

Document: EB 2012/LOT/P.15/Rev.1  
Date: 16 December 2012  
Distribution: Public  
Original: English

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Enabling poor rural people  
to overcome poverty

## **President's report**

## **Proposed loan and grant to the Kyrgyz Republic for the**

## **Livestock and Market Development Programme**

### **Note to Executive Board representatives**

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**For: Approval**

## Contents

<b>Abbreviations and acronyms</b>	<b>ii</b>
<b>Map of the programme area</b>	<b>iii</b>
<b>Financing summary</b>	<b>iv</b>
<b>Recommendation for approval</b>	<b>1</b>
<b>I. Strategic context and rationale</b>	<b>1</b>
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	2
<b>II. Programme description</b>	<b>2</b>
A. Programme area and target group	2
B. Programme development objective	3
C. Components/outcomes	3
<b>III. Programme implementation</b>	<b>3</b>
A. Approach	3
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	4
D. Financial management, procurement and governance	4
E. Supervision	5
<b>IV. Programme costs, financing, benefits</b>	<b>5</b>
A. Programme costs	5
B. Programme financing	5
C. Summary benefit and economic analysis	6
D. Sustainability	7
E. Risk identification and mitigation	7
<b>V. Corporate considerations</b>	<b>7</b>
A. Compliance with IFAD policies	7
B. Alignment and harmonization	7
C. Innovations and scaling up	8
D. Policy engagement	8
<b>VI. Legal instruments and authority</b>	<b>8</b>
<b>VII. Recommendation</b>	<b>8</b>
<b>Annex</b>	
Negotiated financing agreement	
<b>Appendix</b>	
Logical framework	

## **Abbreviations and acronyms**

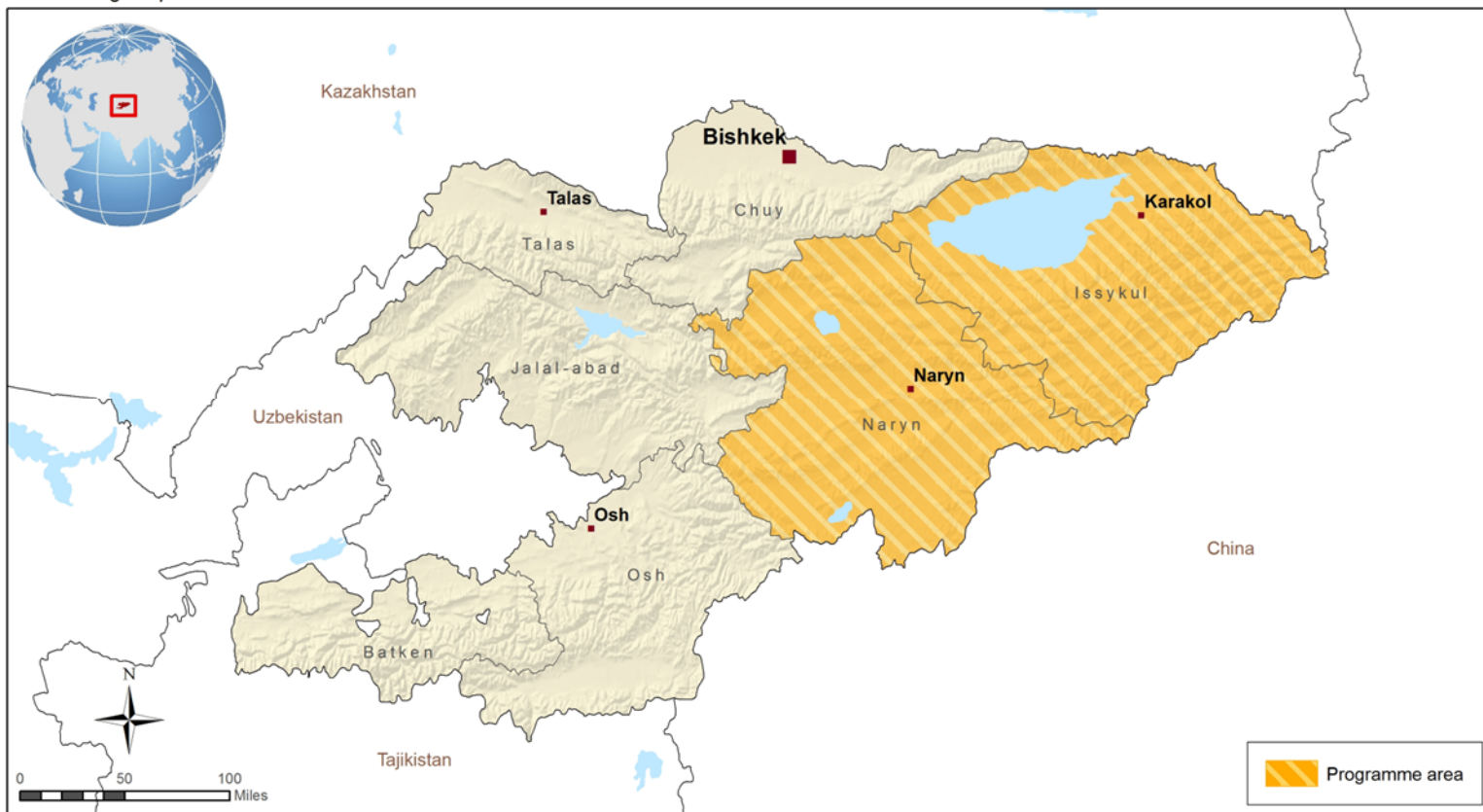
AISP	Agricultural Investments and Services Project
APIU	Agricultural Projects Implementation Unit
ARIS	Community Development and Investment Agency
KM	knowledge management
M&E	monitoring and evaluation
PC	Pasture Committee or <i>Jaiyt</i> Committee
PUU	Pasture Users' Union

