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IFAD

Investing in rural people

President's memorandum

Proposed additional financing to

Republic of Turkey for the

Uplands Rural Development Programme

Project ID: 2000001409

Note to Executive Board representatives

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For: **Approval**

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Abbreviations and acronyms

AWP/B	annual workplan and budget
CIP	cluster investment partnership
CPMU	central programme management unit
EDC	economic development cluster
IAD	Internal Audit Department
KGF	Credit Guarantee Fund [Kredi Garanti Fonu]
M&E	monitoring and evaluation
MoAF	Ministry of Agriculture and Forestry
MSP	multi-stakeholder platform
RPMU	regional programme management unit
SECAP	Social, Environmental and Climate Assessment Procedures of IFAD
SPD	Survey and Project Department
UNDP	United Nations Development Programme
URDP	Uplands Rural Development Programme

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Turkey
Executing agency:	Ministry of Agriculture and Forestry
Total programme cost:	EUR 73.50 million
Amount of original IFAD loan:	EUR 35.15 million
Amount of original IFAD grant:	EUR 0.90 million
Terms of original IFAD financing:	Ordinary: Maturity period of 18 years, including a grace period of 5 years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate.
Amount of additional IFAD loan:	EUR 19.09 million (equivalent to approximately US$21 million)
Terms of additional IFAD financing:	Ordinary: Maturity period of 20 years, including a grace period of 5 years. The borrower has opted for a fixed spread over the market reference rate of interest, payable semi-annually on the outstanding balance of the loan. The interest rate will be that in effect on the relevant quarter of the chosen payment dates.
Contribution of borrower/recipient:	EUR 10.41 million
Contribution of beneficiaries:	EUR 7.94 million
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing to cover a financing gap, as outlined in paragraph 47.

I. Background and programme description

A. Background

1. The present memorandum seeks approval for additional financing in the form of a loan in the amount of EUR 19.09 million on ordinary terms for the Uplands Rural Development Programme (URDP).

2. The programme, with a total cost of EUR 98.14 million, was submitted to the Executive Board in December 2017 (EB 2017/122/R.26/Rev.1), and approved with a loan of EUR 35.15 million and a grant of EUR 0.90 million. Cofinancing for EUR 29.14 million was provided by the Government of Turkey (EUR 15.70 million), beneficiaries (EUR 10.94 million) and the Credit Guarantee Fund [Kredi Garanti Fonu] (KGF) (EUR 2.50 million). As the 2019-2021 cycle of the performance-based allocation system (PBAS) for Turkey was fully taken up at the time, this left a financing gap of EUR 32.95 million to be sourced from the subsequent PBAS allocation once available.

3. The financing agreement for the first phase of the programme was signed by IFAD and the Republic of Turkey on 26 December 2017 and entered into force on 5 March 2018, with a programme completion date of 31 March 2023 and a financing closing date of 30 September 2023.

4. In order to fit the programme within the final country allocation available under the Eleventh Replenishment of IFAD's Resources, it has been downsized in close consultation with the Government by reducing the total programme costs to EUR 73.50 million. The objective of the requested additional financing is to close the remaining financing gap to ensure successful implementation.

B. Original programme description

5. The overall goal of the programme is to enhance the prosperity and resilience of upland smallholder farmers. This is to be accomplished by strengthening economic opportunities for poor rural people, based on competitive farms and agribusinesses connected to and integrated into more profitable economic clusters, making sustainable use of Turkey's natural resources. The core strategy is to build on and accentuate the valued characteristics of rural production, ensuring that sustainable land- and water-use practices are promoted, while also increasing the climate-adaptive capacity of smallholders.

6. The strategy is geared to two complementary core outcomes. The first builds critical support for agribusiness development through better natural resource management and higher added value for rural transformation, using an economic clustering approach. The second seeks to improve smallholder access to financial services, leveraging private financial resources in the process. The two core outcomes have been chosen to achieve optimal impact in terms of addressing the core constraints facing poor smallholders in upland areas. The combined outcomes will thus deliver more than the sum of their parts by ensuring that a multiplicity of challenges are addressed simultaneously, where and when needed. Moreover, the outcomes also reflect the areas in which IFAD has a comparative advantage vis-à-vis other development partners, most notably in catalysing inclusive rural transformation for smallholders. The programme is slated for completion in 2025.

II. Rationale for additional financing

A. Rationale

7. The URDP has the potential to bring a wealth of field experience to the policy discourse on clustering and rural youth and women's agribusiness development in Turkey. Both IFAD and the Government perceive the URDP to be an important investment in countering increasing isolation, depopulation and inequality between rural and urban areas. Consequently, the learning and knowledge generated will contribute significantly to the design and implementation of agricultural interventions empowering youth within the agriculture sector as a whole.

