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President's report

Proposed loan and grant to the Kyrgyz Republic for the Access to Markets Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

APIU	Agricultural Projects Implementation Unit
ARIS	Community Development and Investment Agency
ATMP	Access to Markets Project
EAEU	Eurasian Economic Union
FSP	financial service provider
M&E	monitoring and evaluation
SIVPSS	State Inspectorate for Veterinary and Phytosanitary Security
VCDBP	value chain development business plan

Map of the project area

Kyrgyz Republic

Access to Markets Project

Design report



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 | 05-08-2016

The Kyrgyz Republic
 Access to Markets Project
 Financing summary

Initiating institution:	IFAD
Borrower:	Kyrgyz Republic
Executing agency:	Ministry of Agriculture and Melioration
Total project cost:	US\$55.5 million
Amount of IFAD loan:	SDR 9.39 million (equivalent to approximately US\$12.7 million)
Amount of IFAD grant:	SDR 9.39 million (equivalent to approximately US\$12.7 million)
Terms of IFAD loan:	Highly concessional: 40 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(s):	Financial service providers
Amount of cofinancing:	US\$20 million
Contribution of borrower:	US\$1.6 million
Contribution of beneficiaries:	US\$8.3 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 financing to the Kyrgyz Republic for the Access to Markets Project as contained in paragraph 50.

Proposed loan and grant to the Kyrgyz Republic for the Access to Markets Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Kyrgyzstan is a mountainous, landlocked country of 198,500 km² bordering China, Kazakhstan, Tajikistan and Uzbekistan. Out of a total population of 5.8 million, 65 per cent live in rural areas and depend on agriculture and livestock for their livelihoods; remittances also play an important role as an income supplement. With an average gross domestic product (GDP) per capita of US\$1,269 in 2014, Kyrgyzstan is classified as a lower middle-income country. Within the Debt Sustainability Framework, it is classified as “yellow”, which means that it is eligible for 50 per cent grant financing and 50 per cent loan financing on highly concessional terms. With economic contraction in the Russian Federation, growth slowed down in 2015 to 4.8 per cent from January through October – mainly a result of the regional recession triggered by the depreciation of the Russian rouble.
2. Although 65 per cent of the country’s population is rural and 31 per cent of its workforce is employed in agriculture, this sector contributed only 15.9 per cent of total GDP in 2015 – down from 34 per cent in 2002. The main reasons are limited access to agricultural machinery and inputs by smallholder farmers, a decline in public expenditures for agriculture and the significant growth of the industrial and service sectors.
3. Despite a declining share of GDP, agriculture and livestock are the backbone of the economy, providing substantial employment, playing a critical role in household food security and consumer price stability, and constituting a leading source of exports. Food exports comprised 28.5 per cent – and agricultural raw materials 3.8 per cent – of all merchandise exports in 2013. Total gross agricultural output in 2014 was US\$3 billion with crops and livestock accounting for about 50 per cent each of this total.
4. Kyrgyzstan’s agricultural economy is based on approximately 360,000 family farm units. While many of these farms have scaled up their size and operations in response to growing internal and external market opportunities, most farms remain small, with production geared towards subsistence and occasional commercial sale. Many feature mixed crop-livestock farming and transhumant management of animals (from spring and autumn pastures to summer and winter pastures).
5. Poverty. As a result of broad post-independence economic reforms, the poverty rate in Kyrgyzstan declined from 52 per cent of the population in 2000 to 32 per cent in 2009. The United Nations Development Programme’s Human Development Index value for Kyrgyzstan in 2014 was 0.655, ranking 120th out of 188 countries. Poverty stood at 30.6 per cent in 2014 – 32.6 per cent in rural areas and 26.9 per cent in urban areas – and the poverty gap was 5.4 per cent. In 2012, 20 per cent of the population subsisted on less than US\$3.10 per day. Poverty is more prevalent and most severe in rural and mountainous regions.

6. Gender. While the country's legal framework guarantees women equal rights regarding the use and ownership of land, women face constraints in exercising their rights due to traditions dictating that households are headed by men, in whose names land is usually registered. A 2011 country assessment of access to land found that Kyrgyzstan's legal framework "has not in most cases been successful in protecting and improving women's rights, including rights to access and own land".¹ The Gender Development Index, the ratio of the women to men in human development, is 0.961, indicating that a gap still exists. The Government's National Sustainable Development Strategy for 2013-2017 recognizes the challenges that Kyrgyz women are facing, including limited access to economic opportunities, a concentration of women in the informal, high-risk labour market and violence against women.² In 2012, the Government adopted the National Strategy for Gender Equality by 2020 and the National Action Plan on Gender Equality for 2012-2014.

