

Document: EB 2017/LOT/P.10/Rev.1
Date: 3 August 2017
Distribution: Public
Original: English

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Investing in rural people

President's report

Proposed loan and grant to the
Republic of Iraq for the Smallholder
Agriculture Revitalization Project

Note to Executive Board representatives

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For: Approval

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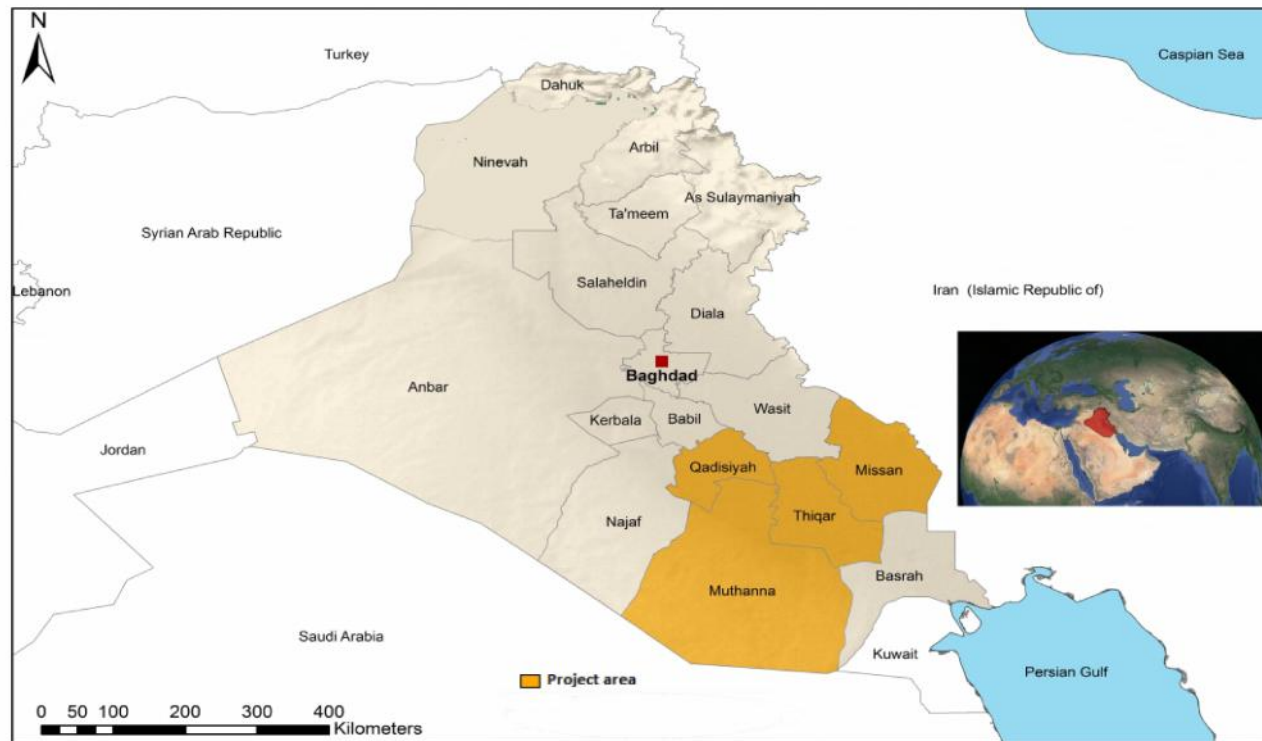
Abbreviations and acronyms

ASAP	Adaptation for Smallholder Agriculture Programme
AWP/B	annual workplan and budget
M&E	monitoring and evaluation
MoA	Ministry of Agriculture
PMT	project management team
SARP	Smallholder Agriculture Revitalization Project

Map of the project area

REPUBLIC OF IRAQ

SMALLHOLDER AGRICULTURE REVITALIZATION PROJECT (SARP)



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 | 06-01-2017

Republic of Iraq

Smallholder Agriculture Revitalization Project

Financing summary

Initiating institution:	IFAD
Borrower:	Ministry of Finance
Executing agency:	Ministry of Agriculture
Total project cost:	US\$31.7 million
Amount of IFAD loan:	US\$15.7 million
Amount of IFAD grant:	US\$0.5 million
Terms of IFAD loan:	Ordinary: Maturity period of 10 years, including a grace period of 3 years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate.
Amount of grant from IFAD Adaptation for Smallholder Agriculture Programme:	US\$2.0 million
Financing gap:	US\$9.17 million
Contribution of borrower:	US\$2.4 million
Contribution of beneficiaries:	US\$1.9 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 Republic of Iraq for the Smallholder Agriculture Revitalization Project, as contained in paragraph 40.