8. The Government has formally requested additional financing in the amount of the allocation under the current PBAS cycle to cover the financing gap of EUR 32.95 million, as foreseen at the time of the programme's approval by the Executive Board in December 2017. As the current PBAS allocation of EUR 19 million falls short of covering the existing financing gap by EUR 13.9 million, the programme costs have been reduced to fit within the amount of financing available by reducing the programme outreach. The additional financing will enable the programme to ensure coverage of the full range of project activities. The approach taken to downsizing the programme to fit within the financing available was carefully selected to reduce outreach under each component based on the reduced envelope and the calculated cost per beneficiary, while preserving the full learning potential.

9. Most recently, the restrictions and other measures introduced to contain the COVID-19 pandemic are posing a renewed risk of further economic and social marginalization of rural areas. The programme will not only contribute to mitigating that risk but will also help identify policy recommendations to mitigate the impact of COVID-19 and accelerate recovery.

10. The programme was launched in March 2019. Start-up was delayed by a budget capping policy implemented by the Government to contain the economic crisis. With the completion of the reform, the establishment of 22 economic development clusters (EDCs), the finalization of 22 strategic investment plans and the initiation of the matching grant programme with 7,450 applications, the context is now conducive to take up implementation with a full financing package and at an accelerated pace to compensate for lost time.

Special aspects relating to IFAD's corporate mainstreaming priorities

11. **Gender.** Constraints such as a lack of assets, capital and access to institutional credit, competing demands on time, poor technical skills and lack of access to extension services affect women more than men. The scant presence of women in formal institutions and organizations limits their ability to make their voices heard and influence decision-making. In line with the gender strategy, the programme will make use of a gender action plan to enable women to expand their economic and social empowerment. The action plan will include training on improved practices for better production and productivity, building financial and business skills to start up small businesses or income-generating activities, and providing assistance in accessing appropriate financial services.

12. **Youth.** At the national level, one of the major problems specific to youth is unemployment. In addition, youth in rural areas face even greater challenges with the dwindling numbers of attractive social facilities, including schools and cultural facilities, and limited value added in agriculture, discouraging them from investing their time and energy in the sector. For many, in particular young men, migration to major urban centres in search of informal employment is seen as an attractive alternative. To support rural youth employment, the programme will promote the involvement of young men and women along the various segments of the value chains: (i) in services such as transportation, distribution and labour employed in processing centres; and (ii) as producers, introducing through them a business-

oriented approach to production and marketing. Furthermore, given the higher presence of young women in rural areas and their involvement in agriculture, the programme will pay specific attention to them.

13. **Climate.** Temperatures have risen steadily in both of the programme provinces, with peak increases recorded during early summer and winter. Although the available rainfall has increased in most of the provinces, rainfall distribution during the year has changed. Soil erosion is a recurrent problem and is likely to worsen with increasing rainfall. The programme will improve resilience to shocks by supporting awareness-raising, training and climate-smart investments such as small-scale irrigation, vegetable production under cover (using plastic tunnels), contour ploughing and land consolidation by planting key agroforestry species.

B. Description of geographical area and target groups

14. The programme is being implemented in eight provinces in two regions: the eastern Mediterranean (Adana, Mersin, Osmaniye, Kahramanmaras) and the western Black Sea (Bartın, Kastamonu, Sinop, Çankırı), potentially covering 35 districts and targeting 30,000 households during the first phase and 17,400 during the second phase, for a total outreach of 47,400 households.

15. The intervention focuses on upland and transitional areas, where farmland and pastures are mainly above 600 metres and where most forest villages are located. However, some villages located below 600 metres (between 400 metres and 600 metres) may also be selected on the basis of topographic factors and characteristics similar to the upland villages (being particularly disadvantaged due to their location).

16. The URDP's focus is mainly on the economically active poor – those remaining in rural areas and having the potential to invest time, effort and capital and thus catalyse this transformation. Beneficiaries can be divided into three main target groups: (i) the economically active poor producing at semi-subsistence level; (ii) the economically active poor with upside potential; and (iii) transformation drivers (suppliers, traders or agribusinesses). The targeting strategy includes a mix of methods and approaches. Self-targeting is one of them, as many activities are of immediate relevance to economically active farmers (poor and better off) and other value chain actors, who have a genuine interest and motivation to participate in meetings and/or cluster activities. Targeted activities are also directed to women and youth – who will make up 30 per cent and 10 per cent of programme beneficiaries respectively – and to transhumant pastoralist households.