B. Rationale and alignment with government priorities

7. Although livestock production significantly contributes to rural livelihoods, nutrition, food security, agricultural sector growth and exports, productivity is far below its potential. The main constraints include inadequate animal feeding due to poor utilization of pasture resources, poor animal health, inappropriate farm management practices and weak livestock marketing and processing. While IFAD's ongoing programme is already addressing the first three obstacles, it is increasingly urgent to address the obstacles to livestock marketing and processing in order to ensure a comprehensive approach to developing the sector.
8. Kyrgyzstan has a high potential to broaden and strengthen its livestock sector thanks to a wealth of alpine pastures and a unique biodiversity of plants and animals. Accession to the Eurasian Economic Union (EAEU) has increased the opportunities for both agricultural exports and imports, and the EAEU has become Kyrgyzstan's major trading partner for food products. However, these changes have also exposed the sector to higher levels of competition in both domestic and regional markets, raising questions about the country's ability to compete and comply with the EAEU's technical regulations.
9. There is a clear need to improve product aggregation within Kyrgyzstan's livestock value chains (including cold-chain infrastructure) in order to support the expansion of processing while allowing smallholders to benefit. Partnering with agroprocessors is therefore imperative to set quality standards for raw products, including quality control and delivery mechanisms, and achieve better managed seasonality of supply. The establishment of aggregation points confers several benefits to value chain development, especially for smallholder farmers living in the vicinity of agroprocessing units. Introducing these improvements to product aggregation is central to the Government's strategies for increased market integration and commercialization of the livestock sector, as expressed in the National Sustainable Development Strategy 2013-2017.

II. Project description

A. Project area and target group

10. The Access to Markets Project (ATMP) is national in coverage and adopts a demand-driven approach. ATMP's primary target group consists of smallholder livestock farmers who participate in and can benefit from improved value chains. They comprise: (i) poor livestock farmers (who typically own two to three cattle and 8 to 10 sheep or goats); (ii) women members of livestock-owning households, including women heads of household; and (iii) other smallholder livestock farmers.

¹ United States Agency for International Development, Property Rights and Resource Governance: Kyrgyzstan (2011).

² The Government of Kyrgyzstan, National Sustainable Development Strategy for the Kyrgyz Republic for the period of 2013-2017 (2013).

Most of the poor livestock farmers are social passport holders. Other beneficiary groups include: (iv) agroprocessors, aggregators, wholesale traders and modern food retail formats; (v) input suppliers and service providers; (vi) private veterinarians; (vii) national scientific and academic institute staff; and (viii) rural unemployed people. For the latter group, project support is expected to create employment opportunities in the on-farm and processing activities of targeted value chains. Special attention will be paid to the participation of rural women and youth, and their organizations as producers and entrepreneurs in processing and marketing.

B. Project development objective

11. The project's goal is to contribute to increased incomes and enhanced economic growth in pastoralist communities. Its development objective is improved access and integration of smallholder livestock farmers into remunerative markets for their products, leading to improved and equitable returns.

C. Components/outcomes

12. ATMP will work with selected value chains and provide holistic and coordinated support to different actors in order to improve these value chains' overall performance and increase their outputs. The project will invite champions in the pre-selected value chains who are willing to launch or deepen their sound business models through productive partnerships with producers and other value chain actors. Smallholder livestock producers, who are the project's primary target group, will be represented in each selected value chain. Their income opportunities will improve through better integration into the market. Pasture users unions, facilitated by Kyrgyzstan's Community Development and Investment Agency (ARIS) – building on the positive experiences of the Livestock and Market Development Programmes I and II – will play an active role in identifying and mobilizing target groups at the community level in a transparent and participatory manner to capture project opportunities and benefits. The project's investments and activities will be executed through three technical components and one project management component.

Component 1: Livestock value chain development

13. This component will enhance capacity for sustainable, efficient livestock production, processing and marketing. It will support efficient linkages and partnerships among livestock value chain actors, and improve access to modern technology and good agricultural practices with a focus on cold-chain management and traceability. The subcomponent on capacity-building of livestock value chain stakeholders will involve capacity-building and advisory services for the participants of pre-selected value chains, driven by leading entities. Once the leading entities are identified, all suppliers of raw materials and services will be gathered to present the concept of productive partnership and its benefits to farmers and other value chain participants. Selected proposals will be elaborated by the project-supported business advisory service facility into value chain development business plans (VCDBPs).
14. VCDBPs will be ranked against key project indicators and only those meeting the minimum requirements will be used as frameworks for preparing individual grant or credit projects. Selected projects will be presented to a selection panel. Value chain capacity-building activities directly financed by ATMP will include training of farmers and agribusiness staff, and organizing farmers into groups. The subcomponent will also build capacity through on-farm demonstrations, piloting innovative and climate-smart technologies, targeted advisory services and exposure to best international practices.
15. The subcomponent on product aggregation enhancement will address the country's insufficient value chain infrastructure for raw product collection and quality and

safety control. Eligible investment packages identified in VCDBPs will be cofinanced by grants from the project.

16. The subcomponent on development of public-private-producer partnerships and knowledge management will host a platform for exchange among value chain actors for enhanced integration of market demand into production models. Through a series of periodic meetings, a contracted service provider will enable stakeholders to: (i) identify, discuss and assess livestock-sector constraints and priorities, and build upon opportunities for investments; (ii) become familiar with business models based on public-private-producer partnerships; and (iii) develop value chain business and investment strategies. The platform will progressively engage decision makers at the local, regional and national levels to increase their understanding of livestock development issues and support the development of a conducive regulatory and incentive framework for business development.

