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President’s report

Proposed loan to the Republic of Azerbaijan for the

Integrated Rural Development Project

For: Approval
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<tbody>
<tr>
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<td>IFAD project management unit</td>
</tr>
<tr>
<td>IsDB</td>
<td>Islamic Development Bank</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>monitoring and evaluation</td>
</tr>
<tr>
<td>MENR</td>
<td>Ministry of Ecology and Natural Resources</td>
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<tr>
<td>NBFI</td>
<td>non-bank financial institution</td>
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<tr>
<td>PBAS</td>
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<tr>
<td>WUA</td>
<td>water users’ association</td>
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</table>
The Republic of Azerbaijan
IFAD-funded operations in the country

Map of the project area

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
Republic of Azerbaijan

Integrated Rural Development Project

Financing summary

Initiating institution: IFAD
Borrower: Republic of Azerbaijan
Executing agency: Ministry of Agriculture
Total project cost: US$103.50 million
Amount of IFAD loan: SDR 12.25 million (equivalent to approximately US$19.35 million)
Terms of IFAD loan: Hardened terms: 20 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier: Islamic Development Bank
Amount of cofinancing: US$66.43 million
Terms of cofinancing: Loan
Contribution of borrower: US$13.10 million
Contribution of beneficiaries: US$2.42 million
Contribution of non-bank financial institutions: US$2.20 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 loan to the Republic of Azerbaijan for the Integrated Rural Development Project, as contained in paragraph 36.

**Proposed loan to the Republic of Azerbaijan for the Integrated Rural Development Project**

**I. The project**

**A. Main development opportunity addressed by the project**

1. The project is designed to provide support for enhanced agricultural productivity, and thus enhanced incomes and food security, in areas in which the production base has been degraded through years of misuse and lack of knowledge and investment. This includes both highland areas and adjacent lowlands of the four districts of Agdash, Yevlakh, Sheki and Oghuz. IFAD has successfully applied interventions in similar locations with similar physical and economic problems in the past, and is continuing this process through ongoing projects.

**B. Proposed financing**

**Terms and conditions**

2. It is proposed that IFAD provide a loan to the Republic of Azerbaijan in the amount of SDR 12.25 million (equivalent to approximately US$19.35 million) on hardened terms to help finance the Integrated Rural Development Project. The loan will have a term of 20 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

**Relationship to the IFAD performance-based allocation system (PBAS)**

3. The allocation defined for Azerbaijan under the PBAS is US$19.35 million over the 2010-2012 PBAS allocation cycle. The proposed loan falls within this three-year allocation.

**Country debt burden and absorptive capacity of the State**

4. Azerbaijan has a relatively low level of external indebtedness (external debt stands currently at about 20 per cent of GDP) and thus the risk of debt distress is relatively low. The implementation record for IFAD-financed projects in Azerbaijan is satisfactory, with a trend of full disbursement and closure of loans on schedule.

**Flow of funds**

5. IFAD loan proceeds will be channelled through a designated account in favour of the Ministry of Finance to finance eligible expenditures. This account will be established in a bank acceptable to IFAD. Financial flows will be based on approved annual workplans and budgets and subject to annual independent audits.

**Supervision arrangements**

6. The project will be directly supervised by IFAD, with the exception of the first component. There will be at least one supervision mission and one follow-up mission per year. IFAD’s direct supervision will include modules covering all aspects of fiduciary compliance.
Exceptions to IFAD General Conditions for Agricultural Development
Financing and operational policies

7. No exceptions are foreseen.

Governance

8. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) procurement in accordance with the IFAD Procurement Guidelines, with prior-review thresholds for procurement stipulated in the letter to the borrower; (ii) regular direct supervision; (iii) annual audit of project accounts and financial statements by independent external auditors in accordance with internationally accepted auditing standards; (iv) provision of high-calibre international and national technical assistance; and (v) emphasis on high-quality management information systems.

