

Republic of Azerbaijan

Rural Development Project for the North West (RDPNW)

Supervision report

Main report and appendices

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Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
CBO	Community Based Organizations
FST	Farmers Support Teams
GoA	Government of Azerbaijan
IPMU	IFAD Project Management Unit
IRDP	Integrated Rural Development Project
IsDB	Islamic Development Bank
ISF	Irrigation service fee
NBFI	Non-Banking Financial Institutions
PIMG	Participatory Irrigation Management Group
PIM	Project Implementation Manual
POC	Project Operations Committee
PSC	Project Steering Committee
RCC	Regional Project Coordination Center
SAAC	State Agency for Agricultural Credits
SLA	Subsidiary Loan Agreement
WUA	Water User Associations

A. Introduction¹

1. An IFAD mission visited Azerbaijan from 15 to 30 September 2013 to undertake the supervision of and provide implementation support to the Rural Development Project for the North West (RDPNW-IFAD Loan No. 745-AZ) financed by the Government of Azerbaijan and IFAD. The mission met with the General Director of the State Agency for Agricultural Credits (SAAC), the IFAD Project Management Unit (IPMU), including Participatory Irrigation Management (PIM) Group and the Regional Project Coordination Center (RCC) and staff of the Ministry of Finance. The mission reviewed the implementation progress and discussed opportunities and activities to further enhance Project implementation for the remaining part of 2013 and beyond. Joint field visits (PMU and IFAD) were undertaken to the Agstafa, Gazakh, Shamkir and Tovuz from 17 to 21 September, where the mission met with Project stakeholders and clients.
2. This Aide Mémoire reflects the mission's main findings and recommendations, and records the agreements reached with concerned authorities as discussed at a wrap-up meeting in Baku on 27 September 2013, chaired by Mr. Abbas Allahverdiyev, General Director of SAAC. This document is subject to confirmation by IFAD Management.
3. The mission expresses its sincere appreciation for the cooperation and hospitality extended by Government Authorities.

B. Overall assessment of RDPNW implementation

4. RDPNW became effective on 13 January 2009, and constitutes an investment of USD 32.33 million, of which the IFAD loan amounts to ca. USD 17.2 million (SDR 10,850,000) or 53.2% of total project cost, a contribution by the Government of USD 13.01 million (40.2% of total costs); participating financial institutions 0.5 million (1.5% of costs); and beneficiaries' contribution equivalent to USD 1.62 million or 5% of total project costs. The Project, scheduled for completion in March 2014, has been operational for 56 months or 89% of its 63-month implementation period. As of 15 September 2013, IFAD loan disbursement amounts to SDR 8.25 million, accounting for 76% disbursement of the IFAD loan amount of SDR 10.85 million. In terms of implementation maturity the disbursement factor is 0.85, indicating that financial performance is behind schedule. The Project was supervised twice: in May 2010 and October 2011. A Mid-term Review (MTR) was carried out in June 2012.
5. During the first three and a half years the implementation progress was slow and lagged behind schedule, and the project was beset by a number of management problems. In view of this the MTR assessed the project's overall performance as moderately satisfactorily. So far, the project management has largely followed the recommendations provided by the MTR, and the project is now on a satisfactory track. However, the project's overall performance is rated as moderately satisfactory due to the long delays in implementation of the most activities.
6. Analysis of the planned activities and the project budgetary status indicates that there will be no need for the reallocation of funds as foreseen by the MTR. Therefore, no amendments are required to the Loan Agreement between the Government of Azerbaijan and IFAD. As of 30 September overdraft on all categories will be permitted up to the Loan disbursable balance, given the fact that the IFAD's Financing Administration Manual (FAM) allows payments on overdrawn categories in the event that they would occur within 6 months prior to the Project Completion Date.
7. For the effective completion of the project, the following key actions need to be undertaken (as detailed further throughout the Aide-memoire):

¹ Mission composition: Frits Jepsen (IFAD Country Programme Manager), Anara Jumabayeva (Team Leader, Senior Economist) and Giovanni Muñoz (Land and Water Development Engineer). Lenyara Fundukova, IFAD Programme Officer, joined the mission during 22-27 September.

