

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

LOAN NO. _____

FINANCING AGREEMENT

Ardahan-Kars-Artvin Development Project
(AKADP)

between the

REPUBLIC OF TURKEY

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Signed in _____

on _____

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

FINANCING AGREEMENT

Loan Number: _____

Project Title: Ardahan –Kars - Artvin Development Project (the "Project")

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

and

the Republic of Turkey (the "Borrower")

(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), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is SDR 12 080 000.
2. The Loan is granted on ordinary terms.
3. The Loan Service Payment Currency shall be the currency of the United States of America.
4. The first day of the applicable Fiscal Year shall be the 1 January.
5. Payments of principal and interest shall be payable on each _____ and _____.
6. A Project account shall be established by the Government Treasury in the Central Bank for Project purposes.
7. The Borrower shall provide counterpart financing for the Project in the amount of approximately USD 1 100 000 in cash contribution and approximately USD 2 100 000 to cover taxes.

Section C

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

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

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

Section D

The Loan will be administered and the Project supervised by IFAD.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
- (a) A Project Management structure at the Project Area level shall have been established. Such structure shall include, but not be limited to, the areas of Project management, agricultural economics, civil and rural engineering, monitoring and evaluation, procurement and finance.
 - (b) The Project Implementation Manual (PIM) including manuals pertinent to Component 1 (Smallholder Investments) and Component 2 (Village Infrastructure Investment) shall have been completed, in a manner satisfactory to the Fund.
 - (c) The MARA- United Nations Development Programme ("UNDP") Service Agreement shall have been finalized in accordance with Schedule 1 paragraph 7.
2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

For the Recipient:

(Title)
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

(Title)

This agreement, dated _____, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project's target group will be poor women and men smallholders in the provinces of Ardahan, Kars and Artvin (individually "Project Provinces" and collectively "Project Area").
2. *Goal.* The overall goal of the Project is to reduce rural poverty in the Project Area.
3. *Objectives.* The objectives of the Project are: (i) to increase the assets and incomes of poor women and men smallholders, who have the potential and willingness to move towards commercial agriculture; (ii) to improve poor rural people's access to infrastructure providing direct and indirect benefits to primary producers; and (iii) to strengthen institutional advisory services and capacitate Project management.
4. *Components.* The Project shall comprise three components: (i) Smallholder Investments; (ii) Village Infrastructure Investments; and (iii) Institutional Strengthening and Project Management.

Component 1: Smallholder Investments.

4.1 The Project shall support the delivery of comprehensive and complementary measures to improve animal husbandry and horticulture production for smallholders in the Project Area. Important considerations for the provision of such support shall include: (i) maintaining a clear focus on productivity, profitability and livelihood improvement; (ii) empowering women; (iii) mobilizing modest smallholder resources by leveraging with Project funds; (iv) creating an enabling environment for participation of rural society in decision making, implementation and monitoring and evaluation; and (v) setting examples of sound environmental farming practices. The initial range of activities related to livestock production shall include provision for capital assets such as modern barns, drinking troughs, manure pits, hay storage premises, mobile veterinary clinics, and various equipment provided on a co-financing basis between the Project and the identified smallholders. Certain items such as seeds and disinfectants shall be fully financed by the Project. This shall also include support for on-farm demonstrations, farmers' training courses and farmers' exchange visits for animal husbandry.

4.2 For horticultural activities, Project support shall initially include provision for equipment and materials such as greenhouses, drip irrigation equipment, knapsack sprayers, to be co-financed with identified farmers. Likewise, such items shall be co-financed between the Project and smallholders. Other items such as farm inputs, on-farm demonstrations, farmers' training courses, farmers' exchange visits for fruit and vegetable production shall be fully financed by the Project.

4.3 Co-financing with respect to the provision of Project support as outlined in paragraphs 4.1 and 4.2 above shall be determined taking into consideration, among other things, the financial returns of the investments and the capacity of the smallholder to provide working capital.

4.4 Technical Assistance to beneficiaries shall be provided for the preparation and

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

supervision of investment plans for both livestock and horticultural production as required. Training under the component will make specific provision for the interests and involvement of women. Co-financing ratios shall be subject to no objection from the Fund and may be adjusted in the course of Project implementation as required.

Component 2: Village Infrastructure Investments.

The Project shall support investments in economic and social infrastructure in villages to complement, *inter alia*, the smallholder investments that have been identified and approved under Component 1. Possible investments may include: livestock watering facilities on pastures and range lands; piped distribution networks for irrigation; access roads, and access road ancillaries such as retaining walls and culverts; and village sanitation networks and treatment facilities. Support may also include the establishment of livestock marketing facilities. Technical assistance shall be provided by the Project to assist in the selection and preparation of infrastructure investments. All infrastructure investment shall include a contribution from participating villages.

Component 3: Institutional Strengthening and Project Management.

