

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Second Session

Rome, 8-9 September 2004

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF AZERBAIJAN

FOR THE

NORTH-EAST DEVELOPMENT PROJECT

TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Azerbaijan	3
PART II - THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	5
C. Components	5
D. Costs and Financing	6
E. Disbursement, Procurement, Accounts and Audit	8
F. Organization and Management	9
G. Economic Justification	9
H. Risks	9
I. Environmental Impact	9
J. Innovative Features	10
PART III - LEGAL INSTRUMENTS AND AUTHORITY	10
PART IV - RECOMMENDATION	11
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	13

APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD FINANCING IN AZERBAIJAN	2
III. LOGICAL FRAMEWORK	3
IV. ORGANIGRAMME	7
V. LINKS BETWEEN THE PROJECT DESIGN AND IFAD STRATEGIC FRAMEWORK 2002-2006 AND REGIONAL STRATEGY FOR CENTRAL AND EASTERN EUROPE AND THE NEWLY INDEPENDENT STATES	8

CURRENCY EQUIVALENTS

Currency unit	=	Azerbaijani manat (AZM)
USD 1.00	=	AZM 4 910 (April 2004)
AZM 1.00	=	USD 0.00002

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

ASDAPS	Agency for Support to the Development of the Agricultural Private Sector
FPP	Farm Privatization Project
IsDB	Islamic Development Bank
M&E	Monitoring and Evaluation
NBCI	Non-bank Credit Institution
NDP	North-East Development Project
PCB	Participating Commercial Bank
PIM	Participatory Irrigation Management
PMU	Project Management Unit
RDPMHA	Rural Development Programme for Mountainous and Highland Areas
SAIC	State Amelioration and Irrigation Committee
SME	Small and Medium Enterprise
SPPRED	State Programme for Poverty Reduction and Economic Development (Poverty-Reduction Strategy Paper)
WUA	Water Users' Association

GOVERNMENT OF THE REPUBLIC OF AZERBAIJAN**Fiscal Year**

1 January - 31 December

REPUBLIC OF AZERBAIJAN
NORTH-EAST DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Azerbaijan
EXECUTING AGENCY:	Agency for Support to the Development of the Agricultural Private Sector (ASDAPS)
TOTAL PROJECT COST:	USD 25.15 million
AMOUNT OF IFAD LOAN:	SDR 8.60 million (equivalent to approximately USD 12.56 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	To be determined Participating commercial bank (PCB)
AMOUNT OF COFINANCING:	Cofinancier: USD 7.39 million PCB: USD 990 000
TERMS OF COFINANCING:	Highly concessional loans have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
CONTRIBUTION OF BORROWER:	USD 2.23 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.98 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROJECT BRIEF

The project. IFAD strategy in Azerbaijan supports the government poverty-reduction strategy for rural areas, which accords high priority to the rehabilitation of deteriorating irrigation systems – the backbone of the rural economy and the major resource for rural employment and food security. At the same time, it seeks to introduce appropriate arrangements for future operation and maintenance that are participatory and financially sustainable. Resolving irrigation problems alone will not be enough, however, because agricultural production has been decapitalized to an extreme extent over the last 15 years. The project will fund initiatives to: overcome the acute shortage of equipment and working capital at the farm level; introduce modern, appropriate agricultural technology; promote new marketing and processing arrangements; and improve access to credit to finance heavy demand for farm and small- and medium-enterprise (SME) investments.

Who are the beneficiaries? The project target group is estimated at about 66 000 people (some 15 000 households) living in 48 villages. These are primarily households that received privatized land as residents of the villages that comprised the privatized state and collective farms. They received 2-2.5 ha in addition to their household plots, some livestock and scraps of agricultural machinery. Over 30% of these households are woman-headed. The villages also house a number of landless households that came into being through marriage and population growth.

Why are they poor? The target group's poverty derives from decapitalization of the irrigated agriculture sector, both at the scheme and farm levels, after the fall of the former Soviet Union. Decapitalization is a result of: failure to maintain the irrigation and drainage systems; lack of agricultural services, including input supply, finance and technical support, etc; collapse of the Soviet-era marketing system and processing industry; and the limited management capacity of the farming population.

What will the project do for them? It will introduce participatory irrigation management in which transparent, democratic local institutions – water users' associations (WUAs) – manage the irrigation system effectively and sustainably to facilitate increased production and income. The project will enhance opportunities for increased productivity through demonstrations of modern technologies. It will also enhance financial returns through better marketing arrangements and linkages and through increased capacity for local value adding by small and medium processing enterprises, operating at high-capacity levels. To facilitate investments in farm and non-farm enterprises, the project will increase access of small farmers and SMEs to financing provided by sustainable rural finance agencies with wide outreach, offering gender-sensitive services to small-scale farmers and microentrepreneurs.

How will the beneficiaries participate in the project? WUAs will be the main vehicle for ensuring that project beneficiaries can participate in the decisions that affect their livelihoods. In addition, the project will help beneficiaries establish numerous common-interest groups and associations for fodder and milk production, and collection, grading, packaging, processing, transporting and marketing of agricultural produce.

Project costs and financing. Total project costs, including contingencies, duties and taxes over a project life of five years, are estimated at USD 25.15 million. Project costs will be financed by: (i) an IFAD loan of USD 12.56 million (49.9%); (ii) a loan from the cofinancier of USD 7.39 million (29.4%); (iii) a participating commercial bank, USD 990 000 (3.9%); (iv) the project beneficiaries, USD 1.98 million (7.9%); and (v) the Government, USD 2.23 million (8.9%). The cost per household is USD 1 675 or USD 370 per capita.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF AZERBAIJAN
FOR THE
NORTH-EAST DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Republic of Azerbaijan for SDR 8.60 million (equivalent to approximately USD 12.56 million) on highly concessional terms to help finance the North-East Development Project (NDP). The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Azerbaijan has a population of 8.19 million (2002). It became independent in 1991 with the collapse of the former Soviet Union. Independence was followed by civil unrest and a war with neighbouring Armenia over the enclave of Ngorno-Karabakh. In 1995, a new government took over and pursued a course of stability and economic reform. As a result of the reforms, the budget deficit was reduced to 0.4% from a peak in 1993 of 15.3% of gross domestic product (GDP). Fixed investment was 25% of GDP and inflation had dropped to 2.8% per annum. The process of privatization was completed for small and medium enterprises (SMEs).

2. GDP per capita in 2002 was USD 748 in current prices at market exchange rates. The 2003 *Human Development Report* of the United Nations Development Programme (UNDP) places Azerbaijan, as a medium human-development country, 89th out of 175 countries, with a human development index (HDI) of 0.744, just below the average of 0.787 for central and eastern Europe and the Commonwealth of Independent States. There is no value for the gender development index (GDI) in the same report. However, the UNDP Azerbaijan Human Development Report of 2002 has estimated that the GDI is eight places below that of the HDI. Even though GDP growth has exceeded 10% per annum in three of the past five years and is expected to average 10% per annum in 2003, GDP in 2002 was just under two thirds of the 1990 level.

3. With nine agro-climatic zones, a result of variations in elevation and rainfall, Azerbaijan has a highly diversified agricultural sector. Agricultural land (cropland, pastures and range) comprises about 4.2 million ha or 49% of the total land area. Due to low rainfall averaging 300-800 mm annually, more than three quarters of the cropped area of 1.5 million ha is under irrigation. The major crops include wheat, barley, forage, cotton, tobacco, vegetables, grapes and fruit, but yields are low by world standards. Livestock production is also an important part of the sector, in both irrigated areas and mountain regions. Azerbaijan remains a net food importer, and food and agricultural imports are the second or third largest import category, amounting to about 15% of total import expenditure.