# Map of the programme area

## Kyrgyz Republic

### Livestock and Market Development Programme

Design report



30-03-2012



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

# Kyrgyz Republic

## Livestock and Market Development Programme

### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower/recipient:</b>	Kyrgyz Republic
<b>Executing agency:</b>	Ministry of Agriculture and Melioration
<b>Total programme cost:</b>	US\$25.8 million
<b>Amount of IFAD loan:</b>	SDR 6.5 million (equivalent to approximately US\$10.0 million)
<b>Amount of IFAD grant:</b>	SDR 6.5 million (equivalent to approximately US\$10.0 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Contribution of borrower/recipient:</b>	US\$0.5 million
<b>Contribution of beneficiaries:</b>	US\$5.2 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed financing to the Kyrgyz Republic for the Livestock and Market Development Programme, as contained in paragraph 34.

## **Proposed loan and grant to the Kyrgyz Republic for the Livestock and Market Development Programme**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. The Kyrgyz Republic is a mountainous, landlocked country covering 198,500 km<sup>2</sup> bordering Kazakhstan, Uzbekistan, Tajikistan and China. Nearly half of the country's total area – some nine million hectares – is pastureland which plays a key role in the country's economy, society and culture. The population of the Kyrgyz Republic is 5.5 million of which 65 per cent live in rural areas. These people depend predominantly on agriculture, but remittances and social welfare also play an important role as an income supplement. With an average GDP per capita of US\$864, the Kyrgyz Republic is classified as a low-income country. Political instability in the Kyrgyz Republic in 2005 and 2010 had a negative impact on economic growth. While GDP growth averaged 5 per cent between 2003 and 2010, it shrank by 2 per cent and 1.4 per cent in 2005 and 2010 respectively.
2. Although 65 per cent of the population is rural, and 31 per cent of the total workforce works in the agriculture sector, agriculture contributes only 19 per cent of total GDP – down from 34 per cent in 2002. In fact, between 2003 and 2010, while total GDP growth averaged 5 per cent per annum, agriculture GDP grew by only 2 per cent per annum. The reasons for this are strong growth in the services sector and low productivity in the agriculture sector. But despite its declining share of GDP, agriculture remains the backbone of the economy, providing substantial employment, playing a critical role in both household food security and consumer price stability, and providing a leading source of exports. The continuing decline in agriculture's contribution to GDP indicates that efficiency in the sector is low and, as a consequence, also incomes in agriculture. With livestock contributing almost half of agriculture's GDP, there are clearly inefficiencies in the livestock subsector as well. Despite significant progress in development of this subsector in recent years, livestock productivity continues to be constrained by weak performance. This has been exacerbated by low levels of investment in livestock productivity with a large part of agriculture investment focusing on the irrigated arable sector.
3. With only 7 per cent of the total land area suitable for arable cropping and approximately 9.2 million hectares (ha) of pastureland, pastures are an invaluable dimension of the Kyrgyz Republic's productive natural resources. Since livestock production is the dominant livelihood system outside the few major arable farming valleys, the rural population is heavily dependent on the productivity and conservation of these pastures – both as a source of income and as a social safety net for poor households. Future additional agricultural growth and gains in rural incomes will depend greatly on the efficient use of these pasture resources. But pasture conditions have deteriorated during the recent past, with village and winter pastures being severely overused and degraded, while the more remote summer pastures have been underutilized as a result of poor access – often caused by deteriorating infrastructure. A Pasture Law, which was passed in December 2009, has been pivotal for the development of the livestock sector.

4. The Human Development Index (2011) for the Kyrgyz Republic is 0.615, ranking it in 126<sup>th</sup> place out of 187 countries. The Kyrgyz Republic is classified as a low-income food-deficit country as it depends on wheat imports to cover about one quarter of its consumption requirements. While there has been some progress in reducing urban poverty, rural poverty remains a problem. The Kyrgyz Republic has made good progress in reducing the incidence of extreme poverty, but 6 per cent of high-altitude populations still lived in extreme poverty in 2009. Poverty is most widespread and severe in rural and mountainous regions. In 2010, the mountain oblasts of Naryn, Jalalabad, Talas and Issyk-Kul had the greatest concentrations of poverty with 56 per cent, 50 per cent, 44 per cent and 43 per cent respectively – compared to the national average of 34 per cent. Similarly, the incidence of extreme poverty in these four oblasts was 10 per cent, 0.5 per cent, 7 per cent and 3 per cent respectively – compared to the national average of 3 per cent. Inequality is increasing, particularly among the rural population, and food insecurity is a growing problem. In 2011, 46 per cent of the population was food-insecure (32 per cent moderately and 14 per cent severely).
5. Individual households have developed strategies to address their poverty – traditionally involving the ownership of livestock but more recently by having family members work in neighbouring countries like Kazakhstan or the Russian Federation. Remittances play an increasingly important role in rural life: they grew by 27 per cent to US\$1.25 billion in 2010. Growing migration has led to a greater prevalence of women-headed households, which in 2011 accounted for 32 per cent of all households, according to World Food Programme. In agricultural areas these households are often at a disadvantage due to shortage of labour.

## **B. Rationale and alignment with government priorities and RB-COSOP**

6. In spite of the fact that livestock accounts for about half of agriculture's contribution to GDP, and is one of the strongest components of the rural economy, livestock productivity is far below its potential level. However, a number of interventions have demonstrated that substantial improvements can be made with the right combination of activities and incentives, that livelihoods of smallholder livestock producers can be improved and that important benefits to the economy can be achieved. There is both an opportunity and a pressing need to strengthen the livestock sector. This is well in line with the country development strategy of the Kyrgyz Republic, which stresses the importance of promoting sustained agricultural growth and measures to raise farm productivity and farm incomes.