Component 2: Livestock value chain financing

17. This component will increase efficiency and profitability along targeted smallholder-inclusive livestock value chains, enabling value chain actors to increase their investments in profitable livestock value chains through the provision of grants under component 1 and links to external credit. Activities will include the development of innovative financial products for agricultural producers and processors through cooperation with financial service providers (FSPs).
18. The subcomponent on access to external credit lines will link financial initiatives targeting agricultural development with the producers and processors identified and assisted through component 1. A memorandum of understanding will be signed with each FSP outlining the eligibility criteria for prospective borrowers, which will be standard for all project partners, and the specific arrangements designed to link component 1 beneficiaries with FSPs. This subcomponent will only facilitate partnerships with FSPs that are interested in developing innovative financial products for agriculture, and committed to piloting these products and documenting lessons learned.

Component 3: Upgrading the Kyrgyz livestock sanitary system

19. This component aims to strengthen the public- and private-sector arms of the Kyrgyz veterinary authority, which facilitate livestock commodity trade and ensure food safety. The expected outcome will include an upgraded Kyrgyz livestock sanitary system, which will be measured by a 10 per cent increase in the export of live animals and livestock products.
20. The subcomponent on strengthening the state veterinary sanitary system will assist the State Inspectorate for Veterinary and Phytosanitary Security (SIVPSS) in harmonizing its sanitary standards with those of EAEU trading partners. To facilitate this, the project will invest in upgrading critical competencies of the public veterinary service as defined by the World Organisation of Animal Health (OIE) in order to meet international standards. These investments will focus on building the capacity of SIVPSS staff and supporting the Government in animal identification within selected value chains.
21. The subcomponent on strengthening the private veterinary practice system will support to the Kyrgyz Veterinary Association through study tours, technical assistance, office equipment and communications, translation and publication of technical training materials. Most importantly, this subcomponent will train master trainers (along with contracted subject-matter specialists) to upgrade the skills of community-based veterinarians and para-veterinarians. Support will also be provided to the Kyrgyz Veterinary Chamber, established through an IFAD- and World Bank-funded project as a veterinary statutory body according to OIE standards. Support to this body will be limited to increasing server capacity (i.e. additional databases) and updating computers, printers and other communication equipment.

III. Project implementation

A. Approach

22. The project will be executed through a demand-driven approach rather than through the planning and definition of fixed targets. Participation will be promoted by the public sector (the push factor) while the direct involvement of qualified private companies will be sought for the role of leading entities (the pull factor).
23. ATMP also proposes a cluster approach to implementation whereby agribusinesses benefit from technical assistance, better raw materials and access to client-tailored financial services, while smallholders have increased access to markets and incomes from their livestock. This approach will also provide for stronger farmer-agribusiness linkages that generate positive outcomes such as improved animal productivity, better cold-chain infrastructure and more jobs in rural areas, including for youth.
24. Through the project's value chain-wise approach, the entry point is the value chain champion (also referred to as a leading entity). ATMP will promote the development of viable business models (productive partnerships) and promote trust and mutual collaboration among value chain actors. The project aims to demonstrate that implementing business models compliant with international food safety standards is sustainable and credit worthy. All interested value chain stakeholders will be invited to apply for the role of leading entity.
25. The project will ensure women's inclusion in value chains and equitable access to opportunities. The gender strategy will include: identification of non-traditional livestock products that will benefit women producers; promotion of women's employment, especially at the higher levels of value chains (processing, retailing, etc.); and active communication of potential new roles for women in livestock value chains.

B. Organizational framework

26. The two major institutions responsible for successful implementation of IFAD-financed projects are the Agricultural Projects Implementation Unit (APIU) of the Kyrgyz Republic Ministry of Agriculture and Melioration, and ARIS. These institutions will have primary responsibility for implementing ATMP. The Ministry of Agriculture and Melioration will be the implementing agency for the project and APIU will be responsible for overall project implementation, coordination, oversight and reporting to IFAD and the Government. This includes liaising closely with ARIS, which will operate independently but will be accountable to APIU as part of the project implementation team. ARIS will be responsible for all community-level project implementation, with a focus on pasture users unions and smallholder groups, and for the administration of all project grant funds.

C. Planning, monitoring and evaluation, and learning and knowledge management

27. The project's logical framework will form the basis for a results-based monitoring and evaluation (M&E) system including performance monitoring and impact assessment. An extended version of the logical framework has been prepared to ensure more comprehensive project M&E. APIU's M&E staff will be responsible for all internal project M&E.
28. In addition to the M&E arrangements described above, IFAD supervision will include operational reviews of the project covering a random sample of activities, to be carried out in project years two and four by independent auditors and under terms of reference acceptable to IFAD. External monitoring will also comprise: risk-based financial management supervisions; ad hoc thematic studies; yearly audits; and a self-assessment project completion evaluation conducted by APIU in cooperation with IFAD.

