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Investing in rural people

President's report on a proposed grant under the global and regional grants window to the National Federation of Agricultural Producers from Moldova (AGROinform) for Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova

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For: Approval

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Abbreviations and acronyms

AGROinform	National Federation of Agricultural Producers from Moldova
CEN	Central and Eastern Europe, and the Newly Independent States
NGO	non-governmental organization

Recommendation for approval

The Executive Board is invited to approve the recommendation for a proposed grant under the global and regional grants window to the National Federation of Agricultural Producers from Moldova (AGROinform) for Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova as contained in paragraph 5.

President's report on a proposed grant under the global and regional grants window to the National Federation of Agricultural Producers from Moldova (AGROinform) for Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova

Part I – Introduction

1. This report recommends the provision of an IFAD grant in the amount of US\$1,500,000 under the global and regional grants window to the National Federation of Agricultural Producers from Moldova (AGROinform) for Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova. The grant proposal document is contained in the annex to this report.
2. The goal of IFAD grants is to significantly broaden and add value to the support provided to smallholder farming and rural transformation, thereby contributing to rural poverty eradication, sustainable agricultural development, and global food security and nutrition. In order to achieve these goals, IFAD grants should adhere to three basic principles: (i) make a significant contribution to a global, regional or national public good related to IFAD's mandate; (ii) focus on interventions where grant financing has clear added value and a comparative advantage over regular loans; and (iii) not be used as a substitute for resources from IFAD's administrative budget.
3. The objectives of IFAD grant financing are to: (i) promote innovative, pro-poor approaches and technologies with the potential to be scaled up for greater impact; (ii) strengthen partners' institutional and policy capacities; (iii) enhance advocacy and policy engagement; and (iv) generate and share knowledge for development impact. Rural poor people and their organizations should be squarely positioned at the centre of each grant submission to fulfill IFAD's mandate to enable poor rural people to improve their food security and nutrition, raise their incomes and strengthen their resilience.
4. The proposed project is in line with the goal and objectives of IFAD grant financing, as stated in the IFAD grant policy. The proposed intervention will promote the outcomes set out in the grant policy. In terms of the IFAD Strategic Framework, it supports strategic objective 1 by expanding smallholders' economic base through better value-chain integration. The grant will also enhance their access to services within these value chains, raising incomes and building resilience – in line with strategic objective 2. Finally, through stronger collective action, smallholder farmers and their organizations will be able to manage their farms more profitably; this fully supports strategic objective 3.

Part II – Recommendation

5. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova, shall provide a grant not exceeding one million five hundred thousand United States dollars (US\$1,500,000) to the National Federation of Agricultural Producers from Moldova (AGROinform) for 36 months upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Kanayo F. Nwanze
President

Promoting Inclusive Horticultural Value Chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova

I. Background

1. Countries of the former Soviet Union in Central and Eastern Europe, and the Newly Independent States region are characterized by small land holdings, low agricultural inputs and low farm productivity. Smallholder farmers are the main source of agricultural production, providing approximately 70 per cent of agricultural output and 50 per cent of the labour force.
2. Collective action by farmers in former Soviet countries is among the most effective approaches to reducing poverty and expanding market access. This project, with IFAD's support, will gather and disseminate lessons learned on using collective action to promote profitable and inclusive value chains in Armenia, Georgia, Kazakhstan and the Republic of Moldova.