¹ See Appendix I for additional information.

4. Almost all state farms and collectives have been disbanded and the arable land distributed to citizens living in these areas. Pasture lands remain under government ownership, with users obtaining user rights from the municipalities. Over 1.3 million ha of arable land are now private property registered in the name of the owners, with proper title certificates (some 870 000) issued by the State Land Committee. Small-scale farmers working their privatized individual plots now produce about 96% of agricultural output. The Household Budget Survey of 2001 found that there is a high level of poverty in rural areas nationwide, with 42% of the population living below the poverty line and 13% living in extreme poverty.

5. IFAD's country strategy is to pursue the following strategic thrusts through a gender-balanced approach: (i) improve the production, productivity and competitiveness of agricultural produce, including irrigation-system rehabilitation and participatory irrigation management; (ii) improve product marketing arrangements and links; (iii) encourage the development of off-farm income-generating activities; (iv) improve access of the poor to rural finance; and (v) develop the capacity of participating organizations.

B. Lessons Learned from Previous IFAD Experience

6. To date IFAD has participated in financing a project and a programme in Azerbaijan: the Farm Privatization Project (FPP), cofinanced with the International Development Association, and the Rural Development Programme for Mountainous and Highland Areas (RDPMHA). The Government sees FPP, which closed on 31 December 2003, as having contributed to the revival of the rural sector and to the country's transformation into a market-based economy. RDPMHA became effective in 2001 and few lessons can be gleaned from its early implementation experience.

7. Land privatization has been successfully completed, with some 97% of the allocated area distributed, covering 26% of all agricultural land. The remaining agricultural areas consist of pasture and rangelands for which disposal procedures have not yet been finalized. These are now managed by municipalities and rented to users. A legal framework for land-title registration is in place, and most of the privatized land is now being mapped and registered. There is ample evidence that this process has given farmers security of tenure and confidence that they will reap the benefits of making improvements to their land. There are signs of the emergence of a private land market, at present mostly for leases (there is a five-year moratorium on the sale of privatized land). A few farmers are already using land as collateral for credit.

8. FPP has demonstrated that participatory irrigation management, through water users' associations (WUAs), gives a greater sense of ownership and increases prospects for the sustainability of the on-farm irrigation and drainage systems. Farmers increasingly recognize that management of water supplies, optimization of water use and payment for irrigation water are essential elements of the long-term well-being of their farms and households.

9. FPP also piloted an initiative to improve access to credit for farmers in the privatized pilot farms – using a state bank, Agro-Prom Bank, as the agent for credit delivery. Initially the credit programme suffered from low loan repayment rates that were inadequate to ensure the sustainability of operations. However, continued follow-up and supervision have resulted in significant improvement in recovery rates, which now exceed 92%.

10. Other projects/programmes, including RDPMHA, are using temporary structures to distribute loans to the rural population through two types of intermediaries: credit unions (CUs) and borrower groups. It is clear that the formal registration (Ministry of Justice) and licensing (central bank) procedures for credit unions are too cumbersome and excessive, given that CUs are not yet permitted to receive savings. Borrower groups are more successful and are currently the channel for non-collateralized borrowing.

C. IFAD's Strategy for Collaboration with Azerbaijan

11. **Azerbaijan's policy for poverty eradication.** As already noted, adjusting from a centrally planned command economy to a market-based economy has had serious adverse economic and social consequences, and there is a high level of rural poverty. The key policy document relevant to the proposed project is the Government's recently finalized poverty-reduction strategy paper, entitled the State Programme for Poverty Reduction and Economic Development (SPPRED), which includes a wide range of associated sector policies. SPPRED recognizes that the development of agriculture, within the framework of a comprehensive rural development strategy, is crucial to development of the non-oil sector, which in turn is critical in reducing differences in living standards between those in the oil sector and the rest of the economy. Employment in agriculture has increased from 1.1 million in 1997 to 1.5 million in 2002, and SPPRED stressed the importance of guaranteeing the sustainable use of the country's natural resources.

12. For the agricultural sector the main thrusts of SPPRED include: (i) continuing land reform and developing an institutional and legal framework to ensure secure property rights and the development of land markets; (ii) rehabilitating irrigation and drainage systems and introducing participatory irrigation management (PIM); (iii) improving the agricultural infrastructure (agricultural and veterinary services, processing, marketing); (iv) ensuring easier access to credit and other rural financial services; (v) promoting marketing channels and market links, including support to processing, packaging and grading of produce; (vi) developing new forms of market-oriented organizations in rural areas (e.g. farmer unions, producer associations, etc.); (vii) promoting non-agricultural employment-generating rural enterprises (rural tourism, small- and medium-scale enterprises, etc.); (viii) setting up information systems to introduce new technologies; and (ix) rectifying infrastructure constraints on agricultural development, mainly in the water and energy sectors.

13. **Poverty-eradication activities of other major donors.** There are some complementary activities being undertaken by other donors. The first group of projects are rehabilitating parts of the two major canals that supply the irrigated areas of north-eastern Azerbaijan. The World Bank, as part of the Rehabilitation and Completion of Irrigation and Drainage Infrastructure Project, is financing the reconstruction of part of the Samur-Absheron canal, while the Islamic Development Bank (IsDB) is financing rehabilitation of the Khanarkh canal.

14. *Irrigation Distribution System and Management Improvement Project.* The World Bank recently approved the Irrigation Distribution System and Management Improvement Project (IDSMIP), which is a national project but with a focus on 11 *raions* (districts) and 45 yet to be identified WUAs. The total cost is USD 39.10 million. The project is concerned only with improvement of irrigation management and the associated rehabilitation of irrigation infrastructure. It will be implemented by the country's irrigation agency, the State Amelioration and Irrigation Committee (SAIC).

15. *Rural Enterprises Competitiveness Program.* The United States Agency for International Development (USAID) has recently approved a national Rural Enterprises Competitiveness Program, which aims to raise rural incomes and agricultural productivity by improving the competitiveness of the agriculture and agri-business sectors at a cost of USD 14 million. The programme focuses on policy and regulatory reforms and on processing and marketing improvement, and can complement the NDP investment in improving on-farm irrigation and drainage systems and supporting agricultural production, marketing and processing. Close collaboration with the USAID programme will maximize the synergy between the two sets of activities and avoid duplication of effort.

16. IFAD's strategy in Azerbaijan. The goal of IFAD strategy in Azerbaijan is to assist the Government in its efforts to reduce rural poverty and invigorate the rural economy. Many of the new rural poor have turned to agriculture as a way of coping with the loss of employment following the

collapse of the state industries of the former Soviet Union. Azerbaijan needs a dynamic agricultural sector that drives the rural economy and provides meaningful opportunities to the rural poor to escape from poverty. SPPRED provides the overall framework for government and donor action. It demonstrates the commitment of the Government to poverty reduction, as well as setting a policy framework and list of priorities. To ensure government and local ownership of its operations in Azerbaijan, IFAD will provide its support within the overall framework of SPPRED, concentrating on initiatives targeted to rural areas and thrusts that emphasize the dominant role of agriculture in the rural economy.

17. The focus of IFAD's country strategy is to: (i) improve the production, productivity and competitiveness of agricultural produce, including irrigation-system rehabilitation and participatory irrigation management; (ii) expand marketing arrangements and links; (iii) encourage the development of off-farm, income-generating activities; (iv) enhance access of the poor to rural finance; (v) develop the capacity of participating organizations; and (vi) mainstream gender concerns.