29. Learning and knowledge management. To ensure that experiences from the project are captured and used for learning, M&E outputs will be widely disseminated and there will be a participatory approach to establishing the project's management information system. The public-private-producer partnership platform is expected to play a major role in consolidating lessons learned.
- D. Financial management, procurement and governance
30. Governance and financial management risks. The country risk is rated as high: Transparency International's Corruption Perception Index ranked Kyrgyzstan 123 out of 167 countries in 2015, with a score of 28 (up from 27 in 2014). The 2014 Public Expenditure and Financial Accountability Framework shows considerable improvement in several areas of earlier weakness in the country's public financial management as a result of its reforms. Despite these improvements however, some areas remain weak and require further improvement, including internal financial controls, payroll controls and failure of a World Bank-funded project to implement fully automated treasury and human resources management information systems.
31. Financial management. APIU and ARIS will be responsible for financial management of the project; APIU will be supported by pre-identified implementing partners. APIU's financial management department and ARIS staff are experienced in financial management of IFAD projects. To ensure workload balance and segregation of duties, additional disbursement officers for APIU and ARIS will be competitively recruited to assist in project financial management.
32. Accounting and financial reporting arrangements. The project will adopt accounting procedures and policies consistent with international accounting standards (cash basis). Financial reports will be consolidated by APIU, which will also be responsible for ensuring that funds are used for their intended purposes by implementing partners. Eligible expenditures from IFAD loan and grant resources will be utilized by APIU and ARIS for their respective activities, and the units will be responsible for all expenditures from IFAD and counterpart contributions. Consolidated quarterly financial reports will be furnished by APIU to IFAD. All financial statements will be in formats acceptable to IFAD.
33. Disbursement arrangements and flow of funds. Four designated accounts denominated in United States dollars will be opened for the project by the borrower/recipient at a commercial bank to receive the loan and grant proceeds. This includes two designated accounts each for APIU and ARIS (one for the loan and one for the grant). The designated accounts will be replenished through an imprest system. Four operating accounts in local currency will be opened by the borrower/recipient to receive transfers from the corresponding designated accounts.
34. Audit. Given the geographical spread of the project, and to ensure that funds are used for their intended purposes, the project will be audited by the ARIS internal audit department as part of its annual work programme. An internal audit firm will be hired midway through implementation to carry out internal and performance audits of activities implemented by APIU and its implementing partners. Annual consolidated financial statements will be audited by a private audit firm in accordance with the International Standards on Auditing under terms of reference cleared annually by IFAD.
35. Procurement. As part of the project design, IFAD assessed the procurement capacity of APIU and ARIS using the IFAD Tool for Assessment of Agency Capacity to Implement Procurement. These agencies' procurement capacity and procedures were assessed as satisfactory for all aspects of procurement including advertisement, drafting of bidding documentation, evaluation and contract management.

E. Supervision

36. A supervision plan covering the period until the midterm review will be agreed upon at the start of implementation. ATMP will be supervised directly by IFAD.

IV. Project costs, financing, and benefits

A. Project costs

37. The total investment and incremental recurrent project costs, including physical and price contingencies, are estimated at US\$55.4 million (KGS 3.9 billion). Physical and price contingencies are 2 per cent of the total project costs and investments associated with grants and external credit represent approximately 66 per cent of the total project costs (expressed as a lump sum with no contingencies).

Table 1

Project costs by component and financier

(Thousands of United States dollars)

Component	IFAD loan		IFAD grant		FSP		Beneficiaries		Government taxes		Government budget		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
1. Livestock value chain development	3 490	23.1	8 315	55	-	-	3 290	21.7	37	0.4	-	-	15 132
2. Livestock value chain financing	-	-	690	2.7	20 000	77.9	5 000	19.5	-	-	-	-	25 690
3. Upgrading the Kyrgyz livestock sanitary system	9 212	70.6	2 055	15.7	-	-	100	0.8	1 256	9.6	430	3.5	13 053
4. Project management	-	-	1 643	98.3	-	-	-	-	28	1.7	-	-	1 671
Total	12 702	22.9	12 703	22.9	20 000	36	8 390	15.1	1 321	2.4	430	0.8	55 546

B. Project financing

38. The project will be financed by: (i) IFAD, through a loan in the amount of US\$12.7 million (23 per cent of the total project cost) and a grant in the amount of US\$12.7 million (23 per cent of the total project cost); (ii) the Government, with a contribution estimated at US\$1.6 million (3 per cent), including funds covering operating and maintenance costs of SIVPSS, and all taxes; and (iii) a beneficiary contribution of approximately US\$8.39 million, which will be used to finance 21.7 per cent of component 1, and 19.5 per cent of component 2 and 0.8 per cent of component 3.