C. Components, outcomes and activities

17. Operationally, the two outcomes – (i) strengthened EDCs, and (ii) increased utilization of financial services among rural people in the uplands – have been translated into two concrete components:

18. **Component 1: Clustering for resilient rural transformation**. The EDC is the entry point for addressing local challenges in developing the main value chains. This component increases the volume of production and trade for agricultural products within each EDC, through individual investments and support to key economic infrastructure co-managed by the stakeholders. This increases the profitability of upland farming and agribusinesses and thus improves their appeal to young farmers remaining in these areas. It also delivers on cluster investment partnerships (CIPs) in which both private and public investments are leveraged, with the URDP providing part of the investment finance as a grant. Component 1 is subdivided into five subcomponents: (i) establishment of multi-stakeholder platforms (MSPs) focusing on social mobilization activities; (ii) building of economic infrastructure to support the clusters, focusing on civil engineering activities; (iii) support to farmer skills training and organization; (iv) support to targeted individual investment, focusing on cofinancing activities through CIPs; and

(v) regional branding and geographical indication, focusing on studies of products and quality assessment activities.

19. **Component 2: Inclusive rural finance**. This component promotes financial inclusion in targeted areas, thus expanding agricultural and agribusiness investment plans and consequently improving livelihoods and increasing employment opportunities for rural youth, women, smallholder farmers and the target group in general. Its aim is to set up a rural credit guarantee facility (subcomponent 2.1) to reduce collateral requirements for new investment loans, and a rural finance support facility (subcomponent 2.2) to improve the bankability of new investment loan proposals and strengthen the ability of the poorest segments to graduate into businesses that can undertake profitable rural initiatives. In the longer term, participating financial institutions improve their understanding of the rural sector and eventually develop agricultural risk assessment tools and mechanisms, thus eliminating the issue of collateral.

20. **Component 3: Programme management.** This component covers all activities related to programme management and implementation.

D. Costs, benefits and financing

Programme costs

21. The URDP is financed over an eight-year period at an estimated total cost of EUR 98.14 million (originally) and EUR 73.50 million (following the reduction in the PBAS). It is being implemented in two phases, over two funding cycles. Each of the two phases is expected to run for five years, with an overlap of two years. The largest component in terms of cost is component 1 – clustering for resilient rural transformation (85.8 per cent of phase two total costs). Programme management and coordination represent 11 per cent of phase two total costs.

Table 1
Original and additional financing summary
(Thousands of euro)

	*Original financing**	*Additional financing*	*Total*
IFAD loan	35 150	19 094	54 244
IFAD grant	900	-	900
Other cofinanciers	-	-	-
Beneficiaries**	5 750	2 189	7 939
Borrower/recipient**	5 559	4 854	10 413
Original financing gap	32 948	-	-
Total	80 307	26 137	73 496

* See tables 1 and 2 in document EB 2017/122/R.26/Rev.1 for a detailed breakdown.

** Beneficiaries and government contributions were calculated as lump sums in the cost tables for the total programme cost (including the original loan). The split of these contributions between original loan and additional financing was estimated based on implemented activities per year for each loan and their relevant contribution (tax, beneficiaries, etc.)

Table 2
Additional financing: Programme costs by component and financier
(Thousands of euro)

	Additional IFAD loan		Additional IFAD grant		Other cofinanciers		Additional Beneficiaries		Borrower/ recipient		Total
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Cash*	*%*	*Tax*	*%*	*Amount*
1. Clustering for resilient rural transformation	16 569	74	-	-	-	-	2 189	10	3 689	16	22 447
2. Inclusive rural finance	603	87	-	-	-	-	-	-	94	13	697
3. Programme management	1 922	64	-	-	-	-	-	-	1 070	36	2 992
Total	**19 094**	**73**	**-**	**-**	**-**	**-**	**2 189**	**8**	**4 854**	**19**	**26 137**

Table 3
Additional financing: Programme costs by expenditure category and financier
(Thousands of euro)

	Additional IFAD loan		Additional IFAD grant		Other cofinanciers		Additional Beneficiaries		Borrower/ recipient		Total
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Cash*	*%*	*Tax*	*%*	*Amount*
I. Investment costs											
A. Consultancies, training and workshops	4 099	82	-	-	-	-	-	-	929	18	5 028
B. Goods, services, equipment	1 660	80	-	-	-	-	-	-	427	20	2 087
C. Grants, credit guarantee fund	6 544	75	-	-	-	-	2 189	25	-	-	8 733
D. Works	5 391	69	-	-	-	-	-	-	2 435	31	7 826
Total investment costs	**17 693**	75	-	-	-	-	**2 189**	9	**3 791**	16	**23 673**
II. Recurrent costs											
A. Operating costs	1 401	57	-	-	-	-	-	-	1 063	43	2 464
Total recurrent costs	**1401**	57	-	-	-	-	-	-	**1 063**	43	**2 464**
Total	**19 094**	**73**	-	-	-	-	**2 189**	**8**	**4 854**	**19**	**26 137**

