assess impact.

3. The majority of implementation will be outsourced to implementing partners and qualified service providers. Pre-selected implementing partners for outsourced activities are DEF, for financial services; JSMO, for health and quality standards and certification; NCARE, for technical training and capacity building; and JEPA, for linkages with the private sector. A national NGO will be selected on a competitive basis during implementation, according to clearly defined criteria to be approved by IFAD for mobilisation, sensitization and training groups and associations and overall support to targeting and supporting target group engagement in target value chains.

4. The PMCU will ensure the timely establishment of agreements between JEDCO and Implementing Partners including: (i) clear Project Implementation Agreements with each of the main Project Parties (DEF, NCARE, JSMO, JEPA, NGO) detailing their duties and responsibilities with respect to the Project; and (ii) a Subsidiary Financing Agreement between the Ministry of Planning and International Cooperation (MOPIC) and DEF for the financing of the Rural Finance Programme.

5. Each year an annual work plan and budget (AWPB) will be prepared by the PMCU through a participatory approach with stakeholders, incorporating information from the M&E system, recommendations by IFAD supervision and implementation support missions and guidance other PMCU staff. The draft AWPB will be submitted by the Project Manager to the PSC for its approval. The PSC-approved AWPB shall be submitted for IFAD no objection.

B. Project Steering Committee

6. The Project Steering Committee (PSC) will meet quarterly and be chaired by the Minister of MOPIC or his high level representative. It will comprise representatives of JEDCO, DEF, JEPA, the Ministry of Agriculture, NCARE, and such other members as the Minister may decide. The Project Manager will be the PSC secretary.

C. Project Technical Coordination Committee

7. The Project shall also have a Technical Coordination Committee, chaired by the Project Manager and composed of the PMCU staff and focal persons in DEF, NCARE, JEPA, JSMO, the contracted NGO, and MFIs partnering with DEF. It will meet monthly, alternating between Amman and different locations in the Project Area so that meetings can be combined with field visits and meetings with beneficiaries. The composition of the Technical Coordination Committee may be adjusted during implementation based on operational requirements, subject to IFAD No-Objection.

D. Project Implementation Approach

8. The Project implementation will be based on the following:

- Market-oriented: The Project will adopt a market-oriented approach to production, marketing and exporting. Selection of priority crops will be driven by market analysis combined with considerations such as water use efficiency and suitability for smallholder farmers. JEPA will be involved at all stages to ensure that market considerations drive Project implementation.

- Strong partnerships: This approach will require developing strong partnerships with the private sector, particularly processors, wholesalers, and exporters of high value crops who are willing to work with smallholder producers' associations; and with financial institutions willing to provide or develop appropriate financial products for smallholders and rural MSMEs, particularly microfinance institutions prepared to engage in group-based or contract-based lending rather than asset-based or salary-based collateral.
- Demand-driven. Development of producers' associations will build on existing community level institutions to the extent possible. Their institutional development will only be sustainable if members themselves lead the organisations and are strongly motivated to ensure their success.
- Value-chain approach. The Project will work with all value chain actors to build synergies and ensure win-win outcomes from value chain upgrading. This will create the necessary incentives for sustainability and long term partnerships between value chain actors. The Project would ensure strong linkage between rural finance and the marketing activities on the value chain as it is has been identified a key weak link.
- Women and youth focused. Women's role and opportunities for employment and self-employment for women and youth will be the priority. The majority of the poor, unemployed and underemployed in Jordan are women and youth.
- Sustainability and scaling-up. To the extent possible the implementation mechanisms adopted for the delivery of support to the value chain and the rural financial services at all levels will be formulated with potential replication and scaling up in mind. Generic principles underlying these approaches will be extracted and shared widely, so that they are easily replicable and scalable to other sectors and in other geographical areas leading to greater impact of the Project over a longer period of time.

E. Project Implementation Manual

9. The PMCU shall prepare a draft Project Implementation Manual (PIM) and shall forward the draft PIM to the Fund for its non-objection. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objections. The Lead Project Agency shall adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency shall promptly provide copies thereof to the Fund.

F. Mid-term Review

10. A Mid Term Review shall be conducted to assess Project implementation progress and to determine appropriate revisions to the Project design, implementation arrangements and resource allocations in order to ensure successful Project completion.

