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Investing in rural people

Montenegro

Rural Clustering and Transformation Project

Negotiated financing agreement

For: Information

Negotiated financing agreement: "Rural Clustering and Transformation Project"

(Negotiations concluded on 7 March 2017)

Loan Number: ________
Grant Number: _______

Project Title: Rural Clustering and Transformation Project (the “RCTP” or “the Project”)

Montenegro (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, 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 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 three million eight hundred eighty thousand euros (EUR 3 880 000).

   B. The amount of the Grant is one million eight hundred eighty thousand euros (EUR 1 880 000).

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 semiannually in the Loan Service Payment Currency, and shall have a maturity period of fifteen (15) 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 the Euro.

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 May and 15 November.

6. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of five million six hundred twenty thousand Euros (EUR 5 620 000) (Central Government, Local Municipalities).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Rural Development (MARD).

2. The following are designated as additional Project Parties: Local municipalities, SMEs, Farmers and farmers' organizations (FOs).

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

Section D

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

Section E

1. The following are designated as additional general conditions precedent to withdrawal:

(a) the Project dedicated and key staff – whether to be recruited or to be seconded from MARD – is in place (Coordinator, 2 Value Chain Experts, Monitoring and Evaluation (M&E) Officer, Finance Officer, Procurement Officer and Administrative Assistant);

(b) two designated accounts have been opened to receive resources from the Loan and Grant accounts;

(c) acquisition and configuration of financial, accounting and operational software to support all the transactions, budget and cash forecasts analysis, operational and financial dashboards; and

(d) preparation of a draft Project Implementation Manual acceptable to IFAD, including financial, accounting, procurement and administrative arrangements.

2. 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
Stanka Dragojevica st 2
81000 Podgorica
Montenegro

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

MONTENEGRO

____
(Authorized Representative)
(title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Project Area. The project will focus on rural areas in the northern mountainous region, where farm land is mostly above 600 meters altitude. Selection criteria are based on socio-economic, poverty, and climate vulnerability profiles, coupled with potential for enterprise development in the products pre-identified (see Component 1) and the target groups' willingness to participate in the project. The initial selection includes Niksic, Savnik, Zabljak, Berane, Mojkovac, Petnjica, and Bijelo Polje. At a later stage Pluzine, and Andrijevica, may be included, pending funding, market opportunities and potential impact on smallholders.

2. Target Population. The project target groups will be:

- The semi-subsistence farmers/households below the threshold for agro-budget (government) and EU subventions, who have access to small areas of farm/arable land (up to 2 ha), grow some fruits/vegetables and keep some livestock.
- The commercial and economically active smallholders and small-scale processors, who typically own 2-15 ha of arable land, 10-15 cows, 50-100 sheep and goats, or orchards.
- The strategic value chain (VCs) actors, who include larger, lead farmers and agro-enterprises, traders, private service providers, cooperatives or associations, who can serve as models to demonstrate the viability of new approaches to increase rural resilience and provide potential development pathways for the poor.

3. Not all beneficiaries, however, will derive the same types of benefits, and depth of outreach will vary. Thus, beneficiaries may be categorized as follows:

- The primary beneficiaries (households expected to benefit the most from the project) are the key actors in the supported VC, who will receive a matching grant from the value chain fund to invest in a profitable activity and who will be supported to establish business and trade agreements. Within this group, the active smallholders and poorer farmers will benefit the most.
- The secondary beneficiaries are all the producers, suppliers, traders or agri-businesses who will not receive a VCF grant or Business Skill Facilitation (BSF) training, but who will participate in cluster meetings and, gradually, in cluster activities. The improved production and market conditions will stimulate their motivation to join the VC activities with their own investments, ultimately resulting in improved incomes.
- The tertiary beneficiaries are the households who will benefit from the improved roads and the new water supply schemes, but who will not receive other support from the project and will not engage in RCTP supported VC activities. They will essentially benefit from improved resilience to climate change and from a more modest increase in incomes, compared with the previous two categories, due to the reduction of transportation costs and water shortages resulting in better agricultural productivity.

4. Goal. The goal of the Project is to contribute to the transformation of smallholders' livelihoods in northern Montenegro, enabling them to become more competitive and resilient to climate change.

5. Objective. The Project development objective aims at increasing the participation of poor smallholders in inclusive, profitable and environmentally sustainable VCs, and enhance the benefits they derive from them.

6. Components. The Project will have two core components that envisage a number of complementarities between activities and subcomponents.

6.1. Component 1: VC clustering for resilient rural transformation. This component will focus on promoting the expansion of competitive clusters for a portfolio of products with confirmed market potential and comparative advantages for smallholder production. The clusters will be geographic concentration of interconnected producers, businesses, suppliers, and associated institutions, which creates synergies among them, resulting in market linkages. Three clusters have been initially identified: livestock (primarily sheep/goat meat but also high-value dairy), cultivated berries and seed potatoes, with possible later expansion of the product range and geographical coverage. The component will develop the following main activities:

6.1.1. Multi-stakeholder cluster meetings, where the actors will discuss challenges and opportunities and develop an action plan together to tackle the issues.

6.1.2. Bilateral business-to-business meetings, between one of the businesses and farmers who met during the multi-stakeholder meetings and identified opportunities to do business together.

6.1.3. Support to private investments on a competitive basis through a value chain fund (VCF), for smallholders and SMEs engaged in the clusters.

6.1.4. Support to quasi-public goods, through a sector development facility (SDF), that address bottlenecks to the cluster development identified by the primary actors and which cannot reasonably be delivered through private investment in the current context of the specific clusters.

6.1.5. Business skills for farmers, enabling them to assess opportunities and risks, to better negotiate their interests in VC transactions and to become reliable partners to agri-businesses.