Table 4
Programme costs by component and project year (PY)
(Thousands of euro)

	PY1		PY2		PY3		PY4		PY5		Total
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Clustering for resilient rural transformation	1 097	5	5 937	26	6 894	31	4 873	22	3 748	16	22 448
2. Inclusive rural finance	386	55	191	27	40	6	40	6	40	6	697
3. Programme management	172	6	330	11	800	27	814	27	876	29	2 992
Total	**1 655**	**7**	**6 457**	**25**	**7 733**	**30**	**5 727**	**22**	**4 564**	**17**	**26 137**

Financing and cofinancing strategy and plan

22. The total programme cost of EUR 73.50 million will be financed by an IFAD loan of EUR 35.15 million and a second IFAD loan of EUR 19.09 million. An IFAD grant of EUR 0.90 million has been allocated mainly for knowledge management and South-South Cooperation activities. The Government's contribution will be EUR 10.41 million over the two phases, and beneficiary contributions are estimated at EUR 7.94 million. Government cofinancing is allocated to: (i) seconding programme staff to provincial and regional levels; (ii) construction of roads; and (iii) all taxes and duties on procured goods and services. Cofinancing from the KGF that was expected at the time of design did not materialize because of the current limited financial capacity of the cofinancier.

Disbursement

23. IFAD financing will be disbursed in accordance with the IFAD disbursement procedures specified in the programme implementation manual and the letter to the borrower/recipient. Two designated accounts have been opened for the

programme at the Central Bank of Turkey in euro for the IFAD loans and IFAD grant separately, with an authorized allocation of approximately six months of programme expenditure. Payments in local currency are converted using the prevailing exchange rates on the date of payment. Replenishments to the designated accounts use the imprest modality. Withdrawal applications will be prepared by the central programme management unit (CPMU) every three months or when 30 per cent of the advance has been expended, whichever occurs earlier.

Summary of benefits and economic analysis

24. Programme benefits are expected to derive from: (i) promoting expansion of competitive clusters for a portfolio of products where smallholders may have a comparative advantage; (ii) investing in specific crops and livestock that give high returns to smallholders and to other actors along the value chains; (iii) providing households with business skills; (iv) improving access to market infrastructure; and (v) improving access to financial services for both smallholders and small and medium-sized enterprises. The main impact will come through a more equitable, balanced and inclusive development process that reduces the divide between the coastal and plains areas and uplands regions. Consequently, smallholders in upland areas will see increased incomes from farming, processing and employment opportunities brought about by clustering and financial inclusion (see updated summary of the economic and financial analysis in appendix II).

25. The overall economic rate of return over 20 years is estimated at 14.7 per cent and the net present value, discounted at 10 per cent, is positive (Euro 30.8 million). The benefit-cost ratio is 1.85. These indicators establish the economic feasibility of the URDP.

Exit strategy and sustainability

26. There are robust built-in sustainability mechanisms. Most importantly, motivated by domestic and regional market demand over the long term, the strong focus on profitability – for both individual economic agents and groups – will drive commercial sustainability and build strong incentives for maintaining the structures after programme completion. A supportive infrastructure component is also built into the cluster design in critical ways: (i) by application of a demand-driven, cost-sharing approach; and (ii) by enhancing the target group's capacity for increasing entrepreneurship and the productivity of existing resources, with the goal of more efficient and more profitable use of existing natural resources (farmland, pasture and water). This, in turn, will enable target groups to increase their resilience to commercial and environmental challenges – and will provide them with both a financial incentive and the means to finance recurrent costs of investments with options for increasing productive investments. Access to financial services is a key sustainable exit strategy of the URDP. By addressing the single most important access constraint, that of insufficient collateral, and deploying financing products suitable for smallholders through the KGF credit guarantee facility, the URDP will increase the penetration and depth of financial services in rural areas and catalyse smallholders' integration into commercial clusters that provide a credible pathway out of poverty. Evidence of a functioning EDC model will inform policy engagement with local and national government authorities to encourage expansion of the model's use by other development initiatives supported by the Government and other development actors.

III. Risk management

A. Risks and mitigation measures

27. At the macro level, governance and political commitment risks are deemed moderate to low, as the country has seen robust continuity for more than three decades. The component-specific risks are also within acceptable levels.