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

Category of Expenditure	IFAD loan		IFAD grant		FSP		Beneficiaries		Government taxes		Government Budget		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Equipment, goods and vehicles	8 689	89.5	-	-	-	-	-	-	1 020	10.5	-	-	9 709
2. Civil works	524	89.3	-	-	-	-	-	-	63	10.7	-	-	586
3. External credit	-	-	-	-	20 000	80	5 000	20	-	-	-	-	25 000
4. Training and workshops	-	-	648	100	-	-	-	-	-	-	-	-	648
5. Technical assistance and studies	-	-	5 368	96.8	-	-	79	1.4	100	1.8	-	-	5 547
6. Grants	3 490	32.4	4 000	37.1	-	-	3 290	30.5	-	-	-	-	10 780
7. Technology grants	-	-	1 000	100	-	-	-	-	-	-	-	-	1 000
8. Operating expenses	-	-	1 687	74.1	-	-	22	1	138	6.1	430	18.9	2 277
Total	12 702	22.9	12 703	22.9	20 000	36.1	8 390	15.1	1 321	2.4	430	0.8	55 546

C. Summary benefit and economic analysis

39. Expected project results include: (i) increased farm-level livestock productivity; (ii) higher quantity and quality of livestock for processing and consumption; (iii) reduced losses during storage and transportation; (iv) flatter seasonal supply and more stable prices for producers and collectors of produce; (v) enhanced processing quality and efficiency; (vi) greater product diversification; and (vii) increased commercialization of the sector, resulting in expanded employment and higher incomes for farming households and rural entrepreneurs. The project is expected to reach approximately 28,000 households with its activities and investments. Benefits will accrue from: (i) increased livestock productivity and greater production due to the application of improved inputs and enhanced husbandry; (ii) an increase in marketed farm produce; (iii) reduced losses during production and processing of dairy and meat produce through innovative technologies; (iv) improved quality and safety of agricultural and food products, attracting higher prices as a result of processors' demand for more reliable outputs; (v) an increase in exports of livestock commodities; (vi) a minimized risk of zoonotic diseases from an improved animal sanitary system; (vii) enhanced access to credit; (viii) increased employment for hired and family labour in on-farm and off-farm activities; and (ix) greater tax revenues as a result of an increased volume of taxable production.
40. The project economic analysis indicates that the gains of the total investments in ATMP are significant and robust in economic terms. The analysis results in an internal economic rate of return of 19 per cent and a net present value of US\$45 million over 20 years, with quantifiable benefits that directly relate to project activities.

D. Sustainability

41. The sustainability of project results is based on: (i) the value chain development and technical capacity-building activities promoted; (ii) the demand-driven nature of the intervention; and (iii) the preparation of VCDBPs as the basis for all investments, which will lead to better-integrated and more equitable and profitable value chains.

E. Risk identification and mitigation

42. The main risk involves a potential failure to align the commercial and financial incentives for the various actors to engage in public-private-producer partnerships – including farmers, companies and FSPs participating in the project. Mitigating measures include an in-depth, participatory analysis of: production and other business opportunities; input-related and other constraints; and financial risks based on formulated bankable business plans. Inherent risks and control risks for the project are rated as high and medium respectively. The residual overall financial management risk is rated as medium after the implementation of appropriate risk-mitigation measures to ensure accountability of funds.

V. Corporate considerations

A. Compliance with IFAD policies

43. ATMP is aligned with IFAD's Strategic Framework 2016-2025, especially strategic objective 2: increase poor rural people's benefits from market participation and its associated areas of thematic focus: (i) diversified rural enterprise and employment opportunities; (ii) rural investment environment; and (iii) rural producers' organizations. The project design is also fully compliant with IFAD's policies on targeting, gender mainstreaming, rural finance and climate change. In recognition of the new Social, Environmental and Climate Assessment Procedures, the project will aim for compliance in programme implementation at the management and field levels.

B. Alignment and harmonization

44. The project is closely aligned with and supports the Government's priorities and strategies for increased market integration and commercialization of the livestock sector, as expressed in the National Sustainable Development Strategy 2013-2017. It also supports the priorities and strategies for nutrition and food security in Kyrgyzstan's Concept of Food Security 2009-2019.

C. Innovations and scaling up

45. The project will take a pilot approach to the development of efficient, sustainable livestock value chain development in Kyrgyzstan, field testing innovative technologies and building the capacity of supporting institutions. The experiences derived from the project will be replicated in other parts of the country with similar value chains. There is also the potential for scaling up and synergies in relation to future donor-funded projects.

D. Policy engagement

46. The platform for public-private-producer partnership development is expected to be the entry point for policy dialogue on the development of a conducive regulatory and incentive framework for business development in the rural sector. This will complement the ongoing policy dialogue on natural resource management and climate resilience in the context of current projects within the country programme.

VI. Legal instruments and authority

47. A project financing agreement between the Kyrgyz Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached in appendix I.
48. The Kyrgyz Republic is empowered under its laws to receive financing from IFAD.
49. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Kyrgyz Republic in an amount equivalent to nine million three hundred and ninety thousand special drawing rights (SDR 9,390,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant under the Debt Sustainability Framework to the Kyrgyz Republic in an amount equivalent to nine million three hundred and ninety thousand special drawing rights (SDR 9,390,000) 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

Access to Markets Project

(Negotiations concluded on 7 December 2016)

Loan Number:

Grant Number:

Project Title: Access to Markets Project (ATMP) ("the Project")

The Kyrgyz Republic (the "Borrower/Recipient")

and

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

(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, amended as of April 2014, and as may be amended hereafter 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 and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the Loan is nine million three hundred ninety thousand (SDR 9 390 000).
 - B. The amount of the Grant is nine million three hundred ninety thousand (SDR 9 390 000).
2. The Loan shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be the USD.

