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Enabling poor rural people  
to overcome poverty

## **Kyrgyz Republic**

### **Livestock and Market Development Programme-II (LMDP-II)**

### **Negotiated financing agreement**

Executive Board — 110<sup>th</sup> Session  
Rome, 10-12 December 2013

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For: **Information**

## **Negotiated financing agreement:**

### **"Livestock and Market Development Programme-II"**

(Negotiations concluded on 15 November 2013)

IFAD Loan Number: \_\_\_\_\_

IFAD Grant Number: \_\_\_\_\_

ASAP Trust Grant Number: \_\_\_\_\_

Programme Title: Livestock and Market Development Programme-II (the "Programme")

The Kyrgyz Republic (the "Borrower/Recipient")

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund (the "ASAP Trust")

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

**WHEREAS**, the Fund has concluded with the Borrower/Recipient a Financing Agreement which entered into force on 17 July 2013, whereby the Fund provides a loan and a grant each in the amount of six million five hundred thousand Special Drawing Rights (SDR 6 500 000) to the Borrower/Recipient for its implementation of the Livestock and Market Development Programme (the "LMDP-I Financing Agreement");

**WHEREAS**, the Executive Board of the Fund, at its 105<sup>th</sup> Session approved the establishment of the ASAP Trust;

**WHEREAS**, the Fund has agreed to extend a loan and a grant to the Borrower/Recipient for the purpose of financing the Programme, on the terms and conditions set forth in this Agreement; and

**WHEREAS**, on the basis of the above and other considerations, the ASAP Trust has agreed, subject to availability of resources, to extend a grant to the Borrower/Recipient for the purpose of increasing the financing in respect of the Programme, on the terms and conditions set forth in this Agreement,

**NOW THEREFORE**, the Parties hereby agree as follows:

#### **Section A**

1. The following documents collectively form this Agreement: this document, the Programme 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 (the "IFAD Loan") and a grant (the "IFAD Grant") and the ASAP Trust shall provide a grant (the "Trust Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

## **Section B**

1. A. The amount of the IFAD Loan is seven million and two hundred thousand Special Drawing Rights (SDR 7 200 000).

B. The amount of the IFAD Grant is seven million and two hundred thousand Special Drawing Rights (SDR 7 200 000).

C. The amount of the Trust Grant is six million and five hundred thousand Special Drawing Rights (SDR 6 500 000).

2. The IFAD Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be USD.

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

5. Principal and service charge shall be payable on 15 May and 15 November.

6. Designated Accounts

(a) The Borrower/Recipient through its Ministry of Finance shall, in accordance with Section 4.04(d) of the General Conditions, open two Designated Accounts denominated in USD for the purposes of receiving the Financing proceeds to finance the Programme. One shall rest with the Agricultural Projects Implementation Unit (the "APIU") and the other with the Community Development and Investment Agency (the "ARIS").

(b) Separate ledgers shall be set up and maintained within each Designated Account for each of the IFAD Loan, the IFAD Grant and the Trust Grant.

7. There shall be Programme Accounts established in accordance with Section 7.02(b) of the General Conditions, to receive funds from the Designated Accounts.

8. The Borrower/Recipient shall bear all taxes that may be due in connection with the Programme.

## **Section C**

1. The Lead Programme Agency shall be the Ministry of Agriculture and Melioration (the "MOAM") of the Borrower/Recipient, or its successor, acting through the APIU.

2. The following, inter alia, are designated as additional Programme Parties:

(a) the ARIS;

(b) Pasture Department (the "PD");

(c) State Inspectorate for Veterinary and Phytosanitary Security (the "SIVPSS");

(d) Kyrgyz Livestock and Pasture Research Institute (the "KLPRI");

(e) Kyrgyz Jaiyty Pasture Users Association (the "KJPUA");

(f) National Federation of Community Seed Funds (the "NFCSFs");

(g) Kyrgyz National Agrarian University (the "KNAU");

(h) Kyrgyz Scientific Research Veterinary Institute (the "KSRVI");

- (i) Veterinary Chamber;
- (j) Kyrgyz – Russian Slavic University; and
- (k) Kyrgyzhydromet – Agency for Hydrometeorology under the Ministry for Emergencies.