The Project shall support the development of capacities and capabilities at the smallholder, village, and Provincial Directorate levels. This shall include the training of provincial and district agricultural staff in areas of improved service delivery, including training of farmers, monitoring and evaluation, development of farming business skills and new technology. Technical Assistance for the training shall be provided to support these activities including assistance in delivering training to farmers in the areas of adoption of new technologies and investment planning. The Project shall provide funding for the establishment and operation of the Project management structure at the Project Area level. Support shall also be provided for Project related rehabilitation of the Provincial Directorate of Agriculture (PDA) and District Directorate of Agriculture (DDA) offices; purchase, operation and maintenance of vehicles; information technology equipment; office and meeting room furniture; office operating costs; travel allowances and air fares; translation services; and expenditures associated with the MARA-UNDP Service Agreement described in paragraph 7 below.

II. Implementation Arrangements

A. General

5. The Project shall be implemented over a period of five years in the Project Area.
6. The overall responsibility for the management and implementation of the Project shall rest with the Ministry of Agriculture and Rural Affairs (MARA) through its General Directorate of Agricultural Production and Development (GDAPD). Under MARA's leadership, a Project Management Unit (PMU) covering all three Project Provinces, shall be established and charged with overall and day-to-day management and implementation of the Project. Project staff shall be nationally recruited on a competitive basis. Staff positions shall cover the areas of Project management, agricultural economics, civil and rural engineering, monitoring and evaluation, procurement and finance. In each Project Province, the Provincial Agricultural Directorates shall second two staff members as Project Rural Development Coordinators (RDCs) on a full-time basis, to be based in each of the Project Provinces and to assist Project implementation.
7. The principal functions of the PMU shall be to carry out the overall programming and budgeting of Project activities, take the lead in Project implementation in cooperation with the RDCs/PDAs and monitor and document Project progress. Specifically, the PMU shall assume the responsibility for generating the Project's Annual Work Plans and

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

Budgets (AWPBs) to be submitted to the GDAPD for review and approval and to IFAD for prior review and no objection. Likewise, the PMU, in collaboration with RDCs/PDAs, shall take the lead in the procurement of civil works and goods and services, notably short and long-term Technical Assistance. MARA and UNDP shall enter into a service agreement acceptable to the Fund ("MARA-UNDP Service Agreement"). Under the MARA-UNDP Service Agreement, UNDP shall, as required, support the Project in dealing with the flow of funds arrangements, recruitment of PMU staff and contracting of technical assistance, accounting and auditing, assistance in procurement of goods, civil works and services.

8. The draft AWPB shall include, among other things, a procurement plan, a detailed description of planned Project activities during the coming Project year, and the sources and uses of funds. The draft AWPBs shall subsequently be submitted to the Fund for no objection. The PMU shall submit six-monthly and annual progress reports in English to the GPADP and the Fund outlining the physical and financial progress of Project activities and regular assessment of Project impact using a format that shall be agreed at the time of Project start-up. The PMU shall establish a results-based monitoring and evaluation system based on the Logical Framework for the Project. A Mid-Term Review shall be conducted towards the end of the Project's third year. The Review shall cover physical and financial progress as measured against the AWPBs, performance and management of contracted implementing partners and an assessment of the efficacy of technical assistance and training programmes.

B. Component Management

9. Implementation of the Smallholder Investment component shall be through PDAs and supported by the PMU. This shall include training programmes supported by technical assistance, planning and procurement of goods and services, investment analysis and distribution of farm inputs. Implementation of the component activities shall be based on targeting criteria and methodologies as outlined in the PIM.

10. The management of village infrastructure investments shall rest with the PMU Rural Engineering section. It shall include three main areas: identification and design of potential infrastructure investments; construction supervision and acceptance of works; and directing implementation of Project-supported infrastructure investments. Screening, initial ranking, and qualification of infrastructure investments shall in be in accordance with the methodologies outlined in the PIM.

11. The management of institutional strengthening activities shall be the responsibility of the PMU, supported by Project financed Technical Assistance.

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage
I. Civil Works	5 130 000	100% net of taxes, net of counterpart financing and net of beneficiary contribution
II. Vehicles, Equipment and Goods	330 000	100% net of taxes
III. Technical Assistance, Training and Workshops	1 470 000	100%
IV. Co-financing of Agricultural and Livestock investments	3 370 000	100% net of taxes and net of beneficiary contribution
V. Agricultural Inputs	940 000	100% net of taxes
VI. Recurrent Costs	800 000	100% net of counterpart financing
Unallocated	40 000	
TOTAL	12 080 000	

(b) The terms used in the Table above are defined as follows: "Civil Works" includes the costs of Physical Works, Feasibility Studies, Design and Site Supervision.

DRAFT FOR NEGOTIATIONS
Subject to modification by OL

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Taxes: The Borrower shall, to the fullest extent possible, exempt the proceeds of the Loan from all taxes. Any taxes which the Project is nonetheless obliged to pay shall be promptly reimbursed by the Borrower and the amount so reimbursed shall be credited against the counterpart financing obligation set forth in paragraph B7 hereof.