18. Appendix V illustrates the consistency of the proposed project with the *Strategic Framework for IFAD 2002-2006*, its regional strategy for central and eastern Europe and the Commonwealth of Independent States, and the relevant IFAD policy guidelines.

19. **Project rationale.** In the region in which the project area is located, the proportion of the population living below the poverty line is higher than in rural Azerbaijan as a whole.

20. The irrigated sector constitutes the major resource for rural employment and national food security. The extensive irrigation and drainage system represents a substantial past investment, which without major rehabilitation will continue to degrade and further impoverish the population. Rehabilitation can reverse the neglect of the previous decade and provide an effective system only if there are appropriate arrangements for future operation and maintenance that involve farmer participation and improved system management. SPPRED has identified the rehabilitation of irrigation infrastructure as a top strategic priority.

21. There are opportunities for extending to a much wider area the successful experiences of FPP: (i) rehabilitation of on-farm irrigation and drainage systems; and (ii) formation of WUAs able to operate and maintain financially sustainable on-farm systems. The fact that the main canals are in the process of being upgraded means that such investments are now appropriate in the project area.

22. Given the extreme decapitalization of agricultural production over the last 15 years, resolving irrigation problems alone will not be enough. There is an acute shortage of equipment and working capital at the farm level, agricultural technology is outdated, and the marketing and processing arrangements have yet to recover from the disruption that occurred with the end of the Soviet era. In addition, there are no widely accessible and affordable sources of financing for farmers, processors and other microentrepreneurs, despite the strong demand.

PART II - THE PROJECT

A. Project Area and Target Group

23. The proposed project will cover a contiguous geographical area comprising four *raions* in the northeast of the country. In 2002 the estimated total population of the project area was 181 000, of which 68 000 (37%) are classified as rural. According to the 2001 Household Budget Survey, 58% of the population of the region encompassing the project area was living below the poverty line and 25% in extreme poverty, the highest and second highest proportions respectively in the country's regions.

24. The proposed project area represents a potential irrigation area of about 30 265 ha (including nearly 3 000 ha of household plots), with six nascent WUAs. Only an estimated 44% of the area was irrigated in 2002, owing to the degraded state of the infrastructure. Currently, all WUAs face legal and policy constraints and a lack of support from SAIC. However, the successful FPP experience can be relied upon in guiding future action.

25. The primary target group is households that received privatized land as residents of the villages that comprised the privatized state and collective farms, totalling 15 012 households. Actual and potential microentrepreneurs will also be part of the target group, e.g. artisans and agricultural service providers (traders, agricultural contractors, etc.). This latter group may overlap the former. While the incidence of woman-headed households in the project area is not known, it is nearly 39% nationally in rural areas, and women will be an important part of the target group.

B. Objectives and Scope

26. The overall goal of the project is improved livelihoods for households that depend upon irrigated agriculture in the project area through increased food security and enhanced income-generating opportunities.

27. The objectives of the project are to: (i) support WUAs in operating and gradually rehabilitating on-farm irrigation and drainage systems on behalf of their members in ways that are financially viable, equitable and sustainable; (ii) assist small farmers of the area in sustainably increasing food production and incomes from irrigated crop production and associated livestock enterprises through better technology, appropriate farm investments, and enhanced marketing and processing opportunities; (iii) induce microfinance agencies to operate sustainable, gender-sensitive financial services for small-scale farmers and other microentrepreneurs; and (iv) provide effective project management and coordination mechanisms.

28. The project will have the following outputs: (i) rehabilitated irrigation infrastructure at the farm level, managed by the users through efficient, democratic, gender-balanced and sustainable WUAs; (ii) increased production and improved quality of agricultural and livestock produce realized by small farmers; increased local capacity for adding value to local produce by large numbers of SME processing enterprises, operating at high-capacity levels; and well-functioning marketing arrangements for local produce, involving entrepreneurs and local producer associations, engaging in bulking, grading, packaging, transporting and marketing their products at remunerative prices; (iii) increased access by small farmers and SMEs to financing; and improved outreach of sustainable rural finance agencies, providing gender-sensitive services to small-scale farmers and microentrepreneurs; and (iv) well-functioning institutional arrangements for project coordination and implementation.

C. Components

29. **Participatory irrigation management.** The project will provide support to six WUAs in 48 villages, with a total irrigated area of some 30 265 ha. The project will assist the WUAs in registering under the new law, establish the governance and management bodies, and provide construction equipment so they can operate and maintain the on-farm infrastructure and participate in the rehabilitation of the on-farm irrigation and drainage infrastructure. Using contractors, the project will also rehabilitate the water-control structures.

30. **Agriculture, marketing and SME development.** The project will facilitate increased agricultural productivity and improved links between producers and existing marketing and processing enterprises. To achieve this, the project will support a programme of demonstrations and extension of modern agricultural technologies and practices; help farmers organize and consolidate appropriate producer and marketing organizations and acquire business skills; and broaden farmer and

entrepreneur's access to credit and agricultural inputs. The project will focus on the following opportunities: (i) agricultural extension and participatory technology transfer and demonstrations; (ii) provision of business support services to entrepreneurs and producer groups and associations; and (iii) promotion of a variety of enterprises for the production, processing and marketing of agricultural produce and inputs, including milk collection, as well as equipment leasing and contracting and input supply.

31. **Rural financial services.** To tackle the crucial shortage of capital among small farmers and other microentrepreneurs, the project will provide funds to a participating commercial bank(s) (PCB) and to a Non-bank Credit Institution(s) (NBCI). These will be contracted as rural-finance service providers to channel small working-capital and larger investment loans to the target group, either individually or as members of a group. Service providers will be encouraged to develop a variety of products that suit the needs of the project area, such as for equipment leasing, insurance, etc. Both types of financial institutions will be selected according to eligibility criteria that stress their strategic commitment to small farmer and SME lending, operational efficiency and soundness. Both types of institutions will provide their services through subsidiary loan agreements under which they will fully bear the credit risk, but which give them adequate scope to set credit terms and conditions and to select borrowers.

32. **Project management and coordination.** A project management unit (PMU), within the Agency for Support to the Development of the Agricultural Private Sector (ASDAPS), will be responsible for overall coordination. It will implement the participatory irrigation management aspects directly and the other components through contracted service providers. Within the PIM component, WUAs will undertake the earthworks associated with rehabilitation of the on-farm irrigation and drainage systems, while private-sector contractors will undertake the rehabilitation and construction of water-control structures and other works beyond the capacity of the WUAs.

33. Service providers, which could be non-governmental organizations, consulting companies or technical institutes, will be contracted to provide technology-transfer demonstrations, business support services and training, and support to farmer groups and associations. As mentioned, the PCB and NBCI will provide financial services, including short- and medium-term loans to members of the target group. The PMU will be responsible for all monitoring and evaluation (M&E) activities. The project will finance the costs of the PMU within ASDAPS, including staff salaries, short-term international and national technical assistance, vehicles and equipment, office and vehicle operating costs, workshops, reviews, studies and annual audits.

D. Costs and Financing

34. The total cost of the project, over five years, is estimated at USD 25.15 million. Project cost will be financed by: (i) an IFAD loan of USD 12.56 million (49.9%); (ii) a loan from the cofinancier of USD 7.39 million (29.4%) to finance irrigation rehabilitation works; (iii) a participating commercial bank USD 990 000 (3.9%), as a contribution to the credit funds; (iv) the project beneficiaries USD 1.98 million (7.9%), including the contribution of the WUAs towards the operating costs of the construction machinery and operation and maintenance of the irrigation and drainage infrastructure, and the beneficiary contribution to investments financed with project-financed credit; and (v) the Government USD 2.23 million (8.9%), as payment or waiver of duties and taxes.