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

#### **Section D**

The Financing shall be administered and the Programme supervised by the Fund.

#### **Section E**

1. In accordance with Section 4.02(b) of the General Conditions, the following are designated as additional general conditions precedent to withdrawal:

- (a) The draft Programme Implementation Manual (the "PIM") referred to in paragraph 12 of Schedule 1 to this Agreement shall have been submitted to and approved by the Fund.
- (b) The Programme Coordination and Reference Group (the "PCRG") referred to in paragraph 8 of Schedule 1 to this Agreement shall have been duly established.
- (c) The APIU and the ARIS Programme management units referred to in paragraph 7 of Schedule 1 to this Agreement shall have been fully staffed to the satisfaction of the Fund.
- (d) A subsidiary agreement between the Ministry of Finance and the ARIS on their cooperation in the implementation of the Programme, in form and substance acceptable to the Fund, shall have been concluded.
- (e) The Designated Accounts and the Programme Accounts at APIU and ARIS shall have been duly opened.
- (f) The Programme financial management system and accounting software shall have been operational at the APIU and the ARIS.

2. The following are designated as additional conditions for suspension:

The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.

3. This Agreement is subject to ratification by the Borrower/Recipient.

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

For the Borrower/Recipient:

Minister for Finance of the Kyrgyz Republic  
Ministry of Finance  
58 Erkindik Ave  
Bishkek City, the Kyrgyz Republic, 720040

Facsimile Number: +996 664560

For the Fund:

President

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

For the ASAP Trust:

President of the International Fund for Agricultural  
Development in its capacity as Trustee of the  
Adaptation for Smallholder Agriculture Programme  
Trust Fund  
International Fund for Agricultural Development  
Via Paolo di Dono, 44  
00142 Rome, Italy

This Agreement has been prepared in the English language in six (6) original copies,  
three (3) for the Fund and the ASAP Trust and three (3) for the Borrower/Recipient.

KYRGYZ REPUBLIC

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[Name of the Authorized Representative]  
[Title]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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Kanayo F. Nwanze  
President

ADAPTATION FOR SMALLHOLDER AGRICULTURE PROGRAMME TRUST FUND

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Kanayo F. Nwanze  
President of the International Fund for Agricultural  
Development in its capacity as Trustee of the  
Adaptation for Smallholder Agriculture Programme  
Trust Fund

## Schedule 1

### *Programme Description and Implementation Arrangements*

#### I. Programme Description

1. *Target Population.* The Programme aims to benefit vulnerable households; women headed households; other livestock producer households; and private veterinarians (the "PVs") in three southern regions of the Borrower/Recipient – Batken, Jalalabad and Osh (the "Programme Area").
2. *Goal.* The goal of the Programme is to contribute to the reduction in poverty and enhanced economic growth in pasture communities.
3. *Objectives.* The objectives of the Programme are to improve livestock productivity and to enhance climate resilience of pasture communities reflected in improved and equitable returns to livestock farmers.
4. *Components.* The Programme shall consist of the following four (4) components:

#### **Component 1: Community-Based Pasture Management and Vulnerability Reduction**

This component shall take advantage of the conducive environment provided by the new Pasture Law, the national emergency response activities and climate change adaptation policies, and will support Pasture Users' Unions (the "PUUs") and the executive body thereof, namely the Pasture Committees (the "PCs"), in the design, development and implementation of community-based pasture management plans that fully integrate animal health activities as well as adaptation and disaster risk-reduction (the "DRR") measures to increase the resilience of this sector to climate change. The outcome from this component would be more productive and resilient pastures, and increased supplementary feed available to community livestock. Component 1 is divided into two (2) sub-components:

#### **Sub-component 1.1: Community Risk-mitigation Pasture Management and Investments**

This sub-component shall provide for the initiatives that are required to improve the resilience and productivity, use and access to pastures within approximately one hundred and ninety (190) PUUs/PCs areas. It shall provide support to PUUs/PCs in the design, development planning and implementation of risk mitigation community-based pasture management and animal health plans that fully integrate adaptation measures to increase the resilience of this sector to climate change. In particular, Programme activities under this sub-component shall include: (i) Legal and Regulatory Reform; (ii) Policy Dialogue on Climate Change Adaptation; (iii) Boundary Demarcation and Pasture Inventory; (iv) Upgrading Community Pasture Management Plans (the "CPMPs"); and (v) CPMP Investment Projects.

#### **Sub-component 1.2: Pasture Institutional Strengthening**

This sub-component shall expand to the Programme Area the activities initiated under Programme sub-component 1.2 as defined in the LMDP-I Financing Agreement. Nonetheless, this sub-component shall integrate climate change adaptation throughout all the relevant activities. Investment shall primarily focus on the following national institutions that support pasture development: Pasture Department, Kyrgyz Jaiyty Pasture Users Association (the "KJPUA"), Kyrgyz National Agrarian University, and the Kyrgyz Livestock and Pasture Research Institute. In addition, an effective Early Warning System (the "EWS") for floods, frost and drought shall be established under the sub-component.

## **Component 2: Livestock Health and Production Services**

The main objective of this component is to establish an effective private veterinary service through additional support and training to ensure that PVs are self-sufficient and deliver an effective demand-driven service. The component shall have two (2) sub-components:

### **Sub-component 2.1: Strengthening Veterinary and Community Animal Health Services**

The sub-component shall contribute to (i) the establishment and training of Animal Health Sub-Committees (the "AHSCs"); and (ii) PVs capacity building. In particular, the Programme shall support the establishment of approximately one hundred and ninety (190) AHSCs as sub-committees of the PCs in the Programme Area through three (3) key investments: (i) upgrading AHSC guidelines and training materials; (ii) AHSC mobilisation/facilitation; and (iii) AHSC strengthening. In addition, this sub-component shall provide support to approximately three hundred and eighty (380) PVs in the Programme Area, who meet the following criteria: (i) registered with the Veterinary Chamber; (ii) under contract with an AHSC; and (iii) membership of the rayon level veterinary association, in order to promote PVs as the primary service providers for comprehensive preventative herd/flock health and productivity improvement programme.

### **Sub-component 2.2: Animal Health Education and Capacity Building**

This sub-component shall provide support to the educational system to provide the facilities, teaching and incentives to produce a cadre of motivated young vets who will work in the Programme Area communities. In particular investment shall be made in the following activities: (i) updating veterinary education programme; (ii) veterinary education and training; (iii) student incentive programme; (iv) professional development and training; and (v) research by the Kyrgyz Scientific-Research Veterinary Institute.

## **Component 3: Diversification and Market/Value Chain Initiatives**

The objective of Component 3 is to enable livestock producers in the Programme Area to expand their milk production to meet market demand and thereby achieve improved returns from their dairy animals, as well as introduce a set of additional viable income-generating activities that would increase the resilience of poor vulnerable groups. In the milk production sector, two initiatives shall be financed under this component: (i) the establishment of milk collection and cooling centres, through a partnership arrangement with milk processing plants; and (ii) the support to women's groups to set up small-scale milk processing facilities focused primarily on high quality traditional products. In other sectors, this component shall invest in, inter alia, (i) solar greenhouses for the production of vegetable and horticulture products, which would meet a growing need coming not only from the communities themselves, but also from the fast-growing national and international tourism sector; and (ii) multipurpose solar dryers or electricity-powered dryers for the drying of fruits, herbs and aromatic plants.

## **Component 4: Programme Management**

This component shall provide financing for the overall management of the Programme by the Lead Programme Agency.

