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Investing in rural people

The Republic of Azerbaijan

Livestock Productivity and Marketing  
Improvement Programme

Negotiated financing agreement

# Negotiated financing agreement: "Livestock Productivity and Marketing Improvement Programme"

(Negotiations concluded on 6 December 2017)

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

Programme Title: Livestock Productivity and Marketing Improvement Programme ("LPMIP" or "the Programme")

The Republic of Azerbaijan (the "Borrower")

and

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

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

hereby agree as follows:

## Section A

1. The following documents collectively form this Agreement: this document, the 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, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

## Section B

1. The amount of the Loan is ten million United States dollars (USD 10 000 000).
2. The Loan shall be subject to interest on the principal amount outstanding at a rate equal to the IFAD Reference Interest Rate, payable semiannually in the Loan Service Payment Currency, and shall have a maturity period of eighteen (18) years, including a grace period of three (3) years starting from the date that the Fund has determined that all General Conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b).
3. The Loan Service Payment Currency shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 15 May and 15 November.

6. There shall be a Designated Account maintained in a commercial bank denominated in USD. There shall also be an Programme account in Azerbaijani Manat (AZN) to receive financing from the Designated Account in a commercial bank. In addition, there will be a separate counterpart account for the Borrower's contribution.

7. The Borrower shall provide counterpart financing for the Programme in cash and exemption from taxes in the amount not less than two million and two hundred thousand United States dollars (USD 2.2 million) for the first phase of the programme.

#### Section C

1. The Lead Programme Agency shall be the State Service for Management of Agricultural Project and Credits under the Ministry of Agriculture (MoA).

2. The following are designated as additional Programme Parties: the Ministry of Ecology and Natural Resources, the Ministry of Economy, the Ministry of Finance, the Central Bank, the State Committee on Women, Child and Family Issues, Amelioration and Irrigation Open Joint Stock Company and participating Rayons.

3. The Programme Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement (first phase of the programme is 3 years and the second phase is 5 years).

#### Section D

The Loan will be administered and the Programme supervised by the Fund.

#### Section E

1. The following is designated as an additional ground for suspension of this Agreement:

- (a) Key Project staff shall have been transferred, suspended, or terminated without the Fund's prior no-objection.
- (b) Any institutional changes have been made by the Borrower to the Programme Steering Committee and/or the Programme Management Unit without the prior consent of the Fund, and the Fund has determined that such changes are likely to have a material adverse effect on the Programme; and
- (c) The Programme Implementation Manual, or any provision thereof, has been abrogated, waived, suspended, or amended without the prior consent of the Fund and the Fund has determined that this is likely to have a material adverse effect on the Programme.

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) the Programme Director, Finance Manager, and Procurement Specialist shall have been duly authorised to function;
- (b) The Programme Implementation Manual including the Financial Management Procedures has been approved by IFAD and a Financial and Accounting System is functional.

3. This Agreement is subject to approval by the Borrower.

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

For the Borrower:

Minister for Finance  
of the Republic of Azerbaijan  
Ministry of Finance  
Samad Vurgun St. 135  
AZ 1022 Baku, Azerbaijan

For the Fund:

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

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

THE REPUBLIC OF AZERBAIJAN

\_\_\_\_\_  
Authorized Representative  
Name and title

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Gilbert Houngbo  
President

## Schedule 1

### Programme Description and Implementation Arrangements

#### I. Programme Description

1. Target Population. The Programme will target about 20,500 smallholder livestock rearing households, among them the poorest women-headed households and youth. The Programme will also work with small-scale women and men milk and dairy traders and processors, and livestock traders who are actors in the market linkages for the target group.

2. Programme Area. The Programme shall work in Agjabedi, Barda, Beylagan and Goychay rayons. Based on performance other districts (Rayons) can be included.

3. Goal and Objective. The overall Programme goal is to reduce rural poverty (increased incomes and reduced vulnerability of poor rural households) by supporting the Government's economic diversification programme. The Programme development objective is to increase smallholder farmers' income from improved livestock production and marketing activities in Programme rayons with strengthened resilience to climate shocks.