C. Target group and participation

Target group

9. In accordance with the IFAD Policy on Targeting, the project will target poor rural men and women who have the potential to take advantage of improved access to assets and opportunities for agricultural production and rural income-generating activities. In particular, its primary target groups will comprise: (i) poor people with adequate surplus; (ii) poor people with marginal surplus; and (iii) very poor people with unstable livelihoods and no surplus.

Targeting approach

10. Targeting will be implemented through: (i) geographical targeting; (ii) a demand-driven modality with self-targeting parameters of project benefits; and (iii) direct targeting based on pro-poor eligibility criteria.

Participation

11. The project will apply a participatory approach to the selection of beneficiaries and infrastructure investments. Water users’ associations (WUAs) will be closely involved in the rehabilitation of irrigation and drainage infrastructure and will assume operation and maintenance of rehabilitated infrastructure in the project area. In addition, farmers will participate in project planning and implementation, either individually or through their associations. Best practices in participatory natural resource management will be advocated and applied by beneficiaries in the management of their own resources. The project monitoring and evaluation (M&E) system will include participatory mechanisms.

D. Development objectives

Key project objectives

12. The project goal is to reduce rural poverty in the regions of Agdash, Yevlakh, Sheki and Oghuz through increased food security and enhanced income-raising opportunities. The objectives of the project are: (i) to assist poor rural people in improving their skills in order to use the available natural resources effectively and efficiently in order to achieve sustainable productivity and profitability for crop and livestock husbandry; and (ii) to improve the incomes of women and men producers through better farm management and access to credit.

Policy and institutional objectives

13. The project will implement several objectives of the Government’s State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015 (SPPRSD) and the State Program on Secure Food Supply to the Population in the Republic of Azerbaijan for 2008-2015 (SPSFSP) by seeking to: (i) rehabilitate irrigation and drainage infrastructure; (ii) support participatory irrigation management; (iii) improve agricultural advisory services and market access; and (iv) provide rural financial services.
14. The project institutional objectives are to strengthen: (i) internalization of demand-driven, participatory and gender-sensitive approaches to agricultural and rural development; (ii) the Ministry of Agriculture’s ability to introduce more-commercially viable agriculture in less-developed rural areas and among poorer producers; (iii) coordination between the State Agency for Agricultural Credit (SAAC) and the State Amelioration and Irrigation Committee (SAIC) in their support to the irrigation sector; (iv) the Ministry of Ecology and Natural Resources (MENR) through its innovative involvement in project implementation; and (v) the outreach and sustainability of participating non-bank financial institutions (NBFIs).

**IFAD policy and strategy alignment**

15. The project is consistent with the IFAD Strategic Framework 2007-2010 and the country strategic opportunities programme for Azerbaijan (2010-2015). It is compliant with IFAD policies regarding private-sector development, targeting, gender equity, rural finance and environmental and social assessment. The project is an integral part of the country programme under the 2010-2012 PBAS cycle.

**E. Harmonization and alignment**

**Alignment with national priorities**

16. The project has been developed by IFAD jointly with the Government and the cofinancier, and is closely aligned with the Government’s SPSFSP and SPPRSD, and the State Program for Regional Development and Government plans for non-oil sector strengthened competitiveness and diversification of the economy.

**Harmonization with development partners**

17. The project has been developed in coordination and synergy with other development partners operating in the rural development sector: the Islamic Development Bank (IsDB), World Bank, United States Agency for International Development (USAID) and United Nations Development Programme (UNDP). The project complements irrigation- and rural-development-sector interventions financed by multilateral and bilateral institutions in Azerbaijan. It will be cofinanced by IsDB.

**F. Components and expenditure categories**

**Main components**

18. The project has four components: (i) rural infrastructure development and support to WUAs (financed entirely by IsDB); (ii) agricultural productivity and profitability enhancement; (iii) rural financial services for enterprise promotion; and (iv) project coordination and management.

