

Document: EB 2011/102/R.26/Rev.1
Agenda: 12(d)
Date: 11 May 2011
Distribution: Public
Original: English

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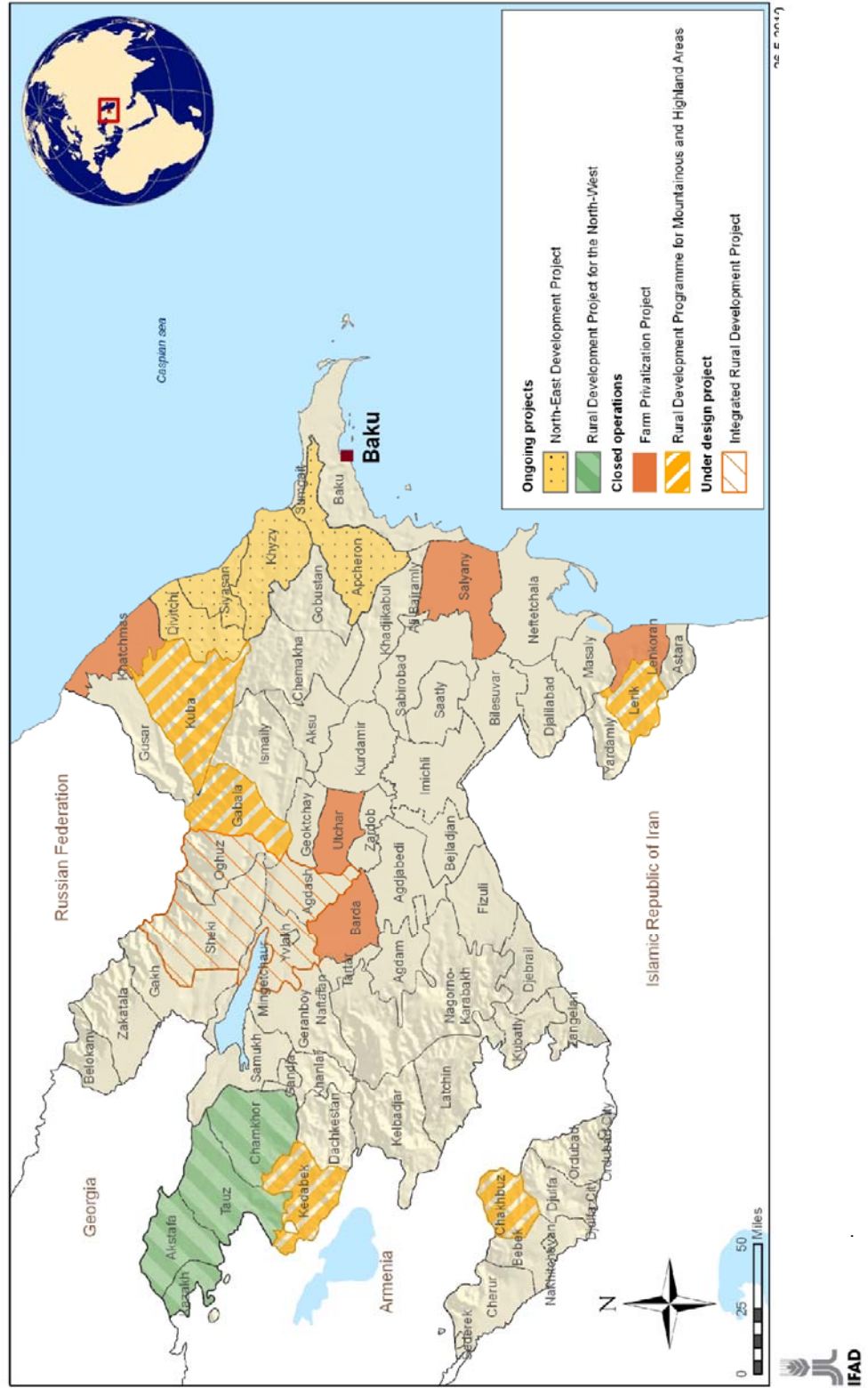
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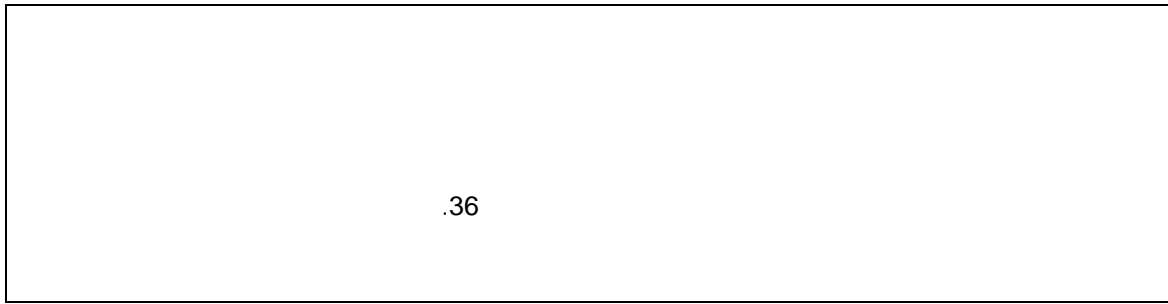
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Negotiated financing agreement: "Integrated Rural Development Project"

(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:

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

For the Borrower:

(Title)
Ministry of Finance
83 S. Vurgun Street
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
[insert name and title]

For the Borrower
[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:

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

(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

Narrative summary	Verifiable Indicators	Means of Verification	Assumptions and Risks
Goal			
The overall goal of the IRDP is to reduce rural poverty in the rayons of Agdash, Yevlakh, Sheki and Oghuz in Azerbaijan.	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			
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. Improve incomes of men and women producers through better farm management and access to credit.	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			
Income generating activities of the rural households diversified and incomes increased Access to credit of the rural households improved	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: Rural Infrastructure Development and Support for WUAs (IsDB-financed)	1.1 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