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Enabling poor rural people
to overcome poverty

Republic of Azerbaijan

Country strategic opportunities programme

Executive Board — Ninety-ninth Session
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For: **Review**

Note to Executive Board members

This document is submitted for review by the Executive Board.

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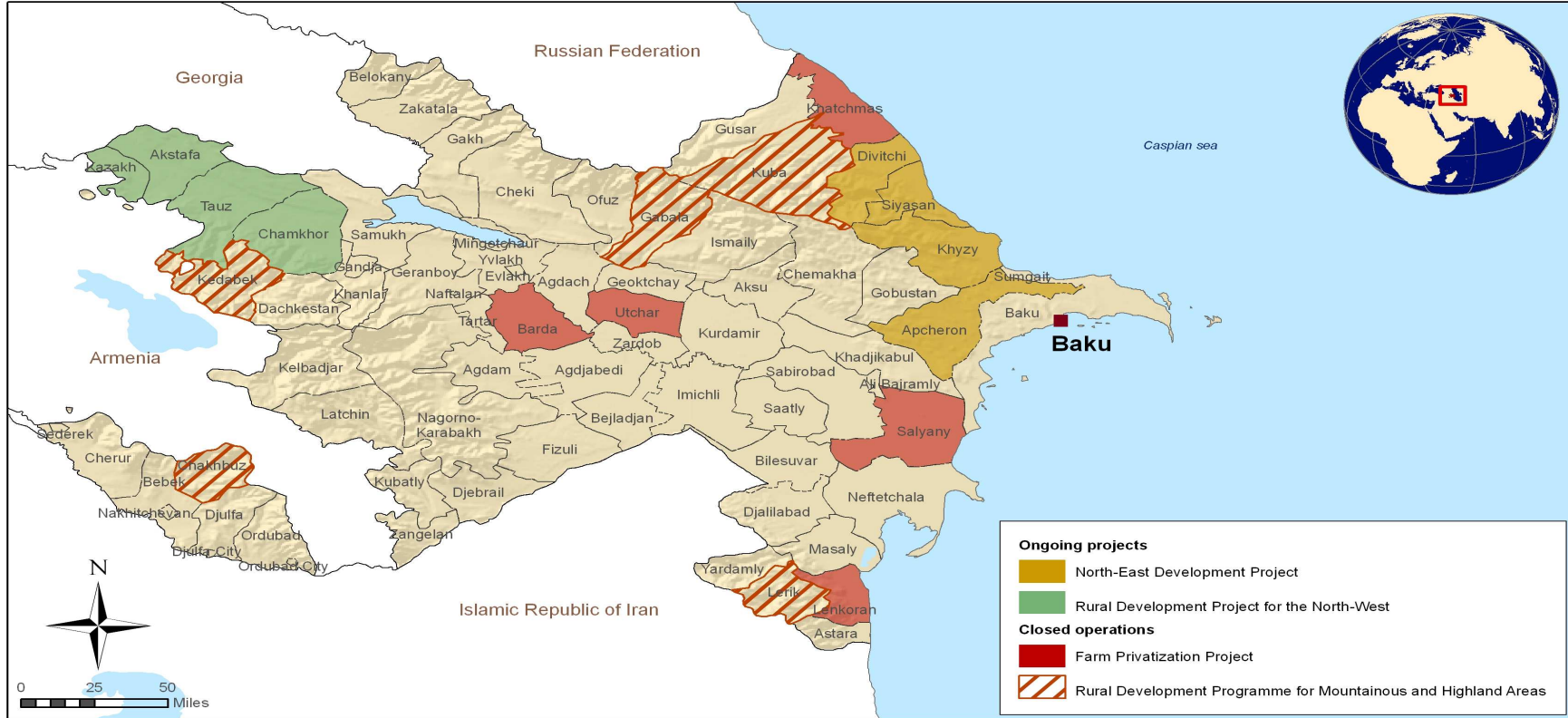
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Abbreviations and acronyms

COSOP	country strategy opportunities programme
CPMT	Country Programme Management Team
IDA	International Development Association
M&E	monitoring and evaluation
MADAD	'Madad' Humanitarian Organization Public Union
MFI	microfinance institution
NDP	North-East Development Project
NRM	natural resource management
O&M	operation and maintenance
PAR	project at risk
SAAC	State Agency for Agricultural Credit
SAIC	State Amelioration and Irrigation Committee
SME	small and medium-sized enterprise
SPPRED	State Programme on Poverty Reduction and Economic Development
SPPRSD	State Programme on Poverty Reduction and Sustainable Development
SPRFSP	State Programme on Reliable Food Supply to the Population
UNDAF	United Nations Development Assistance Framework
WUA	water users' association

The Republic of Azerbaijan

IFAD-funded ongoing and closed operations in the country



8-2-2010

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

Summary of country strategy

1. This is the second country strategic opportunities programme (COSOP) for the Republic of Azerbaijan, covering the period 2010-2015, and is aimed to further integrate the IFAD programme in the country's own development strategies and plans. It is the result of a consultative process involving the Government, donors and civil society institutions. The strategic objectives are aligned with the Azerbaijan State Programme on Poverty Reduction and Sustainable Development, as well as with the State Programme on Reliable Food Supply to the Population, the two main documents providing policy directions in terms of poverty reduction and rural development for the next six years.
2. Azerbaijan is a middle-income country with a 2008 per capita GNI of US\$3,830. The country's average real GDP growth stood at 20 per cent per annum over the period 2004-2008. This pace of growth, one of the highest in the world, was almost exclusively fuelled by the oil and gas sectors. The latter account for nearly 60 per cent of the country's GDP. Notwithstanding the substantial social transfers financed by oil revenues, which succeeded in cutting the official rural poverty rate from 49 per cent in 2003 to 15.7 per cent in 2008, poverty is still persistent in rural areas.
3. Agriculture, accounting for a mere 6 per cent of GDP, remains the largest employer, with 40 per cent of the total workforce. Post-soviet farmland tenure reforms were comprehensive and relatively successful compared with other former soviet countries. The number of farms went from nearly 200 collectives and state farms, the so-called kolkhozes and sovkhoses, to nearly one million private landholdings – all needing support services. The deteriorating state of natural resources (irrigated farmland in the lowlands and forest cover in the highlands) and rural infrastructure (including irrigation and drainage systems), as well as the lack of adequate agricultural support and financial services, are still hampering the sector's development.
4. After consideration of the status of rural poverty, the stage of development of the rural economy, the poverty and agricultural development policy settings of the Government and the results and lessons of IFAD's experience to date in Azerbaijan, two strategic objectives are proposed for the COSOP.
5. **Strategic objective 1: Enhanced natural resource management for improved food security.** Under this objective, the IFAD programme will endeavour to improve the access of poor rural people to assets and services for the sustainable management of natural resources, including improved irrigation-water delivery services and rangeland management. Enhanced natural resource management (NRM) is the key to sustainable, improved agricultural production and the resultant food security. Poor NRM contributes greatly to poor productivity and profitability of agriculture. It is thus proposed that, under this COSOP, interventions providing solutions to NRM constraints be applied.
6. **Strategic objective 2: Improved access of poor rural people to profitable markets and value chains.** The IFAD programme will endeavour to improve the access of rural agricultural producers to profitable value chains. The lack of market linkages accessible to poor people, and the associated dearth of effective rural value chains, is a substantial brake on income generation for farmers and rural inhabitants. Frequently, even when production technology is improved, farmers suffer from the effects of low prices, post-harvest losses and high transaction costs. In common with these factors, there is an overall lack of non-farm rural employment opportunities. In some cases, several interventions would be packaged within one activity. A financially rigorous approach to all activities prior to investment is an overarching need.

Republic of Azerbaijan

Country strategic opportunities programme

I. Introduction

1. A Poverty Reduction Strategy Paper was approved by the Government in October 2002, setting out the strategies for the forthcoming five years. This was used as the policy foundation for the previous country strategic opportunities programme (COSOP) for Azerbaijan, which was approved by the IFAD Executive Board in September 2003. It was operational for the period from its approval to the present, a period of more than six years. During this time, the Azerbaijani economy underwent a substantial transformation, due to the combined effects of financial reforms, major infrastructure investments and the impact of dramatic increases in revenues from oil and gas sales. During 2007, the Government prepared the State Programme on Poverty Reduction and Sustainable Development (SPPRSD) for the period 2008-2015, which was subsequently published in October 2008. During the same period, it also prepared the State Programme on Reliable Food Supply to the Population (SPRFSP). These documents provide the policy directions of poverty reduction and rural development for the next six years. This new COSOP is fully compliant with the SPPRSD and SPRFSP, and is expected to guide the IFAD-supported programme for the period 2010-2015, reflecting new economic-, social- and rural-poverty-related factors.
2. The COSOP preparation process¹ began with a rural poverty analysis for Azerbaijan. Thereafter, a COSOP preparation mission visited the country from 29 September to 17 October 2009. A stakeholder workshop was held in Baku on 9 October to discuss initial ideas on a possible strategy, future intervention activities and the monitoring of results. A strategic environmental assessment was conducted as a key part of the COSOP preparation process, in view of the central role that environmental restoration and management are likely to play in future interventions.

II. Country context

A. Economic, agricultural and rural poverty context²

Country economic background

3. Azerbaijan is a middle-income country with a 2008 per capita GNI of US\$3,830. The country's average real GDP growth stood at 20 per cent per annum over the period 2004-2008. Although most of this growth has been attributed to a surge in oil and gas exports, the non-energy sector also featured double-digit expansion in 2008, spurred by growth in the construction, banking and real estate sectors. Inflation of 21.6 per cent was recorded in 2008, but by mid-2009, this had declined to an estimated 4 per cent.
4. The budgetary situation remains relatively solid, despite downward pressures on oil and gas revenues, the country's main export commodities, due to the unfolding economic crisis. However, with public debt of only 5.5 per cent of GDP in 2008, and a strong current account surplus, the macroeconomic indicators remain positive. Despite budgetary pressures, the Government is continuing to allocate substantial resources to developing the more-sustainable, non-oil economy, particularly agriculture.
5. The cultivable area is estimated to be about 4.32 million hectares (ha), 50 per cent of the total territory. The irrigation potential is estimated at 3.2 million ha. The construction of irrigation canals started in the nineteenth century, but intensive

¹ Appendix I, COSOP consultation process.