6.1.6. Pilot partnerships with financial institution(s) which have a commercial interest in testing new approaches (e.g. alternative collateral or guarantee mechanisms along the clusters) to increase access to finance and to boost the appetite to lend to profitable agricultural sectors.

6.2. Component 2: Cluster supportive rural infrastructure. To complement the above clustering ambitions, the second component will consist of cluster supportive rural infrastructure, to remove the bottlenecks hampering the consolidation and clustering of smallholders and village based agri-business and to promote the adoption of climate smart technologies. The component will operate under two sub-components:

6.2.1. Investments in rural water supplies, to assist communities on a pragmatic basis, based on demand, and in support of the objectives of Component 1. The investments will focus on multiple use facilities, providing households with domestic water supply, water to cater for livestock or processing facilities, and possibly small scale irrigation systems. All investments will ensure better climate and economic resilience as reliability of water supply and management will increase.

6.2.2. Investments in rural roads improvement, that complement the project's objectives under Component 1 by assuring adequate access to RCTP-supported VC/commodity production areas and facilitating marketing of their produce. The roads to be improved will comprise mainly of last mileage of local or uncategorised roads in rural areas. Eligible investments will include also road ancillaries such as small bridges, drainage facilities and erosion protection works to ensure climate resilience of the rehabilitated roads.

I. Implementation Arrangements

7. The Lead Project Agency: The Ministry of Agriculture and Rural Development (MARD) shall be responsible for implementation of the Project. The Project will be anchored to the Directorate for Rural Development Department of the MARD. Overall responsibility for Project oversight, political guidance and implementation will rest with a specific project steering committee (PSC), established and chaired by MARD. The PSC will also include representatives from all of the Project's partners and stakeholders (i.e. the Ministry of Finance, Ministry of Sustainable Development and Tourism, Ministry of Economy, representatives of partner municipalities, and the private sector, including farmers' organisations). The PSC membership may be amended depending on Project requirements, subject to prior approval of IFAD. Day-to-day management and implementation of the project will rest with a Project Coordination Unit (PCU), which will be fully embedded and located in MARD and vested with financial and technical autonomy. The PCU will (i) carry out the overall programming and budgeting of the RCTP activities; (ii) take the lead in implementation, in cooperation with municipalities, business development partners, infrastructure contractors, beneficiary institutions, cooperatives, etc.; and (iii) monitor and document project progress. Project procurement shall be carried out in accordance with IFAD's Project Procurement Guidelines.

8. Implementation arrangements for Component 1. The PCU will work closely with the MARD regional extension services to coordinate and deliver all activities under cluster development and facilitation. The PCU will act as the fund administrator for the VCF but with an Independent Investment Committee established to make grant award decisions. The PCU will ensure compliance with grant application, eligibility, award and implementation procedures set-out in the Project Implementation Manual (PIM).

9. Implementation arrangements for Component 2. The main tasks of the PCU will be conducting information campaign in the project area municipalities, technical and financial analysis of preliminary screened infrastructure proposals, review and approval of engineering designs provided by municipalities, procurement and supervision of civil works. Provisions will also be made for feasibility study and financial and economic analysis of proposed investments to be outsourced to private sector consultant on a short term basis during the selection phases of proposals.

10. Baseline survey. The conduct of a baseline survey is a critical and mandatory exercise, to be carried out at the earliest after project start. Its objective is to describe and document the socio-economic and livelihoods conditions of the potential RCTP beneficiaries prior to project interventions. This information will, at mid-term and completion, become the reference against which to measure changes, and appreciate project outcomes and impact, or lack thereof. The PCU can outsource this survey to a competent consultancy firm or service provider.

11. Mid-term review (MTR). A MTR shall be carried out by the Borrower/Recipient and IFAD jointly towards the end of Project Year 3. It shall assess, among other things, management performance, implementation status, outreach, targeting, and progress towards achievement of development objective. It also focuses on corrective actions to address performance gaps and other issues.

12. Impact survey. An overall impact assessment shall be carried out during the last year of implementation, before the Project Completion Date. The PCU can outsource this survey to a competent consultancy firm or service provider.

13. Project Completion Review (PCR). Jointly organized by the government and IFAD, it shall be held towards the end of the Project Implementation Period, ideally before the Project Completion Date, once the impact survey is available, but no later than 3 months after project closing. The PCR will focus on assessing the relevance of Project interventions, implementation effectiveness and efficiency, outreach and targeting, the

likelihood of sustainability of project benefits and the potential for upscaling and replication. The PCR also aims at generating and documenting useful lessons from implementation that will help improve future programming or policies.

14. Project Implementation Manual (PIM). The PCU shall finalize the PIM (drafted in Appendix 11 of the PDR) and submit it for approval to the PSC and IFAD. The PIM may be amended when necessary, with prior no-objection from IFAD, to introduce clarification in procedures, eliminating constraints for project implementation and for facilitating access of producers to the project services.

Schedule 2

Allocation Table

1. Allocation of Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the a Loan and a Grant and the allocation of the amounts of the a Loan and a Grant to each Category and the percentages of expenditures for items to be financed in each Category. All amounts are 100% net of taxes and the contributions of co-financiers.

Category	Loan Amount Allocated (EUR)	ASAP Grant Amount Allocated EUR)
1. Consultancies	800 000	85 000
2. Works	665 000	940 000
3. Grants	580 000	765 000
4. Training and Workshops	505 000	
5. Goods, services and inputs	200 000	
6. Equipment, materials and vehicles	130 000	
7. Recurrent costs	805 000	
Unallocated	195 000	90 000
TOTAL	3 880 000	1 880 000

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 of EUR 150 000.