## II. Implementation Arrangements

5. The Lead Programme Agency. The Lead Programme Agency shall be the MOAM of the Borrower/Recipient, acting through the APIU.

The Lead Programme Agency shall take the overall responsibility for Programme implementation, coordination, oversight and reporting to the Fund and the Government of the Borrower/Recipient, including liaising closely with the ARIS which shall be accountable to the APIU. A part of the Financing shall be transferred to the ARIS for eligible expenditures under the Programme in accordance with agreed criteria and the approved Annual Work Plans and Budgets (the "AWPBs").

5.1. The APIU shall be responsible for all national level Programme activities, including the technical and related inputs of the national level institutions, to ensure that they are deployed effectively and support the implementation of the range of national level activities and complement and provide the necessary inputs into the Programme's community level activities that will be the responsibility of the ARIS. The APIU and the ARIS shall establish and maintain formal close interaction and coordination in implementing the Programme.

5.2. The APIU shall be responsible for overall Programme implementation, coordination, oversight and reporting to the Fund and the Borrower/Recipient. In particular, the APIU's core responsibilities shall include: financial management including procurement, disbursement, accounting, internal controls, auditing, and financial reporting including the preparation of consolidated financial reports for the Programme; managing the performance of the partner organizations at the national level; overall Programme monitoring and evaluation and impact surveys, and knowledge management; and reporting for all Programme activities.

5.3. The following Programme activities shall be implemented by the APIU with due diligence in accordance with this Agreement: (i) under sub-component 1.1, Legal and Regulatory Reform, Boundary Demarcation and Pasture Inventory, and Community Seed Funds; (ii) sub-component 1.2, except for support to the KJPUA; (iii) sub-component 2.1, excluding those aspects that will be implemented within the communities and PCs; and (iv) sub-component 2.2.

6. The ARIS. The ARIS shall be responsible for the following: (i) all Programme implementation at the community level; (ii) coordinating and ensuring effective performance of the Programme Parties in the implementation of the community focused activities; (iii) monitoring and evaluation of Programme activities it shall implement, including monitoring of the related performance indicators, assembly and dissemination of information for knowledge management, and related reporting to the APIU to ensure that the APIU be fully informed; and (iv) financial management of all the activities for which the ARIS is responsible, including procurement, disbursement, accounting, internal controls, internal auditing and financial reporting.

6.1. The following Programme activities shall be implemented by the ARIS with due diligence in accordance with this Agreement: (i) the core elements of sub-component 1.1 including: the range of activities that comprise Upgrading Community Pasture Management Plans, Community Pasture Assessment and Mapping, the management of PC grants for the financing of investment projects identified in the CPMPs under the activity, Pasture/Livestock Management Plans Investments, and PUU legal training under Legal and Regulatory Reform; (ii) support to the KJPUA under sub-component 1.2; (iii) activities under sub-component 2.1 that deal with management of grants and strengthening the capacity of PVs; and (iv) Component 3 by sub-contracting service provider/s and technical assistance.

7. Programme Management Units and other Key Programme Personnel. The selection of members of the Programme management units of the APIU and ARIS and other key



Programme personnel shall be based on a competitive, open and transparent procedure and subject to the Fund's no-objection within thirty (30) days of receipt of the proposed selection. All key Programme personnel shall have qualifications and experience as shall be deemed necessary for Programme implementation.

8. The Programme Coordination and Reference Group (the "PCRG"). As a programme-specific oversight body, the PCRG shall be formed to provide guidance for Programme management. It shall include representation from inter alia each of the Programme Parties, representation from the Committee on Agrarian Policy of the Parliament of the Borrower/Recipient, representation from each of the involved oblast administrations, and representation from the PC level and stakeholders from the private sector. The PCRG shall have a composition balance between the Government of the Borrower/Recipient and civil society members. It shall meet quarterly and play an advisory role. It shall review progress of the Programme against targets and its success in meeting the performance indicators as specified in the PIM and AWPBs.