² Appendix II, Country economic background.

irrigation development took place after World War II, reaching 65,900 km of canals and 1.45 million ha of irrigated land in 1995. However, only 3.6 per cent of the canals were made of concrete, and the irrigation efficiency is estimated at 40-50 per cent. In 1995, almost 90 per cent of irrigation was superficial, mainly furrow and strip irrigation. The total drainage network, covering 0.61 million ha, needs renovation in more than half the drained area. The area affected by salinity is estimated at 0.64 million ha, nearly 44 per cent of total irrigated area.

6. The Human Development Index (HDI) for Azerbaijan is 0.746, which gives the country a rank of 98th of the 177 countries with data. When the Gender Development Index (GDI) value of 0.743 is compared to its HDI value of 0.746, it suggests a relatively high degree of gender equality. The country has a low official unemployment rate of 0.8 per cent, but this masks considerable underemployment and overmanning in some industries. The International Monetary Fund puts the estimated unemployment rate at 15-20 per cent. Moreover, the Government definition of employed people includes all farm owners, whether or not they use their land. This definition of employment is not compliant with International Labour Organization standards, although the Government does not officially recognize this discrepancy.
7. The major constraints facing the Azerbaijan economy are those associated with the need to strengthen the non-oil economy, especially given the prospect that known reserves of oil and gas will be fairly rapidly depleted. According to analysis conducted by the International Development Association (IDA) of the World Bank Group, oil production in Azerbaijan is projected to reach a peak in 2010 and then begin to rapidly decline from 2012 onward to less than half its peak by 2018. By 2024, oil reserves are expected to be depleted. Gas production follows a similar trend.
8. Azerbaijan industrial and energy production sectors are the major sources of greenhouse gas emissions. Climate change implications for agriculture and natural resources come from: the potential rise in Caspian sea levels and thus the threat to arable coastal lowlands, including increased salinization of cultivated land; increased incidence of erratic rainfall; recurrent droughts; and deforestation in the mountains, contributing to land degradation.
9. The Government has identified several capacity improvement activities for climate change adaptation and mitigation. As key interventions in this area, it has identified the use and recycling of biomass, production of biogas and biofuel mainly from livestock wastes, and the construction of small hydropower plants and reforestation schemes in mountain areas. Moreover, several initiatives are being prepared for funding under the Clean Development Mechanism (CDM), but poor knowledge of climate change issues and the limited capacity of public and private stakeholders to prepare CDM-eligible projects are also recognized.³

Agriculture and rural poverty

10. The agriculture sector employs 39.3 per cent of the workers in Azerbaijan, compared with 12.1 per cent in industry and 48.6 per cent in services. However, agriculture accounts only for 6 per cent of GDP, compared with 62.6 and 31.4 per cent for industry and services respectively. These figures provide a strong indicator of the relative poverty contained within the agriculture sector, and of the sector's low productivity.
11. The 850,000 rural households that now own the 1.3 million ha distributed from state farms and collectives produce over 90 per cent of agricultural output. These smallholder farmers usually have fragmented land areas of from 1 to 3 ha, and they face the constraints of small area, limited profits and hence scarce financial means.

³ Derived from the strategic environmental assessment done for the COSOP.

Farmers have very good general education, but their technical knowledge is limited, and mainly formed from the experiences of the previous planned-economy system.

12. Although the agriculture sector has grown in recent years, its growth has been greatly outpaced by that of the industry and service sectors. Imports of food products currently outweigh exports by a ratio of 2.5 to 1, with imports averaging more than US\$640 million per year, and exports less than US\$385 million per year in 2005-2007.⁴ Due to the low rainfall, more than three quarters of the cropped area of 2.0 million ha is under irrigation. However, a large proportion of irrigated land, more than 90 per cent in some areas and at least 50 per cent in all others, is badly damaged and provides a very poor production environment. This is essentially due to the combined effects of salinity and the poor state of water delivery and drainage structures. There is degradation of the productive environment in mountain and highland areas as well, as much of the landscape has been deforested and subsequently eroded. Production systems are based on outdated practices and technologies; most farm machinery, where available, is obsolete; agricultural inputs are scarce and/or of poor quality; there are few effective extension services; veterinary services, while available, lack experienced staff and funding; financial services are limited or inaccessible; and access to domestic and export markets has been disrupted.
13. Neither has appropriate attention been paid to markets, marketing and value chain development. Farmers typically produce for home consumption, and surpluses are then sold in informal markets on an opportunistic basis, often at very low prices. Coupled with this, there is a general dearth of market infrastructure such as storage facilities, packing plants and other forms of value adding for rural produce.

Gender and rural poverty

14. Although the findings of the Household Budget Survey for 2008 suggest no significant gender differential in susceptibility to poverty, other data from the State Programme on Poverty Reduction and Economic Development (SPPRED) and World Bank studies indicate that women have a higher risk of unemployment, lower status and pay, less effective social networks and a loss of autonomy and status as traditional male authority is reasserted. However, it has also been reported that the distribution of land and farm assets appears to have been equitable. Although Azerbaijan has essentially achieved gender equality in secondary and higher education, the data show that coverage at the level of basic and secondary education is not complete, especially in rural areas.
15. Women are disproportionately employed in agriculture, with 41.8 per cent of the economically active population of women engaged in agriculture, in comparison with only 35.1 per cent of that of men. Women also constitute the majority (54.1 per cent) of all those engaged in agricultural production. In rural areas, women are a vulnerable group for several additional reasons. Although they represent the majority of those involved in agriculture, their status is unclear with regard to property issues and to decision-making within households. Deficiencies in public services in rural areas, such as access to adequate sanitation and safe drinking water, market centres and health services, affect poor rural women disproportionately by increasing workloads and the time commitments of meeting basic family needs. As a result, rural women suffer from 'time poverty',⁵ which is especially pronounced when they have small children, as only 2 per cent of rural children attend preschool institutions.

⁴ State Statistical Committee, Statistical Yearbook of Azerbaijan.

⁵ 'Time poverty' means that the individual has little discretionary time available for productive work once social and domestic obligations are discharged.

Trends in rural poverty

16. According to official data, during the period of the SPPRED and the subsequent SPPRS (2003-2008), the incidence of poverty nationally fell from 46.7 per cent to 13.2 per cent of the population; in rural areas incidence is estimated at 15.7 per cent; the corresponding urban figure is 10.8 per cent. Nationally, official figures show that extreme poverty incidence had fallen from 9.6 per cent in 2003 to 2.2 per cent in 2005. These figures exclude non-income indicators, such as poor infrastructure and diminishing access to health and education in rural areas. However, as noted in the poverty study, while oil revenue and social transfers have substantially contributed to this apparent steep decline in poverty, the official figures overstate the degree of poverty reduction due to methodological and data collection discrepancies. Risk of poverty increases directly with the number of children and inversely with the education level of the household head. The Household Budget Survey for 2006 gave the poverty rate of households of over six members as 57 per cent, and that of households with no children as 23 per cent.

Drivers of rural poverty

17. The critical asset, the one with the utmost importance for differentiating poor households from those that might not be poor, seems to be employment, which was often referred to as 'government employment'. This implies that there is a difference both in level of payment and in employment security in comparison with other types of employment. Informal employment is only seasonal and is in agriculture. The most relevant personal asset in dealing with poverty is education, as it not only enables employment, but higher social capital as well, with better connections with the most powerful people in the district.
18. In addition to unemployment, poverty is explicitly connected to the lack of resources for agricultural activity. The major characteristics of extremely poor people are that they have very limited or no possibilities even for subsistence farming, owing to some combination of lack of irrigation, lack of markets, small landholding, flooding, distance of the land plot from the house, no start up money for the investment, or poor soil. Moreover, since the eligibility criteria for targeted social assistance (TSA) excludes those who own land, many among the poorest landowners are not receiving TSA.
19. The relative state of the poverty and deprivation of rural people is largely determined by physical location and lack of amenities. Typically, poor villages are far from district centres and main roads, mostly in border and upland or mountain areas; have no irrigation or the irrigated land is degraded; lack a sufficient, reliable drinking water supply; have poor road access and public transportation; often have inadequate health facilities and services; and some have many refugees and internally displaced people from the Nagorno-Karabakh region. In addition, there is the phenomenon of relative poverty due to intensified social stratification in villages, many of which are not, in aggregate, poor. In this situation, relatively wealthy groups coexist with those that are very poor. In such cases, poverty relates to: number of single-headed households; the gap between employment loss and non-attainment of pension age; size of family and dependence; disability and low mobility, mainly of women; and absolute deficiency of household income.
20. To summarize, there would appear to be two main groups that IFAD can target for further project assistance:
- (a) Smallholders who own areas of degraded or defunct irrigated land in lowland areas. These people are unable to use their irrigable land due to systematic problems of water delivery, water quality, salinity and lack of access to services; and
 - (b) Small-scale farmers, livestock owners and unemployed people in mountainous areas who lack access to markets, finance, improved technology and

infrastructure. These rural people also face challenges of environmental degradation and the future impact of climate change.