**Expenditure categories**

19. There are seven project expenditure categories under the IFAD loan: (i) civil works; (ii) vehicles; (iii) equipment and goods; (iv) credit; (v) technical assistance; (vi) training, workshops, reviews and studies; and (vii) operating costs, salaries and allowances.

**G. Management, implementation responsibilities and partnerships**

**Key implementing partners**

20. SAAC, under the Ministry of Agriculture, will be the lead implementing agency. The IFAD project steering committee will provide oversight and overall policy and other guidance to the project.

**Implementation responsibilities**

21. The existing IFAD project management unit (IPMU) will have overall day-to-day responsibility for project planning, management and coordination; monitoring and evaluation of project results; and administrative and financial reporting, including the IsDB loan.
Role of technical assistance
22. IFAD financing includes US$0.64 million for national and international technical assistance under all components, with the exception of the component on rural infrastructure development and support to WUAs, entirely financed by IsDB.

Status of key implementation agreements
23. As currently practised, implementation arrangements with the Ministries of Agriculture and Finance are acceptable to IFAD.

Key financing partners and amounts committed
24. Total project cost is US$103.50 million over eight years. The sources of financing are IFAD (18.9 per cent), IsDB (64.0 per cent), the Government (12.7 per cent), beneficiaries (2.3 per cent) and participating NBFIs (2.1 per cent).

H. Benefits and economic and financial justification
Main categories of benefits generated
25. The project will aim to reach approximately 256,500 poor rural people, or about 52,600 households. Households in lowland areas will benefit from improved irrigation water delivery under the first component, adoption of better agricultural practices and improved access to loans, while households in upland areas will benefit from all project activities except improved irrigation and drainage.

Economic and financial viability
26. Enterprise and production models show satisfactory returns, with an overall project economic internal rate of return estimated at 22 per cent.

I. Knowledge management, innovation and scaling up
Knowledge management arrangements
27. The project’s knowledge products and learning processes will stem from its provisions for annual stakeholder review and planning workshops, sector studies, reporting, M&E, and from its field experience. Multimedia publication of the experience gained will be a substantial project contribution to regional and national knowledge. Three new knowledge products will be derived from a project focus on: (i) enhancement of best practices already acquired in participatory irrigation management; (ii) improved natural resource management; and (iii) rural finance investments that aim to further develop appropriate and adapted financial products, farm services and formal contract engagement.

Development innovations that the project will promote
28. The project’s main innovations include: (i) improvement of the productivity and profitability of widely practiced mixed farming through complementary investments in both crop and livestock production; (ii) optimizing and incorporating natural resource management as an underlying theme and objective in all investments and training (e.g. possibly including pro-poor payment for environmental services); (iii) introducing services that will be carried out by project-trained farmers instead of veterinarians; (iv) supporting and empowering non-state actors by introducing farmer support teams as a first step in farmer advisory services that promote farmer-to-farmer knowledge exchange; (v) introducing elements to mitigate climate change, including reforestation for erosion control; and (vi) involving MENR as a new implementation partner in order to mainstream environmental benefits in project implementation.

Scaling-up approach
29. The project is based on an approach to scaling up in which IFAD’s relatively limited resources will be leveraged by substantial resources from IsDB for irrigation and drainage infrastructure improvements. This approach will scale up the project’s overall outreach through coverage of a relatively wide geographical area, while enabling IFAD to focus on the provision of extension and rural credit services to
complement the IsDB-sponsored infrastructure investments. The approach presents ample opportunities for replication under future IFAD operations in Azerbaijan.

J. Main risks
Main risks and mitigation measures
30. The two main risks are related to: (i) synchronization of the project components financed by IFAD and IsDB; and (ii) coordination among the lead implementation agency and other stakeholders. These two risks have been taken into account and proper mitigation measures are foreseen. The design provides for interlinked IFAD/IsDB implementation arrangements involving a common lead implementation agency (SAAC), regional PMU, PMU in Baku, project steering and operations committees, a consolidated annual workplan and budget and shared reporting arrangements.