## **II. Programme description**

### **A. Programme area and target group**

7. The programme area comprises two oblasts, Issyk-Kul and Naryn, both of which are major livestock areas and both of which are among the poorest oblasts in the country. The population of the two oblasts is 692,130, or 154,075 households, with 71 per cent living in rural areas, most of whom are livestock farmers. The livestock farming households are located across 125 Pasture Committee areas, which are essentially synonymous with the lowest administrative unit, the *Aiy! Okmotu*. The Pasture Committee (PC) is the executive body for the Pasture Users' Union (PUU), which represents the interest of all the households that use the pasture areas. On average a PUU has a membership of 900 households, or about 4,600 people.
8. The programme target group has been defined as vulnerable households primarily of small livestock producers; women-headed households that are becoming increasingly prevalent due to the rise in migration of men in search of work; and other livestock producer households that are members of the PUUs in the programme area. In addition, community veterinarians are an important target

group for the programme as they will be the focus for many of the animal health and productivity initiatives.

## **B. Programme development objective**

9. The goal of the programme is to contribute to the reduction in poverty and enhanced economic growth in pasture communities. The programme objective is to generate livestock productivity gains in Issyk-Kul and Naryn Oblasts, reflected in improved and equitable returns to livestock farmers.

## **C. Components/outcomes**

10. **Component 1: Community-based pasture management.** The component builds on the experience and lessons learned from other similar projects and adopts a participatory planning approach focused on pasture and livestock development. The component will support the 125 PUUs in the programme area in establishing community pasture management plans, utilizing focus groups to ensure that the different target groups are fully involved in the planning, prioritization and decision-making process. The outcome from the component will be more productive and accessible pasture areas and increased supplementary feed available to community livestock.
11. **Component 2: Livestock health and production services.** By providing support to private veterinary services, the component responds to the inadequate community animal health services and the undertrained and underresourced private veterinarians, who are now the front line of veterinary and production advice to livestock producers. The component also provides support for the national programme to combat major livestock diseases, aimed at reducing animal mortality and infections in humans. The high incidence of these diseases is currently preventing export of animals, meat and milk products, which in turn directly impacts on the livestock farmers through reduced income. The outcome of component 2 will be healthier livestock with lower levels of mortality.
12. **Component 3: Market/value chain initiatives.** This component responds to the low return currently achieved by livestock farmers from their dairy animals. The approach is to work on a relatively limited scale with groups of livestock producers within the PUUs and facilitate their development as business/market groups for the handling and processing of milk for the market. The aim is to test through commercial operations how best to implement such interventions as a basis for future scaling up. The key to the proposed initiatives will be the establishment of partnership arrangements (i) between milk collection and cooling centres, and milk processing plants that will participate in investments in the centres and create a guaranteed market for the livestock producers' milk; and (ii) between women's milk processing groups, market operators and other market outlets such as schools and institutions that will provide regular demand for the products.
13. **Component 4: Programme management.** The component provides for the overall management of the programme by the Agricultural Projects Implementation Unit (APIU) of the Ministry of Agriculture and Melioration.

## **III. Programme implementation**

### **A. Approach**

14. The programme is designed to scale up the IFAD/World Bank-cofinanced Agricultural Investments and Services Project (AISP) and adopts its successful approaches in pasture management and veterinary services. It focuses on two key elements: the PC and PUU, which form the core of programme interventions and – linked to them – the private community veterinarians who are the key resource at the community level to facilitate improvements in animal health and productivity. The PC and PUU will organize and carry out the participatory planning process that will be the basis for refining the community pasture management plans. These



plans will be used to improve and manage pastures, and will also involve selecting and implementing investment projects to be financed by the programme in each PC/PUU. The plans will provide the basis for animal health and disease control initiatives in the PCs/PUUs spearheaded by the community vets, and for the identification of groups of livestock producers, both women and men, aiming to set up milk collection/cooling centres or women's milk processing facilities.

## **B. Organizational framework**

15. Overall responsibility for programme implementation will rest with the Ministry of Agriculture and Melioration. The two institutions that have been the key to successful implementation of AISP and other projects are the APIU and the Community Development and Investment Agency (ARIS), a large, well-financed organization that focuses particularly on community-based initiatives and has a mandate to alleviate poverty. These will have the prime responsibility for programme implementation. Each institution will have clear areas of responsibility and will be financially accountable for the implementation of its own activities. The APIU will have overall responsibility for programme oversight and coordination. Memorandums of understanding will be drawn up between the APIU and ARIS and between the APIU and the other implementing partners for which the APIU has responsibility.

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

16. The APIU will be responsible for compiling a result-based annual workplan and budget (AWPB). The monitoring and evaluation (M&E) system and an associated management information system will provide comprehensive information for efficient planning and management, and contribute to learning from stakeholders' experience. In an effort to shift the focus from impact documentation at completion to outcome measurement during implementation, annual outcome surveys will be carried out. The knowledge management (KM) systems and processes will be put into place at the outset, with the APIU, whose M&E, gender and KM teams will develop a strategy using the IFAD Asia and the Pacific Division's KM strategy as a point of reference. This strategy will be based on the three pillars of KM – people, processes and technology – and will include a needs assessment of the main stakeholders of the programme. A KM needs assessment matrix will be prepared in collaboration with the APIU and ARIS teams. The programme learning systems will involve quarterly and annual review meetings to capture lessons and information on progress, and find solutions for implementation constraints. Annual programme performance reports will feed into annual stakeholder review and planning workshops. Feedback from each workshop will be factored into the AWPB for the succeeding year, thus closing the circle of participatory, demand-driven planning and implementation.