B. Policy, strategy and institutional context

Government sector

21. The Ministry of Agriculture will continue as the main partner organization, and is proposed as the host implementation organization for future interventions under the COSOP. It has wide experience in the implementation of rural development projects and programmes, and deep knowledge of rural affairs. It has technically skilled staff and appreciation of the theoretical technical potential of the different agricultural zones, crops and types of livestock. In addition to its staff at headquarters and subsidiary agencies, it also has nine regional offices. At the district level, the key agricultural and rural development cadre, usually consisting of three or four people, is assigned under the 'head of executive power' (the equivalent of a district governor) and plays only a minor field role.
22. A combined programme management unit for the two ongoing IFAD-supported projects is managed by the Ministry's State Agency for Agricultural Credit (SAAC). This agency has the mandate to support agricultural development, with an emphasis on the provision of financial services. However, it has a wide-ranging interest that includes service provision and support to both the rainfed and irrigated sectors. It also manages implementation of the Second Agricultural Development and Credit Project (ADCP II) and the Azerbaijan Rural Investment Project (AzRIP), both financed by the World Bank.
23. The State Amelioration and Irrigation Committee (SAIC) is responsible for operation and maintenance (O&M) of the off-farm, primary and secondary infrastructure of irrigation schemes, as well as for the management of on-farm irrigation and drainage infrastructure. SAIC has some 22,000 employees, with the great majority located at the district level. It is responsible for national policy and legislation, technical standards and regulations, data collection and monitoring of irrigated areas. Despite its mandate, SAIC has difficulty in attracting adequate resources, and is often unable to undertake proper maintenance and reconstruction in the irrigation sector. The main responsibility of SAIC district personnel is O&M of irrigation and drainage systems, including the collection of irrigation service fees from water users' associations (WUAs) or individual farmers. It has generally capable, experienced engineering staff, but a supply-driven and top-down operational approach, which tends to deal with WUAs as subsidiary organizations.

Non-government and private sector

24. The 'Madad' Humanitarian Organization Public Union (MADAD) is a prominent NGO currently implementing IFAD-supported projects. It has expertise in the fields of rural business services, business training, market development and rural finance.
25. The banking sector in Azerbaijan is showing signs of greater maturity and interest in working in the rural sector. It has high liquidity, and there is strong competition within the sector. Although the interest rate regime is currently at high levels in real terms, this factor is expected to moderate over time due to lower inflation. IFAD projects currently have partnership arrangements with three commercial banks and two microfinance institutions (MFIs), Agracredit and Micromaliye. These should be scaled up as conditions permit and demand for bank credit in rural areas grows.
26. There are numerous private-sector marketing, processing and input supply enterprises that will be integral to the successful development of rural value chains. Although most lack finance for investment and working capital, they represent opportunities for expanding input supply, marketing and processing services. Some already have access to key markets in Russia and elsewhere, and their knowledge

and experience will be vital in enabling poor farmers to participate in the market economy.⁶

National rural poverty reduction strategy⁷

27. In 2003 the Government decided to align the Millennium Development Goals with the SPPRED, which then became the main national poverty reduction strategy document. Thereafter, in 2007, the Government prepared the SPPRS as a follow-up programme to the SPPRED. The SPPRS now serves as a strategic policy framework for poverty reduction in the country. There were nine strategic goals identified. Of these, the envisaged IFAD programme would contribute to the following three:
- (a) Increasing income-generating opportunities and achieving a substantial reduction of poverty in the poorest sectors of the population;
 - (b) Improving the environmental situation and ensuring sustainable management of natural resources; and
 - (c) Promoting and protecting gender equality, continuing institutional reforms and improving good governance.
28. As a complementary policy to the SPPRS, the Government adopted the SPRFSP. This reflects the Government's policy of reducing local food-market dependence on food imports. The IFAD programme would support this policy through:
- (a) Reducing local market dependence on food imports;
 - (b) Making more-effective use of household production capacities; and
 - (c) Encouraging agribusiness to take a major role in food supply improvement.

Harmonization and alignment⁸

29. The proposed IFAD programme during the period 2010-2015 is well aligned with the United Nations Development Assistance Framework (UNDAF) for 2011-2015. The programme would be integrated within the scope of UNDAF outcome 1, Economic development: "By 2015, non-oil development policies result in better economic status, decent work opportunities and a healthier environment in all regions and across all social groups." Within this UNDAF goal, the goal of the IFAD COSOP would be:

By 2015, non-oil rural development results in better economic status, decent work opportunities and a healthier environment for poor people in rural areas.

30. Among the outputs envisaged in the UNDAF to achieve this outcome, several would be supported by the IFAD programme, in collaboration with other United Nations agencies, the Government and local stakeholders. The most important would be:
- (a) Greater food security for the vulnerable is achieved through enhanced national capacity to generate, analyse and communicate food-security related information to support the decision-making process;
 - (b) Rural employment creation and income diversification are integrated into agricultural and rural development policies, programmes and partnerships; and
 - (c) Management of mountainous ecosystems is improved.

⁶ Key file 2, Organizations matrix.

⁷ See column 1 of appendix III, COSOP results management framework.

⁸ Key file 3, Complementary donor initiative/partnership potential.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

31. IFAD has supported four projects in Azerbaijan: the Farm Privatization Project (FPP), cofinanced with IDA; the Rural Development Programme for Mountainous and Highland Areas (RDPMHA); the North-East Development Project (NDP); and the Rural Development Project for the North-west (RDPNW). FPP and RDPMHA have been completed, while NDP is in the advanced stages of implementation. Implementation of RDPNW is now beginning, but it is too early to gain any lessons from this experience.
32. FPP pioneered the land redistribution initiative that has led to the revival of the rural sector and assisted its transformation into a market-based economy. The project completed allocation of all of the designated area, covering 26 per cent of all agricultural land, and enabled land title registration to take place, presaging the emergence of a land market and increased security for owners. FPP also pioneered the establishment and support of WUAs, demonstrating the practicability of participatory irrigation management (PIM), despite some problems of water charge sufficiency and collection. This led to formation of the original WUAs, and dialogue between IFAD and the Government contributed to framing the amended Amelioration and Irrigation Act.
33. RDPMHA covered five districts across the Greater Caucasus range and in Nakhchivan and the south-east. Its main interventions were: community-based participatory development and social infrastructure investment; income generation support in crop and livestock productivity improvement, processing and marketing, backed up by the provision of financial services by a contracted NGO; and a pilot communal environmental activity. The programme made good progress in the uptake of livestock improvement services, establishment of local groups and producer associations, the introduction of bee-keeping, provision of rural financial services, enterprise development and gender mainstreaming.
34. NDP began implementation in late 2006. The project is designed to carry forward the principles of WUA formation and PIM that were established under FPP; and to expand the extent of irrigation scheme rehabilitation in four of the six districts of the north-east. The project also focuses on agricultural productivity, marketing development and rural financial services provision for both micro and small-scale lending through a contracted MFI. In addition, it is involved in a larger-scale enterprise investment through a commercial bank, following the successful example of RDPMHA.

B. Lessons learned

35. The following lessons have been learned from the IFAD country programme:
 - (a) **Water users' associations and PIM.** WUAs have become the standard practice for implementation of irrigation rehabilitation, operation and maintenance activities; the participatory approach gives a sense of ownership, increases prospects for system sustainability and predicates efficient water use and the propensity of water users to pay a realistic charge for water costs; the major threat to WUA performance is lack of funding and resource provision for associations, as well as for SAIC, which is supposed to support WUA activities.
 - (b) **Cooperation in producer groups.** Considerable time, resources, flexibility and empathy are required to overcome the entrenched dependency and aversion to risk of poor rural people. There have been only slow progress, high costs of interaction and limited success rates for such initiatives to date. With perseverance, a significant number of disadvantaged communities responded to real opportunities for improved livelihoods, and are prepared to work together to realize their aims. Farmers and stock owners should be encouraged to form their own organizations in order to promote their economic interests,

collectively obtain services and negotiate prices for consolidated output. Projects may need to contract specialized expertise to assist in organizing producers, training members, formulating objectives and business plans, developing regulations, and legal registration.

- (c) **Cost-sharing, fee paying and sustainability.** There are some examples of sustainable WUAs with good levels of management, equipment and capacity for service to members. However, there is still a marked reluctance on the part of participants in weaker WUAs to share costs or pay fees for services. Thus the question of sustainability has yet to be resolved.
- (d) **Credit demand and financial and business services provision.** There is a strong demand for credit among farmers and a developing record of successful rural business expansion, sound debt management and loan repayment among MFIs. However, the non-deposit-taking nature of MFIs means that they are ultimately unsustainable, and alternative models need to be developed and applied.
- (e) **Natural resource management (NRM).** There has been limited coordination among key stakeholders on NRM issues, to the detriment of sustainability of investments in key infrastructure and productivity-enhancing assets.
- (f) **Climate change preparedness.** To date, there has been a complete lack of consideration of climate change impacts on rural livelihoods.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

36. The experience gained by IFAD through implementation of the programme in the past has provided the Fund with several points of comparative advantage in Azerbaijan. First, it has a demonstrated commitment to and competence in rural poverty alleviation, a fact that is well recognized by the Government and by previous beneficiaries. This provides it with a good entry-point to propose and apply innovations in rural development. Second, it has sound experience in the rehabilitation of irrigation systems, both at the technical and institutional level. Indeed, as it was an IFAD-supported project that pioneered the successful adoption of WUAs for irrigation system management, the Fund is well placed to propose initiatives that continue the process towards the development of a robust and sustainable model for irrigation operation and management. Third, the Fund has successfully engaged in microenterprise development in mountain areas, providing a solid basis for continuing this strategy of income generation through a value chain approach. Fourth, the engagement with SAAC and with MFIs provides a basis for scaling up the access to financial services for poor rural people. Finally, the experience and good results that the IFAD programme has demonstrated in both lowland and highland/mountainous areas provide an entry point for the application of sustainable natural-resource management interventions in a range of natural environments, with an opportunity to develop synergies among localities with diverse geographical and natural resource characteristics.