Environmental classification
31. Pursuant to IFAD’s environmental assessment procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability
32. Several factors in the project design will contribute to an effective exit strategy and post-project sustainability. Paramount among them is providing the Government with a holistic agricultural productivity and profitability enhancement model that can be scaled up – both within the current project area and replicated in other parts of the country – without the need for redesign. Sustainability is further ensured by the integration of various natural resource management modalities, including improvements in soil fertility, reduction of soil and forest degradation, amelioration of saline soils, restoration of landscapes and introduction of more efficient irrigation practices. Moreover, sustainability factors are built into the design of the project with respect to the provision of rural financial services. The requirement of beneficiaries’ own equity, leveraging of NBFIs’ financial resources, provision of state-of-the-art capacity-building and the requirement that repayments of subloans be deposited in a specific bank account, forming a revolving fund, are all meant to enhance the likelihood that the flow of investment resources into agriculture will be sustained well beyond project closure.

II. Legal instruments and authority
33. A project financing agreement between the Republic of Azerbaijan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
34. The Republic of Azerbaijan is empowered under its laws to receive financing from IFAD.
35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation
36. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on hardened terms to the Republic of Azerbaijan in an amount equivalent to twelve million two hundred and fifty thousand special drawing rights (SDR 12,250,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President
Negotiated financing agreement: "Integrated Rural Development Project"

(Negotiations concluded on 8 April 2011)

FINANCING AGREEMENT

Loan Number: [click and insert number]

Project Title: Integrated Rural Development Project (the “Project”)

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

and

The Republic of Azerbaijan (the “Borrower”)

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

hereby agree as follows:

Preamble

Whereas IFAD and the Islamic Development Bank (IsDB) have agreed to co-finance the Project and IFAD has agreed to extend a loan to the Borrower; and

Whereas the IsDB has agreed to extend financing to the Borrower (the IsDB Financing) under a separate agreement for the financing of the Rural Infrastructure Development and Support to Water User Associations (WUAs) component;

NOW THEREFORE, the parties hereto 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, 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, with the exception of Component 1, in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is SDR 12 250 000.

2. The Loan is granted on hardened terms with a service charge of 0.75% per annum applying to the outstanding principal amount of the Loan, and a maturity period of 20 years (10 years grace period and 10 years repayment period).
3. The Loan Service Payment Currency shall be United States Dollars.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge shall be payable on each 1 May and 1 November with payments of principal made in 20 equal semi-annual instalments of SDR 612,500 commencing on 1 November 2021 and ending on 1 May 2031.

6. There shall be a separate Designated Account, denominated in USD, for the purpose of receiving the Financing.

7. There shall be a separate Project Account denominated in Azerbaijani Manat (AZN) opened in a commercial bank acceptable to the Fund.

8. The Borrower shall provide counterpart financing for the Project including all duties and taxes of the Project in accordance with Annual Work Plans and Budgets (AWPBs) referred to in Section II, paragraph 5 of Schedule 1 hereto.

Section C

1. The Lead Implementation Project Agency shall be the State Agency for Agricultural Credits (SAAC), under the Ministry of Agriculture.

2. The following are designated as additional Project Parties:
   (a) Amelioration and Irrigation Open Joint Stock Company;
   (b) The Ministry of Environment and Natural resources;
   (c) Selected Non-banking financial institutions; and
   (d) any other additional institution and service provider mentioned in Schedule 1

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

Section D

The Fund shall administer the Loan and supervise the Project, with the exception of Component 1, as defined in Schedule 1, which shall be administered and supervised by the IsDB.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
   (a) The Project Implementation Manual (the “PIM”) referred to in Section II, paragraph 6 of Schedule 1 hereto, or any provision thereof, has been abrogated, waived, suspended, or amended without the prior consent of the Fund and the Fund has determined that any such waiver, suspension, termination, amendment or modification has, or is likely to have, a material adverse effect on the Project.
   (b) Any competent authority has taken action without the prior consent of the Fund for institutional changes to the IFAD Programme Steering Committee (the “PSC”) and/or the IFAD consolidated Programme Implementation Unit (the “IPMU”) referred to Section II, paragraphs 2, 3, 4, 5 and 6 of Schedule 1 hereto respectively, including but not limited to modification of the
membership composition, dissolution and merger and the Fund has determined that any such event listed above is likely to have a material adverse effect on the Project.