35. The cost per household is USD 1 675 or USD 370 per capita.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Total Base Costs
A. Participatory irrigation management					
1. PIM group	482.1	461.6	943.7	49	4
2. Support to WUAs	2 789.7	2 519.9	5 309.6	47	22
3. Rehabilitation/expansion works	6 529.6	3 479.0	10 008.6	35	41
Subtotal participatory irrigation management	9 801.3	6 460.5	16 261.9	40	67
B. Agriculture, marketing and SME development	1 645.9	649.1	2 295.0	28	9
C. Rural financial services	2 600.0	2 201.0	4 801.0	46	20
D. Project management and coordination	560.9	276.6	837.5	33	3
Total base costs	14 608.1	9 587.2	24 195.4	40	100
Physical contingencies	285.6	159.6	445.2	36	2
Price contingencies	367.2	140.7	507.9	28	2
Total project costs	15 260.9	9 887.6	25 148.5	39	104

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Component	Government		IFAD		PCB		Cofinancier		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Participatory irrigation management															
1. PIM group	56.7	5.6	952.5	94.4	-	-	-	-	-	-	1 009.2	4.0	487.9	464.6	56.7
2. Support to WUAs	553.2	9.6	4 479.9	77.5	-	-	-	-	745.4	12.9	5 778.5	23.0	2 732.9	2 383.7	661.9
3. Rehabilitation/expansion works	1 426.1	14.1	688.5	6.8	-	-	7 392.9	72.9	632.9	6.2	10 140.5	40.3	3 479.0	5 235.3	1 426.1
Subtotal participatory irrigation management	2 036.1	12.0	6 120.9	36.2	-	-	7 392.9	43.7	1 378.3	8.1	16 928.2	67.3	6 699.8	8 083.6	2 144.8
B. Agriculture, marketing and SME Dev.	135.8	5.4	2 377.4	94.6	-	-	-	-	-	-	2 513.3	10.0	685.6	1 691.8	135.8
C. Rural financial services	-	-	3 216.1	66.9	990.0	20.6	-	-	600.0	12.5	4 806.1	19.1	2 206.1	2 600.0	-
D. Project management and coordination	60.1	6.7	840.8	93.3	-	-	-	-	-	-	900.9	3.6	296.1	544.7	60.1
Total project costs	2 232.0	8.9	12 555.2	49.9	990.0	3.9	7 392.9	29.4	1 978.3	7.9	25 148.5	100.0	9 887.6	12 920.1	2 340.7

^a Discrepancies in totals are due to rounding.

E. Disbursement, Procurement, Accounts and Audit

36. **Disbursement.** The proposed IFAD loan of USD 12.56 million will be disbursed over a five-year period. Disbursement by IFAD for expenditures costing less than USD 20 000 and for incremental credit will be made against certified statements of expenditure, which will be audited periodically. Contracts over USD 20 000 will require full documentation. No taxes and duties will be financed out of the proceeds of the IFAD loan.

37. Funds from the special account can finance all IFAD disbursement categories. Replenishment of the special account from the loan account at IFAD will be through withdrawal applications, supported by appropriate documentation or certified statements of expenditure prepared by the PMU, endorsed by the Ministry of Finance (MOF) and submitted to IFAD's cooperating institution for approval.

38. Project credit funds for on-lending to project beneficiaries under the rural financial services component will be made available by the appropriate government agency (MOF or ASDAPS) to the PCB and NBCI. On-lending will be provided under subsidiary loan agreements acceptable to IFAD and negotiated with the ASDAPS/MOF on mutually acceptable terms and conditions. Sub-loans will be provided on the basis of prevailing commercial lending terms. Beneficiary sub-loans under the project will be denominated in AZM or USD, as mutually agreed between the borrowers and the PCB and NBCI.

39. **Procurement.** All procurement financed by the IFAD loan will be in accordance with IFAD procurement guidelines. Procurement of equipment, materials and vehicles will be bulked, to the extent possible, and carried out by the PMU. If contracts exceed a value of USD 200 000 (or equivalent), they will be subject to international competitive bidding. Contracts estimated to cost USD 200 000 (or equivalent) or less but greater than USD 20 000 (or equivalent) will follow national competitive bidding procedures open to international suppliers. Procurement costing USD 20 000 (or equivalent) or less will follow local shopping procedures. Each contract costing USD 100 000 (or equivalent) or more will require prior review by IFAD's cooperating institution. Recruitment of consultants will follow consulting services procurement procedures acceptable to IFAD. Direct contracting procedures will be adopted for procurement of items costing less than USD 5 000.

40. **Accounts and audit.** The borrower will appoint an independent audit firm, acceptable to IFAD, as external auditor for audit of the project accounts – including the IFAD loan and government and beneficiary contributions – in accordance with international audit standards and IFAD's project audit guidelines. The audited accounts and financial statements will be submitted to IFAD no later than six months after the close of each government fiscal year (1 January - 31 December) until closing of the loan, i.e. by 30 June annually. They will be submitted in a format agreed with IFAD and will include opinions on the statements of expenditure and the operations of the special and project accounts. The audit report will be a long-form audit and will contain a separate management letter. The reply by the PMU to the management letter will be submitted to IFAD within one month of receipt of the audited accounts.

41. The accounts of the PCB and NBCI will be audited according to the stipulations of the Banking Law and the Companies and Non-Banking Financial Organization Law respectively. These audit reports will be made available to the cooperating institution and IFAD no later than six months after the end of the financial year. The quarterly and consolidated annual project reports provided to the PMU will not be subject to a separate and additional audit. However, all books and accounts of the two institutions will be made available to supervision and mid-term review missions.

F. Organization and Management

42. ASDAPS will be responsible, through an autonomous PMU, for the overall coordination and implementation of the project. The PMU will be located in Baku, which is just south of the project area. It will be headed by a project manager and will have a **PIM group** dealing with the PIM component. As explained under that component, WUAs will undertake the earthworks, while private-sector contractors will undertake works beyond the capacity of the WUAs. In addition, the PMU will have an **agricultural production and marketing group** staffed by two farming-system specialists and two marketing specialists, who will coordinate and synchronize the work of service providers for the agricultural-production and market-development activities. A **rural finance group**, with a credit coordinator, will be responsible for coordinating the provision of rural financial services through the PCB and NBCI. An **M&E group** staffed by two M&E officers will be responsible for all M&E activities.

G. Economic Justification

43. **Financial analysis.** Using four models for poor households with access to less than 2.0 ha of cultivated land, the results show: increases in net income ranging from 18 to 46%; incremental benefit/cost ratios of 2.3-3.4; and high incremental returns to incremental labour ranging from USD 14 to 34 per labour/day as a result of improved irrigation water delivery and the adoption of improved crop-production practices.

44. An additional analysis shows that seven farm and off-farm enterprises in which members of the target group might invest, either individually or as a group, are all financially attractive: fruit orchards, sheep breeding, cattle fattening, dairy cattle, milk collection, and milk and food processing. Internal rates of return range from 26 to more than 50% before financing, and the income is more than sufficient to finance loan repayments.

45. **Economic analysis.** The economic viability of the project has been evaluated over a 20-year period. The overall economic rate of return including all costs and quantified benefits is 14.9%. The project is fairly resilient to reductions in benefits and increases in costs. A 20% reduction in benefits brings the internal rate of return (IRR) down to 11.4%. A 20% increase in costs brings it down to 12.0%. A 10% reduction in benefits accompanied by a 10% increase in costs brings the IRR down to 11.8%.