Agreed action	Responsibility	Agreed date
Inclusion of additional area of 30,700 ha for rehabilitation of irrigation systems into AWPB 2013 and AWPB 2014 and provision of adequate financing from the government budget. Approval of AWPB 2013-14 by the PSC	IPMU/MOF	Mid October 2013
Provision of government financing of about AZN 2 million for social infrastructure	IPMU/MOA	Mid October 2013
Provision of government financing of about AZN 3 million for irrigation equipment/machinery	IPMU/MOF	January 2014
Provision of government financing of about AZN 2 million for WUAs' O&M	IPMU/MOF	January 2014
Updating and start-up of the WUA capacity building programme	IPMU	End October 2013

C. Outputs and outcomes

8. The key objectives of the project are: i) some 37,000 households in about 42 WUAs/irrigated lowland village clusters obtain increased crop and livestock outputs and incomes from an enhanced, reliable irrigation water supply from a rehabilitated infrastructure and an effective operation, maintenance and management regime; ii) some 7 500 households in 23 upland and rain-fed lowland village clusters in pockets of poverty in irrigated lowland villages achieve higher farming outputs and incomes through delivery of advisory, technology transfer, financial and enterprise support services; and iii) the capability and self-reliance of communities are strengthened to enable them to better look after their own affairs and to plan and execute their own future development activities. To achieve these purposes, the project has four components as follows: (1) Irrigation Rehabilitation and Participatory Management; (2) Agricultural and Community Development; (3) Financial Services and Enterprise Promotion; and (4) Project Coordination and Management.

9. Associated with the above components outcomes are (as revised at MTR): i) Democratically managed WUAs providing sufficient water to members operating sustainably; ii) Agricultural production increased with improved cross-fertilization between farmers; iii) Critical infrastructure in upland villages rehabilitated; and iv) Access to credit of the rural households improved.

10. The following outputs have been achieved up to today under the first three project components (as extracted from the IPMU progress reports):

- 42 WUAs have been streamlined into 19 WUAs that have been officially re-registered;
- 19 WUAs' with staff having completed management and O&M training;
- 19 WUAs trained staff/management;
- Construction designs of 19 irrigation systems (60,700 ha) have been prepared;
- About 8,000 ha of irrigated land have been rehabilitated;
- 180 km of canals have been rehabilitated;
- 521 structures replaced/repared;
- 96 demonstrations conducted;
- 85 field days held;
- 21 farmer training sessions conducted;
- 27 Village Clusters have been established;
- Awareness activities have been carried out in 80 villages;
- 45 Interest Groups have been formed (493 member farmers, 23% being women);
- 57 Village Development Plans (VDPs) have been prepared (out of 68 planned);
- 57 critical social infrastructure (CSIs) have been identified in a participatory manner, all 57 construction designs have been prepared;

- 16 CSIs have been completed (largely drinking water supply);
- 200 of village administration staff trained in infrastructure O&M;
- 4 veterinary units are operating servicing livestock owners in animal health and AI;
- A total AZN 6,957,400 (about USD 8,940,300) of credits have been provided to 8,856 members of the 2,279 Borrower Groups and 98 individuals (both with 100% repayment rate)

11. It is unlikely that all outcomes set by the project would be met due to the long delay in implementation of most activities. However, this would be more clear by the end of the project and after completion of the project impact survey and assessment.

D. RDPNW implementation progress

12. **Component 1. Irrigation Rehabilitation and Participatory Irrigation Management.** This component is made up of Sub-component 1.1. Support and Development of WUAs to finance the establishment and essential office structure for WUA operations, train of WUA management and staff, and Sub-component 1.2. Rehabilitation Works, for the planning, design and execution of works for improvement of on-farm irrigation infrastructure to a satisfactory level as well as repair or improve critical off-farm primary and secondary canals and structures.

13. In relation to Sub-component 1.1, the project has merged 42 pre-existing WUAs into 19 only with the objective of helping them to achieve a minimum size to guarantee the new WUAs will receive enough income from the provision of irrigation services to become financially sustainable. This merging included the processing of all required legal documentation and their registration under the Law on Amelioration and Irrigation. Contracts were also signed with each one of the new WUAs in which the project committed itself to provide budget support for partial payment of staff, office rent and other general operating expenses.