(c) The IsDB has notified IFAD that the IsDB financing may be subject to suspension following a finding of fraud or corruption with the Project.

2. The following are designated as additional specific conditions precedent to withdrawal:

(a) The IsDB has made a firm commitment for the financing of Component 1;

(b) The designated account and project accounts shall have been opened on the terms and conditions specified in this Agreement;

(c) The Project Steering Committee (PSC), as defined in Schedule 1, shall have been duly designated for this Project and notification thereof provided to the Fund;

(d) A Regional Project Management Unit (RPMU) shall have been established in the project area;

(e) A Project Implementation Manual (PIM) shall have been developed.

3. The following is designated as an additional specific condition precedent to withdrawal under categories IV.a and IV.b of Schedule 2: at least one participating financial institution, selected and accredited under criteria acceptable to the Fund, has entered into a Subsidiary Loan Agreement satisfactory to the Fund, with the Ministry of Finance of the Borrower, for the relevant Sub-Component.

4. Without prejudice of the provisions of Section 14.04 of the General Conditions, the Borrower and the Fund shall endeavour to settle through amicable means any controversy between them in respect of this agreement.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund: For the Borrower:

(Title) (Title)
International Fund for Agricultural Development Ministry of Finance
Via Paolo di Dono 44 83 S. Vurgun Street
00142 Rome, Italy AZ 1022 – Baku

This Agreement, dated [click and type], 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
[insert name and title]  [insert name and title]
Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project shall benefit approximately 256,500 rural poor or about 52,600 households in lowland and the adjacent highland areas of Agdash, Yevlakh, Sheki and Oghuz (the “Project Area”).

2. **Goal.** The overall goal of IRDP is to reduce rural poverty in the regions of Agdash, Yevlakh, Sheki and Oghuz through increased food security and enhanced income-raising opportunities.

3. **Objectives.** The objectives of the Project are: (i) to assist the rural poor in improving their skills to use the available natural resources effectively and efficiently in order to achieve sustainable productivity and profitability for crop and livestock husbandry; and (ii) to improve the income of women and men producers through better farm management and access to credit.

4. **Components.** The Project comprises four components: (a) Rural Infrastructure Development and Support to Water User Associations (WUAs); (b) Agricultural Productivity and Profitability Enhancement; (c) Rural Financial Services for Enterprise Promotion; and (d) Project Coordination and Management.

   (a) **Component 1: Rural Infrastructure Development and Support to Water User Associations.** This Component comprises three sub-components: (i) support and development of WUAs; (ii) irrigation rehabilitation works; and (iii) social infrastructure improvement.

   This component will be fully financed by the IsDB.

   (b) **Component 2: Agricultural Productivity and Profitability Enhancement.** This Component comprises three sub-components: (i) enhancing crop productivity and profitability; (ii) enhancing livestock productivity and profitability; and (iii) improved natural resource management and landscape restoration.

   (c) **Component 3: Rural Financial Services for Enterprise Promotion.** This Component comprises two Sub-Components: (i) medium-term financing for non-bank financial institutions (NBFIs); and (ii) micro and small credits through Community-Based Organizations (CBOs).

   (d) **Component 4: Project coordination and management.**

II. Implementation Arrangements

1. The SAAC, in its capacity as Lead Implementation Project Agency, shall have overall responsibility for Project implementation.