## **D. Financial management, procurement and governance**

17. The programme's financial management arrangements will build on the experience gained by APIU and ARIS in fulfilling their responsibilities for financial management under AISP. Their handling of the programme accounts, audits, procurement and disbursement are considered to be satisfactory and fully consistent with the financial management rules and regulations of IFAD and the World Bank. Financial management staff of both institutions are well trained and experienced in carrying out these functions.
18. Responsibility for the programme accounts will rest with the APIU and ARIS. The Ministry of Finance will open and maintain two designated accounts in United States dollars for the APIU and ARIS respectively in a commercial bank acceptable to IFAD. The Directors of APIU and ARIS would be authorized to operate these accounts. The accounts will receive IFAD loan and grant funds, in advance, for use

in financing the IFAD share of programme expenditures. The funds will flow from IFAD directly to APIU and to ARIS, and each institution will be responsible for managing and using its funds as per agreed workplans and budgets. The joint World Bank/IFAD midterm review mission of the AISP found that the APIU and ARIS have adequate procurement capacity in terms of qualified and internationally trained staff and that the established procedures are in place to undertake procurement of goods and services on a competitive basis.

19. IFAD standard arrangements will be implemented for programme audits. The borrower/recipient, through the APIU and ARIS, will appoint independent auditors acceptable to IFAD, under terms of reference cleared by IFAD.

## E. Supervision

20. The programme will be directly supervised by IFAD. A supervision plan for the first two years leading up to the midterm review will be developed in consultation with implementing partners at programme start-up.

## IV. Programme costs, financing and benefits

### A. Programme costs

21. The total programme costs, including physical and price contingencies, are estimated at about US\$25.8 million (Kyrgyz Som 1.2 billion). Physical and price contingencies account for 3 per cent of the total costs and the foreign exchange component is estimated at US\$3.0 million or about 12 per cent of the total costs. Taxes and duties total approximately US\$0.2 million.

Table 1

#### Programme costs by component

(Thousands of United States dollars)

	US\$	Percentage foreign exchange	Percentage total costs
<b>A. Community-based pasture management</b>			
1. Community pasture management and investments	12 369	2	50
2. Pasture institutional strengthening	623	24	2
<b>Subtotal community-based pasture management</b>	12 992	3	52
<b>B. Livestock health and production services</b>			
1. Strengthening veterinary and community animal health services	1 819	11	7
2. National disease control programme	6 626	26	27
3. Animal Health Education and Capacity Building	907	37	4
<b>Subtotal Livestock Health and Production Services</b>	9 352	24	37
<b>C. Market/Value Chain Initiatives</b>	1 270	1	5
<b>D. Programme management</b>			
Programme management	1 226	10	5
Monitoring and evaluation	141	3	1
<b>Subtotal Programme management</b>	1 367	10	5
<b>Total baseline costs</b>	24 981	11	100
Physical contingencies	177	84	1
Price contingencies	636	25	3
<b>Total programme costs</b>	25 793	12	103

### B. Programme financing

22. IFAD will provide a loan of US\$10.0 million and a grant of US\$10.0 million (each representing 38.8 per cent of the programme costs). The Government contribution is estimated at US\$0.5 million (2 per cent of costs) and includes contributions from its budget to cover a part of the costs of vaccines and taxes. Approximately US\$5.2

million (20 per cent) will be provided by the beneficiaries as cofinancing of the community pasture management plans and other grants. The Veterinary Chamber will provide around 1 per cent of the costs.

Table 2  
**Financing plan by component**  
(Thousands of United States dollars)

Component	IFAD Loan		IFAD Grant		Govt Cash		Benef. Contrib'n		Govt Taxes		Vet Chamber		Total	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
<b>A. Community-based Pasture Management</b>														
1. Community Pasture Management and Investments	6 174	50	4 173	34	-	-	2 031	16	24	0.2	-	-	12 402	48
2. Pasture Institutional Strengthening	115	18	528	80	-	-	-	-	16	2	-	-	659	3
<b>Subtotal Community-based Pasture Management</b>	<b>6 289</b>	<b>48</b>	<b>4 701</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>2 031</b>	<b>16</b>	<b>39</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>13 060</b>	<b>51</b>
<b>B. Livestock Health and Production Services</b>														
1. Strengthening Veterinary and Community Animal Health Services	19	1	1 344	73	-	-	375	20	13	1	88	5	1 840	7
2. National Disease Control Programme	1 723	24	2 724	38	298	4	2 390	33	94	1	-	-	7 230	28
3. Animal Health Education and Capacity Building	224	24	668	71	-	-	-	-	44	5	-	-	935	4
<b>Subtotal Livestock Health and Production Services</b>	<b>1 966</b>	<b>20</b>	<b>4 736</b>	<b>47</b>	<b>298</b>	<b>3</b>	<b>2 765</b>	<b>28</b>	<b>152</b>	<b>2</b>	<b>88</b>	<b>1</b>	<b>10 004</b>	<b>39</b>
<b>C. Market/Value Chain Initiatives</b>	<b>660</b>	<b>52</b>	<b>218</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>390</b>	<b>31</b>	<b>2</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>1 270</b>	<b>5</b>
<b>D. Programme Management</b>														
Project Management	1 073	82	207	16	-	-	-	-	28	2	-	-	1 308	5
Monitoring and Evaluation	12	8	138	91	-	-	-	-	1	1	-	-	150	1
<b>Subtotal Programme Management</b>	<b>1 085</b>	<b>74</b>	<b>345</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>2.0</b>	<b>-</b>	<b>-</b>	<b>1 459</b>	<b>5.7</b>
<b>Total programme costs</b>	<b>10 000</b>	<b>39</b>	<b>10 000</b>	<b>39</b>	<b>298</b>	<b>1</b>	<b>5 187</b>	<b>20</b>	<b>222</b>	<b>0.9</b>	<b>88</b>	<b>0</b>	<b>25 793</b>	<b>100</b>
<b>Financing portion of total costs (%)</b>	<b>39</b>		<b>39</b>		<b>1</b>		<b>20</b>		<b>1</b>		<b>0</b>		<b>100</b>	