Schedule 2

Allocation Table

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

Category		IFAD Loan Amount Allocated (expressed in SDR)	IFAD Grant Amount Allocated (expressed in SDR)	Percentage of Eligible Expenditures to be Financed
I.	Equipment and Materials	490 000		100% net of taxes
II.	Consultancies	1 330 000		100% net of taxes and other cofinanciers
III.	Credit and Guarantee Funds	2 210 000		100% net of taxes and other beneficiaries contribution
IV.	Training & Workshops	1 080 000	340 000	100% net of taxes
V.	Grants	830 000		100% net of taxes
VI.	Salaries and Allowances and Operating Costs	680 000		100% net of taxes
Unallocated		710 000		
TOTAL		7 330 000	340 000	

2. *Start-up Costs*. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount equivalent to USD 100 000.

3. *Definitions.*

(a) Equipment for farmer field schools and saving and credit groups, equipment for PMCU, and equipment for microfinance partners shall be charged to the category "Equipment and Materials".

(b) Funds allocated for lending to MSMEs and members of the target group shall be charged to the category "Credit and Guarantees."

(c) Technical assistance to the Project to be undertaken by consultants and other service providers shall be charged to the category "Consultancies."

(d) Salaries of full-time PMCU staff shall be charged to the category "Salaries and allowances and operating costs."

(e) Costs of transportation shall be charged to the category "Equipment and Materials".

Logical framework

Narrative Summary	Key Performance Indicators (at completion unless stated otherwise)	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
Rural poverty, vulnerability and inequality contained and reduced. (from PRS 2013-2020)	▪ HHs with improvement in asset ownership index (RIMS) ▪ HHs with increased income and food security (RIMS 2nd level) ▪ Reduction in % of rural poverty and vulnerability in target area	▪ RIMS Baseline & Impact Surveys ▪ Dept. of Statistics HIES Surveys ▪ Project monitoring reports and studies ▪ Business plans and progress reports from MSMEs	▪ Security setback due to unpredictable situation in neighbouring countries (R) ▪ Stable macroeconomic context (A)
Project Development Objective:			
Employment and income generating opportunities created for rural poor and vulnerable, especially youth and women (from PRS 2013-2020).	▪ 9,000 FTE employment/self-employment opportunities created/secured (RIMS 2nd level). – 50% for <30 years and women combined – 33% from households in receipt of social assistance		
Component 1: Value Chain and Enterprise Development			
Outcome 1: *Technical capacity and competitiveness of smallholder farmers and rural MSMEs enhanced*	▪ Average 20% increase in crop value/unit of water ▪ Smallholders increase farmgate value of sales by 20% ▪ Supported MSMEs/groups increase value of sales by 30%	▪ RIMS Baseline & Impact Surveys ▪ Dept. of Statistics HIES Surveys ▪ Project monitoring reports and studies ▪ Trade statistics ▪ Business plans and progress reports from MSMEs and PAs	▪ Agents & collectors opposed to direct linkages between producers and processors (R)
Outputs: 1.1 Capacity of smallholders and rural MSMEs enhanced	▪ 350 SCGs/associations formed/strengthened (50% women) ▪ 5000 smallholders participate in Farmer Field Schools ▪ 600 groups/MSMEs benefit from business mentoring		
1.2 Fruits and vegetables value chain upgraded	▪ 2000 smallholders engaged in contract farming ▪ US$1 million disbursed for value chain upgrading investments ▪ US$360,000 disbursed for business model innovation ▪ 150 Global GAP certificates issued (50% to groups of farmers)		
1.3 Policy support provided	▪ Value chain working group established and operating ▪ 4 policy briefs prepared and disseminated		
Component 2. Rural Finance			
Outcome 2: *Access to sustainable and timely rural financial services enhanced (PRS 2013-2020)*	▪ Improved access of poor to financial services (RIMS 2nd level) - Increase in rural portfolio of partnering MFIs - Microlending products with interest <20% available ▪ Effectiveness in promotion of pro-poor policies (RIMS 2nd level)	▪ Project monitoring reports and studies ▪ Microfinance banks/institutions and commercial banks audited financial statements ▪ Central Bank's quarterly & annual reports	▪ Commercial banks not interested in financing rural activities (R) ▪ PFIs not considering contract farming or tripartite agreements as sufficient collateral (R)
Outputs: 2.1 Rural Finance Fund established, operational, and sustainable	▪ US$2.0 million lent to 4,000 microenterprises and revolving ▪ US$1.0 million lent to 100 SMEs and revolving ▪ PAR <5%		
2.2 Policy support provided	▪ Rural finance working group established and operating ▪ 4 policy briefs prepared and disseminated		