2. The existing PSC which is currently overseeing the existing IFAD programmes will continue to provide overall policy, guidance and oversight for the projects. In addition, the PSC shall ensure annual Project reviews and offer strategic and policy advice and facilitate resolution of implementation issues.
3. The responsibility for the Project’s day-to-day management and implementation shall remain with the existing IPMU, hosted by the SAAC, which shall retain the same responsibilities with respect to this Project as for all previous IFAD-financed projects and programmes in Azerbaijan. The IPMU shall be under the leadership of the Project Director. The IPMU shall also be responsible for the administration of the IsDB Financing, in line with their institutional requirements. A Regional Project Management Unit (RPMU) shall be established in the Project area to cover all four Project’s districts.

4. A Project Operations Committee (PoC) shall be established to ensure annual Project reviews and offer strategic and policy advice. The PoC shall be the main forum for reviewing Project implementation, with particular attention to ensuring that the draft AWPBs and overall Project implementation are demand-driven and take into account beneficiary views.

5. The current IPMU Director shall be the Project Director, who shall take responsibilities including but not limited to project management, financial management, accounting, procurement, rural finance coordination, credit management, monitoring and evaluation, value chain facilitation and infrastructure coordination. Should the Project Director be replaced, the successor shall be selected and appointed through a transparent competitive recruitment process and based on qualifications, experience and terms of reference approved by the Fund. The appointment of the Project Director shall require the prior approval of the Fund.

6. The IPMU shall prepare draft AWPBs, for each Project year, and propose these to the PSC for review and approval and if approved by the PSC, shall submit these to the Fund for endorsement.

7. The PSC shall cause the IPMU to prepare a draft PIM as soon as practicable, but in no event later than 90 days after the entry into force of this Agreement. The PSC shall approve the PIM only with prior agreement of the Fund, and provide a copy thereof to the Fund.

8. Subsidiary loan agreements will be concluded between the Borrower and non-banking financial institutions for the transfer of proceeds in the form of loans for the purpose of implementing component 3.

9. At all relevant times during the Project Implementation Period the Borrower shall ensure that the IPMU and other Project Parties, if applicable, shall strive to improve the gender balance in the operations of the Project, develop targets and processes to achieve those targets as part of a gender strategy, and present reports by the end of each Project year on the achievements towards this end.
### 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Loan Amount Allocated in SDR</th>
<th>% of eligible Expenditure (all net of tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Civil Works</td>
<td>660 000</td>
<td>100%</td>
</tr>
<tr>
<td>II. Vehicles</td>
<td>125 000</td>
<td>100% net of ISDB/ISTISNA contribution</td>
</tr>
<tr>
<td>III. Equipment and goods</td>
<td>315 000</td>
<td>100% net of Government contribution</td>
</tr>
<tr>
<td>IV. Credit</td>
<td>5 445 000</td>
<td>100% net of beneficiary and NBFIs contribution</td>
</tr>
<tr>
<td>(a) Medium term financing for NBFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Micro and Small credit through CBO’s</td>
<td>1 265 000</td>
<td>100% net of ISDB/ISFD contribution</td>
</tr>
<tr>
<td>V. Technical Assistance</td>
<td>380 000</td>
<td>100%</td>
</tr>
<tr>
<td>VI. Training, Workshops, Reviews and Studies</td>
<td>1 585 000</td>
<td>100% net of ISDB/ISTISNA contribution</td>
</tr>
<tr>
<td>VII. Recurrent Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Salaries and Allowances</td>
<td>1 130 000</td>
<td>See (b)(ii) below</td>
</tr>
<tr>
<td>(b) Vehicle operating and Maintenance costs and other expenditure</td>
<td>775 000</td>
<td>100%</td>
</tr>
<tr>
<td>(c) Office operating costs</td>
<td>105 000</td>
<td>100% net of ISDB/ISTISNA contribution</td>
</tr>
<tr>
<td>Unallocated</td>
<td>465 000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>12 250 000</td>
<td></td>
</tr>
</tbody>
</table>

(b) The terms used in the Table above are defined as follows:

(i) Civil Works - IFAD financing relates to Component 2 only.