H. Risks

46. The design of this project depends upon social and economic environments that remain conducive to the development of a market-based agricultural economy. The Government has demonstrated such a commitment through large-scale land and enterprise privatization and establishment of ASDAPS. Azerbaijani agricultural produce has a comparative advantage in Russian markets and traditionally supplied these under the command economy of the former Soviet Union. Exports to the Russian Federation are increasing after the interruption following the end of the Soviet era. However, while the demand from the Russian market is still there, access to this market has become highly competitive and sensitive to considerations other than costs (including quality, volume, reliability, packaging and labelling) to which Azerbaijani producers are not yet well accustomed. Furthermore, the market is sensitive to political influences and corruption.

I. Environmental Impact

47. Overall, the project will not have any irreversible impact on the environment. Development proposals are sustainable and will have a positive environmental effect. The proposals do not involve the use of large quantities of fertilizers or agro-chemicals, abstraction of large quantities of water, construction of reservoirs, development of new, large-scale irrigation schemes or clearing of forests.

In addition, soil erosion is not a significant problem, as the irrigated areas are either flat or gently sloping. The project has an environmental classification of B.

48. The rehabilitation of the on-farm irrigation and drainage systems will improve the efficiency of water use from an estimated 25-28% to 35-38%. With effective WUAs, these improvements will be sustainable; the area affected by salinity should decline, with regular irrigation flushing the soil salts. No new supplies of water will be required and the main supply system is being rehabilitated with World Bank and IsDB assistance.

49. Training in the correct use of agricultural chemicals will be part of the extension programme and will include integrated-pest-management packages where appropriate. The project will seek to identify suitable, alternative packaging materials (cardboard cartons) for export consignments in order to reduce pressure on local forest resources for boxes and reduce the packaging costs of farmers. Finally, the project will promote the adoption of fodder production among farmers in an attempt to reduce pressure on pasture land and improve the nutritional value of existing feeding systems.

J. Innovative Features

50. The project will scale up the successful experience of FPP with participatory irrigation management in a country with a highly top-down bureaucratic setting. IFAD has successfully negotiated the necessary changes to the WUA legal framework to create the conditions under which effective, efficient, democratic and financially viable WUAs can develop. The project strives to build local capacity by providing WUAs with the critical investments in earth-moving equipment to start the rehabilitation of their systems themselves, which builds up confidence and increases ownership. Only work beyond the capacity of WUAs will be contracted out.

51. Agricultural production in the area will increase as rehabilitation of the on-farm irrigation systems makes water more readily available and production practices improve through extension and demonstrations. Thus it is important that marketing aspects be addressed. Within this context, the project provides initiatives to address marketing problems through greater access to information on market requirements, prices and supply levels. At the same time, it focuses on supporting entrepreneurs, individuals, groups and producer associations in actively engaging in value addition to local produce and in exploring alternative markets and market linkages through brand-name development, improved produce quality and supply reliability.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

52. A loan agreement between the Republic of Azerbaijan and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

53. The Republic of Azerbaijan is empowered under its laws to borrow from IFAD.

54. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

55. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Azerbaijan in various currencies in an amount equivalent to eight million six hundred thousand Special Drawing Rights (SDR 8 600 000) to mature on or prior to 1 September 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Negotiations concluded on 7 September 2004)

1. The Government of the Republic of Azerbaijan (the Government) will ensure that the Agency for Support to the Development of the Agricultural Private Sector opens and thereafter maintains in a commercial bank, agreed by the Government and IFAD, an account denominated in Azerbaijani manat for project operations (the “project account”). The project account must be protected against set-off, seizure or attachment on terms and conditions proposed by the Government and accepted by IFAD. The project manager will be fully authorized to operate the project account.
2. The Government will make available counterpart funds from its own resources in an aggregate amount of approximately USD 2 300 000 equivalent, in accordance with its customary national procedures for development assistance. For such purposes, the Government will deposit counterpart funds in an initial amount of USD 30 000 equivalent into the project account to cover the first year of project implementation, and will thereafter annually in advance replenish the project account with the counterpart funds called for in the annual work plan and budget (AWP/B) for the relevant project year.
3. The following is specified as an additional event of suspension of the right of the Government to request withdrawals from the loan if the right of the Government to withdraw the proceeds of the OPEC Fund loan has been suspended, cancelled or terminated, in whole or in part, or has become due and payable prior to the agreed maturity thereof; or any event has occurred that, with notice or the passage of time, could result in any of the foregoing.
4. The following are specified as conditions precedent to the effectiveness of the loan agreement:
 - (a) the project operating committee shall have been duly established;
 - (b) the project management unit (PMU) shall have been duly established;
 - (c) a draft AWP/B for the first project year shall have been submitted to IFAD for approval;
 - (d) the Government shall have duly opened the special account and the project account;
 - (e) the Government shall have made the initial deposit of counterpart funds into the project account;
 - (f) a copy of the signed OPEC Fund agreement, in form and substance acceptable to IFAD, shall have been delivered to IFAD, and all conditions precedent to the effectiveness or validity thereof (other than the effectiveness of the project loan agreement) shall have been fulfilled;
 - (g) the project loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action; and
 - (h) a favourable legal opinion, issued by the Government’s Minister for Justice or the Deputy Minister for Justice in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

5. No disbursements will be made for incremental credit through participating commercial banks (PCBs) from the loan until a signed PCB subsidiary loan agreement for the PCBs, in form and substance acceptable to IFAD, is delivered by the Government to IFAD, and all conditions precedent to effectiveness of the subsidiary loan agreement have been fulfilled.
6. No disbursements will be made for incremental credit through non-bank credit institutions (NBCIs) from the loan until a signed NBCI subsidiary loan agreement for the NBCIs, in form and substance acceptable to IFAD, is delivered by the Government to IFAD, and all conditions precedent to effectiveness of the subsidiary loan agreement have been fulfilled.
7. No disbursements will be made for incremental costs for irrigation operation and maintenance and/or the water user association's recurrent expenditures from the loan until a water user association has entered into an agreement with the PMU, in form and substance acceptable to IFAD.
8. The Government will ensure that the AWP/B for the first project year has been prepared in a form and substance acceptable to IFAD.
9. The Government will ensure that the project implementation manual has been prepared in a form and substance acceptable to IFAD.
10. Within 90 days of the date of effectiveness of the loan agreement, the Government will appoint independent auditors for the project, in accordance with procedures and criteria agreed by the Government and IFAD.
11. As part of maintaining sound environmental practices as required by IFAD, the Government will ensure that all implementing agencies maintain appropriate pest management practices under the project and, to that end, the Government will ensure that pesticides used under the project do not include any pesticide proscribed by the Food and Agriculture Organization of the United Nations or by the World Health Organization.
12. The Government will endeavour to ensure that 50% of project staff are women and will raise greater awareness on gender equality issues among project staff. The active participation of women in the economic and social development of their community will be promoted, and women will be encouraged to take an active role in all project activities. In addition, the Government will expand women's access to and control over fundamental assets.
13. The Government will have established the monitoring and evaluation (M&E) system for the project within six months of the date of effectiveness of the loan agreement. It will follow IFAD's *Guide for Project M&E* and collect gender-disaggregated data.
14. The Government will exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the proceeds of the loan.
15. The Government will insure all project staff against health and accident risks to the extent consistent with, and in accordance with procedures under, its customary practice in respect of its national civil service.