B. Strategic objectives

37. After consideration of the status of rural poverty, the stage of development of the rural economy, the poverty and agricultural development policy settings of the Government and the results and lessons of IFAD's experience to date in Azerbaijan, two strategic objectives are proposed for the COSOP.
38. **Strategic objective 1: Enhanced natural resource management for improved food security.** Under this objective, the IFAD programme will endeavour to improve the access of poor rural people to assets and services for the sustainable management of natural resources, including improved irrigation-water delivery services and rangeland management. Strategic objective 1 is compliant with the

IFAD strategic objective of "Access to natural resources and their management". The SPPRSD highlights improving the environmental situation and ensuring sustainable management of natural resources as a key factor in national poverty reduction. Moreover, enhanced NRM is the key to sustainable, improved agricultural production and the resultant food security. As noted earlier, poor NRM contributes greatly to poor productivity and profitability of agriculture. This is evident in many features of the agriculture sector. Prominent indications of poor NRM are:

- (a) High levels of salinity affecting large areas of agricultural land;
 - (b) Low water-use efficiency in irrigation systems;
 - (c) Contamination of irrigation water with siltation and industrial wastes;
 - (d) Low efficiency of water transportation systems;
 - (e) Deforestation and soil erosion in mountain areas; and
 - (f) Degradation of pasture resources through overgrazing.
39. All of these factors lead to greatly reduced outcomes in terms of products and profitability from agriculture, and directly reinforce the poverty of farmers and rural communities. The performance of current and previous IFAD projects in overcoming these factors is a positive indication that such efforts can be improved and scaled up. It is thus proposed that, under this COSOP, interventions providing solutions to these NRM adversities be applied. These would include:
- (a) Use of efficient means of transferring and applying irrigation water;
 - (b) An integrated approach to land and water resources management in which soil erosion in the highlands and mountainous areas will be mitigated in order to address high siltation of the lowland irrigation canals;
 - (c) Application of means to simultaneously reduce upland degradation, improve pasture and tree-crop productivity, and increase upland and lowland land-use profitability;
 - (d) Application of innovative means of soil salinity management and reduction; and
 - (e) Use of enhanced pasture development and management systems.
40. **Strategic objective 2: Improved access of poor rural people to profitable markets and value chains.** Strategic objective 2 is compliant with the IFAD strategic objective "Opportunities for rural, off-farm employment and enterprise development". The SPPRSD, as well, has found that increasing income-generating opportunities is a preferred modality for achieving a substantial reduction of poverty in the poorest sectors of the population. In this area, IFAD is a leading agent of positive change, both through its effective work in this field in Azerbaijan, and in its corporate approach and experience in increasing income-generating activities in rural areas. The lack of market linkages accessible to poor people, and the associated dearth of effective rural value chains, is a substantial brake on income generation for farmers and rural inhabitants. Frequently, even when production technology is improved, farmers suffer from the effects of low prices, post-harvest losses and high transaction costs. In common with these factors, there is an overall lack of non-farm rural employment opportunities. This particularly affects more vulnerable groups that are unable to provide the time and labour needed for full-time farming employment.
41. The COSOP will address these issues through a coordinated value chain approach. This means that programme interventions will be targeted at the critical sectors of commodity value chains that encounter the greatest constraints. Often, this will lead to investments in non-farm facilities such as packaging, storage or processing facilities. It would also identify the need for services such as appropriate financial products, farm services (input supply and mechanization services) and formal contract farming engagement. In some cases, several interventions would be

packaged within one activity. A financially rigorous approach to all activities prior to investment is an overarching need.

C. Opportunities for innovation

42. It has been noted that much of the technology applied to land management is outdated and financially inefficient. The converse of this is that an enhanced NRM strategy provides numerous opportunities for innovation in this field. Soil salinity management offers several such opportunities to identify best practices, apply the techniques to test them in the local context and thereafter demonstrate and apply the most successful ones. An example could be to test the use of biological agents such as salt-tolerant, deep-rooting plants as a means of opening saline lands to allow for easy flushing and cleansing. The use of a 'land-care' approach to grazing and forest land revitalization could be another approach to be tested and applied. Under such a system, farmers are invited to share their knowledge and inputs within publicly relevant environmental management systems – for their own private benefit as well as that of the public good. There would also be opportunities to apply the innovation of rewards for public environment services within such an arrangement. Such rewards could be provided in cash, in the form of services (e.g. medical or education services) or in the form of infrastructure (e.g. water supply, public buildings, etc.). The possibility of engaging non-agricultural businesses such as oil companies, as partners in such a scheme, through their corporate and social responsibility policies, would be thoroughly examined.
43. The adoption of pro-poor market linkages similarly offers several notable opportunities for innovation, including:
 - (a) Use of advanced cellphone-based technology to provide market information to farmers and rural entrepreneurs;
 - (b) Bundling of extension advice, financial advice and crop financing within out-grower or contract farming systems;
 - (c) Development and use of producer groups for enhanced market access and information exchange; and
 - (d) Support to and empowerment of non-state actors (training of private-sector actors, small and medium-sized enterprises (SMEs), producer associations) within value chain development and operation.
44. While none of these ideas are completely new, they would constitute innovations in the sense that they are new to the particular target group and geographical area.
45. Some initial indicative details on the outline of possible projects to be financed under the COSOP are attached in appendix IV, Project pipeline during the COSOP period.

D. Targeting strategy⁹

46. The COSOP targeting strategy uses data and analysis from the recently completed Gender-sensitive Baseline Poverty Analysis in Support of the COSOP as the means of orientation towards effective targeting of rural poverty. This report noted that although rural poverty has been greatly reduced in recent years, there are still substantial areas in which many people are poor. These correspond to areas with substantial degradation of the natural resource base, and where there are other constraints such as remoteness and lack of physical infrastructure. The concentration of the programme on restoration of degraded natural resources and improved NRM would thus provide a built-in targeting procedure.
47. One quarter of rural households still have incomes below the official poverty line, and incomes from agriculture are much lower than in other sectors of the economy.

⁹ Key file 4, Target group identification, priority issues and potential response.

The IFAD target group thus consists of smallholder farmers, livestock owners and rural households dependent on employment within the agriculture sector.

48. The targeting strategy developed during the design and implementation of interventions under the COSOP would include special procedures to ensure that the needs and priorities of more vulnerable groups, such as woman-headed households and unemployed youth, are considered and catered to. Increased representation by women will also be encouraged in local institutions such as WUAs. Their participation as both entrepreneurs and workers in value chain investments would be specifically encouraged.
49. Specific budget allocations and thorough eligibility criteria would ensure that programme funds are directed towards pro-poor activities, as well as specifying some financial support for the poorest rural subgroups. Some operational measures would include fostering a favourable environment and a pro-poor and gender-sensitive mindset among implementation partners. There would be training and capacity-building measures to enable poor groups to gain access to programme support, especially with respect to producer group formation for commercial agricultural activities and enhanced market access. Further measures would be employed to enable poor groups to gain access to finance. A further initiative to be explored is the use of matching grants with strict pro-poor eligibility criteria to give the poorest people an opportunity to participate in profitable rural investments.

E. Policy linkages

50. Within strategic objective 1, a number of policy issues have been identified that require attention in order to ensure sustainable attainment of the objective:
 - (a) The need to enhance the capacity of local governments to plan and supervise NRM activities. This would be achieved by a 'learning by implementation' approach in which the relevant local authorities would have their capacity enhanced through full participation in the processes of rehabilitation, supplemented by study visits and training;
 - (b) The capacity of SAIC to provide support to WUAs needs improvement, as it is this lack of capacity that has caused the degraded status of many irrigation facilities. Where appropriate, investments would be made in both equipment and human capacity. However, this activity should also review the role of a state agency in this field in a market-led economy; and
 - (c) The capacity of WUAs to provide support for members must be improved. Such improvements would be embedded within larger investments.
51. Within strategic objective 2, the identified policy dimensions are:
 - (a) The need to reduce or eliminate various restrictions and barriers to trade. Several of these pose threats to the sustainability of some subsectors in the rural economy. With the likely accession of Azerbaijan to the World Trade Organization (WTO), the reduction of trade barriers to WTO compliance levels is required. The programme would support this reform through the use of case studies and by engaging in policy dialogue in appropriate forums; and
 - (b) Governance aspects in both business and official administration also must be improved, to avoid inhibiting private business investment and development. This problem should be tackled at the policy level, through frequent dialogue, and at the operational level, through implementation of appropriate regulatory frameworks that encompass adequate accountability mechanisms.
52. In addition to these matters, two overarching policy concerns must be addressed:
 - (a) A monitoring and evaluation (M&E) system must be implemented to support harmonization and alignment within the UNDAF and with the relevant government poverty-reduction policies. This would be dealt with through the

design and application of M&E systems for existing and successive projects, in close collaboration with the Government and the United Nations Country Team; and

- (b) The roles of private and NGO service providers should be enhanced, especially in NRM and in value chain development. The programme would ensure that appropriate measures are taken to strengthen such entities through frequent engagement, as well as through policy dialogue as necessary.

V. Programme management

A. COSOP management¹⁰

- 53. There will be a regular updating process during the life of the COSOP. Updating is proposed at mid-term to ensure compliance with economic and policy developments, especially with respect to government poverty-reduction strategies. In addition, it is proposed that the Country Programme Management Team (CPMT) would review the performance of the COSOP every year. These annual reviews would help inform the annual COSOP progress report, using the results management framework as a guideline. It is expected that members of the CPMT will be encouraged and supported in participating in IFAD-led implementation support missions within the country programme, in order to promote functional and institutional linkages.
- 54. A mid-term review of the COSOP would be carried out in 2013. A COSOP performance evaluation would be undertaken late in 2015, as a means of informing the development of the subsequent COSOP.