28. The risk associated with disbursement and limited capacity for fiduciary aspects is moderate to low. A fiduciary team was set up, a memorandum of understanding

was signed with the United Nations Development Programme (UNDP) to provide technical assistance in procurement and financial management, and continuous capacity-building is planned to strengthen skills and promote best practices in fiduciary management.

29. The COVID-19 pandemic continues to pose a substantial risk, as its socio-economic impact is likely to continue. The IFAD Country Office has therefore scaled up its partnership with the Food and Agriculture Organization of the United Nations and UNDP to carry out, under the leadership of the Ministry of Agriculture and Forestry, an impact assessment in support of a coordinated sector response. The study looked into the food security and livelihoods of vulnerable households, and proposed policy recommendations as well as the use of digital solutions to enhance producers' access to market, in a context of social distancing rules. In addition, a COVID-19 contingency plan will be included in the annual workplan and budget (AWP/B) to ensure continuation of service delivery to the end beneficiaries.

B. Environment and social category

30. Programme interventions and investments will be directed towards improving agricultural practices and pasture management as well as organic agriculture in fragile upland ecosystems. The interventions will improve natural resources management practices and capacity of all beneficiaries, including government officials. Use of the Results and Impact Management System, with input from the Ministry of Agriculture and Forestry's monitoring system, will ensure early identification of any potentially adverse impact of activities where remedial action is needed by the Ministry. An additional assessment was carried out under the Social, Environmental and Climate Assessment Procedures of IFAD (SECAP) in July 2020 but no justification was found for changing the environmental and social category for the programme, which remains a category B operation.

C. Climate risk classification

31. The initial SECAP mission during project identification and detailed design in 2017 confirmed that the proposed target area was not identified in current predictions and databases as a high climate risk area. Rough topography brings intrinsic threats of landslides and floods. Nonetheless, the initial analysis of the past 34 years' climatic trends confirms an increase of temperature in each target district. At the provincial level, there is no evident change in the trends of the normalized difference vegetation index. The proposed climate risk category remains moderate.

IV. Implementation

A. Compliance with IFAD policies

32. The URDP is fully aligned with the IFAD Strategic Framework 2016-2025 for enabling inclusive and sustainable rural transformation. Indeed, it aims to transform Turkey's upland smallholders towards commercial competitiveness and greater climatic resilience. The programme is also in compliance with IFAD's private sector strategy and policies on rural enterprise, women's empowerment and gender equality, and targeting.

B. Organizational framework

Management and coordination

33. The Ministry of Agriculture and Forestry is the lead implementing agency. Overall URDP management is carried out by the Ministry's General Directorate of Agricultural Reform, which is responsible for providing overall policy guidance and oversight. Day-to-day management and implementation is tasked to the existing CPMU. Its principal functions are to carry out the overall programming and budgeting of activities – in cooperation with the two regional programme management units (RPMUs) and implementing partners – and to monitor and document progress.

Financial management, procurement and governance

34. **Governance and financial management risks**. The inherent country risk is rated substantial. The 2014 Governance Diagnostic Assessment for Turkey confirmed the findings of the World Bank's 2009 Public Financial Management Performance Benchmarking Study, showing major transformation of public sector management as a result of the reform initiatives. Implementation challenges remain, and there are still areas where improvement is required.

35. **Financial management**. In previous projects, financial management and procurement have been outsourced to UNDP and were rated satisfactory. UNDP will gradually transfer this responsibility to the Ministry of Agriculture and Forestry to increase the Ministry's ownership and capacity to manage donor-funded projects. Overall, financial management risk is rated as moderate, improving to low after the conditions for disbursement and proposed mitigation measures have been met. The main mitigation measures include: (i) recruitment of professional financial management staff; (ii) installation of an accounting software system; (iii) drafting of a programme implementation manual acceptable to IFAD; (iv) a memorandum of understanding between the Ministry of Agriculture and Forestry and KGF; and (v) internal and external audits.

36. **Accounting and financial reporting arrangements**. The programme has adopted accounting procedures and policies consistent with acceptable international accounting standards and government requirements. Accounts and financial reporting are managed at the CPMU, which is also responsible for ensuring that funds have been used for the purposes intended. The programme uses the government public expenditures system developed by the Ministry of Treasury and Finance to process all payments from the government counterpart contribution. The Survey and Project Department (SPD) is working on acquiring and installing an accounting software that is capable of producing all required reports in line with IFAD's requirements.