II. Rationale and relevance to IFAD

3. It is increasingly evident that smallholders in these countries are at risk of being marginalized with the advent of higher standards, traceability requirements, the necessity for consistency in quantity and quality, and the need for more information on changing market conditions. Individually, smallholders are at a disadvantage since larger operations are better placed to comply with these requirements. In addition, many buyers in the value chain may refuse to deal with smallholders given the high transaction costs. If these challenges are overcome, farmers can benefit from enhanced marketing opportunities in the Russian market, the Eurasian Economic Union and the European Union.
4. The biggest share of exported agricultural products by countries in the region to external markets, including Russia, comes from horticultural crops. The horticulture sector includes high-value cash crops, which can increase the incomes of poor rural smallholders and enhance their access to domestic and international markets.
5. For IFAD to improve smallholders' livelihoods in the targeted countries, there is a need to develop their capacity for competing in these markets and accessing existing agricultural value chains. The proposed project aims to support smallholders in building economies of scale to increase opportunities for profitable market integration.
6. Armenia, Georgia and the Republic of Moldova are the former-Soviet countries with the highest potential for horticultural value-chain development. Kazakhstan is also included in the project to create an entry point for IFAD's engagement in the country.

III. The proposed project

7. The overall goal of the project is to improve the livelihoods of rural poor households. This is relevant to IFAD's strategy of assisting rural poor people in benefiting from emerging opportunities and increasing their resilience through value-chain integration.
8. The project's objectives are to improve smallholders' incomes from value-chain integration through support for sustainable collective action.
9. The target group: Direct beneficiaries include 800 poor smallholders from the four targeted countries (approximately 200 from each country). Poor farmers who possess less than 2 hectares per household will be guided in integration into value chains through collective action. Of these 800 smallholders, 40 per cent will be women and 35 per cent will be under age 35. Project beneficiaries will include

individual farmers and farmers' groups who are already integrated into value chains and collective action initiatives, and those who are interested in collective action. Indirect beneficiaries to be influenced by the project include: government institutions, national and international donors and NGOs supporting value-chain initiatives. The cost per beneficiary is aligned with similar IFAD-funded loan and grant projects in the CEN region, which range from US\$1,500 to US\$1,900.

10. The 36-month project will comprise the following components:
 - (i) Increased awareness and learning from experiences with collective action;
 - (ii) Enhanced capacities of smallholders for strengthened value-chain integration; and
 - (iii) Adoption of successful pilot models.

IV. Expected outputs

11. The proposed project aims to design, develop and replicate horticultural value chains. The project is expected to yield the following outputs:
12. Component 1: Increased awareness and learning from collective action experiences.
 - Output 1.1. Mapping different collective action groups and approaches supported by IFAD and other organizations. Field and desk research will be conducted on: socio-economic and environmental conditions that enable farmers to engage in collective action; potential partnerships for knowledge transfer in agriculture; and success stories regarding collective action.
 - Output 1.2. Identification of policies and entry points that facilitate collective action for market access.
 - Output 1.3. Preparation of learning documents, recommendations and action plans on how to promote pilot initiatives on collective action in the targeted countries based on lessons learned from successes.
13. Component 2: Enhanced capacities of smallholders for strengthened value-chain integration.
 - Output 2.1. Identification of beneficiaries. Approximately 800 participants will be selected. Critical factors that will ensure the project's efficiency include the selection of participants already involved in farmers' groups or who are willing to be integrated in these groups.
 - Output 2.2. Needs assessment of the selected beneficiaries and customization of capacity-development and value-chain strengthening activities to the unique conditions in each country. Learning materials will be prepared after undertaking the activities outlined in component 1.
 - Output 2.3. Capacity development and formation of collective informal groups to be involved in component 3. This includes organizing training and capacity-building activities for the 800 selected participants and assisting farmers with integration into collective groups (approximately ten groups in each country), which will be involved in component 3.
14. Component 3: Adoption of successful pilot models.
 - Output 3.1. Identification and assessment of the 14 pilot groups. Identification will be based on competitive selection processes in each country.
 - Output 3.2. Provision of information and technical support for successful models. Technical assistance plans will be tailored to each of the selected pilot groups. A horticultural service hub will be established offering

technical, managerial and marketing expertise. Grants of up to US\$12,000 will be provided with one-to-one matching from recipients.

- Output 3.3. Development of a regional platform for sharing experiences and project results, and networking. Best practices will be disseminated through international forums and workshops.
- Output 3.4. Final documentation and reporting will capture successes and the lessons learned.