4. Components and Outcomes. Programme activities shall be organised in two mutually supportive components aimed at developing solutions that will help upgrade the milk and meat value chains and selected investments in poultry. Given the high vulnerability to climate change, LPMIP will mainstream a climate smart approach throughout its activities. Programme activities will be coordinated under the Programme Management component.

##### 4.1 Component 1: Market-led sustainable livestock production

Outcome 1: Livestock productivity improvements sustainably increased with climate resilience

The Programme will develop the 'soft' capacity of farmer groups to contribute to the preparation of community level village development and climate vulnerability plans to guide and prioritise investments in pastures and public infrastructure to improve farmer access to feed for livestock. In one rayon, possibly Beylagan, a pilot activity will be undertaken to show how development of a rayon level land management plan can guide targeting and design of village level natural resource management and productive investment activities.

The Programme will fund community investments in advanced irrigation, drainage and land rehabilitation for forage production and pasture rehabilitation, natural seed banks and adoption of climate resilient practices and technologies.

The poorest women-headed households will have access to poultry start-up packages and start up packages for alfalfa forage production to provide an initial boost towards sustainable poultry or livestock production.

To complement the investments, Programme funds will be used to support demonstration, early adoption and innovation activities such as improved in-field water management, improved animal housing and improved fodder conservation techniques.

Other matching grant activities could include upgrading animal housing, improving stock watering facilities, improving alfalfa hay, silage or feed storage areas, buying simple feed processing activities or installing equipment to improve milk hygiene and quality. The programme would further support developing investment and business proposals to facilitate borrowing from the commercial sector.

#### 4.2 Component 2: Increased return from livestock products

Outcome 2: Smallholder livestock producers receive higher product prices and returns from Azeri markets and consumers

In addition to local- and rayon-level traders, small scale processors and rayon market participants, individual and groups of farmers who have graduated from production oriented capacity building activities or are deemed market-ready will be offered the opportunity to develop their capacity in market chain related product quality improvement, business and financial planning and management. To assist, farmer and value chain stakeholders develop a shared understanding of market needs and that planned investments to improve product quality and or market access are appropriate, multi-stakeholder marketing platforms (MSMP) to be brokered by service providers, for the main value chains (milk, meat and poultry) will be formed in each rayon to address constraints in the local market chains. A priority MSMP activity will be to link smallholder producers with existing large-scale production and processing facilities.

Aggregation, processing and marketing opportunities identified by MSMPs will be developed through market stakeholders' own resources supplemented with programme grants for developing business plans and/or developing the capacity of the MSMP to assess and develop the proposals. The matching grants will fund demonstration innovation or early adoption of small initiatives to improve raw product quality, facilitate aggregation and delivery to markets or processors, upgrade small scale processing activities, and other incremental improvements in the market chains including providing support to MSMP members to link to existing rural finance facilities.

4.3 Component 3: Programme Management. In addition to the Programme coordination, implementation management and monitoring and evaluation (M&E) activities, this component will include activities to facilitate increased access to financial services and for Policy Dialogue.

## II. Implementation Arrangements

5. Lead Programme Agency. Overall institutional responsibility for the effective management and implementation of the Programme at the central level shall rest with the State Service for Management of Agricultural Project and Credits under the MoA.

6. Programme coordination. A Programme Steering Committee (PSC) shall be appointed by a decree of the Minister of Agriculture, composed of representatives from MoA, the Lead Programme Agency, the Ministry of Finance, the Central Bank, State Committee on Women, Child and Family Issues, the Ministry of Economy, Ministry of Ecology and Natural Resources, and the Programme Director. The PSC will carry out annual Programme reviews, approve the Annual Workplan and Budget (AWPB), offer strategic and policy advice and resolution and coordinate with parallel or complementary initiatives to enhance rural development in the programme area. The PSC will meet at least once a year and on an ad-hoc basis as necessary.

7. At rayon level, rayon working groups (RWG) will be established based on Local Agricultural Departments offices comprising: the Head of Rayon Agricultural Departments; a representative from the livestock industry; a farmers' representative and the Programme Director (or his designated representative) with the rayon coordinator as the secretary. This group will supervise the village selection process, approve all grants, address coordination and resource issues within that rayon, and champion knowledge sharing.