37. **Internal and external audit arrangements**. The Internal Audit Department (IAD) of the Ministry of Agriculture and Forestry audits the Ministry's work in general. SPD is negotiating and coordinating with IAD to include IFAD projects in the workplan, including the use of IFAD funds by the intended end beneficiaries. IAD will be reviewing the effectiveness of the internal control systems. For external audit, annual programme financial statements are audited by the treasury controller, which currently performs the external audits for all World Bank and IFAD projects, in accordance with International Standards on Auditing under terms of reference approved by IFAD each year. The credit guarantee facility will be audited as part of the annual audit by the external auditor.

38. **Governance**. In accordance with IFAD guidelines, bidding documents and contracts for the procurement of goods, works and services financed from resources funded or administered by IFAD must include a provision requiring suppliers, contractors and consultants to: (i) ensure compliance with IFAD's anticorruption policy; and (ii) allow IFAD to inspect their accounts, records and other documents relating to bid submission and contract performance, and have them audited if deemed necessary. Stakeholder engagement will be enhanced by setting up a complaint and grievance mechanism by the Ministry of Agriculture and Forestry, and a periodic third-party evaluation to collect feedback from stakeholders.

39. **Procurement**. The existing legal framework for public procurement in Turkey is assessed as broadly in compliance with international standards.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

40. The main planning tool is the AWP/B, which is prepared using a participatory bottom-up approach within the economic clusters and in line with the logical

framework. Once priorities have been set at the cluster level and activities defined, an AWP/B is compiled by the RPMUs for each province, consolidated for their respective regions and then submitted to the CPMU for consolidation and transmission to SPD for inclusion in the budget. The draft AWP/B is sent to IFAD for review and no objection, guides the implementation of cluster activities and provides benchmarks against which implementation progress is measured each year.

41. **Monitoring and evaluation (M&E)**. The M&E system takes a results-based approach – accounting for progress against AWP/B targets and periodically assessing progress towards achievement of impact. While the two RPMU M&E assistants have primary responsibility for the system, all other implementation agencies at provincial, district and cluster levels play important roles in collecting and analysing data to assess the outcomes and impact of programme activities. The CPMU M&E specialist has overall coordination responsibility. The programme uses the georeferencing methodology to support implementation and M&E processes.

42. **Knowledge management**. Both IFAD and the Government perceive the URDP as a considerable investment in learning about how to counter increasing isolation, depopulation and inequality between rural and urban areas. Knowledge generation aimed at influencing policy and replication of the EDC approach by the Government and MSP actors will be the main scaling up pathway, and the programme will enable the Government to generate knowledge on the impact of CIPs and investments and inform successive government programme pipeline development and best use of investments to benefit rural upland farmers. Additionally, grant funding is included in the programme for knowledge-sharing of the economic cluster approach for poverty reduction in mountainous ecosystems in similar countries through South-South Cooperation.

D. Proposed amendments to the financing agreement

43. Subject to approval of the additional financing by the Executive Board, the URDP financing agreement will be amended to revise the allocation of IFAD financing to include the additional resources.

V. Legal instruments and authority

44. A financing agreement between the Republic of Turkey and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. The signed financing agreement will be amended following approval of the additional financing.

45. The Republic of Turkey is empowered under its laws to receive financing from IFAD.

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

VI. Recommendation

47. I recommend that the Executive Board approve the additional financing in terms of the following resolution:

> RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Turkey in an amount of nineteen million ninety-four thousand euros (EUR 19,094,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President

Updated logical framework incorporating the additional financing

Results Hierarchy	Indicators[1]				Means of Verification			Assumptions
	Name	**Base-line[2]**	**Mid-Term**	**End Target**	**Source[3]**	**Frequency**	**Responsibility**	
Outreach:	Number of persons receiving services promoted or supported by the project (women)	0	9,000	14.220	Programme M&E system	Annual	CPMU and RPMUs	
	Number of persons receiving services promoted or supported by the project (men)	0	21,000	33.180	Programme M&E system	Annual	CPMU and RPMUs	
	1.a Corresponding number of households reached	0	30,000	47,400				
	1.b Estimated corresponding total number of household members[4]:	0	105,000	165,900				
Goal: Enhance prosperity and resilience of upland smallholder farmers	Percentage reduction in the number of households in targeted areas living below the national poverty line[5]	0	15%	40%	Baseline, mid-term and impact assessment surveys	Baseline Mid-term Completion	CPMU	• Continued social, political and economic stability in the country and no major sustained disruption to market access to major export markets. • GovT willing to allocate finance, manpower and technical expertise. • Poverty reduction remains priority agenda
Development Objective: Strengthen the resilience of upland communities, especially youth, and improve their integration into markets.	Percentage of households in targeted areas with a monthly income of TRY 3,000 or higher (10% youth)	TBD	30%	90%	Baseline, mid-term and impact assessment surveys/ Annual Outcome Surveys	Baseline Mid-term Completion	CPMU, MSPs	
	Increase in the value of priority products marketed through economic infrastructure of the clusters [6]	TBD	USD 25 m	USD 29 m				
	Increase in volume of priority products marketed through economic infrastructure of the clusters (measured in tons, per product)	TBD	25%	30%				