Proposed loan and grant to the Republic of Iraq for the Smallholder Agriculture Revitalization Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Republic of Iraq is an oil-rich upper-middle-income country struggling with the impact of a turbulent past, an ongoing insurgency and a decrease in the price of oil. These crises have combined with political instability, low levels of government spending and limited investment by the private sector, leading to increasing levels of poverty and inequitable income distribution. The standard of living has deteriorated and a noticeable share of the population has fallen into poverty or is extremely vulnerable to falling into poverty. Iraq's extreme fragility has affected its capacity to deal with rural development significantly, reducing institutional capacity and service delivery. The Government of Iraq is facing the challenge of maintaining macroeconomic stability, undertaking structural reforms to improve the delivery of public services, reconstructing core physical infrastructure and assisting the large number of people displaced by the conflict. The country is included in the list of countries with the most fragile situations by IFAD and the World Bank and the "high alert" category in the Fund for Peace Index, which forms the basis for the Organisation for Economic Co-operation and Development assessment of fragility.
2. Rural poverty in Iraq is a direct consequence of the failure to invest in rural areas and to create opportunities for employment, income generation and enterprise development. This has been compounded by rapid population growth, conflict and insecurity, increasing water scarcity, climate change and rising salinity. In 2012, the rural poverty rate stood at 31 per cent, double that of urban poverty (15 per cent). According to the Government, the direct impact of economic, social and security disruptions was estimated to have increased poverty rates to 41.2 per cent in 2016. Of the 18 governorates in Iraq, the poverty ratio ranged from 35 per cent to 52 per cent for the five poorest.
3. Agriculture is one of the most important sectors in Iraq after oil and gas. Agricultural workers are estimated at 20 per cent of the workforce. However, agriculture is practised mostly on small farming units and is a low-input/low-output system. Low agricultural productivity has been a characteristic of Iraq's agriculture for the last two decades and has made the country dependent on imports to meet its domestic food needs. Agricultural extension services for technology transfer are weak, particularly for small producers. There are considerable losses reported due to lack of post-harvest facilities. Iraq suffers from a series of environmental and natural resource management issues. The country is prone to the impacts of climate change, particularly affecting the already scarce water resources and fragile farming systems. This has resulted in increasing threats of land degradation, desertification, water shortages and increased soil salinity. The agriculture sector has also suffered due to food import policies that have encouraged the import of cheap food, which has driven prices down and negatively impacted the farmer.

B. Rationale and alignment with government priorities

4. The rationale for the Smallholder Agriculture Revitalization Project (SARP) is the fragility of Iraq and IFAD's commitment to assist countries in fragile situations. IFAD has significant experience in areas in which the Government needs assistance, such as agriculture and rural development. Investment in agricultural growth is not only important to increasing the national income, but is also vital to growth in employment and food and nutrition security and to reduction of poverty in Iraq. The project will help increase the competitiveness of agriculture, preventing post-harvest losses and removing marketing bottlenecks through farmer organizations. It will also assist in diversifying the economy, with a particular focus on women and youth. The SARP will be IFAD's first investment operation in Iraq.
5. With proper investment, the agriculture sector has the potential to provide employment to a growing number of people and to reduce dependence on food imports. There has been little investment in irrigation infrastructure and, as a result, many farming households have had to abandon agriculture and rely on daily wage labour or the government food security programme. Moreover, the adverse effects of climate change are projected to reduce agricultural production and intensify water shortages. As a priority, therefore, measures must be taken for better adaptation and mitigation. Meanwhile, the smallholders that dominate agricultural production in Iraq have limited ability to organize, realize economies of scale, reduce transaction costs or deal with post-harvest and marketing issues. There is a high degree of variability in prices of agricultural commodities and limited market information.
6. The Iraqi National Development Plan for 2013-2017 identified agriculture as one of the key sectors to advance non-oil growth, raise incomes and improve income distribution and gender equality. The SARP is aligned with the strategic goals defined in the 2016 country strategy note: (i) increase resilience to climate change of smallholder crop and livestock production systems; and (ii) enhance the productivity and profitability of small-scale crop and livestock producers through access to financial services, technologies and remunerative markets.

II. Project description

A. Project area and target group

7. The project will be implemented in the four southern Governorates of Muthanna, Qadisiya, Missan and Thi Qar. The level of poverty in these governorates is among the highest in the country. It is estimated that the project will target 15,795 households and is likely to yield benefits for some 140,000 people. The target group will consist of: smallholder households engaged in crop and livestock production; poor households that have been forced out of agriculture due to lack of access to adequate water and high levels of salinity in the soil; women heads of households and internally displaced persons interested in undertaking productive activities; and youth interested in undertaking enterprises and income-generating activities related to agriculture and to the ancillary services critical to agricultural growth. The project will also target marshland communities that engage in fisheries, livestock and hunting in the wild to eke out a meagre livelihood.