8. At local level the Programme will closely work with the municipality and village executive committees (ExCom) to ensure that village development plans (and action plans) and commodity business plans are developed and implemented in a participatory

and complementary manner between the Programme components and align with other initiatives from government and donors. At village level, a Community Programme Committee is the key implementation and coordination group.

9. Programme Management Unit. Programme coordination, supervision and monitoring will be undertaken by a small Programme Management Unit (PMU) located within the Lead Programme Agency in Baku. The PMU will be resourced from the existing IPMU (Programme Director, Financial Manager, Procurement Officer, M&E Officer, an accountant, Community Development Specialist, Administrative Manager/Coordinator with International Organisations, Office Manager). Additional staff members shall be recruited on competitive basis as needed. The appointment and removal of these key staff members shall be subject to the non-objection of the Fund.

10. A Programme Regional Support Team (PRST) will be established and located in Beylagan rayon to facilitate the implementation of Programme activities in four targeted rayons through a continuous process of technical backstopping, implementation support and progress reporting. It will also support the active engagement of the communities in Programme implementation through participatory planning and monitoring. The PRST will be resourced with a team leader, M&E/ Contracts Management specialist, Community Development and Gender specialist, Community Infrastructure Engineer and Rural Finance specialist. A Rayon Coordinator, one in each of the targeted rayons, will be recruited to coordinate and monitor programme activities, and supervise service contracts. All staff will be selected on a competitive basis and retained on performance based contracts.

11. The AWPB will guide Programme implementation and provide a set of benchmarks against which Programme performance can be measured each implementation year. The PRST will prepare draft rayon AWPBs for each Programme Year in line with IFAD requirements, with inputs from service providers and agencies. These will be consolidated by the PMU. The first AWPB will be presented during the start-up workshop and sent to the Fund for non-objection. The following 12-month AWPBs will be submitted to the PMU for review and approval, and to the Fund for non-objection no later than sixty days before the beginning of the relevant Programme Year. The PMU will consolidate the Programme's quantitative financial and physical output data in the Management Information System.

12. Programme Implementation Manual. The PMU shall prepare a draft Programme Implementation Manual (PIM) and shall forward it to the Fund for its non-objection. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objection. The Lead Programme Agency shall adopt the PIM substantially in the form approved by the Fund. The PIM, or any provision thereof, may not be waived, suspended, terminated, amended or modified without the prior agreement of the Fund.

13. Within 180 days of entry into force, the Programme will have a comprehensive M&E system to generate all information needed for managing the Programme activities. All M&E staff at PMU and PRST shall be in place and, working with Rayon Coordinators, will ensure systematic measurement of performance indicators and provide continuous data on implementation progress at rayon levels. The system will include process and activity output and outcome indicators that will allow for disaggregation of data by different needed levels. The Results and Impact Management System (RIMS) will be fully incorporated in the Programme M&E system. Continuous learning and knowledge management (KM) will fully be integrated into the Programme and mainstreamed into implementation across all levels.

14. No later than 90 days after the start of the Programme the PMU will manage a comprehensive baseline survey which will be updated on annual basis to track the different Programme indicators over time, including for the Mid-Term Review. During the Programme's final year, a completion survey will be conducted. Results will be compared against the baseline to assess Programme impact.

Schedule 2  
Allocation Table

1. Allocation of Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category. All amounts are 100% net of taxes, Government contribution and beneficiary contribution:

Category	Loan Amount Allocated (expressed in USD)
I. Works	950 000
II. Equipment and Material (including vehicles)	1 860 000
III. Consultancies	1 470 000
IV. Grants and subsidies	4 050 000
V. Operating Cost	670 000
Unallocated (10%)	1 000 000
<b>Total</b>	<b>10 000 000</b>

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

Category III "Consultancies" means Eligible Expenditures related to training, workshops as well as local and international consultancies as defined in the AWPB.

Category V "Operating Cost" includes Eligible Expenditures related to Salaries and Allowances.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of two hundred thousand USD (USD 200 000).