## C. Summary benefit and economic analysis

23. The main programme benefits will go to households in the 125 Pasture Committee areas in the two oblasts – Issyk-Kul and Naryn. Some 110,000 households will benefit directly and indirectly from the programme. The pasture management and disease control activities will reach a high proportion of the target population, with the largest investments going directly to the beneficiaries in the form of matching grants, training and technical assistance. Benefits will derive from: (i) increased pasture yields; (ii) higher feed crop yields and expanded cultivated feed crop area;

(iii) improved capacity of smallholders for livestock management; (iv) reduction in livestock mortality and improved livestock performance; and (v) opportunities for breed improvement and selection of better breeds. An additional 1,000 households will also benefit through involvement in milk value chain business groups. Over 90 per cent of programme costs will go directly to programme beneficiaries, with 46 per cent of total programme investment provided directly to beneficiaries in the form of matching grants.

24. The economic analysis indicates that the programme is robust in economic terms. The analysis results in an economic rate of return of 28 per cent and a net present value of US\$37 million over 20 years, with the benefit stream based on quantifiable benefits that relate directly to the activities implemented under the components.

## **D. Sustainability**

25. A key focus of the programme is to develop the capacity in the PCs/PUUs to be able to manage their pasture areas in an improved and sustainable fashion, as evidenced by the range of activities supported. These range from boundary demarcation to a system of pasture tickets to promote sustainable access to pastures and pasture routes, and from self-sustaining community seed funds to support for community veterinarians in running financially sustainable businesses. The PUUs will be able to manage their community pasture management plans after programme completion through increased fee collection. Similarly, the interventions under the third component, being business-focused and driven by market demand from the milk processing plants and other market players will be sustainable as long as they continue to be profitable. Institutionally, the two lead agencies – APIU and ARIS – are sustainable as APIU is part of the Ministry of Agriculture and ARIS is a strong, financially independent institution.

## **E. Risk identification and mitigation**

26. Most risks have been addressed in the programme design. There are, however, two main risks that could seriously affect the implementation of the programme:
- (i) elite capture of a disproportionate amount of the gains from increased production. In response, the participatory planning process already in use in AISP works with specific focus groups for vulnerable households, women and women-headed households. This inclusive approach will help address this risk; and
  - (ii) market dynamics. Weak market linkages and exploitative markets/milk processors constrain development of viable group businesses in milk collection. To address this risk, milk processing plants have volunteered to take a financial stake in the proposed milk collection and cooling centres.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

27. The design of the programme is fully consistent with IFAD policies and strategies, in particular the IFAD Strategic Framework 2011-2015, the IFAD Environment and Natural Resource Management Policy, Private Sector Strategy, and Climate Change Strategy. In line with IFAD Guidelines on Environmental Assessment, the programme has been classified as Category B. Few, if any, negative environmental impacts are expected to result from the programme. The gender and targeting strategies of the programme are informed by and fully compliant with the IFAD Policy on Gender Equality and Women's Empowerment and IFAD Targeting Policy.

### **B. Alignment and harmonization**

28. The programme is fully aligned with the country development strategy of the Kyrgyz Republic, particularly in the emphasis on raising farm productivity and incomes. In addition, all animal health activities of the programme support the implementation of the national animal disease control strategies. The programme was designed in close consultation with both bilateral and multilateral development

partners active in the livestock sector and provisions have been made to continue these consultations during programme implementation.

### **C. Innovations and scaling up**

29. The programme is designed to scale up interventions in community-based pasture management and animal health and nutrition that have been successfully piloted by the IFAD/World Bank-cofinanced AISP. The programme will promote the implementation of the innovative approach to pasture management introduced by the Pasture Law of 2009, and support the development of a private community veterinary service based on a fee-for-service business model.

### **D. Policy engagement**

30. The programme is expected to produce evidence-based contributions to the policy dialogue on the implementation of the new Pasture Law. Experience gained from the field work with the PCs/PUUs will provide important input to the ongoing development of administrative and regulatory processes for the implementation of the law. Similarly, experience gained from the development of the private community veterinarian service is expected to inform the upcoming revision of the Veterinary Law.

## **VI. Legal instruments and authority**

31. A financing agreement between the Kyrgyz Republic and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is included as an annex.
32. The Kyrgyz Republic is empowered under its laws to receive financing from IFAD.
33. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Kyrgyz Republic in an amount equivalent to six million five hundred thousand special drawing rights (SDR 6,500,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Kyrgyz Republic in an amount equivalent to six million five hundred thousand special drawing rights (SDR 6,500,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Livestock and Market Development Programme (LMDP)"**

(Negotiations concluded on 29 November 2012)

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

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

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

The Kyrgyz Republic (the "Borrower/Recipient")

and

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

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

hereby agree as follows:

### **WHEREAS**

The Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Programme described in Schedule 1 to this Agreement,

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

### **Section A**

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a loan (the "Loan") and a grant (the "Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

### **Section B**

1. A. The amount of the Loan is six million and five hundred thousand Special Drawing Rights (SDR 6 500 000).  
B. The amount of the Grant is six million and five hundred thousand Special Drawing Rights (SDR 6 500 000).