B. Project development objective

8. The overall goal of the project will be to assist rural people in overcoming poverty and achieving food security through remunerative, sustainable and resilient livelihoods. The development objective will be to enable poor smallholder farmers to improve crop and livestock productivity and resilience to climate change and to diversify incomes.
9. Specific impacts expected from the project include increasing people's economic status, improving production and market access, and enhancing resilience to

climate change. Project outcomes will include the number of people: (i) experiencing economic mobility and changes in economic status, including income, consumption, wealth, food diversity and nutrition; (ii) adopting new and improved inputs, technologies or practices; and (iii) reporting an increase in production.

C. Components/outcomes

10. The project will be implemented over a seven-year period and will consist of two main components: climate-resilient investments; and agriculture and livelihood diversification.
11. The first component will respond to the growing threat of climate change to the agriculture sector, especially its impacts on length of the growing season, reduction in precipitation and increasing water scarcity. The component is designed to deal with one of the major constraints in the country – the growing scarcity of irrigation water – and to assist in strengthening capacity at the national level for monitoring climate change patterns and providing relevant information to key stakeholders and farmers to enable them to undertake adaptation and risk mitigation measures through an early warning system. The component will include two subcomponents: 1.1 modernization/rehabilitation of irrigation infrastructure schemes; and 1.2 knowledge management and institutional strengthening.
12. The main emphasis of subcomponent 1.1 will be on small irrigation networks to rehabilitate and complete existing networks. These governorates have the potential to invest in irrigation infrastructure left incomplete by the Government owing to financing constraints and the political instability of the last two decades. As a result, profitability of the supported small farms/agribusinesses will increase. The subcomponent will also contribute to improving incomes of the rural poor, who will benefit from jobs created by expansion of these agribusinesses, particularly as wage labour in the production of cash crops. The project will finance small irrigation schemes that cover a compact geographical area and will be fully rehabilitated or modernized. It will support investment in irrigation channels to remove the bottlenecks hampering regular access to water and the establishment of village-based profitable agribusiness. The Directorate of Water Resources at the governorate level will identify the networks to be rehabilitated. Given the resources available for this subcomponent, it is estimated that about 33,250 dunums or 8,130 hectares can be irrigated by the selected networks. Training will be provided for key stakeholder staff and farmers in modern water and irrigation management techniques. During the first year of project implementation, technical designs including hydrological assessment will be prepared for the selected schemes.
13. Under subcomponent 1.2, the Ministry of Environment is interested in developing a climate change adaptation strategy for the agriculture sector. Moreover, the Ministry of Agriculture has established agrometeorological monitoring networks (100), remote monitoring stations (40) and receiver sites (2) that collect data in the central locations of Baghdad and Erbil. The project will upgrade the receiver system and install an additional six remote monitoring stations to provide data of greater resolution. In developing the early warning system, the SARP will help the monitoring networks work closely with farmers to understand how they assess and identify changes in weather patterns, growing seasons, planting and harvesting dates and other information useful to them. The project will provide support to this component through the Adaptation for Smallholder Agriculture Programme (ASAP) Fund.
14. The second component will assist poor households in enhancing their level of food security and diversifying their incomes from agriculture, as well as improving their skills and assets to enable them to engage in off-farm income-generating activities. The component will consist of two subcomponents: 2.1 crop, livestock and off-farm development; and 2.2 skills development and capacity-building.

15. For subcomponent 2.1, smallholder farmers, youth and women will be supported in off and on-farm activities to improve their livelihoods and increase their incomes. The project will provide grants to smallholder farmers, farmer associations and cooperatives to establish crop, livestock and off-farm enterprises. Grant packages will be mostly for capital investment and purchasing of goods and equipment. Subcomponent 2.2 will build the technical and business capacities of subcomponent 2.1 beneficiaries through targeted training: (i) technical and business training associated with provision of the capital asset; (ii) training in climate-resilient approaches and technologies; (iii) vocational training for young men and women; (iv) management training for community groups and farmer organizations; and (v) capacity-building for community-based organizations. To maximize the impact of limited budget resources, the subcomponent will not provide generic capacity-building, but will use NGOs and other service providers. These will be trained in conducting training needs assessments to focus on specific skills gaps.

III. Project implementation

A. Approach

16. The context in Iraq warrants a flexible operational approach to project management and supervision because of its classification as one of the most fragile countries. Given the lack of both information and project management experience in Iraq, much of the first year of the project will be used to: undertake preparatory activities; prepare the project implementation manual; recruit and second project staff; establish the various steering and advisory committees; recruit and brief service providers; advise staff on IFAD procedures and processes; and prepare workplans, technical designs/assessments for irrigation rehabilitation, etc. The project recognizes that given the hardships suffered by local communities, it will be critical to design investments that are simple, easy to implement and show quick results and demonstrable impact. The implementation approach of the project will be demand driven and will follow a process in which individual and group beneficiaries will participate in selecting their activities.