V. Implementation arrangements

15. The project will be led by AGROinform and implemented simultaneously in Armenia, Georgia, Kazakhstan and the Republic of Moldova in line with IFAD and national government strategies. AGROinform will partner with the biological farming association, Elkana, in Georgia; Shen NGO in Armenia; and the Kazakh Research Institute of Economics in Kazakhstan. These partners combine the practical and research experience needed to create opportunities for learning and disseminating knowledge.
16. AGROinform will be responsible for project management and reporting. Subcontracts will be concluded between the lead organization and partners to formalize the roles and responsibilities of each partner, and the flow of funds. The project will be directly supervised by the country programme manager for Georgia and the Republic of Moldova in collaboration with the country programme managers for Armenia and Kazakhstan.
17. The recipient shall submit six-month unaudited statements of expenditure to IFAD and ensure that the entire project implementation period is covered by audit through the submission to IFAD of separate audit opinion letters on statements of expenditure completed by independent auditors. Both statements of expenditure and audit reports shall consolidate expenditures incurred by the recipient and implementing partners. However, the recipient shall remain solely responsible for grant fund management and financial reporting to IFAD. In addition, the recipient shall have its institutional accounts audited every year by independent auditors in accordance with International Standards on Auditing, and deliver a copy of its audited financial statements to IFAD, inclusive of a reference to the IFAD grant, within six months after the end of each fiscal year.
18. Project activities will be continuously monitored to provide IFAD with early indications of progress and challenges. Knowledge management will take place on a systematic basis to support the creation of horticultural service hubs and to build the project partners' commitment to implementing the knowledge plan.
19. Historical and cultural barriers in the target countries pose particular challenges to promoting collective action: the Soviet experiences of collective farming are still alive among farmers. Today, farmers are far more individualistic and fragmented, and – perhaps as a reaction to years of forced collectivization – reluctant to enter into formalized cooperation. This project's innovation is to explore new patterns of collective action, which can support smallholders in overcoming barriers to value-chain integration.
20. Taking into account the common features between the proposed project and ongoing IFAD projects in all target countries except Kazakhstan, the project will be implemented in collaboration with the Inclusive Rural Economic and Climate Resilience Programme in the Republic of Moldova; the Infrastructure and Rural Finance Support Programme in Armenia; and the Agricultural Modernization, Market Access and Resilience project in Georgia. In addition, the project will promote the concept of South-South Cooperation in the targeted countries by facilitating the exchange of development solutions among participating countries and ongoing IFAD projects.

21. The project will enable IFAD to initiate engagement with Kazakhstan through a civil society organization. Activities in the country will be implemented gradually and will focus on knowledge-sharing products, which will be subject to further assessment.

VI. Indicative project costs and financing

22. The total project cost is estimated at US\$1,770,000. IFAD's contribution constitutes 85 per cent while the remaining 15 per cent will be financed by the recipient's contribution (12 per cent) and other financiers (3 per cent). AGROinform and its partners will make an in-kind contribution of equipment and office space, as well as a cash contribution of US\$36,000 for operating costs. The Swedish Cooperative Centre – now known as We Effect – will contribute US\$42,000. In addition, pilot groups will contribute at least 50 per cent matching funds for an estimated US\$98,000.

Table 1
Costs by component and financier
(United States dollars)

Components	IFAD funding by project year				Cofinancing	Project total
	2016	2017	2018	IFAD total		
A. Direct costs						
i. Increased awareness and learning from collective action experiences	184 000	22 000	-	206 000	-	206 000
ii. Enhanced capacities of smallholders for strengthened value-chain integration	36 000	200 000	109 000	345 000	12 000	357 000
iii. Adoption of successful pilot models	25 000	155 000	196 000	376 000	167 000	543 000
Management and coordination	150 000	153 000	158 000	461 000	91 000	552 000
Subtotal direct costs	395 000	530 000	463 000	1 388 000	270 000	1 658 000
B. Indirect costs	32 000	37 000	43 000	112 000	-	112 000
Total	427 000	567 000	506 000	1 500 000	270 000	1 770 000