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 15 March and 15 September.
6. There shall be four (4) Designated Accounts denominated in US dollars opened by the Borrower/Recipient in a commercial bank identified by the Ministry of Finance (MoF) through which the proceeds of the Financing shall be channelled. Two Designated Accounts shall be for the Agricultural Projects Implementation Unit (APIU) (one for the Loan and another for the Grant) and two for the Community Development and Investment Agency (ARIS).
7. There shall be four (4) Project Accounts in local currency opened by the Borrower/Recipient to receive and hold the proceeds of the Financing transferred from the Designated Accounts.
8. The Borrower/Recipient shall contribute to the Project in an amount of one million six hundred thousand United States dollars (USD 1 600 000) including the payment of taxes and duties levied in the implementation of the Project as well as to cover part of the State Inspectorate for Veterinary and Phytosanitary Security (SIVPSS) operational expenditures.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture, Food Industry and Melioration of the Kyrgyz Republic (MAFIM).
2. The following are designated as additional Project Parties: (a) the ARIS; (b) the APIU; (c) the SIVPSS, (d) EBRD's Small Business Support (SBS); (e) Financial Service Providers (FSPs); (f) the Kyrgyz Veterinary Association (KVA); (g) the Kyrgyz Veterinary Chamber (KVC); (h) the Kyrgyz Livestock and Pasture Research Institute (KLPRI); (i) the Kyrgyz and Scientific Research Veterinary Institute (KSRVI), and (j) the Department of Pastures, Livestock and Fisheries of MAFIM (DPLF).
3. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Loan and the Grant will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Project Coordination Group (PCG) referred to in paragraph 6 of Schedule 1 to this Agreement shall have been duly established.
 - (b) The Project Key Staff referred to in Schedule 1 to this Agreement, subject to no objection by the Fund, shall have been duly appointed.
 - (c) The draft PIM referred to in section C part II of Schedule 1 to this Agreement shall have been submitted and approved by the Fund.
 - (d) A fully functional accounting software, subject to no objection by the Fund, shall have been established at the APIU and ARIS.

- (e) A Subsidiary Agreement between the Ministry of Finance of the Kyrgyz Republic and ARIS regarding their cooperation in the implementation of the Project, subject to no objection by the Fund, shall have been concluded.
2. The following is designated as additional grounds for suspension of this Agreement:
- (a) The Project Implementation Manual (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement 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 Project, and the Borrower has not taken any measures to remedy the situation.
 - (b) Project key staff are appointed, transferred or removed from their functions without the prior concurrence of the Fund.
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 Avenue
Bishkek City, the Kyrgyz Republic, 720040

For the Fund:

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

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

KYRGYZ REPUBLIC

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project has a national coverage and shall primarily benefit smallholder livestock farmers who participate in and benefit from improved value chains, comprising: (i) poor livestock farmers; (ii) female members of livestock owning households; and (iii) other smallholder livestock farmers. Particular attention will be given to the participation of women and youth.

2. **Goal.** The goal of the Project is to contribute to increased incomes and enhanced economic growth in pastoralist communities.

3. **Objectives.** The objective of the Project is to improve access and integration of smallholder livestock farmers with remunerative markets for their products, leading to improved and equitable returns.

4. **Components.** The Project shall consist of the following four (4) Components:

4.1. **Component 1: Livestock Value Chains Development.** The objective of this Component is to support efficient linkages and partnerships amongst livestock value chain actors, improved access to modern technology and good agricultural practices with a specific focus on cold chain management and traceability.

Sub-component 1.1. **Capacity Building of Livestock Value Chain Stakeholders.** This sub-component will support (i) awareness raising, demand-driven capacity building and advisory services for the participants of pre-selected value chains driven by the Leading Entities (LE) whose selected proposals will be further elaborated by the Project-provided dedicated business advisory services facility into Value Chain Development Business Plans (VCDBPs); (ii) development of innovative, demand-driven livestock production, processing and food safety technologies through participatory on-farm/factory applied research and technology demonstration, delivered by national academic/research institutions, private companies or NGOs.

Sub-component 1.2. **Product Aggregation Enhancement.** This sub-component will support participants of pre-selected value chains through competitive demand-driven investment packages that include a grant element.

Sub-component 1.3. **Platform for Public-Private-Producers Partnerships Development and Knowledge Management.** This sub-component will support a platform for the exchange among value chain actors for better and innovative integration of market demand into production models.

4.2. **Component 2: Livestock Value Chains Financing.** The objective of this component is to enable livestock value chain actors to increase their investment in profitable value chains through linking them with credit lines, and development of financial products.

Sub-component 2.1. **Access to External Credit Lines.** The Project will partner with existing Financial Service Providers (FSPs), subject to no objection by the Fund, targeting agricultural development to link them with actors in pre-selected value chains, including actors assisted through sub-component 1.2. A Memorandum of Understanding (MOU), subject to no objection by the Fund, will be signed with each of the FSPs.

Sub-component 2.2 Innovative Financial Products. The Project will partner with the FSPs interested in the development of financial products suitable to needs of actors in the selected value chains and support the development of such products.