APPENDIX I

COUNTRY DATA

AZERBAIJAN

Land area (km² thousand) 2001 1/	87	GNI per capita (USD) 2001 1/	650
Total population (million) 2001 1/	8.11	GDP per capita growth (annual %) 2001 1/	9
Population density (people per km²) 2001 1/	94	Inflation, consumer prices (annual %) 2001 1/	1.5
Local currency	Azerbaijani Manat (AZM)	Exchange rate: USD 1.00 =	AZM 4 900
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1995-2001 1/	0.9	GDP (USD million) 2001 1/	5 585
Crude birth rate (per thousand people) 2001 1/	16	Average annual rate of growth of GDP 1/ 1981-1991	n.a.
Crude death rate (per thousand people) 2001 1/	6	1991-2001	-0.3
Infant mortality rate (per thousand live births) 2001 1/	77	Sectoral distribution of GDP 2001 1/	
Life expectancy at birth (years) 2001 1/	65	% agriculture	17
Number of rural poor (million) (approximate) 1/	n/a	% industry	47
Poor as % of total rural population 1/	n/a	% manufacturing	n/a
Total labour force (million) 2001 1/	3.67	% services	36
Female labour force as % of total 2001 1/	45	Consumption 2001 1/	
Education		General government final consumption expenditure (as % of GDP)	10
School enrolment, primary (% gross) 2001 1/	98 a/	Household final consumption expenditure, etc. (as % of GDP)	65
Adult illiteracy rate (% age 15 and above) 2001 1/	n/a	Gross domestic savings (as % of GDP)	25
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 2/	2 236	Merchandise exports 2001 1/	2 315
Malnutrition prevalence, height for age (% of children under 5) 2001 3/	20 a/	Merchandise imports 2001 1/	1 675
Malnutrition prevalence, weight for age (% of children under 5) 2001 3/	17 a/	Balance of merchandise trade	640
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2001 1/	1 a/	before official transfers 2001 1/	-228
Physicians (per thousand people) 2001 1/	n/a	after official transfers 2001 1/	-52
Population using improved water sources (%) 2000 3/	78	Foreign direct investment, net 2001 1/	129 a/
Population with access to essential drugs (%) 1999 3/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2000 3/	81	Overall budget deficit (including grants) (as % of GDP) 2001 1/	-3 a/
Agriculture and Food		Total expenditure (% of GDP) 2001 1/	23 a/
Food imports (% of merchandise imports) 2001 1/	16	Total external debt (USD million) 2001 1/	1 219
Fertilizer consumption (hundreds of grams per ha of arable land) 2000 1/	13	Present value of debt (as % of GNI) 2001 1/	19
Food production index (1989-91=100) 2001 1/	86	Total debt service (% of exports of goods and services) 2001 1/	5
Cereal yield (kg per ha) 2001 1/	2 648	Lending interest rate (%) 2001 1/	20
Land Use		Deposit interest rate (%) 2001 1/	9
Arable land as % of land area 2000 1/	19		
Forest area as % of total land area 2000 1/	13		
Irrigated land as % of cropland 2000 1/	76		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2003

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2003

PREVIOUS IFAD FINANCING IN AZERBAIJAN

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount (million)	Disbursement (as % of Approved Amount)
Farm Privatization Project	World Bank: IDA	World Bank: IDA	HC	29 Apr 97	24 Jul 97	31 Dec 03	L - I - 447 - AZ	SDR	6.450 000	100
Rural Development Programme for Mountainous and Highland Areas	IFAD	UNOPS	HC	13 Sep 00	01 Jul 01	31 Mar 09	L - I - 542 - AZ	SDR	6.900 000	17

Note: HC = highly concessional
IDA = International Development Association
UNOPS = United Nations Office for Project Services

LOGICAL FRAMEWORK

Objective Hierarchy	Key Performance Indicators ¹	Monitoring Mechanisms and Information Sources	Assumptions
Goal			
To rejuvenate the rural economy in order to facilitate increased, sustainable food security and income of rural households.	<ul style="list-style-type: none"> • Increase in per capita and household incomes, including off-farm income and expenditure patterns. • Reduced incidence of stunting of children, underweight children and acute malnutrition of children < 5 years and improvement in mother and child mortality. 	<ul style="list-style-type: none"> • National-level household income and expenditure surveys. • Nutrition surveys. • SPPRED monitoring system. • Baseline and impact evaluation surveys. • Project completion report. 	<ul style="list-style-type: none"> • Political stability is maintained. • Macroeconomic situation continues to improve. • Social and economic environments remain conducive to market-based economic development.
Purpose of Components			
1. Participatory Irrigation Management Water users' associations operate rehabilitated on-farm irrigation and drainage systems on behalf of their members in ways that are financially viable, equitable and sustainable.	Number of WUAs established and operational. <ul style="list-style-type: none"> • Number of WUA officers trained and percentage discharging their duties effectively. • Increases in irrigated areas. • O&M system established and operational. • Irrigation service fees collected (target >90% of total due to SAIC). • Level of budgeted and actual O&M expenditure per ha. • Percentage of farmers receiving water (target 95%). • Percentage of volumes of water contracted distributed (target 85%). • Percentage of water users satisfied with WUA management, disaggregated by gender. • Percentage area affected by salinity (17% at present). 	<ul style="list-style-type: none"> • WUA accounts. • WUA budgets and accounts. • Project monitoring reports. • WUA accounts. • Monitoring survey. • Project monitoring reports, including participatory monitoring by beneficiaries. 	<ul style="list-style-type: none"> • Amended law gives WUAs authority to set their charges without state interference. • Related investments in off-farm irrigation and drainage infrastructure effective. • WUA operations transparent, with separation of management and governance.
2. Agriculture, Marketing & SME Development Farmers in the irrigated area sustain increased food production and incomes from irrigated crop production, associated livestock enterprises and marketing and/or processing developments.	<ul style="list-style-type: none"> • Number of farmers adopting improved irrigation technology and demonstrated extension and marketing packages. • Increases in irrigated area. • Improved productivity (increases in yields) of crops and livestock. • Higher use of modern farm inputs. • No of SMEs in production, processing & marketing and in other non-farm income-generation activities initiated and operating. 	<ul style="list-style-type: none"> • Project monitoring reports, including participatory monitoring by beneficiaries. • SME business records and books/tax documents. 	<ul style="list-style-type: none"> • Maintenance of a conducive policy and macroeconomic framework for private-sector agricultural development. • Access to markets in Russian Federation.

¹ Indicators at the goal level should be compared with those current at the start of the project, disaggregated by gender. Indicators at purpose and output levels that relate to farmers, microentrepreneurs, households and borrowers should also be disaggregated by gender.