Table 2
Costs by expenditure category and financier
(United States dollars)

Expenditure category	IFAD	Cofinancing			Total
		Cash	In-kind contribution	Other sources	
Direct costs					
1. Consultancies	56 000	-	-	-	56 000
2. Equipment and materials	30 000	-	19 000	-	49 000
3. Goods, services and inputs	189 000	-	-	28 000	217 000
4. Salaries and allowances	423 000	-	-	12 000	435 000
5. Operating costs	66 000	29 000	62 000	-	157 000
6. Workshops	47 000	-	-	-	47 000
7. Training	142 000	-	-	-	142 000
8. Travel and allowances	255 000	-	-	-	255 000
9. Sub-grants	180 000	120 000	-	-	300 000
Subtotal direct costs	1 388 000	149 000	81 000	40 000	1 658 000
10. Overheads	112 000	-	-	-	112 000
Total	1 500 000	149 000	81 000	40 000	1 770 000

Results-based logical framework

Results Hierarchy	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: Improved livelihoods for rural poor households	▪ % from the project targeted population	Multidimensional poverty Index at project start	0.5%	1%	3%	▪ Baseline survey	Annually	CPM	Economic and political suitability exists
Development Objective: Improve smallholders' incomes from value chain integration through the sustainable use of collective actions	▪ Increased income of small holders integrated into the value chain	Small holders' income at start of the project	2%	5%	12%	▪ Baseline survey, statistics, project evaluation	Annually, at MTR period, project end	CPM	Favorable policy environment; smallholders willingness to cooperate
Outcome/Components 1: Increased awareness and learnings from collective action	▪ Stakeholders outreached with learning materials	N/A	1500	2500	6000	▪ Project evaluation report	Annually	CPM Project staff	Stakeholders are willing to apply gained knowledge
Output: • Mapping collective actions for preparation of learning document based on successes • Promoting favourable policies for intervention that facilitate collective actions	▪ Outputs of the research activity: learning document, policy papers, methodological guide	N/A	12		12	▪ Project M&E reports; ▪ Research papers ▪ Learning document ▪ Guide ▪ Publications	First year of implementation Annually	CPM Project staff	Access to information and statistical databases; Willingness of existing institutions/projects that promote collective action
	▪ Publications disseminated	N/A	1	2	4				
Outcome/Component 2: Enhanced capacities of smallholders for strengthening value chain integration	▪ Increased productivity due to gained capacities and knowledge	Productivity at the project start	0	4%	10%	▪ Baseline, MTR and final evaluation	At the end of capacity building program (CBP)	CPM Project staff	Commitment and willingness of farmers to adopt gained knowledge,
▪ Developed and upgraded skills of smallholders identified as pilot	▪ Nr of smallholders involved/trained	N/A	100	500	800	▪ Training module ▪ Trainer's reports ▪ Evaluation forms	Once, before CBP Quarterly reports	Project staff Project staff	Selected smallholders are committed and responsible
	▪ Knowledge and capacity adoption rate	N/A	10%	25%	50%	▪ Progress report	Quarterly reports	CPM	Selected non-formal groups members motivated to learn
Outcome/Component 3: Adoption of successful pilot models	▪ Volume of investments made by the pilots	Investments in marketing chains before project start	-	-	300.000	▪ External evaluation ▪ National statistics	Project end	Associated farmers	Farmers aims to consolidate their position in the local & external markets
▪ Technical support to farmers' groups aimed at strengthening profitable value chain integration	▪ Number of collective actions technically supported	N/A			15	▪ Project final report ▪ M&E report ▪ Partners website news	Quarterly reports Project end	CPM	Targeted farmer groups gained knowledge how to manage joint investment
▪ Joint learning, knowledge sharing and promotion pilot experience	▪ National & International events organized in project countries	N/A			19		Last project year	CPM	