(ii) Salaries and allowances - IFAD financing which is net of taxes shall be used for RPMU once ISDB Financing and current project funding are exhausted.

2. **Start-up Costs.** Withdrawals in respect of expenditures for start-up costs in Categories V and VI incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of SDR 250 000.
Key reference documents

IFAD reference documents
Project design document (PDD) and key files
COSOP for Azerbaijan, IFAD 2010
Administrative Procedures on Environmental Assessment
IFAD Strategic Framework 2007-2010
## Logical framework

<table>
<thead>
<tr>
<th>Narrative summary</th>
<th>Verifiable Indicators</th>
<th>Means of Verification</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| **Goal**          | 25% reduction in the number of people living on less than 2.6 AZN/day by 15%  
  30% decrease in chronic child malnutrition  
  10% increase in assets of rural households | State Statistical Committees (SSC)National Household Statistics  
  UNDP, UNICEF, and WHO surveys  
  Ministry of Health data  
  Project Completion Reports of IFAD & ISDB  
  Beneficiary impact assessments | Macro-economic environment and policy remains conducive to investment, private sector development and trade |
| **Objectives**    | 15% increase in aggregate income of rural households  
  20% increase in aggregate amounts that households borrow for agricultural production increased  
  At least 13,000 farmers using environmentally sustainable agricultural practices  
  Links to GEF established | IFAD & IsDB Project Mid-term and Completion Reports  
  Government statistics  
  Project M&E database  
  Beneficiary impact assessments | Government remains committed to the Project  
  SAIC and SAAC establish sustainable modalities of coordination  
  No deterioration in existing markets for livestock and crops  
  Farmers’ income allows payment of water charges  
  Farmers’ income allows servicing of loans  
  The stability of the banking sector does not deteriorate |
| **Outcomes**      | 20% increase in use of farmlands in project area for cash crops  
  10% increase in income from livestock sold as meat  
  50% increase in volume of milk produced  
  15% increase in cattle with improved genetics  
  20 WUAs generate sufficient income to sustain management and O&M  
  Volume of greenhouse vegetables produced increased by 15%  
  Two NBFIs expand rural outreach in Project area  
  50% increase in number of BGs and CUs in Project area  
  10% of deforested and eroded land is afforested | SSC statistics  
  IFAD Mid-term Review  
  Beneficiary impact assessments  
  Project M&E database | No deterioration in existing markets for livestock and crops  
  Local agricultural products remain competitive |
| **Outputs**       | 1. Participating WUAs able to pay 100% staff costs by end of Project  
  1.2 Women comprise 25% of WUAs boards by PY5  
  1.3 At least 60,000 ha farmland has access to improved irrigation and drainage network  
  1.4 Water in available in required quantities and on time on 90% of the command area of the WUAs  
  1.5 Number of settlements with access to clean drinking water increased by 10% by PY5 | IPMU Progress Reports  
  SAIC Statistics  
  Supervision reports  
  WUA records  
  Signed list of participants for training  
  Beneficiary impact assessments | SAIC maintains current policies for WUAs  
  Farmers pay for water  
  Coordination between SAIC and SAAC established  
  SAIC rehabilitation program is synchronized to Project activities  
  Willingness of beneficiary community to participate in cost sharing |
| 2: Agricultural Productivity and Profitability Enhancement | 2.1 At least 1000 farmers shifting to market oriented fruit and vegetable varieties  
  2.2 Carcass weight of livestock sold increased by 10%  
  2.3 1000 ha of afforestation in erosion-prone areas completed | IPMU and RPMU Progress Reports  
  Soil laboratory records  
  Meteorological stations’ records  
  Mid-term Review  
  Beneficiary impact assessments  
  MENR District records | RPMU provides required support to FSTs  
  Qualified technical staff available in Project area  
  Inputs timely available, in recommended quantity and quality  
  Mechanization accessible and affordable by the farmers at the required time  
  MENR able to mobilize support in project area |