14. In relation to the issues described in the MTR Report regarding delays in the implementation of sub-component 1.2 on Rehabilitation Works, the decision by the Government of Azerbaijan to hiring a local contractor through the allocation of additional resources and initiate rehabilitation works in 9 WUAs has moved implementation forward. As mentioned in the MTR report, out of the 19 WUAs formed under subcomponent 1.1 and originally included in the awareness and sensitization campaign, 9 WUAs were selected for the civil works keeping a geographical balance among the four districts involved. However, the remaining 10 WUAs being close to those selected and having similar needs are very frustrated to see works being initiated in their neighbours' area, not knowing whether they will ever benefit from rehabilitation of their infrastructure or not. In line with the MTR, the mission's assessment is that the coverage of the entire project command area of 60,700 hectares is justified. The Loan Agreement between the Government of Azerbaijan and IFAD allows expansion of project activities given that they are financed by non-IFAD funds and as long as they are part of the approved AWPBs. It has been agreed that the IPMU would include the entire command area of 60,700 ha into the 2014 AWPB and the government budgets of following years. There is a strong indication that the Government would meet this obligation.

15. According to the Project Document, as part of Component 1 the project was to provide the machinery and equipment needed by the WUAs to properly maintain the canals within their territories. However, to date no action has been taken to initiate this procurement and WUAs are seeing this as a major shortcoming during project implementation given that they were told about this equipment right from the awareness and sensitization campaign. Urgent action is required to implement this element of component 1 before project completion. It has been agreed with the Government that sufficient funds would be allocated into the 2014 AWPB for this purpose.

16. **Sub-component 1.1. Support and Development of WUAs.** Despite the high hopes in relation to the advancement of the concept of Participatory Irrigation Management (PIM) through the project implementation, as expressed in the original Project Document, the mission could find little evidence of change on the ground. The limited training and capacity building activities undertaken by the project, particularly during the last reporting period, have contributed to this situation. Until now there

has been no progress in terms of increasing farmers' participation in irrigation management of the irrigation schemes and the ownership and responsibility for O&M remains entirely within government agencies.

17. There is still need for further awareness and sensitization to motivate local SAIC to support WUAs as there seems to be little evidence of their work in strengthening them. The SAIC rayon staff seems to consider their work related to WUAs as an additional burden rather than an integral part of their functions.

18. Until to date WUAs remain very weak in terms of their technical and managerial skills as well as their financial situation. Due to the long delay in rehabilitation works and as a consequence the poor irrigation services provided, the level of fee collection is low and the level of the irrigation service fee (ISF) itself is not enough to provide sufficient revenue to adequately operate and maintain the infrastructure within their territory. Within the project area the ISF ranges between 1.1 and 2 Azerbaijani Manat (AZN) per every 1,000 cubic meters. This means that on average most farmers are billed approximately 5 AZN per year per hectare. Their weak economic capacity prevent WUAs from hiring enough field staff (mirabs) and renting or acquiring enough machinery and equipment to carry out even basic maintenance tasks. The few field staff have limited transport and communication facilities. None of the WUAs visited by the mission are keeping proper financial records and only a few have maps of their territories, inventory of the infrastructure or detail information about their members.

19. An additional weakness stems from the fact that some of the project WUAs are located downstream of reservoirs built across the border in Armenia, and therefore have no information as to the expected flow releases from upstream and reportedly are receiving less water over time. Due to this limited water availability some WUAs reported having received as little as 20% of their requests during last year.