B. Country programme management

- 55. In the absence of any IFAD field presence arrangements, it is proposed that the strategy for COSOP management would rely heavily on the CPMT, as well as on the continuing support of SAAC as the programme implementation agency.
- 56. As part of a corporate policy shift, all IFAD-sponsored projects in Azerbaijan, including those foreseen under the present COSOP, will be supervised directly by the Fund. IFAD will further support and develop the IFAD programme management unit, which is responsible for the implementation and management of the IFAD country programme. The unit has gained valuable experience in project management, is aware of IFAD specificity concerns and requirements, and is now well-versed in loan administration procedures. However, specific areas related to performance-based contracting of technical service providers and M&E capabilities need further improvement. There are no projects at risk, as implementation performance has so far been satisfactory for the entire portfolio.

C. Partnerships

- 57. **Institutional collaboration.** Two related forms of institutional collaboration are envisaged under this COSOP. The first would be with the Islamic Development Bank (IsDB), which has indicated an interest in cofinancing one or more projects in the forthcoming COSOP. Under this arrangement, IsDB would use the COSOP and subsequently prepared IFAD project-design documents as the basis for its investment and implementation support.
- 58. The second form of institutional collaboration is expected to be with the Government of Azerbaijan, and specifically with the Ministry of Agriculture. The Government has signalled that it is likely to be a significant cofinancier of projects developed under the new COSOP, in line with its previous practice. The experience to date is that this is a positive development, providing explicit policy and implementation support for the programme.

¹⁰ Appendix III, COSOP results management framework.

59. **Institutional coordination.**¹¹ Institutional coordination will be pursued with numerous other organizations with a stake in agricultural and rural development:
- (a) The United Nations Country Team through the UNDAF;
 - (b) The Food and Agriculture Organization of the United Nations (FAO). FAO is developing and implementing several innovative ventures that are of interest and relevance to the development of activities under the COSOP. These specifically include participatory irrigation management systems, producer group formation and rural financial services development;
 - (c) The Savingsbank Foundation for International Cooperation, which is implementing a range of innovative rural financial initiatives with about 10 local banks, with financial support from Kreditanstalt für Wiederaufbau and the European Bank for Reconstruction and Development;
 - (d) SAIC, as a means of delivery of irrigation rehabilitation investments; and
 - (e) Local NGOs, such as MADAD, to provide appropriate training and capacity-building services for programme beneficiaries.

D. Knowledge management and communication

60. The country-level objectives would adopt a knowledge management and communication strategy that would provide an efficient means of improving institutional knowledge of the country and its programme. It would include the promotion of best practices and success stories, especially where there are opportunities for scaling up and replication. It would also use the CPMT as a means of increasing the impact and influence of the IFAD country programme.
61. As IFAD systems are now expected to be compliant with the Paris Declaration on Aid Effectiveness, the knowledge management strategy must first inform the Government and development partners on its progress, that it expects and enables the Government and local stakeholders to play a leading role in programme design and implementation, and that it is willing to share information to enable successful poverty reduction initiatives to be scaled up. In addition to the annual activities specified in the M&E section above, it is proposed that IFAD support will be sought to provide short-term technical assistance to strengthen the basic communication skills of the CPMT and facilitate the design and implementation of the communication strategy.

E. PBAS financing framework

62. The level of funding that IFAD can provide for the COSOP implementation period is based on the full calculation for COSOP year 1, including project-at-risk (PAR) ratings, rural sector and final country scores, and annual allocation in United States dollars for COSOP year 1, as presented in table 1. The resulting allocation of IFAD resources (loans and grants) for the COSOP in the period foreseeable under IFAD's performance-based allocation system (PBAS), i.e. 2010-2012, is approximately US\$20 million available for lending to Azerbaijan.

¹¹ Key file 3, Complementary donor initiative/partnership potential.

Table 1
PBAS calculation for COSOP year 1

<i>Indicators</i>	<i>COSOP year 1</i>
Rural sector scores	
Policy and legal framework for rural organizations	4.25
Dialogue between government and rural organizations	4.00
Access to land	4.75
Access to water for agriculture	4.50
Access to agricultural research and extension services	4.00
Enabling conditions for rural financial services development	4.50
Investment climate for rural businesses	4.33
Access to agricultural input and produce markets	4.33
Access to education in rural areas	5.00
Representation	4.00
Allocation and management of public resources for rural development	4.00
Accountability, transparency and corruption in rural areas	4.00
Sum of combined scores	51.72
Average of combined scores	4.31
PAR rating (2009)	6
IDA Resource Allocation Rating (IRAI) rating (2008)	3.83
Country score	2797
Annual allocation (US\$)	6 700 000

63. Table 2 provides indicative financing scenarios showing that the overall allocation for Azerbaijan may decline by 19 per cent or rise by 6 per cent, depending on performance.

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural-sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	5	4.01	-19%
Base case	6	4.31	0%
Hypothetical high case	6	4.61	6%

F. Risks and risk management

64. The risks attached to strategic objective 1: "Enhanced natural resource management for improved food security" relate mainly to the need to change the mentality of the country regarding resource use. In the past, natural resources have often been used without due respect to the need for sustainability, or for the risks of non-users being penalized for the poor practices of primary users. This approach has also led to outdated and unsuitable or excessively costly techniques being applied, owing to the lack of knowledge of implementers and users. The main perceived risks for this strategic objective are:
- (a) That there will be resistance to the introduction of new techniques of NRM;
 - (b) That the skills to apply new NRM procedures will not be available locally; and
 - (c) That it may be difficult to achieve a whole-catchment approach to NRM with respect to water resource management.

65. These risks can be reduced by awareness-building and training. This would be a feature of investments, with appropriate training embedded within the physical investment programmes. Such training would also be supplemented by study tours, both within the country and externally, to enable key stakeholders to gain an appreciation of innovative techniques and approaches.
66. The risks associated with strategic objective 2: "Improved access of poor rural people to profitable markets and value chains" relate to the lack of deep experience in market-related activities. There may be a tendency to ignore financial and economic analysis, concentrating instead on physical production outcomes. Thus investment decisions may be poorly based, with a consequent risk of unsustainability. The obvious risk reduction strategy is that a business approach be applied at all times. When there is a lack of capacity to apply such techniques, both training and technical assistance would be provided. The programme would adopt a policy of ensuring that financial modelling and other business techniques are applied in all situations where favourable financial outcomes are required.

COSOP consultation process

The process of development of the COSOP dated 15 April 2010 entailed the following actions.

- **Mid April 2009:** Conducting a short scoping mission to the country, to initiate interactions with the Government regarding the need for a revised COSOP as well as links with key stakeholders. During that mission, the CPM took part in the UN retreat dedicated to the formulation of the new UNDAF. In addition, the CPM compiled and reviewed existing national agricultural and rural development plans and policies, national poverty reduction strategies, rural sector reviews, and other relevant government and donor reports and studies;
- **May/June 2009:** Establishment of the CPMT: The in-house component was established in early May. As for the in-country component, the Deputy Prime Minister of Azerbaijan issued an official order following a short IFAD scoping mission asking the following governmental institutions to nominate representatives to be part of the CPMT: Ministry of Agriculture, Ministry of Finance, Ministry of Economic Development, Ministry of Ecology and National Resources, the Central Bank as well the Azerbaijan Amelioration and Water Farm open stock company (former SAIC). In addition, representatives from major donors, including UNDP, World Bank, IsDB, EU, and USAID were invited to join the CPMT. Representatives from civil society including the NGO Madad, as well as the National Farmers Association, the National Federation of Water Users Associations, and the Azerbaijan Microfinance Association were also invited to join the in-country CPMT;
- **July 2009:** A consultant was hired to prepare a gender-sensitive baseline poverty analysis, the main preparatory study whose findings were fed into the main COSOP report. A detailed poverty assessment study was carried out. This report, termed "Poverty Analyses in Support of the COSOP", is attached to the COSOP as Appendix IV. It was commissioned by IFAD, in consultation with the Government of Azerbaijan, in order to gain insights into the rapidly changing rural economy and associated rural poverty conditions. The report was prepared by Marina Blagovich, a Sociologist, in close coordination with key stakeholders in Azerbaijan;
- **September/October 2009:** Main COSOP design mission: The actual preparation of the COSOP was undertaken with the assistance of Mr. Andrew Macpherson, a senior consultant recruited by IFAD. He was assisted by the CPM, and by an officer from IFAD PT, supported by an environmental management consultant, Mr. Ivo Morawski, who has prepared a Strategic Environmental Assessment (SEA) to complement the COSOP. The SEA is meant to identify and propose an approach to tackle relevant environmental issues. Chief among them is the soil degradation due to poor on-farm drainage infrastructure and practices. The process of formulating the COSOP included field work for about 20 days, during which many stakeholders and representatives of stakeholder groups were consulted. This consultation culminated in the draft proposals being discussed by the CPMT and other stakeholders during a workshop held in Baku on the 9th of October. The draft proposals were endorsed by the workshop;
- **October/November 2009:** First draft COSOP presented to CPMT for comments and fine-tuning. Peer review by both internal and external reviewers;
- **December/January 2009:** Finalization of the COSOP document incorporating comments from peer reviewers; and
- **February 2010:** conducting of a validation mission and a wrap-up workshop.