2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Principal and service charge shall be payable on 15 May and 15 November.
6. The Borrower/Recipient shall cause the beneficiaries of the Programme to make available to the Programme counterpart funds in the amount of approximately five million two hundred thousand US dollars (USD 5 200 000).
7. The Borrower/Recipient shall bear all taxes that may be due in connection with the Programme and shall provide counterpart funds for the Programme in the amount of approximately five hundred and twenty thousand US dollars (USD 520 000) of which three hundred thousand US dollars (USD 300 000) to cover part of the cost of the purchase of vaccines as provided in Schedule 1 to this Agreement.

### **Section C**

1. The Lead Programme Agency shall be the Ministry of Agriculture and Melioration (the "MOAM") of the Borrower/Recipient, acting through the Agricultural Projects Implementation Unit (the "APIU").
2. The following are designated as additional Programme Parties:
  - (a) Community Development and Investment Agency (the "ARIS");
  - (b) Centre for Certification of Veterinary Drugs under the MOAM;
  - (c) Veterinary Chamber;
  - (d) Pasture Department (the "PD");
  - (e) State Veterinary Surveillance Department (the "SVD");
  - (f) Kyrgyz Livestock and Pasture Research Institute (the "KLPRI");
  - (g) National Federation of Community Seed Funds (the "NFCSF");
  - (h) Kyrgyz National Agrarian University (the "KNAU");
  - (i) Kyrgyz Scientific Research Veterinary Institute (the "KSRI");
  - (j) Ministry of Health (the "MOH");
  - (k) Republican Centre of Veterinary Diagnostics (the "RCVD"); and
  - (l) Association of Village Health Committees (the "AVHC").
3. The Programme Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

### **Section D**

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

## Section E

1. In accordance with Section 4.02(b) of the General Conditions, the following are designated as additional general conditions precedent to withdrawal:
  - (a) The draft Programme Implementation Manual (the "PIM") referred to in paragraph 12 of Schedule 1 to this Agreement shall have been submitted to and approved by the Fund.
  - (b) The Programme Coordination and Reference Group (the "PCRG") referred to in paragraph 8 of Schedule 1 to this Agreement shall have been duly established.
  - (c) The APIU and the ARIS Programme management teams referred to in paragraph 7 of Schedule 1 to this Agreement shall have been fully staffed to the satisfaction of the Fund.
2. The following are designated as additional conditions for suspension:
 

The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme.
3. This Agreement is subject to ratification by the Borrower/Recipient.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

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

Facsimile Number: +996 664560

For the Fund:

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

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

KYRGYZ REPUBLIC

\_\_\_\_\_

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

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## Schedule 1

### *Programme Description and Implementation Arrangements*

#### I. Programme Description

1. *Target Population.* The Programme aims to benefit vulnerable households primarily among small livestock producers; women headed households that are becoming increasingly prevalent due to the rise in migration of men in search of work; other livestock producer households members of the Pasture Users Unions (the "PUU"); Private Vet Specialists (the "PV") veterinarians in the Programme Area including two oblasts, Issyk-Kul and Naryn.
2. *Goal.* The goal of the Programme is to contribute to the reduction in poverty and enhanced economic growth in pasture communities in the Programme Area.
3. *Objectives.* The Programme's objective is to generate livestock productivity increases in the Programme Area, reflected in (i) more productive and accessible pasture areas and increased supplementary feed available to community livestock; (ii) healthier livestock with lower levels of mortality; and (iii) market partnerships in the milk value chain providing incentives for productivity increases.
4. *Components.* The Programme shall consist of the following four (4) components:

#### **Component 1: Community-Based Pasture Management**

The component shall support approximately one hundred and twenty five (125) PUUs of the Programme Area in establishing and upgrading community Pasture Management Plans (the "PMP"), and utilizing focus groups to ensure that the different target groups are fully involved in the planning, prioritization and decision making process. The outcome from the component would be more productive and accessible pasture areas and increased supplementary feed available to community livestock.

Component 1 is divided into two sub-components:

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

This sub-component shall improve the productivity and use of and access to the pastures within the selected PUU areas, through providing financing to support the following activities: (i) legal and regulatory reform; (ii) boundary demarcation; (iii) upgrading PMPs; (iv) Community/PMP Investment Projects; and (v) the Community Fodder Seed Programme.

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

This sub-component shall build and strengthen the capacity of national level institutions to help develop a cadre of technically qualified specialists in pasture management and improvement. Therefore, support shall be provided to (i) the Pasture Department; (ii) Kyrgyz Agrarian University; and (iii) Livestock and Pasture Research Institute for research, training and other related activities.

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

The main objective of this component is to increase access to livestock and veterinary services for smallholder producers resulting in decreased mortality and increased productivity of sheep/goat flocks and cattle herds due to the reduced incidence and prevalence of diseases. The component shall have three sub-components:

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

The sub-component shall contribute to developing a technically competent and financially sustainable private veterinary service by supporting the development of a cadre of the PVs together with establishing and training Animal Health Sub-Committees (the "AHSC") to provide the Pasture Communities (the "PC") with a knowledgeable means to help guide the planning of animal health activities within the PC area that come within the PMPs. The AHSCs shall then be responsible for coordinating the provision of herd health and production services, working together with the private veterinarians to ensure that the flocks and herds remain healthy and show steady gains in production yields over the life of the Programme. The PMPs would include guidelines for health and production practices deemed appropriate for and agreed by the members. This would include routine health procedures, compulsory vaccinations and a clear understanding amongst members regarding expectations for individual farm feed budgeting, preparation of winter feed and integration with the management of optimal pasture access and rotational grazing. The AHSCs shall also manage community level Animal Disease Control and Compensation Funds as the basis for preventive programmes, vaccination and eventually compensation once legally feasible. The activities planned under this sub-component include: (i) Community Based Animal Health Worker Survey; (ii) Establishing and Training AHSCs; and (iii) private veterinarian capacity building.