B. Organizational framework

17. The Ministry of Agriculture will be the lead agency responsible for implementation. The project will have a project steering committee at the national level, led by the Deputy Minister for Agriculture. A project management team (PMT) will be established in Baghdad and will be responsible for overseeing implementation of the project. The Director of the Directorate of Agriculture will assume overall responsibility for the project at the governorate level. The structure at that level will include an advisory committee, which will advise the Department of Agriculture in each governorate on key technical, social and institutional aspects. A governorate coordination team will coordinate project activities at the governorate level and will report to the PMT.

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

18. Planning. During the first preparatory year of the project the capacity of the diverse implementing partners will be strengthened for project management and procurement, and the basis for subsequent project implementation will be established. A key planning instrument will be the annual workplan and budget (AWP/B), which will provide the implementation schedule for a set of activities, together with their respective budgets and inputs. The first AWP/B, together with the procurement plan of the project, will be prepared by the PMT, and subsequent AWP/Bs will be prepared, discussed and approved no later than 60 days before the end of the financial year.
19. Monitoring and evaluation. The M&E system is expected to generate quantitative and qualitative information on the project's performance and will use

IFAD's revised Results and Impact Management System (RIMS) framework. The project team will fine-tune performance and impact indicators at the start-up workshop, with support from IFAD. During project implementation, weak institutional capacities and a low level of coordination might constrain regular collection of consistent data at governorate/district levels. In this regard, the project will play an important role in building the capacity of government staff and facilitating coordination among governorates on data collection and analysis.

20. Learning and knowledge management. Given that this is the first IFAD-financed project in the country, the ongoing compilation and dissemination of project information, experiences and results are important – for the country and for IFAD headquarters. The project will package and disseminate information to the respective stakeholders in the appropriate formats (e.g. brochures, studies, articles, a newsletter and the Internet). This knowledge-sharing process will be supported by a well-focused series of workshops and joint learning events and visits.

D. Financial management, procurement and governance

21. Financial management. Country risk is rated high. Transparency International's analysis showed recurrent structural and institutional issues related to the country's public systems and governance capacities. The SARP financial management team will be seconded from the Ministry of Agriculture (MoA) and will be part of the PMT, which will be vested with financial and administrative autonomy. The project will use the Public Financial Management System in managing flow of funds. However, daily accounting activities will be supported by a dedicated accounting and financial software to be acquired by the project.
22. Procurement. The Government has recently undertaken several measures to improve its procurement system. In accordance with IFAD's procurement guidelines, procurement of goods, works and services will be carried out in accordance with the provisions of the borrower's procurement regulations, to the extent that they are consistent with IFAD's Project Procurement Guidelines. At the institutional level, the project will contribute to building capacity for decentralized project management, as the Government may eventually decide to decentralize responsibilities for procurement.
23. Audit. The annual external audit of the project will be carried out by the Federal Board of Supreme Audit, in accordance with international standards of auditing and the IFAD Guidelines on Project Audits. In addition, the Internal Audit Unit of MoA will include review of IFAD project transactions as a legal mandatory requirement.

E. Supervision

24. The project will be directly supervised by IFAD. The approach to supervision will be one of implementation support and assistance, as this is IFAD's first investment in the country. Given that there are very strict security measures in place, and that the movement of United Nations personnel is severely restricted in the field, the project will contract local service providers to undertake supervision of project activities. However, a core team from headquarters will undertake a mission at least annually to assess overall management arrangements and performance, including financial and procurement aspects and M&E.

IV. Project costs, financing and benefits

A. Project costs

25. The project is estimated to cost US\$31.7 million, including government in kind and beneficiary contributions. Component 1, climate-resilient investments, is expected to cost US\$12.9 million. Component 2, agriculture and livelihood diversification, will cost US\$14.1 million, and project management and coordination US\$4.7 million. Price and physical contingencies have been estimated in accordance with the usual IFAD benchmarks.

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

Component	IFAD loan		IFAD grant		ASAP grant		Financing gap		Beneficiaries		Borrower/ counterpart		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Climate-resilient investments														
1.1. Modernization/ rehabilitation of Irrigation Infrastructure schemes	5 301	41.0			1 333	11.1	5 433	45					12 068	38
1.2. Knowledge management and Institutional strengthening							760	88.2			101	0.8	861	2.7
2. Agriculture and livelihood diversification														
2.1 Crop, livestock and off-farm development	7 092	60.4	500	4.1	160	1.4	2 083	17.7	1 922	16.4			11 737	36.9
2.2 Skills development and capacity-building	1 879	79.8					476	20.2					2 355	7.4
3. Project management and coordination	1 462	30.8			507	10.7	418	8.8			2 364	49.7	4 751	15
Total	15 734	49.5	500	1.5	2 000	6.3	9 170	28.9	1 922	6.0	2 465	7.8	31 772	100

B. Project financing

26. The project will be funded by an IFAD loan, IFAD grant, ASAP grant, and government and beneficiary contributions. IFAD has confirmed a loan of US\$15.73 million and a grant of US\$500,000 covering 49.5 per cent and 1.5 per cent of total project costs. ASAP will extend a grant of US\$2.0 million, covering 6.3 per cent of project costs. Funds of US\$9.17 million or about 28.9 per cent of total costs are to be budgeted as a financing gap. IFAD and the Government are in contact with the Adaptation Fund to mobilize this amount to fill the financing gap or otherwise seek alternative financing sources. The Government will finance salaries, taxes and provide other in kind contributions such as office space. Beneficiaries will also make in kind contributions in the form of casual labour, some minor inputs and equipment, which will be recorded and monitored by the PMT.