LOGICAL FRAMEWORK (CONTINUED)

Objective Hierarchy	Key Performance Indicators ¹	Monitoring Mechanisms and Information Sources	Assumptions
<p>3. Rural Financial Services Microfinance agencies provide sustainable, gender-sensitive financial services for small-scale farmers and other microentrepreneurs.</p>	<ul style="list-style-type: none"> • No. of branches/offices and no. opened. • No. and type of products available. • No. of loans by type provided to farmers (by gender) and to rural enterprises by microfinance agencies. • Percentage of portfolio at risk (outstanding balance of overdue loans). • Percentage of portfolio sufficiency. • No. of clients and loans outstanding per credit officer. • On-time repayment rates for working capital and investment loans. 	<ul style="list-style-type: none"> • PCB and NBCI reports. 	<ul style="list-style-type: none"> • Conducive policy and macroeconomic framework maintained. • Microfinance Bank of Azerbaijan receives licence to mobilize deposits.
<p>4. Project Management and Coordination ASDAPS provides effective project management and coordination.</p>	<ul style="list-style-type: none"> • Project performance in relation to appraisal and AWP/B targets. • Execution of AWP/Bs. • Uninterrupted flow of local counterpart funds. • Rate of loan disbursement. • Established M&E system operational. • Established review processes (surveys and studies) and participatory M&E procedures (evaluations) operational and effective. • Number and type of reports prepared and circulated. 	<ul style="list-style-type: none"> • UNOPS supervision, mid-term review and project completion reports. 	
Outputs by Component			
<p>1. Participatory Irrigation Management Rehabilitated irrigation infrastructure at the farm level managed by users through efficient, democratic, gender-balanced and sustainable water users' associations.</p>	<ul style="list-style-type: none"> • Number of WUAs established and no. of WUA officers trained. • Length of irrigation infrastructure rehabilitated. • Number of farmers trained in improved irrigation technology. • O&M system established. • Percentage of women members of WUA (target 15%) and percentage of women in WUA board (target 10%). 	<ul style="list-style-type: none"> • WUA records, budgets and accounts. • M&E survey. • Project monitoring reports, including participatory monitoring by beneficiaries. 	<ul style="list-style-type: none"> • WUA law gives them authority to set their charges without state interference. • WUA operations transparent, with separation of management and governance. • Maintenance of conducive policy and macroeconomic framework for private-sector agricultural development. • Conducive policy and macroeconomic framework maintained.

LOGICAL FRAMEWORK (CONTINUED)

Objective Hierarchy	Key Performance Indicators ¹	Monitoring Mechanisms and Information Sources	Assumptions
Outputs by Component – Continued			
2. Agriculture, Marketing & SME Development <ul style="list-style-type: none"> • Increased production and improved quality of agricultural and livestock produce realized by small farmers. 	<ul style="list-style-type: none"> • No. of trials/demonstrations and no of farmers (by gender) trained in improved crop production, irrigation technology and animal husbandry. • Area (no. of ha) under improved crop technology. • Amount of improved seed produced under seed-multiplication programme. • No. of households purchasing livestock and increase in livestock ownership per household. • No. of artificial-insemination services provided. 	<ul style="list-style-type: none"> • Project monitoring reports, including participatory monitoring by beneficiaries. 	<ul style="list-style-type: none"> • Improved crop and livestock husbandry practices employed by farmers.
<ul style="list-style-type: none"> • Increased local capacity for adding value to local produce by large numbers of small and medium processing enterprises, operating at high-capacity levels. 	<ul style="list-style-type: none"> • No. of SMEs in farm and off-farm income generation activities. • Volume and value of output processed locally. 	<ul style="list-style-type: none"> • Tax records of enterprises engaged in processing and marketing. 	<ul style="list-style-type: none"> • Access to markets in Russian Federation.
<ul style="list-style-type: none"> • Well-functioning marketing arrangements for local produce, involving entrepreneurs and local producer associations engaging in bulking, grading, packaging, transporting and selling their products at remunerative prices. 	<ul style="list-style-type: none"> • Volume and value of produce passing through organized marketing channels. • Rise in percentage of farm-gate price in relation to consumer price. 	<ul style="list-style-type: none"> • Tax records of enterprises engaged in processing and marketing. 	
3. Rural Financial Services <ul style="list-style-type: none"> • Increased access by small farmers and SMEs to finance, and improved outreach of sustainable rural finance agencies providing gender-sensitive services for small-scale farmers/microentrepreneurs. 	<ul style="list-style-type: none"> • Volume of credit delivered by loan product type, no. of borrowers, average loan size (gender disaggregated) and no. of repeat borrowers. • No. clients and loans outstanding per /credit officer. • On-time repayment rates for working capital and investment loans. 	<ul style="list-style-type: none"> • PCB/NBCI balance sheets. • PCB/NBCI reports. 	
4. Project Management and Coordination <ul style="list-style-type: none"> • Well-functioning institutional arrangements for project coordination and implementation. 	<ul style="list-style-type: none"> • M&E system established. • Coordination meetings, review processes and participatory M&E procedures, including surveys, studies and evaluations established. 	<ul style="list-style-type: none"> • Project performance in relation to appraisal and AWP/B targets. • PMU reports. • UNOPS supervision. mid-term review and project completion reports. 	

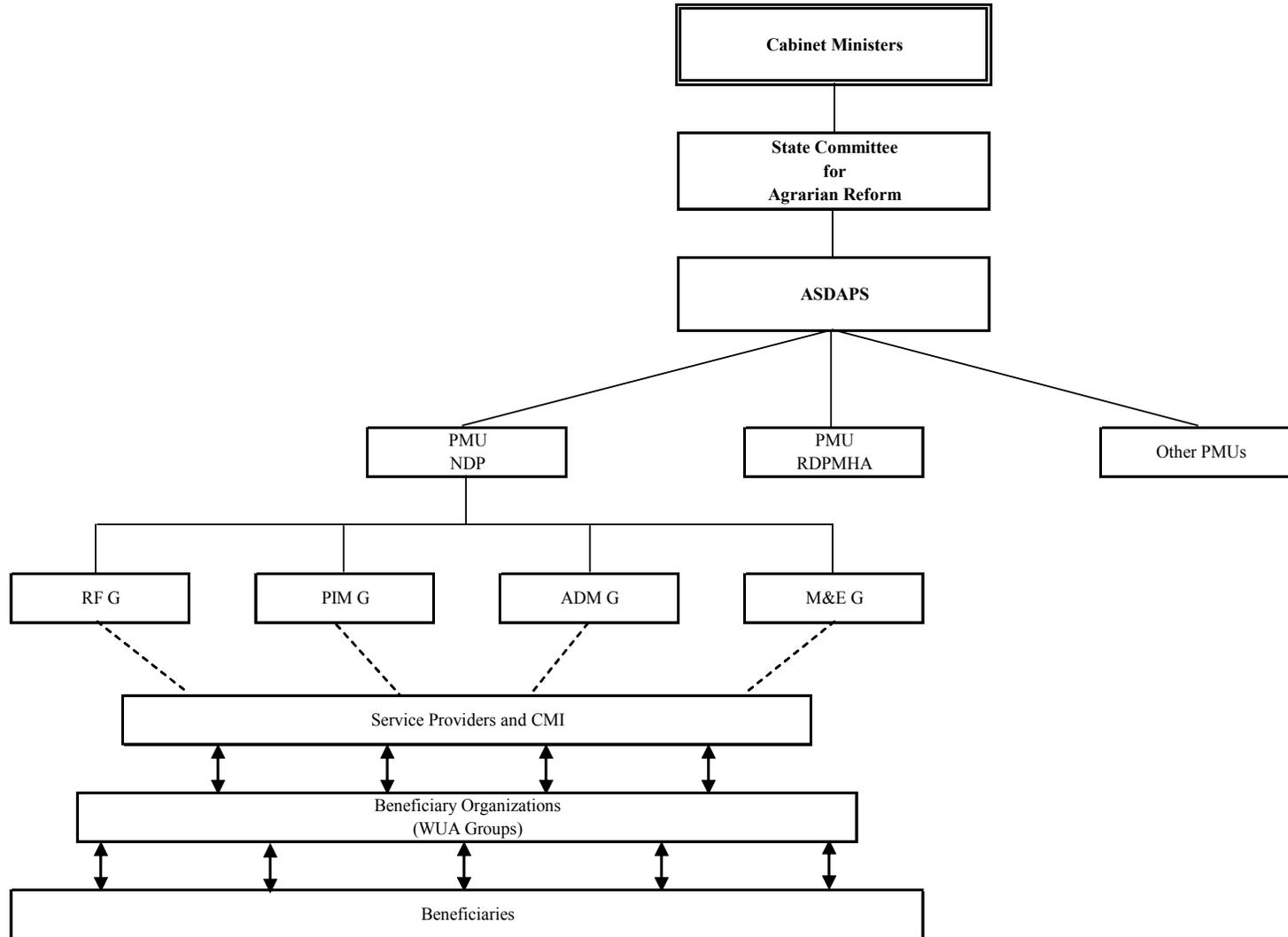
¹ Indicators at the goal level should be compared with those current at the start of the project, disaggregated by gender. Indicators at purpose and output level that relate to farmers, microentrepreneurs, households and borrowers should also be disaggregated by gender.