[1] Data for all household related indicators to be disaggregated by poverty status, age and gender of household head.
[2] Baseline figures will be updated based on baseline survey results
[3] Additional external sources of data to verify performance will be identified and used wherever possible. This will include data on loans from partner banks, MFAL and MFWA statistics, market trading statistics from Dept of Commerce etc.
[4] The average household size is revised as 3.5 persons due to change in the statistics which was initially 3.9 persons.
[5] Poverty measurement according to the national poverty line ($4.3 per capita per day)
[6] The M&E system will analyze the data by the different economic development clusters and commodity points. Clearly, farmers are marketing produce already. This indicator will measure the additionality of the clusters.

Results Hierarchy	Indicators[7]				Means of Verification			Assumptions
	Name	**Base-line**	**Mid-Term**	**End Target**	**Source**	**Frequency**	**Responsibility**	
Outcome 1 *Strengthened economic development clusters*	Percentage of households reporting an increase in production (Core Indicator 1.2.4)	0	15%	40%	Annual outcome surveys	Annually	CPMU, RPMU	• External socio-economic factors do not disrupt MSPs; • Sufficient interest from private sector in MSPs across all priority commodity clusters;
	Percentage of households having established market linkages within EDC	0	20%	50%	Annual outcome surveys	Annually	CPMU, RPMU	
Outputs 1.1 EDC MSPs established 1.2 Supported EDCs infrastructure 1.3 Farmers/ organizations capacitated 1.4 Farmers/organization investments 1.5 Branding and promotion of upland produce	Number of MSPs established and functional[8] (Core Indicator policy 2)	0	22	40	MSPs meetings	Quarterly	MSPs	• Outreach of media and awareness campaigns effective in mobilising clusters • Uptake from rural entrepreneurs / farmers sufficient • Other Ministries willing and able to increase coordination to harmonize support to target communities. • Climate change is in line with current predictions
	Value of infrastructure constructed/ rehabilitated (million EUR)	0	14.8	25.8	Programme monitoring reports	Semi-annually	RPMU	
	Number of persons trained in production practices and/or technologies (Core Indicator 1.1.4)	0	418	830	Training reports	Quarterly	CPMU, RPMU	
	Number of hectares of land brought under climate-resilient management (Core Indicator 3.1.4)	0	300	490	Programme monitoring reports	Semi-annually	RPMU	
	Number of products branded based on geographical origin	0	2	10	Programme monitoring reports	Annually	RPMU	
Outcome 2: Increased utilization of financial services among rural people in uplands	Percentage decline in collateral coverage requested by participating financial institutions	TBD	30%	50%	PFIs / KGF	Annual	CPMU and RPMUs	• GovT and banks participate as expected
Outputs 2.1 Developing a new credit mechanism system KGF/PGS 2.2 New partnerships established with financial sector actors (mainly private banks)	Number of loans provided using the credit guarantee scheme (value of loans to be analyzed under the M&E system) (10% youth, 30% women)	0	3,425	3,425	KGF reports Bank reports	Quarterly	RPMU	• Willingness of beneficiaries to take loans/ cluster investment partnerships
	• Number of persons in rural areas trained in financial literacy and/or use of financial products and services (Core Indicator 1.1.7) (10% youth, 30% women)	0	3,920	8,720	Training reports	Quarterly	RPMU	
	• Percentage of persons in rural areas accessing financial services (Core Indicator 1.1.5, 10% youth, 30% women)	TBD	30%	70%	KGF reports Bank reports Project reports	Quarterly	RPMU	

[7] Data for all household related indicators to be disaggregated by poverty status, age and gender of household head.
[8] Under the M&E system the number of participants will be captured and analyzed by sex, age, type of representatives