### **Sub-component 2.2: National Disease Control Programme**

The Borrower/Recipient commits to a long term programme of disease control that shall be initiated with the support under this sub-component. This programme consists of three particular categories of activities: (i) revision of the related legal framework; (ii) improvement of veterinary medications and drugs control in accordance with internationally recognized standards; and (iii) implementation of national disease control strategies including baseline surveys, the National Animal Disease Information System, and the Vaccination and Control Programmes.

### **Sub-component 2.3: Animal Health Education and Capacity Building**

This sub-component shall provide support to: (i) Need Assessment and Programme Development; (ii) veterinary education and training; (iii) Student Incentive Programmes; (iv) professional development and training in the veterinary faculty of the KNAU; and (v) Strengthening the KSRI.

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

The objective of the Component 3 is to enable livestock producers in the Programme Area to expand their milk production to meet the market demand and thereby achieve improved returns from their dairy animals. Investment under this component shall be split between two sub-components: (i) Programme Development and Implementation; and (ii) Milk Value Chain Investments.

### **Sub-component 3.1: Programme Development and Implementation**

The sub-component shall support the ARIS to implement Component 3, by providing financing for (i) the recruitment and employment of an international business/marketing specialist who shall work closely with the ARIS to develop inter alia the terms of reference, tender documents and draft contract for a specialized business service provider that shall be responsible for implementing the component activities under the supervision of the ARIS; and (ii) contracting of the aforementioned specialized business service provider of qualified experience in business/market development and knowledge and skills in the livestock and preferably the milk sector.

### **Sub-component 3.2: Milk Value Chain Investments**

Sub-component 3.2 shall provide funds in the form of matching grants to the milk collection and cooling centres and the women's small scale processing units, which shall be established in accordance with the criteria specified in the PIM.

## **Component 4: Programme Management**

This component shall provide financing for the overall management of the Programme by the APIU under the MOAM, including the operation of the APIU Programme management office in Bishkek. Management costs that are incurred by the ARIS in the course of performance of its responsibilities in accordance with this Agreement shall be financed with resources under Sub-component 1.1.

## **II. Implementation Arrangements**

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

The Lead Programme Agency shall take the overall responsibility for Programme implementation, coordination, oversight and reporting to IFAD and the Government of the Borrower/Recipient, including liaising closely with the ARIS which shall be accountable to the APIU.

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

5.2. Except otherwise provided in this Agreement, the following Programme activities shall be implemented by the APIU with due diligence in accordance with this Agreement: (i) activities (i), (ii) and (v) of Sub-component 1.1; (ii) Sub-component 1.2; (iii) Sub-component 2.1; (iv) Sub-component 2.2; (v) Sub-component 2.3.

5.3. When implementing these activities, the APIU shall be responsible for inter alia: (i) financial management including comprising procurement, disbursement, accounting, auditing and financial reporting; (ii) overseeing and managing the performance of other Programme Parties as specified in Section C of this Agreement; (iii) shortlisting, evaluating, contracting and managing performance of service providers; (iv) overall Programme monitoring and evaluation (M&E),

including baseline and impact surveys, and knowledge management; (v) reporting for all Programme activities including assimilating the reports from the ARIS and from the other Programme Parties; (vi) maintaining a results-based system of assessing the performance of Programme Parties; (vii) all Programme-level documentation and reporting; (viii) technical, financial and management backstopping, and technical assistance in support of other Programme Parties; (ix) poverty targeting, gender mainstreaming and the pursuit of other social goals and indicators of Programme effectiveness and impact.

6. The ARIS. The ARIS shall be the legal entity to implement the Programme components and sub-components as provided below.

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

6.2. The following Programme activities shall be implemented by the ARIS with due diligence in accordance with this Agreement: (i) activity (iii) under Sub-component 1.1; (ii) the management of PC grants for the financing of investment projects identified in the PMPs under activity (iv) of Sub-component 1.1; (iii) PUU legal training under activity (i) of Sub-component 1.1; (iv) activities under Sub-component 2.1 that deal with management of grants and strengthening the capacity of PVs; and (v) Component 3.

7. Programme Management Teams and other Key Programme Personnel. The selection of members of the Programme management teams of the APIU and ARIS and other key Programme personnel shall be based on a competitive, open and transparent procedure and subject to the Fund's no-objection within thirty (30) days of receipt of the proposed selection. All key Programme personnel shall have qualifications and experience as shall be deemed necessary for Programme implementation.

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

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

10. Annual Work Plans and Budgets (the "AWPBs"). Each Programme Party shall prepare and submit an AWPB for each Programme Year to the APIU, which shall then prepare and submit a consolidated draft AWPB to the Fund for comments no later than sixty (60) days before the beginning of the relevant Programme Year. If the Fund does not comment on

the draft Programme AWPB within thirty (30) days of receipt, the AWPB shall be deemed acceptable to the Fund. The AWPBs shall include inter alia a Procurement Plan, a detailed description of planned Programme activities during the coming Programme Year and the sources and uses of the proceeds of the IFAD Financing.