LOGICAL FRAMEWORK (CONTINUED)

Objective Hierarchy	Key Performance Indicators ¹	Monitoring Mechanisms and Information Sources	Assumptions
Activities by Component	Key Inputs	Costs	Assumptions
1. Participatory Irrigation Management <ul style="list-style-type: none"> • Provide support to develop the six WUAs. • Rehabilitate on-farm irrigation and drainage systems on some 32 000 ha in the six WUAs. 	<ul style="list-style-type: none"> • Support provided to WUAs (offices, vehicles, O&M machinery, training, operating costs, etc. • WUAs covering an increasing share of their O&M costs. • Increase in irrigated acreage per WUA. • Percentage of payment of water charges. • Contracts for water-control-structures rehabilitation and/or construction. • Increased irrigation efficiency. 	<ul style="list-style-type: none"> • PMU reports and accounts. • WUA balance sheets and accounts. • Beneficiary monitoring surveys. 	<ul style="list-style-type: none"> • WUAs able to undertake earthwork construction/rehabilitation once equipment has been provided.
2. Agriculture, Marketing & SME Development <ul style="list-style-type: none"> • Undertake on-farm demonstrations, extension and farmer training. • Provide business support services, including market information to each <i>raion</i>. • Facilitate the formation of producer, collection, processing and marketing groups. 	<ul style="list-style-type: none"> • No. and type of service provider engaged. • No. and frequency of demonstrations. • No. of farmers trained. • Business development centres established & types of support provided. • No. of groups formed & volume of business transacted by them. 	<ul style="list-style-type: none"> • PMU records and accounts. • M&E reports. • Adoption/readoption surveys. • Business development centre reports. 	<ul style="list-style-type: none"> • Appropriate crop and livestock production technology available. • Marketing and processing opportunities available.
3. Rural Financial Services <ul style="list-style-type: none"> • Engage PCB(s) and NBCI(s) to deliver credit and other financial services to farmers and entrepreneurs on a sustainable basis. 	<ul style="list-style-type: none"> • No. of PCBs and NBCIs engaged. • Volume and number of loans or other services provided. • No., type and cost of TA support provided to PCB. • Lending margins & repayment rates. • High client satisfaction. 	<ul style="list-style-type: none"> • PMU records and accounts. • PCB /NBCI balance sheets & reports. • Beneficiary monitoring surveys. 	<ul style="list-style-type: none"> • Financially attractive on-farm and off-farm investments available.
4. Project Management and Coordination <ul style="list-style-type: none"> • Establish PMU within ASDAPS for project management, coordination & gender mainstreaming. 	<ul style="list-style-type: none"> • M&E system established. • Review processes (surveys and studies) and participatory M&E procedures (evaluations) established. 	<ul style="list-style-type: none"> • PMU records and accounts. • Loan data. • M&E reports. • Evaluation and completion reports. 	<ul style="list-style-type: none"> • Suitably qualified and experienced staff available.

¹ Indicators at the goal level should be compared with those current at the start of the project, disaggregated by gender. Indicators at purpose and output level that relate to farmers, microentrepreneurs, households and borrowers should also be disaggregated by gender.

ORGANIGRAMME



APPENDIX V

**LINKS BETWEEN THE PROJECT DESIGN AND IFAD STRATEGIC FRAMEWORK 2002-2006
AND REGIONAL STRATEGY FOR CENTRAL AND EASTERN EUROPE AND THE NEWLY
INDEPENDENT STATES**

Links to the IFAD Strategic Framework 2002 – 2006

IFAD Strategic Framework	Project Design
Strengthen the capacity of the poor and their organizations.	<ul style="list-style-type: none"> • Capacity building for the members of the WUAs to participate in the governance of the WUAs through elected representatives. • Capacity building of the staff of the WUAs to operate, maintain and develop the on-farm irrigation and drainage systems in ways that are equitable, efficient, effective and financially sustainable. • Establish groups of poor small-scale farmers for: vegetable and fruit marketing, milk collection, and fodder production. • Members of the target group to establish equipment leasing and contracting services.
Improve equitable access to productive resources and technology.	<ul style="list-style-type: none"> • Rehabilitate and develop the on-farm irrigation and drainage systems using the WUAs to re-construct the existing earthworks (canals and drains) and construct new earthworks (canals and drains). • Provide on-farm participatory demonstrations of appropriate improved technology and related extension and farmer training activities. • Support input suppliers to make available seed of improved varieties, fertilizers and agricultural chemicals.
Increase access to financial services and markets.	<ul style="list-style-type: none"> • Provide credit funds and technical assistance to the participating commercial bank (PCB) to make working capital and investment loans to members of the target group, small-scale farmers and other micro-entrepreneurs. • Provide credit funds and technical assistance & training to non-bank microfinance institution (NBCI) to make small working capital loans to members of the target groups (men and women), small-scale farmers and other micro-entrepreneurs.

Links to the Regional Strategy for CEE and NIS

Regional Strategy	Project Design
Strengthen the institutional capacity of government departments, private financial institutions and civil society.	<ul style="list-style-type: none"> • Support for ASDAPS to establish a PMU which will coordinate and manage project activities. • Support service providers to provide on-farm participatory demonstrations of appropriate improved technology and related extension and farmer training activities. • Channel credit funds through PCB and NBCI which are private sector financial institution. • Capacity building of the staff of the WUAs to operate, maintain and develop the on-farm irrigation and drainage systems in ways that are equitable, efficient, effective and financially sustainable.
Foster new market linkages needed to support the transition process.	<ul style="list-style-type: none"> • Establish groups of poor small-scale farmers for: vegetable and fruit marketing and milk collection. • Provide credit through PCB and NBCI for marketing and processing activities.
Support selected investments in on-farm productivity	<ul style="list-style-type: none"> • Rehabilitate and develop the on-farm irrigation and drainage systems using the WUAs to re-construct the existing earthworks (canals and drains) and construct new earthworks (canals and drains).
Support for the non-farm rural sector.	<ul style="list-style-type: none"> • Establish groups of poor small-scale farmers for: vegetable and fruit marketing and milk collection. • Provide credit through PCB and NBCI for marketing and processing activities.
Protection of natural resources e.g. pastures, forests.	<ul style="list-style-type: none"> • Establish fodder production groups on land rented from municipalities to increase the availability of high quality fodder and to reduce the pressure on pastures. • Promote the use on non-wooden crates for marketing fruit and vegetables to take pressure off the forestry resources in support of government controls on timber extraction.
Develop rural financial services to support programmes in the above areas.	<ul style="list-style-type: none"> • Same as linkages with the IFAD Strategic Framework 2002 – 2006.