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

Expenditure category	IFAD loan		IFAD grant		ASAP grant		Financing gap		Beneficiaries		Borrower/ counterpart		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Civil works	4 912	43.7			1 334	11.9	5 001	44.5					11 246	35.4
2. Vehicles	328	100											328	1.0
3. Equipment and materials	6 471	54.0	500	4.1	160	1.3	2 949	24.6	1 922	16.0			11 983	37.7
4. Training and workshops	155	22.6					530	77.4					685	2.2
5. Consultancies	1 969	82					433	18					2 402	7.6
6. Technical studies	905	100											905	2.8
7. Operating costs	993	97.5					26	2.5					1 019	3.2
8. Expenses for project teams					507	15.8	232	7.3			2 465	76.9	3 204	10.1
Total	15 734	49.5	500	1.5	2 000	6.3	9 170	28.9	1 922	6.0	2 465	7.8	31 772	100

Summary benefit and economic analysis

27. Benefits. The SARP will generate financial and social benefits by promoting investments and activities aimed at introducing good agricultural practices, high-value crops and rural enterprises. Financial benefits will be in the form of

increased financial returns to households. Social benefits will include a reduction in poverty rates in targeted areas. High-value crops will be grown in two seasons each year instead of one. With capacity-building in irrigation efficiency, high-producing varieties, post-harvest techniques and increased soil fertility, an increase of 50 per cent in production volumes is expected. The project will also introduce high-value vegetable production through provision of horticulture packages that support investments in plastic tunnels, expansion of drip irrigation, provision of livestock packages, and assets for women and youth that will help them engage more effectively in agriculture.

28. Economic internal rate of return. The economic analysis includes benefits related to: (i) modernization and completion of irrigation infrastructure; (ii) crop and livestock production; (iii) off-farm income-generating activities; (iv) benefits from better adaptation to climate change; (v) increase in water-use efficiency; (vi) higher yields through better seed and production techniques; and (vii) reduction of post-harvest losses. The net present value (NPV) of the project over a 20-year period is calculated to be US\$120,012,000 and the EIRR is estimated at 28.4 per cent at a discount rate of 5 per cent.
29. Sensitivity analysis: A sensitivity analysis was conducted to assess the changes in NPV and EIRR due to variations in the future benefit stream of costs or delay in project implementation. The project remains profitable and robust under a wide range of project scenarios, but remains sensitive, in particular, to downward variations in output prices.

C. Sustainability

30. An underlying principle of the design of each component is a clear strategy for sustainability and exit in all components. Some key underlying aspects of sustainability include: (i) strengthening of rural institutions and human skills, and capacity-building in improved agricultural productivity, enterprise development and employment; (ii) a clear distinction in the project approach regarding public, community and private goods and services, and how these will be managed; (iii) a clear plan for ownership, operation and management and training of all investments implemented; (iv) ensuring that project investments are socially, technically and environmentally sustainable through incorporating these elements into the selection criteria of all schemes; and (v) a clear exit strategy from the outset for each subcomponent.

D. Risk identification and mitigation

31. Some key project risks, ratings and mitigation measures have been identified and reproduced in table 3.

Table 3
Risk matrix

<i>Risk</i>	<i>Rating</i>	<i>Mitigation measures</i>
The ongoing battle in the north of the country has contributed to instability and insecurity.	High	The project will focus on governorates in the south of the country where there is no ongoing conflict.
The movement of any staff member within the purview of the United Nations system is extremely restricted.	Medium	Use the support of established partners and the private sector or civil society as service providers.
Delays in loan effectiveness, staffing and timely project start-up and disbursement.	High	Use the IFAD grant to facilitate start-up, and use the first year as a preparatory period to orient and train key staff in IFAD procedures.
Government capacity is extremely limited, with no or limited development partner experience and inadequate budgets for operational purposes.	Medium	The project will be implemented through service providers, and government capacity will be strengthened during the initial years.
Iraq procurement rules and practices are not harmonized across institutions and are changing rapidly.	High	The procurement process should be consistent with the provisions of IFAD's Project Procurement Guidelines.
Availability of experienced, qualified non-governmental service providers.	Medium to high	Use of private-sector firms employed previously by other United Nations agencies and other donors – firms that can operate in partnership with the Government and NGOs.