4.3. Component 3: Upgrading the Kyrgyz Livestock Sanitary System. The objective of this Component is to strengthen both key public and private sector arms of the Kyrgyz livestock sanitary system, which facilitate livestock commodity trade and safe food.

Sub-component 3.1 Strengthening the State Veterinary Sanitary System. This sub-component will support the functions of SIVPSS inter alia through (i) improving capacity of SIVPSS; (ii) providing technical assistance; (iii) improving regional laboratories; (iv) supporting animal identification of selected value chains; (v) refurbishing selected border posts; (vi) establishing an active disease surveillance system; and (vii) procuring selected vaccines.

Sub-component 3.2 Strengthening the Private Veterinary Practice System. This subcomponent will support (i) capacity building of veterinarians and paravets as well as extension to farmers; (ii) improving capacity of KVA, and (iii) improving capacity of KVC.

Sub-component 3.3. Strengthening the Supporting State Institutions. This subcomponent will: (i) support functions of the KLPRI and the KSRVI in their respective competence spheres including development and piloting of innovative methods, and (ii) improve capacity of the DPLF.

4.4. Component 4: Project Management. This component shall provide financing for the overall management of the Programme.

II. Implementation Arrangements

A. Organisation and management

5. The Lead Project Agency (LPA). The MAFIM will be the Lead Project Agency for the Project.

6. Project Coordination Group (PCG).

6.1. Establishment and composition: The PCG will include representation from each of the Project Parties, representation from the Kyrgyz Governmental office representatives in the oblasts involved in project implementation and stakeholders from the private sector. The PCG should have a balance between government and civil society members. It will meet semi-annually and on an ad hoc basis as required and will serve as advisory body.

6.2 Responsibilities the PCG is responsible for: (i) reviewing progress of the Project against targets and its success in meeting the performance indicators and the progress against the annual work programme; (ii) being a sounding board for discussing issues that arise during implementation and for which it can provide insight and advice to Project management and, (iii) providing the opportunity for Project management to receive feedback on new ideas or approaches that it is considering to introduce under the Project.

7. The Agricultural Projects Implementation Unit (APIU).

7.1 Core activities: Under the MAFIM, the APIU will have overall responsibility for Project implementation, coordination, oversight and reporting to IFAD and the government including liaising closely with ARIS. Other APIU's core responsibilities include inter alia: (i) financial management, comprising procurement, disbursement, accounting, auditing and financial reporting, (ii) managing the performance of the partner national organizations responsible for implementation of specific Project activities; (iii) shortlisting, evaluating, contracting and managing the performance of service providers, (iv) overall Project monitoring and evaluation (M&E), (v) preparing the consolidated Annual Work Plan and Budget (AWPB) and submitting it to IFAD for approval; and (vi) maintaining a results-based system of assessing the performance of the partner organizations employing trigger and benchmarks.

7.2 Component activities: The following activities shall be implemented by the APIU: (i) Elements of subcomponent 1.1 comprising capacity building of selected value chains' stakeholders, specifically training, study tours and advisory services through contracted service providers among others through EBRD's Small Business Support facility or other such suitable selected facility that will support LEs in preparation of VCDBPs; but excluding those aspects that ARIS will implement with the community level groups, (ii) sub-component 1.3 through contracted service providers; (iii) Component 2 through FSPs, and (iv) Component 3 comprising strengthening various institutions with their respective assistance, specifically through the SIVPSS, KVA, Veterinary Chamber, KLPRI, KSRVI, and DPLF; but excluding those aspects that ARIS will implement with the community level groups and private vets.

8. Community Development and Investment Agency (ARIS).

8.1 Core activities. ARIS will have the overall responsibility for all Project implementation at the community level, focused on Pasture Users Unions (PUUs) and smallholders' groups including the administration of all Project grant funds. ARIS will also ensure: (i) the coordination and accountability for effective performance of the combination of its own staff and technical inputs from the government's technical agencies, public organizations and Project's contracted service providers in the implementation of the community-focused activities for which ARIS is responsible; (ii) the M&E of its own activities, including monitoring of the related performance indicators, assembly and dissemination of information for knowledge management, and the related reporting both to its own management and in a synthesized form to the APIU, and (iii) the Financial management of all its activities including procurement, disbursement, accounting, auditing and financial reporting.

8.2 Component activities. The following activities shall be implemented by ARIS: (i) Elements of Subcomponent 1.1 related to mobilization and mentoring of community level groups and actors; but excluding those activities implemented by the APIU as described above at 7.2; (ii) Sub-component 1.2, and (iii) elements of Component 3 related to mobilization of community level groups and private vets; but excluding those activities implemented by the APIU as described above at 7.2.

B. Project Implementation Manual ("PIM")

9. Preparation. The Borrower/Recipient shall prepare, in accordance with terms of reference subject to no objection by the Fund, a PIM, which shall include, among other arrangements: (i) institutional coordination including composition of PCG, and day-to-day execution of the Project; (ii) Project budgeting, disbursement, financial management, procurement monitoring, evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Project component, and (iv) such

other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

10. Approval and Adoption. The LPA shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. The Recipient shall carry out the Project in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

C. Procurement

11. 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 of Animal Health (the "OIE"). Specifications for vaccines procured for animal diseases shall be based on international standards developed or recommended by the OIE.