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

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

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

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

## Schedule 2

### Allocation Table

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

Category	IFAD Loan amount allocated (expressed in SDR 000s)	IFAD Grant amount allocated (expressed in SDR 000s)	Percentage of Eligible Expenditures to be Financed net of taxes and beneficiaries' contributions
I. Veterinary Equipment and Goods	930	-	100% except for vaccines: 75% in Programme Year 4 and 50% in Programme Year 5
II. Equipment, Goods and Vehicles	270	-	100%
III. Training and Workshops	-	660	100%
III. Technical Assistance, Studies and Support to PVs in brucellosis and echinococcosis control	-	4 150	100% except for: Support to PVs in brucellosis control: 50% in Programme Year 2, 0% in Programme Years 3-5; Support to PVs in echinococcosis control: 0% in Programme Years 4-5; for Veterinary Chamber costs: 75% in Programme Year 3, 50% in Programme Year 4 and 0% in Programme Year 5; and Veterinary Chamber: 0% in Programme Years 1-2, 25% in Programme Year 3, 50% in Programme Year 4 and 100% in Programme Year 5
IV. Pasture/Livestock Improvement Grants	3 560	-	100%
V. Value Chain Grants	390	-	100%
VI. Grants to AHSCs, PVs and Community Seed Funds (CSF), and scholarships	-	1 040	100% except for grants to PVs: 50% from IFAD
VII. Operating Expenses for Programme Management	700	-	100%
Unallocated	650	650	
<b>Total Costs</b>	<b>6 500</b>	<b>6 500</b>	

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

Category I. "Veterinary Equipment and Goods" mainly includes costs of vaccines.

Category IV. "Technical Assistance, Studies and Support to PVs in brucellosis and echinococcosis control" includes inter alia costs of ARIS related to community support, support to PVs and the Veterinary Chamber, and National and International Technical Assistance.

Category VII includes grants to the AHSCs, PVs and Community Seed Funds (CSF), and scholarships.

## Logical framework

Results Hierarchy	Indicators	Means for Verification	Risks (R) & Assumptions (A)
<b>Goal.</b> Contribute to the reduction in poverty and enhanced economic growth in pasture communities.	1. 27 500 households with additional improvement in household assets ownership index. 2. 10% reduction in the prevalence of child malnutrition.	Quantitative baseline, mid-term review, programme completion survey. Health statistics. Studies to complement indicator based data.	
<b>Development Objective.</b> Livestock productivity increases in Issyk-Kul and Naryn Oblasts reflected in improved and equitable returns to livestock farmers.	1. The value of livestock and livestock products sold by participating households has increased by an average of 15%, compared with the pre-programme level of sales (baseline survey). 2. 15% of poor households have improved nutrition and food security from increased consumption of meat and dairy products.	Baseline, mid-term, completion surveys. Financial records of programme enterprise groups. Qualitative studies	(R) Elite capture of a disproportionate amount of the gains from increased production and local level conversion of animal, milk and meat surpluses sold on the market and to processors.
<b>Component 1. Community Based Pasture Management</b>			
<b>Outcome 1.</b> More productive and accessible pasture areas and increased supplementary feed available to community livestock.	1. 25% increase in average milk yields and 15% increase in average weight of cattle, sheep and goats sold in local markets. 2. 240 mt incremental of high quality/cleaned barley and 48,000 mt fodder are available in programme communities by the end of the programme period.	Programme M&E records. Rayon statistics on livestock sales. Reports from National Federation of Community Seed Funds.	(R) Livestock producers do not respect the 'carrying capacity' of the assigned pastures resulting in a degradation of the natural grass cover hence productivity declines.
<b>Output 1.1</b> Combined pasture and animal health plans incorporating needs and priorities of poor and women.			(A) PCs are implementing Community Pasture Management Plans in a timely and efficient manner. (R) Livestock producers do not pay pasture fees in full reducing capacity of PCs to operate effectively.
<b>Output 1.2</b> Investments prioritized in Community Pasture Management Plans completed, functioning and sustainable.			(R) poor maintenance of CPMP investments results in reduced benefits to the livestock farmers.
<b>Output 1.3</b> Demarcated boundaries and pasture inventories facilitating more effective use of pastures.			(A) The digitalisation process or demarcated boundaries is timely completed. (R) Assignment of pasture to livestock producers generates conflicts which negatively impacts on their productive use.
<b>Component 2 Animal Health and Production Services</b>			



Results Hierarchy	Indicators	Means for Verification	Risks (R) & Assumptions (A)
<b>Outcome 2.</b> Healthier livestock with lower levels of mortality.	Livestock mortality rates nationally reduced by 2%. 2. 80% of livestock farmer households in Issyk-Kul and Naryn have reductions in their animal mortality.	SVD reports. Programme M&E record.	(A) Effective cooperation between CVs and livestock farmers/animal health committees can be ensured.
<b>Output 2.1</b> Community vets providing animal health and production services on a financially sustainable basis.			(A) Sufficient number of vets will find the programme veterinary package attractive and financially viable. (R) Livestock farmers' ability/willingness to pay for vet services insufficient to ensure vets are financially sustainable.
<b>Output 2.2</b> Animal health committees providing support to Pasture Committees on animal health concerns.			(A) Livestock farmers will see the benefits in a collective approach to animal health.
<b>Output 2.3</b> Reduction in the level of brucellosis and echinococcosis nationally.			(A) Full coverage by vaccination/livestock disease control programmes will be achieved. (R) Insufficient budget available for gradual phasing in of government funding.
<b>Output 2.4</b> Educational support for animal health services operating more efficiently.			(A) Students will find veterinary practice an attractive career opportunity.
<b>Component 3. Market/Value Chain Initiatives</b>			
<b>Outcome 3.</b> Market partnerships in the milk value chain providing incentives for productivity increases.	1. 40 partnerships between livestock farmer groups and processors/market intermediaries.	Programme M&E records.	(R) Weak market linkages and exploitative markets/milk processors constrain expansion of production to meet market demand. (A) processor/milk collection/cooling centre partnerships are beneficial to both parties.
<b>Output 3.1</b> Higher quality and volumes of milk being produced for assured markets			(R) Contractual obligations are not fully observed and relationship breaks down. (R) Continued closure of export markets constrains demand for milk.
<b>Output 3.2</b> Women's group sustainably processing milk products for market			(R) insufficient quantities of milk available from dairy producers to enable the processing units to operate at a viable level.

\* Indicators, where relevant, will be disaggregated by gender.