V. Corporate considerations

A. Compliance with IFAD policies

32. The SARP is aligned with IFAD's strategic objectives and its key areas of thematic focus. The project incorporates key elements of the IFAD strategy for engagement in countries with fragile situations. The design benefited from the guidance tools for targeting, gender, smallholder farmer organizations, community development, climate change adaptation and private-sector involvement. Women and youth are given a central role in project design, and dedicated staff, specific targets and separate budget line items have been allocated to them.

B. Alignment and harmonization

33. The project is in line with the country strategy note, Iraq's National Development Programme and the priorities of national agricultural development programmes. SARP design also builds on the interventions of other donors, particularly: (i) the Food and Agriculture Organization of the United Nations (FAO) in policy development for agriculture, food security, food safety, crop seed and animal health; (ii) United States Agency for International Development (USAID) in agricultural policy and private-sector involvement in agribusiness development; (iii) International Center for Agricultural Research in the Dry Areas (ICARDA) in the development, validation and dissemination of production technology packages for cereals, small ruminants and date palm; (iv) United Nations Industrial Development Organization (UNIDO) in enterprise development and income diversification; (v) Italian Cooperation in date palm value chain and buffalo genetic improvement; and (vi) Australian Cooperation in conservation agriculture issues.

C. Innovations and scaling up

34. Much of what is being implemented under the project – and particularly the thematic areas of focus – is new in the context of Iraq. The implementation strategy will evolve during the project lifetime, in response to lessons learned. As the project moves forward, the expectation is that the approach will be refined and become more effective, capacity will be developed, new ways of working will become entrenched, and government ownership will grow. All of these elements will provide a platform for future scaling up, both in subsequent projects, supported by IFAD and, potentially, other development partners, and in national strategies and programmes.
35. A number of specific innovations offer promising opportunities to build on and scale up within and beyond IFAD's first investment project in Iraq. One of the first

innovations will be multistakeholder collaboration that bridges the lines between farming communities and groups, the public sector, the NGO community and private-sector businesses. A second innovation that could be scaled up is the SARP's work with youth, through UNIDO's network of enterprise development centres.

D. Policy engagement

36. IFAD conducted a brief review of the country's policy and institutional framework. The project design responds to the institutional weaknesses found; avoids engaging directly in the cereals sector, in which policy distortions are extreme; and seeks to establish a basis for eventual policy dialogue in the irrigation sector, where much needs to be done to establish an enabling policy environment. Most importantly, the project can demonstrate that through financing assets, rather than subsidizing only food packages, the Government can assist in creating a sustainable source of income generation and poverty alleviation. The success of these measures can be mainstreamed in the Government's own safety net programmes and provide a viable model for poverty alleviation.

VI. Legal instruments and authority

37. A project financing agreement between the Republic of Iraq 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 appendix I.
38. The Republic of Iraq is empowered under its laws to receive financing from IFAD and from the ASAP Trust Fund acting through IFAD in its capacity of Trustee of the ASAP Trust Fund.
39. The proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

40. 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 Republic of Iraq in an amount equivalent to fifteen million, seven hundred thirty-four thousand United States dollars (US\$15,734,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Iraq in an amount equivalent to five hundred thousand United States dollars (US\$500,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide an Adaptation for Smallholder Agriculture Programme (ASAP) grant to the Republic of Iraq in an amount equivalent to two million United States dollars (US\$2,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

Smallholder Agricultural Revitalization Project (SARP)

(Negotiations concluded on 22 August 2017)

Loan Number: _____

Grant Number: _____

ASAP Trust Grant No. _____

Project Title: Smallholder Agricultural Revitalization Project (SARP) ("the Project")

The Republic of Iraq (the "the Borrower/Recipient")

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund ("the ASAP Trust")

(each a "Party" and both of them collectively the "Parties")

HEREBY agree as follows:

Article 1

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Annex 1), and the Allocation Table (Annex 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter 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, an IFAD grant and an ASAP Trust 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.

Article 2

1. A. The amount of the Loan is fifteen million seven hundred thirty thousand United States dollars (USD 15 730 000).
- B. The amount of the Grant is five hundred thousand United States dollars (USD 500 000).
- C. The amount of the ASAP Trust Grant is two million United States dollars (USD 2 000 000).

2. The Loan is granted on ordinary terms, and 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 ten (10) 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 in accordance with Section 4.02(b) of the General Conditions.
3. The Loan Service Payment Currency shall be United States dollars (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 15 April and 15 October.
6. The Borrower/Recipient shall provide counterpart financing for the Project in an amount of approximately two million four hundred sixty five thousand United States dollars (USD 2 465 000).

Article 3

1. The Lead Project Agency shall be the Ministry of Agriculture.
3. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Article 4

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

Article 5

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) a financial, accounting and operational software to support all the transactions, budget and cash forecasts analysis, operational and financial dashboards has been acquired and configured;
 - (b) the key Project Management Team at the Central level shall have been appointed in accordance with Annex 1.
2. This Agreement is subject to ratification by the Borrower/Recipient.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Minister of Finance
Ministry of Finance
of the Republic of Iraq

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 two (2) original copies, one (1) for the Fund and the ASAP Trust and one (1) for the Borrower/Recipient.