Country economic background

Land area (km² thousand) 2000¹	87	GNI per capita (USD) 2007/1	3,829
Total population (million) 2007/2	8.6	GNP per capita growth (annual %) 2006 1/	33
Population density (people per km²) 2007	99	Inflation, consumer prices (annual %) 2008 3/	20.8
Local currency	Azerbaijani Manat (AZM)	Exchange rate: USD 1 =	0.80
Social Indicators		Economic Indicators	
Population (average annual population growth rate)/1	0.9	GDP (USD million) 2007 2/	31 200
		Average annual rate of growth of GDP 2/	
Crude birth rate (per thousand people) 2005-10 1/	22	1990-99	-9.6
Crude death rate (per thousand people) 2008 1/	8	2006-07 1/	30.4
Infant mortality rate (per thousand live births) 2008 1/	73		
Life expectancy at birth (years) 2007 2/	70	Sectoral distribution of GDP 2007 1/	
		% agriculture	7.4
Number of rural poor (million) (approximate) 1/	1.35	% industry	70.1
Poor as % of total rural population 2/	n.a.	% manufacturing	5.6
Total labour force (million) 2007 1/	4.3	% services	22.5
Female labour force as % of total 2007 1/	47.7		
		Consumption 2007 1/	
Education		General government final consumption expenditure (as % of GDP)	8.0
School enrolment, primary (% gross) 2007 1/	96.2	Household final consumption expenditure, etc. (as % of GDP)	31.1
Adult illiteracy rate (% age 15 and above) 2007 1/	99.5	Gross domestic savings (as % of GDP)	60.9
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita,	n.a.	Merchandise exports 2007 1/	6 372
Malnutrition prevalence, height for age (% of children Under 5)	n.a.	Merchandise imports 2007 1/	5 268
Malnutrition prevalence, weight for age (% of children Under 5) 2000 1/	n.a.	Balance of merchandise trade	1 104
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2000-06 1/	1.0/	before official transfers 2007 1/	n.a.
Physicians (per thousand people) 2007 1/	3.63	after official transfers 2007 1/	+3 707
Population without access to safe water (%) 1990-98 3/	n.a.	Foreign direct investment, net 2007 1/	-1 289
Population without access to health services (%) 1981-93 3/	n.a.		
Population without access to sanitation (%) 1990-98 3/	n.a.	Government Finance	
		Overall budget deficit (including grants) (as % of GDP) 2008 3/	-0.04
Agriculture and Food		Total expenditure (% of GDP) 2007 1/	8
Food imports (% of merchandise imports) 2007 1/	10.4	Total external debt (USD million) 2007 1/	1 899
Fertilizer consumption (hundreds of grams per ha of Arable land) 2006 1/	174	Present value of debt (as % of GNI) 2007 1/	11.9
Food production index (1989-91=100) 2007 1/	140.5	Total debt service (% of exports of goods and services) 2007 1/	1.6
Cereal yield (kg per ha) 2007 1/	2599		
		Lending interest rate (%) 2007 1/	17.9
Land Use		Deposit interest rate (%) 2000 1/	10.6
Arable land as % of land area 2006 1/	22.3		
Forest area (km ² thousand) 2006 1/	9360		
Forest area as % of total land area 2006 1/	11.3		
Irrigated land as % of cropland 2006 1/	69.3		
1/ World Bank World Development Indicators			
2/ UNDP Human Development Reports			
3/ Economist Intelligence Unit			

COSOP results management framework

Country strategy alignment	Key Results for COSOP			COSOP Institutional/Policy objectives
State Programme on Poverty Reduction and Sustainable Development (SPPRSD)		COSOP outcome indicators related to the strategic objectives	COSOP milestone indicators showing progress towards strategic objective	Policy/institutional objectives (policy dialogue agenda)
<p>Goals: Attain MDGs by 2015 Objective: Increasing income-generating opportunities and pulling substantial numbers of citizens out of poverty</p>				
<p>Strategies in Agricultural and Rural Development</p> <p>a. Improving the environmental situation and ensuring sustainable natural resources management</p> <p>b. Making more effective use of households' production capacities</p> <p>c. Increasing rural income-generating opportunities</p> <p>d. Encouraging agribusiness in a major role for food supply improvement</p>	<p>SO 1</p> <p>Enhanced Natural Resources Management for Improved Food Security: Under this objective, the IFAD programme will endeavour to improve the access of the rural poor to assets and services for sustainable management of natural resources, including improved</p>	<ul style="list-style-type: none"> • Food security of 100,000 rural households improved • Irrigation efficiency increased to 80 % from the current baseline of 40 % in the projects' area • Perceived food insecurity of rural households reduced from current 36% • The poverty rate for rural population reduced from 15.7% 	<ul style="list-style-type: none"> • Irrigation systems sustainably rehabilitated on 40,000 ha per FY • 10% increase in irrigation efficiency by FY • 1,000 ha of forest and perennial pastures established by FY • 10 WUAs established by FY • 5,000 ha of saline land rehabilitated by FY • 1,000 of farmers participating in sustainable NRM systems by FY, 40 % women • 5 % increase in the volumes of farm produce by FY • Reduction of Food 	<ul style="list-style-type: none"> • Capacity of local government to plan and supervise NRM enhanced • Capacity of SAIC to provide support to WUAs enhanced • Capacity of WUAs to provide support for members improved • M&E system implemented to support harmonization and alignment • Private and NGO service providers

e. Reducing local market dependence on food imports	irrigation water delivery services and rangelands management		expenditures as part of overall households' budget from current level of almost 60%	roles enhanced
	<p>SO 2</p> <p>1. The Access of the rural poor to profitable markets and value chains is improved</p>	<ul style="list-style-type: none"> • Monthly Income from Agriculture, hunting and forestry increased from current AZN 86.8 • Income from agriculture for rural population increased from 31.7% of total income • Increased income from non-farm rural enterprises • Proportion of rural people with monthly income less than AZN 80 reduced from current 25.7% • Gross Value of National Income from Agriculture Increased 	<ul style="list-style-type: none"> • Average increase of 5 % in the values of farm produce by FY • Number and cost of non-farm value-adding rural enterprises established by FY • Average value of farm income generated by FY, gender • 2,000 rural jobs generated by value chain investments by FY, 40 % for women • Number and value of rural loans extended by FY, 40% for women entrepreneurs 	<ul style="list-style-type: none"> • Restrictions and barriers to trade reduced • Culture of corruption in business and official administration reduced • M&E system implemented to support harmonization and alignment • Private and NGO service providers roles enhanced

Project pipeline (with quantified targets) during the COSOP period*

Project 1. Azerbaijan Integrated Rural Development Project

1. **Possible geographic area of intervention and target groups.** The proposed geographic area of the first new project would be the districts of Aghdash, Yevlakh, Oghuz and Shaki. The target group within this area would be smallholder farmers, livestock owners and rural households dependent on employment within the agriculture sector. The targeting approach would be consistent with that of the COSOP, emphasizing specific budget allocations and eligibility criteria that would ensure that programme funds are directed towards pro-poor activities, as well as specifying some financial support for the poorest rural sub-groups. Targeting would include special procedures to ensure that the needs and priorities of more vulnerable groups such as Female-headed households and unemployed youth are considered and catered for.
2. **Justification and rationale.** The *project* would provide support for enhanced agricultural productivity, and thus enhanced incomes and food security, in areas in which the production base has been degraded through misuse and lack of investment. This includes both mountainous/highland areas and adjacent lowlands. A catchment approach would be adopted to ensure sustainable natural resources management systems are introduced and adopted. IFAD has successfully applied interventions in similar locations with similar physical and economic problems in the past, and is continuing this process through on-going projects.
3. **Project's overall Goal and Objectives:** The overall goal of the IRDP is to reduce rural poverty in Agdash, Yevlakh, Sheki and Oghuz through increased food security and enhanced income-raising opportunities. The objectives of the Project are:
 - to assist small farmers to learn how to utilize their resources effectively and efficiently to achieve better productivity and environmental sustainability from both irrigated and rainfed crop production and livestock keeping through delivery of effective advisory and financial services;
 - to achieve effective and sustainable use of both water and existing irrigation infrastructure through rehabilitation of the structures along with participatory irrigation management support and advisory service;
 - to develop viable value chains for agricultural produce;
 - to enhance the capacity of local government to plan and supervise natural resource management, and
 - to improve living standards in poor villages by providing and rehabilitating critical social and economic infrastructure
4. These objectives are consistent with the Strategic Objectives of "Enhanced Natural Resources Management for Improved Food Security" and "Adoption of Pro-Poor Market Linkages Development through the Value Chain Approach" in the COSOP Results Management Framework. The COSOP policy objectives which will be achieved by the proposed project would include the enhancement of the capacity of local government to plan and supervise NRM, the improvement of the capacity of SAIC to provide support to WUAs, a greater role for Private and NGO service providers, and an M&E system implemented to support harmonization and alignment.

5. **Ownership, Harmonization and Alignment.** The project targets are aligned with targets in the SPPRS, specifically those of:
 - a. Increasing income-generating opportunities and achieving a substantial reduction in the poorest sections of the population; and,
 - b. Improving the environmental situation and ensuring sustainable management of the environment.
6. The project is harmonized with the activities of other donors, particularly within the UN system through the UNDAF. Furthermore, it is proposed that a partnership with the Islamic Development Bank (IDB) would be developed for co-financing of this project.
7. **Components and activities.** The IRDP would comprise four components: 1. Rural Infrastructure Development and Support to WUAs; 2. Agricultural Productivity and Profitability Enhancement; 3. Rural Financial Services; and 4. Project Management. The components, sub-components and key activities of the Project are detailed below. Modalities of cooperation and support by other projects implemented by the various international donor agencies and the government will be further examined and detailed as necessary during the project design
 - o **Component 1, Rural Infrastructure Development and Support to Water User Associations (WUAs):** The component will comprise of three Sub-components, namely: i) Support and Development of WUAs and ii) Irrigation Rehabilitation Works and iii) Social Infrastructure Improvement.

Sub-component 1.1, Support and Development of WUAs – About 20 WUAs in the lowland districts of Yevlakh and Agdash would be supported by the Project through financing of the investments in basic and identifiably necessary infrastructure, including refurbishment of offices, provision of equipment and machinery for on-farm O&M, and temporary financial support for the cadres of the WUAs, for the effective and efficient delivery of their mandated responsibilities to their members.