9. Other Programme Parties. The responsibilities of all other Programme Parties shall be provided in the PIM.

10. Annual Work Plans and Budgets (the "AWPBs"). Each Programme Party shall prepare and submit an AWPB for each Programme Year to the APIU, which shall then prepare and submit a consolidated draft AWPB to the Fund for comments no later than sixty (60) days before the beginning of the relevant Programme Year. If the Fund does not comment on the draft AWPB within thirty (30) days of receipt, the AWPB shall be deemed acceptable to the Fund. The AWPBs shall include inter alia a Procurement Plan, a detailed description of planned Programme activities during the coming Programme Year and the sources and uses of the proceeds of the Financing.

11. Procurement. Procurement for the purpose of this Agreement shall be carried out in accordance with the Fund's Project Procurement Guidelines of 2010 as amended from time to time. No vaccines shall be procured without being certified by a Reference Laboratory of the World Organisation for Animal Health (the "OIE"). Specifications for vaccines procured for animal diseases shall be based on international standards developed or recommended by the OIE.

12. The Programme Implementation Manual (the "PIM"). The APIU and the ARIS shall jointly prepare a draft PIM including inter alia:

- (a) Terms of reference and implementation responsibilities, for the purpose of this Agreement, of Programme staff, consultants, service providers and other Programme Parties created and/or involved in the implementation of the Programme;
- (b) Eligibility criteria and selection procedures with respect to target beneficiaries and activities to be financed under all sub-components; and
- (c) Detailed procedures for Programme implementation and flow of funds.

13. The APIU shall submit the draft PIM to the Fund for approval, as soon as practicable, but in no event later than thirty (30) days after the entry into force of this Agreement. If the Fund does not comment on the draft PIM within thirty (30) days of receipt, it shall be deemed approved. The APIU shall adopt the PIM, substantially in the form approved by the Fund, and shall promptly provide copies thereof to the Fund.

**Schedule 2***Allocation Table*

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

Category	IFAD Loan Amount (in SDR)	IFAD Grant Amount (in SDR)	Trust Grant Amount (in SDR)	<b>Total Amount (in SDR)</b>	Percentage of Eligible Expenditures to be financed ( <i>net of taxes and beneficiaries' contributions</i> )
	[000]	[000]	[000]	<b>[000]</b>	
I. Equipment, Goods and Vehicles	320		370	<b>690</b>	100%
II. Consultancies		4 350	30	<b>4 380</b>	100%
III. Training and Workshops		900	5	<b>905</b>	100%
IV. Grants					
a. Pasture/Livestock Improvement	6 330		5 860	<b>12 190</b>	
b. Value Chain, Diversification		300	145	<b>445</b>	
c. Other		1 500		<b>1 500</b>	
V. Operating Expenses	400		55	<b>455</b>	100%
Unallocated	150	150	35	<b>335</b>	
<b>TOTAL</b>	<b>7 200</b>	<b>7 200</b>	<b>6 500</b>	<b>20 900</b>	

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

Category I "Equipment, Goods and Vehicles" should also include demarcation of pasture boundaries and other works.

Category II "Consultancies" includes expenditures on Technical Assistance, Studies, and Pasture Inventory.

Category IV "Grants" includes Pasture/Livestock Improvement Grants to PUUs to be financed by the IFAD Loan (75%) and beneficiaries (25%); Value Chain Grants to Value Chain Business Groups to be financed by the IFAD Loan (80%) and beneficiaries (20%); and Other Grants comprising micro grants to AHCs, PVs, Community Seed Funds and payments of students stipends and tuition fees, which will be financed from the IFAD Grant (100%), except for grants to PVs, which apply the following rule: IFAD (50%) and PVs (50%).

Category V "Operating Expenses" includes inter alia remuneration of full time Programme staff and allowances and contributions to Social Fund, to be financed 100% from the IFAD Loan.