THE REPUBLIC OF IRAQ

(Authorized Representative)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Hougbo
President

ADAPTATION FOR SMALLHOLDER AGRICULTURE
PROGRAMME TRUST FUND

Gilbert F. Hougbo
President of the International Fund
for Agricultural Development in its capacity as Trustee
of the ASAP Trust Fund

Annex 1

Project Description and Implementation Arrangements

I. Project Description

1. **Project Area and Target Group.** The Project shall be implemented in the four southern governorates of Muthanna, Qadisiya, Missan and Thi Qar. It will target about 16,000 households over its seven-year duration. This is likely to yield benefits for around 140,000 people. The target group of the Project shall be smallholder households engaged with crop and livestock production, poor households who have been forced out of agriculture due to lack of access to adequate water and high levels of salinity in the soils, women-headed households interested in undertaking productive activities and youth interested in undertaking enterprises and income generating activities particularly centred around agriculture and the ancillary services critical to support agricultural growth.
2. **Goal.** The overall Goal of the Project shall be to assist rural people overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods.
3. **Objective.** The Development Objective shall be to enable poor smallholder farmers to improve crop and livestock productivity, resilience to climate change and diversify incomes.
4. **Components.** The Project will have two core components that envisage a number of complementarities between initiatives and subcomponents.

4.1. **Component 1: Climate Resilient Investments.** This component will support irrigated agricultural production, within the context of the growing scarcity of irrigation water, and by strengthening capacity at the national level to monitor climate change patterns and provide relevant information to key stakeholders and farmers through an early warning system, so that they can adapt and take risk mitigation measures. It will comprise two related sub-components; (1.1) Rehabilitation/ completion of irrigation Infrastructure and (1.2) Knowledge Management and Institutional strengthening for climate resilient agriculture.

4.2. **Component 2: Agriculture & Livelihood Diversification.** The purpose of this component will be to assist poor households to enhance their level of food security and diversify their incomes from agriculture as well as improve their skills and assets to enable them to engage in off-farm income generating activities. The component will consist of two subcomponents; (2.1) Crop, Livestock & Off-Farm Development and (2.2) Skills Development & Capacity Building.

II. Implementation Arrangements

5. Approach

5.1. **Guiding principles for engaging in the most fragile situations:** The starting point for the Project design and implementation approach are the guiding principles for engaging in the most fragile situations: (a) risk management and resilience; (b) focus on root causes (within IFAD's mandate and comparative advantage); (c) gender mainstreaming and targeting; (d) institution-building to promote trust and social cohesion; (e) flexible

and responsive resources, instruments and approaches; (f) strategic and complementary partnerships; and (g) results measurement and learning.

For this purpose, the first year of the Project will be used to undertake preparatory activities, prepare the Project Implementation Manual (PIM), recruit and second Project staff, establish the various steering and advisory committees, recruit and brief service providers, guide staff on IFAD procedures and processes, prepare work plans, etc.

6. Organizational framework.

6.1. National Level. The Ministry of Agriculture shall be the Lead Agency responsible for the implementation of the Project. The Project shall have a Project Steering Committee (PSC) at the National Level which will be chaired by the Deputy-Minister of Agriculture or his/her designate.

6.2. A Project Management Team (PMT) will be established in Baghdad and be responsible for overseeing implementation of the Project. The PMT will be led by a National Project Coordinator and would be assisted by a Financial Officer, a Procurement Officer, and a Monitoring and Evaluation Specialist who will coordinate the reports from the Governorates to present quarterly and annual progress reports on the Project. These key staff members shall be appointed and removed only with the non-objection of the Fund.

6.3 Governorate level. The Director of the Directorate of Agriculture will assume the overall responsibility for the Project at the governorate level. The structure will include an Advisory Committee that would advise the Department of Agriculture in each Governorate on key technical, social and institutional aspects of the Project during implementation.

6.4 A Governorate Coordination Team (GCT) will implement and coordinate Project activities. The GCT will have a dedicated Governorate Coordinator who will report to the PMT and be responsible for day- to-day implementation in each governorate. The staff of the GCT will include a Training and Community Organizer and a Monitoring & Evaluation Officer.

7. Mid-Term Review. The Fund shall carry out a review of Project implementation no later than the end of the Project's fourth year. The review shall cover, among other things: (i) physical and financial progress as measured against AWPBs; (ii) performance and financial management of contracted implementing partners; (iii) an assessment of the efficacy of the institutional development and capacity building activities; (iv) progress in infrastructure investments; (v) establishing and delivering of extension services; (vi) delivering of financial services; and (vii) access to markets. Fund will present a report on mid-term review with conclusions and recommendations for the Ministry of Agriculture.