Subcomponent 1.2, Irrigation Rehabilitation Works: The Project would support the rehabilitation and repair of the on-farm irrigation systems that include secondary, tertiary and on-farm water delivery systems and networks, and drainage, in Yevlakh and Agdash through financing the planning, design and implementation of works necessary to be carried out on about 60,000 ha of command area for about 20 WUAs estimated to be active after re-alignment or agglomeration as per Sub-component 1.1.above. . The total of the command areas of the WUAs in Yevlakh and Agdash is about 72,000 ha. It is initially estimated that about 80% of the system would require rehabilitation. The systems will be improved to deliver and drain sufficient quantities of water so as to allow farmers to produce without hindrance, effectively and efficiently

Sub-Component 1.3, Social Infrastructure Improvement: It has been ascertained that in all Project districts there are villages that suffer from total lack of clean drinking water. Infrastructure Indexes¹² developed by the Government that are available for Yevlakh and Agdash indicate that in both, there are villages where drinking water is a severe problem and many villages are dependent on the earth irrigation canals.

¹² These comprise the sum of weighted indexes for: (i) availability of health services (3 sub-indices); (ii) level of education (3 sub-indices); (iii) quality of roads; (iv) villages with drinking water; (v) availability of electricity; and (vi) status of irrigation.

- **Component 2, Agricultural Productivity and Profitability Enhancement:** The Component provide support to smallholders - comprising rural poor men and women - to increase their assets and incomes through enhancing agricultural productivity and profitability and resultant food security while taking into consideration sustainable natural resource management. This would be achieve through delivering comprehensive and complementary 'hardware' and 'software' packages directed to improving grain and horticultural production, animal husbandry, post-harvest handling, agricultural marketing, supporting community interest groups and mobilizing women's earning potential. While developing the means to achieve the envisaged behavioral changes and expected increases in levels of income, the Project will also support the identification and analysis of the value chains that are developed as a consequence. Field observations and statistical data indicate that in the Project area, the first link in the value chain, the crop and related practices, requires urgent attention.
- **Component 3, Rural Financial Services for Enterprise Promotion:** The Component would comprise three Sub-Components, namely: i) Small Credits Programme for Non-Bank Financial Institutions (NBFIs); ii) Medium and Long Term Credits through Commercial Banks; and, iii) Small Matching-Grants Programme. The Component would be co- financed as follows:
 - Sub-Component 3.1, Small Credits Programme for Non-Bank Financial Institutions (NBFIs); by the Islamic Bank for Development (ISDB);
 - Sub-Component 3.2, Medium and Long Term Credits through Commercial Banks, and,
 - Sub-Component 3.3, Small Matching-Grants Programme, by IFAD.

The credit and grant support provided would made available exclusively to resident borrowers in the Project area.

- **Component 4, Project Coordination and Management:** The Project management would be undertaken by the existing IFAD Project Management Unit (IPMU) in Baku, where the existing cadre would be strengthened as necessary. .
8. **Costs and financing.** Total project costs excluding contingencies is estimated at this stage at around USD 93 million. Components 1,2,3 and 4 are anticipated as costing USD 46 million, USD 10 million, USD 32 million, and USD 5 million, respectively. The total IFAD commitment for this project in the form of a loan is estimated at USD 20 million. ISDB has provided an initial indication that it can provide an estimated USD 55 million under its own financial modalities (*istisna*) with the possibility of further commitments as needed.
 9. **Organization and management.** The lead agency is proposed to be the MoA, with project management provided by the consolidated PMU which operates under the State Agency for Agricultural Credit (SAAC).
 10. **Monitoring and Evaluation indicators.** Some of the relevant quantified targets in the COSOP Result Management Framework would be:
 - a. Number and area of catchments with improved NRM systems by FY;
 - b. Number and area of irrigation systems rehabilitated by FY;
 - c. Area of forest and perennial pastures established by FY;
 - d. Number of WUAs established by FY;

- e. Number of farmers participating in sustainable NRM systems by FY, gender;
 - f. Increased volumes of farm produce by FY;
 - g. Increased values of farm produce by FY;
 - h. Number and cost of non-farm value-adding rural enterprises established by FY;
 - i. Average value of farm income generated by FY, gender; and
 - j. Number and value of rural jobs generated by value chain investments by FY, gender
11. The proposed project will contribute to achieving these targets through the combined effects of the activities and interventions shown in (e) above. The baseline information would be collected through a baseline survey at project commencement, as well as through the business and investment plans for the individual enterprises and infrastructure investments supported. The latter would be in a standardized format, and would be supplemented by routine reporting and case studies.
12. Risks. The main risks that are apparent are those articulated within the COSOP. These are:
- a. That there will be resistance to introduction of new techniques of NRM;
 - b. That the skills to apply new NRM procedures will not be available locally;
 - c. That it may be difficult to achieve a whole catchment approach to NRM with respect to water resources management; and
 - d. There may be a tendency to ignore financial and economic analysis, concentrating instead on physical production outcomes.
13. **Timing.** The Government is keen that the proposed investment be commenced as soon as practicable. This means that the main project design would commence immediately after the approval of the COSOP in April 2010.

Project 2. Azerbaijan Integrated Rural Development Project II

14. At this stage, it is proposed that a replication of Project 1 would be designed and implemented in adjacent districts (Ujar, Goychay, Gabala, and Ismailly). It is expected that project design for this could commence in 2013.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority areas	Affected group	Major issues	Actions needed
Relatively high levels of poverty in rural areas with 15.7% of the population	The most disadvantaged rural households with small, degraded landholdings (about 0.5 ha per capita giving holding sizes of 2-2.5 ha per household).	Low returns to crops and livestock due to: <ul style="list-style-type: none"> • Degradation of irrigated and rainfed land through salinity and erosion respectively. • Lack of access for farmers to reliable markets. • A lack of working and investment capital among farmers and service enterprises. • An absence of technical support for farmers. 	<ul style="list-style-type: none"> • Rehabilitate salinity affected irrigation land and eroded/degraded rainfed land. • Re-capitalize the irrigated agriculture sector at all necessary levels. • Develop value chains for potentially profitable rural commodities. • Develop rural financial services for farmers and rural SMEs. • Support technology transfer to farmers
Degradation of irrigated and rainfed land through salinity and erosion respectively	Farmers and livestock owners, and public users of degraded water and land resources	This is due to: <ul style="list-style-type: none"> • The failure to maintain the irrigation and drainage infrastructure; • Farmers and livestock owners appreciation of sound NRM procedures by farmers and public officials; • Lack of a catchment approach to land degradation issues; • Unsustainable irrigation practises, particularly concerning soil salinity management; • Unsustainable rainfed agricultural practises leading to soil erosion and degradations; • Low profitability of agricultural production. 	The following actions are needed for rehabilitation: <ul style="list-style-type: none"> • Reconstruct, repair and modify the on-farm irrigation and drainage systems, including the secondary supply canals where needed; • Provide farmers and relevant officials with support to appreciate and apply sound NRM principles; • Application of a catchment approach to land degradation rehabilitation and sustainable NRM; • Provide technical assistance and applied research/demonstrations for improved/modernised soil salinity management; • Provide technical assistance and applied research/demonstrations for improved/modernised rainfed farming and pastoralism; • Use financial management tools to enable more profitable agriculture.
Lack of access for farmers to reliable markets.	Farmers and livestock owners	This is due to: <ul style="list-style-type: none"> • A lack of commercially viable value chains for the main commodities; • Failure to use financial tools to determine appropriate production strategies; • Lack of market infrastructure and processing and storage facilities; • Poor appreciation of the role of private sector entities in agricultural sector marketing; • Use of a production rather than value chain oriented approach to rural development. 	The following action would need to be applied: <ul style="list-style-type: none"> • Application of a value chain approach to market development; • Investment in appropriate public and private facilities to enable produce marketing; • Training for farmers and potential rural entrepreneurs on the need to use financial tools; • Policy engagement with the Government to promote the use of the private sector in agricultural marketing; • Application of innovative marketing arrangements such as contract farming, forward selling and sustainable market information systems through the use of available electronic media and mobile telephony.

Key file 1: Rural poverty and agricultural/rural sector issues – continued

Priority areas	Affected group	Major issues	Actions needed
A lack of working and investment capital among farmers and service enterprises	Farmers and rural entrepreneurs	<ul style="list-style-type: none"> Lack of access by farmers and rural entrepreneurs to bank financing. Non-banking credit institutions providing loans to farmers and micro-entrepreneurs are not sustainable due to lack of deposit-taking facilities. Very high real interest rates which restrict borrowing to short-term products. 	<ul style="list-style-type: none"> Provide a mechanism to enable Financial Institutions to channel investment loans to farmers and other micro-entrepreneurs (e.g. for collection, storage, marketing processing, input supply and machinery and veterinary services); and, Provide a mechanism to channel working capital loans to farmers and other micro-entrepreneurs (e.g. for collection, storage, marketing processing, input supply and machinery and veterinary services).
An absence of technical support for farmers.	Farmers, farmers groups	<ul style="list-style-type: none"> Farmers will need technical and business development information to modernize their production and marketing practices and make re-capitalization of their enterprise fully effective. Although MOA has established nine Regional Agro-Scientific Centres to provide farmer extension services, they lack the resources to undertake any programmes without donor assistance. 	<ul style="list-style-type: none"> Recruit service providers to provide on-farm demonstrations, extension services, farmer training, and provision of marketing information to the farming community. Support the establishment of groups of people with similar interests (e.g. producer associations, marketing associations, coops and companies etc) where appropriate.

