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IFAD
Investing in rural people

The Hashemite Kingdom of Jordan

Rural Economic Growth and Employment Project

Negotiated financing agreement

For: **Information**

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".