D. Supervision

12. A MTR shall be conducted at the end of the third Project Year, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the Project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Borrower/Recipient and the Fund.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Equipment and materials and Consultancies, training and workshops	5 778 000	4 000 000	The percentage of expenditure to be financed is detailed below under (b)
II. Grants	2 322 000	3 321 000	100% net of beneficiaries contribution
III. Works	351 000		100% net of taxes
IV. Salaries and Operating costs		1 130 000	100% net of taxes, government and beneficiaries contributions
Unallocated	939 000	939 000	
TOTAL	9 390 000	9 390 000	

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

Category I "Equipment and materials and Consultancies, training and workshops" includes : (i) Equipment, materials goods and vehicles to be financed 100% net of tax and duties; (ii) Consultancies to be financed 100% net of taxes and beneficiaries contributions, and shall mean eligible expenditures incurred related to international and national technical assistance; studies; surveys; audit and ARIS facilitation for community work; and (iii) Training and workshops to be financed 100% from IFAD Grant .

Category II "Grants" includes Technology Demonstrations Grants to be financed by the Grant; Grants for Investment packages for supplying farmers to be financed by the Loan, IFAD Grant and beneficiaries; Grants for Investment packages for agroprocessors/traders to be financed by the Loan and beneficiaries; and Grants for Investment packages for private veterinaries and zoo-technicians to be financed by the Grant and beneficiaries.

Category III "Works" includes inter alia costs of renovation of SIVPSS's central and district offices; renovation of border posts, renovation of PPR's vaccine cold storages; renovation/construction of regional vet diagnostic laboratories.

Category IV "Salaries and operating costs" includes inter alia remuneration of APIU staff, allowances and contribution to social fund of the Kyrgyz Republic to be financed (100%) from the Grant.

Logical framework

Results hierarchy	Indicators							Means of Verification			Assumptions (A) / Risks (R)
	No	RIMS code	Name	Unit of measurement	Base line	Mid term	Final target	Source	Frequency	Responsibility	
Goal											
Contribute to the reduction of poverty and enhanced economic growth in pastoralist communities	1	N/A	Rural households in the Project area who have increased their index of household assets' ownership by 15%.	HH	-	-	28000	RIMS baseline and impact surveys at completion Health statistics Studies to complement indicator based data	Baseline, Completion	APIU	Overall political stability and a conducive macro-economic framework (A) Regional economic trends counteract project achievements (R)
	2	N/A	Reduction in the prevalence of child malnutrition as compared to baseline.	%	-	-	-10				
Project Development Objective											
Improved access and integration of smallholder livestock farmers with remunerative markets, leading to improved and equitable returns.	3	N/A	Value of livestock products sold by targeted farmers in Project area increased.	%	-	-	30	Project baseline study, mid-term review and implementation completion report Specialized (qualitative / quantitative) thematic studies Household income surveys	Baseline, Mid term, Completion	APIU	Government policies and rural economic reforms supporting smallholders, private sector development and the livestock sector are implemented (A) Regional free trade agreements (EAEU) provide fewer opportunities for Kyrgyz livestock exports than anticipated (R) Endemic animal disease situation in the country remains stable (A)
	4	2.5.1	Creation of employment opportunities: number of jobs generated by small and medium enterprises [through livestock related farm work/processing]	ppl	-	-	2 800				
Outcomes											

OUTCOME 1: Capacity for sustainable, efficient livestock production, processing and marketing enhanced	5	.	Increase in margins generated by participating smallholders from sale of animal products	%	-	-	10	Project baseline study, mid-term survey and completion survey Reports from each participating processors/ aggregators Government's national, regional and local production data Targeted field studies and surveys	Baseline, Mid-term, Completion	APIU	Lack of incentives on the part of various value chain actors to participate in the Project's activities and financing (R) Effective/timely availability of specialized technical assistance (A) Producer-Processor/Aggregator contractual obligations are not fully observed (R)
OUTCOME 2: Efficiency and profitability along targeted, smallholder-inclusive livestock value chains increased	10	2.3.3	Sustainability: Improved performance of the financial institutions [portfolio at risk below 10%]	PAR (%)	N/A	<10	<10	Project baseline study, mid-term survey and completion survey Participating Financial Institutions' records National Bank supervision reports Targeted field studies and surveys	Baseline, Mid-term, Completion	APIU	Banking/financial market norms and regulatory framework, conducive to expanded rural financial outreach and inclusion (A) Depending on the Kyrgyz Russian Fund's capacity to adapt to project approach, and level of cooperation (A) Depending on PFI cooperation (A)
OUTCOME 3: Upgraded Kyrgyz livestock sanitary system	13	2.4.1	Producers benefiting from improved access to markets (at least 10% increase in official export of live animals and livestock products)	%	-	-	10%	Project baseline study, mid-term survey and completion survey EAEU reports National statistics Periodic random brucellosis serosurvey in small ruminants PPR Regional Advisory Group reports OIE reports	Baseline, Mid-term, Completion	APIU	Outbreak of a notifiable transboundary animal disease (R) Willingness of private vets to participate (A)