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
Enablers				
State Agency for Agricultural Credit (SAAC)	<ul style="list-style-type: none"> Mandate as government agency to support private sector agricultural development; Familiar with IFI financed projects and managing WB and IFAD projects; Experience of market oriented approaches; High quality staff; Leading agency with experience in establishing and supporting Water Users Associations. 	<ul style="list-style-type: none"> Operations are centralized; Staff organized in Project Units. 	<ul style="list-style-type: none"> Staff can handle loan disbursement and procurement procedures; Becoming familiar with the benefits of decentralized and participatory approaches under the IFAD financed Rural development Projects; and Opportunity to build on the experience gained from establishing and supporting Water Users Associations. 	<ul style="list-style-type: none"> Proposed agency for programme coordination under the COSOP.
State Amelioration and Irrigation Committee (SAIC)	<ul style="list-style-type: none"> Experience in managing large-scale irrigation structures and networks; Staff with high levels of irrigation engineering expertise and wide experience; Familiar with IFI financed projects and managing WB and IsDB projects; and Responsible for managing irrigation and drainage systems, including establishing national policy and legislation, planning improvements, establishing technical standards and regulations, data collection and monitoring irrigated areas. 	<ul style="list-style-type: none"> Opposed to modern decentralized management irrigation systems that will reduce its control of the irrigation system; Responsible for a system that is deteriorating and unable to deliver the volume of water required; Lacks modern technology; Unable to finance required O&M of the systems due to the inadequate income from irrigation service fees and state budget allocation; and Very little experience with supporting the development of Water Users Associations. 	<ul style="list-style-type: none"> World Bank will provide support for the development of Water Users Associations nationally; IFAD continues to provide support through irrigation rehabilitation initiatives; Opportunity to improve the amount of water delivered through judicious investments both on and off-farm; and Ability to generate sufficient income to finance O&M requires increased irrigation service fees based on the use of water. 	<ul style="list-style-type: none"> Conflict with SAAC and with aspects of WUA development; Action needed to avoid WUA support activities overlapping with those of ASDAPS; Needs technological updating; and WUA training materials should be shared with ASDAPS.

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis) – continued

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
Service Providers				
Ministry of Agriculture	<ul style="list-style-type: none"> • Knowledge of the rural situation and technical potential of the different agricultural zones; • Technically skilled personnel [agronomists, livestock experts etc.]. 	<ul style="list-style-type: none"> • Centralized and bureaucratic approach; • Poor managerial capacity; • Lack of understanding and/or sympathy with the market economy with individual farmers as independent managers; • Machinery services no longer operating; and • Livestock and veterinary services barely functioning. 	<ul style="list-style-type: none"> • Ministry may be restructured as an advisory and policy agency, rather than as a service provider, • Nine regional Agro-Scientific Centres established in 2001 to provide extension and farmer-training services. 	<ul style="list-style-type: none"> • Regional Agro-Scientific Centres may provide support in several regions (extension, demonstrations, and farmer training and market information).
Commercial Banks	<ul style="list-style-type: none"> • Adequate risk adjusted capital; • Adequate liquidity; • Support from German TA Savingsbank Foundation for International Cooperation; • Developing experience in lending to small rural borrowers. 	<ul style="list-style-type: none"> • Present high interest rates limit demand for loans, especially for medium term capital; • Still cautious in rural lending; • Remaining collateral requirements hinder rural lending. 	<ul style="list-style-type: none"> • Opportunity for commercial banks to be sustainable providers of financial services to farmers and other rural entrepreneurs. 	<ul style="list-style-type: none"> • It may be recruited by the project to channel working capital and investment loans.
NBFIs	<ul style="list-style-type: none"> • Experienced micro-finance institutions; • Low rates of loans outstanding at risk; and • Flexible micro-finance operation. 	<ul style="list-style-type: none"> • As a non-banking credit organization cannot mobilize savings; • Dependent on donors for funding; and, • Coverage may be concentrated in certain regions outside the project area. 	<ul style="list-style-type: none"> • Opportunity for the most viable to merge with commercial banks to provide a full range of sustainable services to rural people. 	<ul style="list-style-type: none"> • Central bank is unlikely to authorise deposit-taking, making these institutions ultimately unsustainable in their present form.
Private Sector processing enterprises	<ul style="list-style-type: none"> • Knowledge of domestic market and produce suppliers; • Some capacity remaining from the Soviet era; • Good quality produce available for processing; • Educated workforce. 	<ul style="list-style-type: none"> • Most equipment old and technology out of date; • Lack of investment and working capital; • Lack of appropriate packaging materials. 	<ul style="list-style-type: none"> • Good future market prospects with the expected increase in incomes as oil and gas exports rise; • Need to match quality of imports from more developed countries. 	<ul style="list-style-type: none"> • Require long-term finance for modernization and expansion.

Key file 3: Complementary donor initiative/partnership potential

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
World Bank	Rehabilitation and Completion of Irrigation and Drainage Infrastructure Projects	Reconstruction of the major canal.	On-going	Highly complementary as there is need for assured water to the secondary canals that supply the WUAs.
Islamic Development Bank	Construction of main drainage and irrigation systems	Rehabilitation of the Khanarkh canal. Probability of co-financing of new interventions with IFAD	On-going & proposed	Highly complementary as there is need for provision of funding for major irrigation rehabilitation.
Asian Development Bank	Irrigation Rehabilitation Project	Samur-Absheron canal and Kura river basin	Proposed	Highly complementary as the Samur-Absheron canal provides water to the secondary canals that supply the WUAs
World Bank/IDA	Irrigation distribution System and Management Improvement Project	National but with a focus on 11 <i>raions</i> including Guba and Khachmaz and 45, yet to be identified, WUAs at a total cost of USD 39.10 million.	On-going	Rehabilitation of secondary canals in the project will complement project activities as will the production of WUA training materials.
USAID	Rural Enterprise Competitiveness Program	National USD 14 million programme. Outputs are expected in the following areas: (i) strengthening businesses and associations; (ii) processing and marketing improvement (fruit, vegetables, milk and meat); (iii) policy and regulatory environment reform; and (iv) expanded focus on competitive products.	On going	Complementary as the project includes a focus on fruit, vegetables and milk production in the project area.
FAO	Capacity Building in Rural Development for Internal Displaced Person (IDP) and Refugees in New Settlements of Aghdam District	New Settlements of Aghdam District (adjacent to Aghdash)	On-going	Complementary as this project can provide experience in the rehabilitation of irrigation systems and development of livestock enterprises
UNDP/UNDAF	UNDAF : Multi-sector and multi-agency, with relevance to IFAD through its participation in UNDAF	Selected areas throughout the country	2011-2015	Complementary as these interventions are all focussed on achievement of MDGs

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty levels and causes	Coping actions	Priority needs	COSOP response
Small-scale farmers including female headed households, nationally in rural areas.	<p>A significant proportion of the rural population living below the poverty line. There are some still living in extreme poverty.</p> <p>Causes: Degradation of the irrigated agriculture sector, as well as natural resources in highland and mountainous areas due to:</p> <ul style="list-style-type: none"> • Failure to maintain the irrigation and drainage system; • Lack of viable marketing system (exports of vegetables and fruit to Russia) and processing industry; • Lack of viable rural finance facilities, especially for medium term investments; • Lack of farm management capacity of some former farm workers who are now farm managers as well as workers. Lack of agricultural services, including input supply, finance, technical support etc.; • Some decline in the physical infrastructure e.g. power supplies and in the quality of social services e.g. health and 	<p>Reversion to subsistence crop and livestock production.</p> <p>Cultivation of opportunistic rainfed crops where irrigation water is no longer available.</p> <p>Sale of assets e.g. livestock.</p> <p>Off-farm employment.</p> <p>Short and medium-term migration in search of wage labour in urban areas and to Russia.</p> <p>Remittances from other family members.</p> <p>Social welfare payments.</p>	<p>A reliable and timely supply of irrigation water at the field and household plot levels that matches the water requirements of the crops.</p> <p>Restoration of degraded irrigation and pasture lands.</p> <p>Functional and efficient markets for rural produce, as well as rural value adding.</p> <p>Access to working capital loans to finance the purchase of agricultural inputs and investment capital to finance equipment, replant orchards, buy livestock etc.</p> <p>Support services including: (i) input supply, (ii) machinery hire, (iii) veterinary, vaccines and medicines, (iv) collection, processing and marketing, and (v) technical and business development advice.</p>	<p>Rehabilitate degraded irrigation lands, especially areas affected by salinity</p> <p>Rehabilitate degraded pasture land, using a catchment system approach</p> <p>Rehabilitate the on-farm irrigation and drainage system, (field and household plots) including secondary canals if necessary, using the WUAs to construct the earthworks.</p> <p>Support the WUAs to operate, maintain and develop the on-farm systems on behalf of the farmers</p> <p>Provide support for viable market development through a value chain approach</p> <p>Assist small-scale farmers to establish production, collection and marketing groups and develop links with processors, exporters and traders supplying the domestic market.</p> <p>Assist with provision of sustainable rural financial services through working with banks and agencies engaged in banking development.</p> <p>Support the Regional Agro-Scientific Centres to provide a programme of on-farm demonstrations, extension, training of farmers' and market information.</p>

	education.			
Un and underemployed rural population, including landless people	<p>Moderate to severe</p> <p>Loss of employment opportunities after break up of Soviet Union</p> <p>Lack of diversification and differentiation in the rural economy</p> <p>Lack of entrepreneurial activity in rural areas</p>	<p>Forced rural people into farming in order to survive</p> <p>Migration to urban areas in search of wage employment</p> <p>Some nascent SMEs operating below capacity and under capitalised</p>	<p>Better part and full-time employment and income-earning opportunities.</p> <p>Greater diversification of rural economy.</p> <p>Enhanced opportunities for on and off-farm rural SMEs to be established and grow, offering more employment.</p>	<p>Development of new financial instruments and complementary finance to encourage commercial banks to operate in rural areas and to lend to farm and off-farm SMEs.</p> <p>On and off-farm employment opportunities increased as a result of increased SME capacity, following regulatory reforms, increased access to working, medium and long-term capital and supply chain initiatives linked to market access and development.</p> <p>Enhanced opportunities for micro and small enterprise establishment and operation</p>