8. Project Implementation Manual (PIM). The PMT shall prepare a draft PIM acceptable to the Fund and submit it for approval to the PSC. When so approved, a copy of the PIM shall be provided by the PMT to the Fund. The PIM may be amended when necessary to introduce clarification in procedures, eliminating constraints for project implementation and for facilitating access of producers to the project services.

Annex 2

Allocation Table

1. Allocation of Loan, IFAD Grant and ASAP Grant Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan, the IFAD Grant and the ASAP Trust Grant, and the allocation of the amounts of the Financing to each Category. All amounts are 100% net of taxes and the contributions of co-financiers.

Category	Loan Amount Allocated (in USD thousands)	IFAD Grant Amount Allocated (in USD thousands)	ASAP Trust Grant Amount Allocated (in USD thousands)
1. Civil Works	4 420		1 200
2. Vehicles	295		
3. Equipment and materials	5 825	450	145
4. Consultancies	1 790		
5. Technical studies	800		
6. Workshops and Trainings	140		
7. Operating costs	890		
8. Expenses for project teams			455
Unallocated	1 570	50	200
TOTAL	15 730	500	2 000

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal, including, but not limited to, expenses related to meeting such conditions, shall not exceed an aggregate amount of USD 200 000.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions (A)/ Risks (R)
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal: About 16,000 rural households supported to overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods.	<ul style="list-style-type: none"> % of population below the poverty line of \$2.2 day/person. 	Muthanna (53%), Missan (42%) Thi Qar (41%) and Qadisiya (41%),	Reduce at least by 20% the proportion of men, women and children of all ages living in poverty	Reduce at least by 50% the proportion of men, women and children of all ages living in poverty	Ministry of Planning, World Bank and Baseline and End- surveys	Baseline/bench-mark survey in Y1 and survey at completion	M&E Officer in PMT to collect published information.	Stable security situation in project area.
	Development Objective: Poor smallholder farmers enabled to improve crop and livestock productivity, resilience to climate change and diversify incomes.	<ul style="list-style-type: none"> Increase in income from agriculture. 	The baseline income of 44% of the households in the project districts is below the poverty line of about \$66 a month or \$2.2 a day.	Increase in income by at least 8%.	Increase in income by at least 20% for targeted households.	DoA Statistics	Baseline and End line Survey	DoA
Outreach (RIMS CI)	<ul style="list-style-type: none"> No of persons receiving services promoted/ supported by the project Corresponding No of households reached and estimated corresponding total number of Hh members 			140,000 pers 16,000 hhs				
Outcome 1: Increase poor rural people's productive capacities	<ul style="list-style-type: none"> Number households reporting an increase in the production of high value crops. 		2,500 households	6,300 households	Beneficiary HH Surveys Annual Outcome Survey	Year 3 & 6	Third Party	<ul style="list-style-type: none"> Water will be released from main canals. Technologies disseminated would be relevant for smallholders.

Results Hierarchy	Indicators				Means of Verification			Assumptions (A)/ Risks (R)
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outputs:	• Number of hectares of farmland under water related infrastructure constructed/rehabilitated	0	2000 hectares.	8322 hectares	Irrigation design reports of MWR	Quarterly & Annual Reports	M&E Officers at national & Governorate level	
	• Number of rural producers accessing production inputs and technological packages	0	3,700 rural producers (at least 1300 women)	6650 rural producers. (at least 2500 women)	Reports of Training Officer & Service producer	Quarterly & Annual Reports	M&E Officers at national & Governorate level	
Outcome 2: Increase poor rural people's participating in rural enterprises	• Number of supported rural producer organization members reporting new or improved services provided by their organization		500 households.	1000 hhs or 50% of the 2000 HHs in 400 groups.	Survey of Groups Annual Outcome Survey	Annual	M&E Officers at national & Governorate level	▪ Macro-economic conditions are supportive for doing business
	• Number of rural enterprises accessing business development services		800 enterprises	At least 2000 enterprises	Beneficiary HH Surveys	Year 3 & 6	Third Party	Availability of appropriately experienced and qualified non-government service providers.
Outputs:	• Number of persons trained in income-generating activities or business management			3000 (1500 women and 1500 men).	Reports of Training Officer and service provider	Quarterly & Annual Reports	M&E Officers at national & Governorate level	
	• Number of rural producer organizations supported		20 groups with at least 7 for women.	50 groups with at least 20 for women.	Reports of Training Officer & Service provider	Quarterly & Annual Reports	M&E Officers at national & Governorate level	
Outcome 3: Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities	• Percentage of households reporting adoption of environmentally sustainable and climate resilient technologies and practices		TBD	70% of the HHs of 5000 participating adopt the practices	Beneficiary HH Surveys	Year 3 & 6	Third Party	Climatic changes are in line with current predictions
Outputs:	• Number of persons provided with climate information services		3000 persons.	5000 persons.	Agro metre ology Network of MoA	Quarterly & Annual Reports	AMN of MoA	