Updated summary of the economic and financial analysis

Table A
Financial cash flow models

Household and cooperative models	Investmt.	Net income WP year 8 (TRY)	Annual Inc. net benefits per TRY Investment	NPV @ 10% (TRY)	B/C	IRR	Return to family labour, TRY/day
Economically active poor HHs mixed	67 000	38 790	0.6	151 936	1.2	77%	455
Economically active poor HHs cattle	59 000	71 635	1.2	256 718	1.3	88%	414
Economically active poor HHs grape	40 000	28 750	0.7	151 063	1.5	58%	1 917
Economically active with upside potential_ walnut beekeeping	66 854	59 371	0.9	283 169	2.3	40%	360
Economically active with upside potential goat vegetable in plastic tube	148 402	69 687	0.5	265 209	1.3	68%	609
Economically active with upside potential cherry orchard	53 000	57 409	1.1	284 339	2.9	80%	2 107
Cooperative model milking facility	223 050	172 200	0.8	911 875	3.3	40%	-
Cooperative model fruit cold storage facility	150 000	145 390	1.0	475 737	2.4	76%	-
Crops and activity models							
Walnut	42 279	20 116	0.5	33 485	1.2	16%	671
Cherry	53 000	54 191	1.0	177 466	2.9	29%	1 806
Grape	80 000	38 500	0.5	117 288	1.7	22%	1 283
Tomato (greenhouse/plastic tube)	594 800	149 278	0.3	371 070	1.5	29%	783
Strawberry (greenhouse/plastic tube)	400 000	115 267	0.3	177 993	1.2	21%	1 002
Maize- Silage	15 000	8 336	0.6	30 121	1.7	63%	556
Goat breeding	68 402	38 513	0.6	248 091	0.7	87%	306
Bee-keeping	74 350	87 955	1.2	293 442	3.6	60%	628

Table B
Programme costs and logframe targets

PROJECT COSTS AND INDICATORS FOR LOGFRAME						
TOTAL Costs	73.5	**m EUR**	**PMU**	**M EUR**	**6.6**	
Beneficiaries		People	165 900	HHs	47 400	**Adoption rate** **70%**
Cost per beneficiary	443	EUR/person				
	1 550	EUR/HH				

Components and Cost (EUR million)		Outcomes and Indicators	
- Component 1: Clustering for resilient rural transformation - m EUR -	62.1	Strengthened economic development clusters	Percentage of households reporting an increase in production (Core Indicator 1.2.4) Percentage of households having established market linkages within EDC
- Component 2. Inclusive Rural Finance - m EUR -	4,7	Increased utilization of financial services among rural people in uplands	Percentage decline in collateral coverage requested by participating financial institutions

Table C
Main assumptions and shadow prices

MAIN ASSUMPTIONS & SHADOW PRICES			
Official Exchange rate (OER)	3.50	Discount rate	10%
Shadow Exchange rate (SER)	3.90	Social Discount rate	10%
Shadow Exchange Ratio Factor (SERF)	1.10	Output conversion factor	0.91
Standard Conversion Factor	1.00	Input Conversion factor	0.98

Table D
Beneficiary adoption rates and phasing

	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8
Adoption rate	-	70%	70%	70%	70%	70%	70%	-
Phasing in % (HHs models)	-	10%	13%	13%	15%	25%	24%	-
Phasing in % (cooperative models)	-	23%	28%	0%	25%	25%	0%	-

Table E
Economic cash flow

	Values in '000 EUR	Net Inc. Benefits	Incr. Costs	Cash Flow
ECONOMIC ANALYSIS	**PY1**	0	2 788	-2 788
	PY2	-5 591	9 182	-14 773
	PY3	- 7 645	9 041	-16 686
	PY4	-5 884	10 884	-16 768
	PY5	- 5 291	12 854	-18 146
	PY6	-7 670	6 278	-13 948
	PY7	-1 037	4 591	-5 629
	PY8	13 988	3 669	10 319
	PY9	17 816	734	17 082
	PY10	21 741	734	21 007
	PY11	25 702	734	24 968
	PY12	29 058	734	28 324
	PY13	31 641	734	30 908
	PY14	33 913	734	33 179
	PY15	35 734	734	35 000
	PY16	36 718	734	35 985
	PY17	36 718	734	35 985
	PY18	36 718	734	35 985
	PY19	36 718	734	35 985
	PY20	36 718	734	35 985
		NPV ('000 EUR)		**30 796**
		ERR		**14.7%**
		BCR		**1.73**

Table F
Sensitivity analysis

Programme base case	Assumptions	NPV (EUR Million)	EIRR
		30.8	14.7%
Decrease in benefits	-20%	16.2	12.8%
	-50%	5.7	8.7%
Increase in Costs	20%	22.3	13.2%
	60%	5.4	10.7%
	86%	(5.6)	9.3%
Simultaneous decrease in benefits and increase in costs	benefits (10%) & cost (70%)	(12.9)	8.4%
	benefits (20%) & cost (50%)	(5.0)	9.3%
	benefits (30%) & cost (40%)	(8.0)	8.7%
Delays in benefits	2 years	8.9	11.5%
	3 years	(0.5)	9.9%