20. It was discussed with the Government that adequate financing would be required to support operation of WUAs at least to completion of construction works. Moreover, it has been agreed with the IPMU that a strong emphasis would be given to increase WUAs skills during the next 6 months leading to project completion in March 2014. In addition to implementing the already prepared program for trainings of WUAs, two additional items were discussed and agreed to be included: i) training and support from an NGO to help WUAs prepare realistic Business Plans with a minimum time horizon of two years following project completion; and ii) the organization of a study tour as originally proposed in the Project Document in order to expose leading farmers and SAIC managers to a successful PIM example. Turkey is proposed not only because of its recognized successful program on PIM but also because its similarity with the agro-ecological and cultural conditions as well as its low cost. The study tour would target selected members of WUA's Board of Directors and government staff involved in PIM and would have as an objective to visit well organized WUAs that provide good irrigation services and that are self-sustained.

21. **Sub-component 1.2. Rehabilitation Works.** The government decided to allocated additional funds and using national procurement procedures awarded a civil works contract to carry out the rehabilitation of 9 project WUAs covering a total area of some 30,000 hectares. Progress of the implementation of this contract is described in the 2013 Semi-Annual Progress Report prepared by the IPMU. The extensive use of cross-regulators included in the design in order to improve water control along the main canals is highly commended as a best practice to facilitate water distribution and management.

22. According to the work schedule for the constructions works a total of 40 months are required. There is reason for concern that this may even take longer mainly due to the limited implementation capacity put in the field by the construction company undertaking the civil works. Even though it is a company with large implementation capacity, the resources in terms of machinery, equipment and staff allocated to the rehabilitation works within the project area are insufficient. To date rehabilitation works have been completed only in one WUA out of 9 and overall progress is estimated below 30% of the works scheduled.

23. In relation to the ongoing construction the mission discussed the following issues with the IPMU:

- The level of actual daily field supervision for the ongoing civil works is largely inadequate. At the time of the fielding of the mission there were six construction fronts and two more were expected to be opened soon afterwards. However, the Regional Coordination Center (RCC) has only one engineer. As a consequence some construction inaccuracies have passed undetected, for example, during the field visits it was noticed that the special joints between concrete sections in the canals that were included in the design to prevent damage by the frequent freeze/thaw cycles, are being poorly constructed as well as some of the diversion structures where amendments were, only in some evident cases, made at a later stage of construction;
- While the mission was informed that laboratory concrete tests are performed on a frequent basis, no origin and quality certification has been requested nor provided regarding the steel used for the reinforced structures;
- Despite the fact that some of the sources from which WUAs are provided with water carry a heavy load of sediments, the mission was informed that no provisions were made during the design for sediment trap structures. Likewise, despite the high number of livestock in the project area, no provision was made during design for providing livestock drinking points.

24. It was discussed and agreed with the IPMU that hiring an independent field supervision consultancy would be considered to support the work of the RCC.

25. **Component 2. Agricultural and Community Development** includes 4 sub-components:

2.1. Support and Development of Farmer Community Groups; 2.2. Critical Social Infrastructure Improvement; 2.3. Technology Demonstration and Transfer; and 2.4. Input Supply and Marketing Facilitation. Activities so far comprised of: i) establishment of 27 Village Clusters and appointment of 27 community focal points (CFPs); ii) conducting awareness activities in 80 villages; iii) formation of 45 Interest Groups (493 member farmers, 23% being women) and 83 Credit Groups (316 members, 39% being women) by the CFP; iv) preparation of 57 Village Development Plans (VDPs) out of planned 68, v) identification of 57 critical social infrastructure (CSIs) in a participatory manner and completing all the procedures for their construction; vi) 16 CSIs completed; vii) Activity Managers (AMs) overseeing and coordinating the agricultural activities in the field; viii) 4 veterinary units servicing livestock owners in animal health and artificial insemination (so far veterinary services have been provided to 8,594 cattle, 64,630 sheep and goats and 168,270 poultry); ix) provision of marketing support to 2 cooperatives and 22 groups (220 producers, including 68 women); x) provision of weekly information to project farmers on agricultural products' prices in the form of summary tables that are prepared using the collected prices for main agricultural products from 5 central markets of Baku; and xi) conducting a modest demonstration program.

26. This component is also lagging behind schedule mainly due to lengthy procedures to start the constructions of CSIs as well as the lack of government financing due to the fact that all financing allocated under the civil works category is currently directed to rehabilitation of irrigation systems as a high priority for the Government. However, both the Government and IFAD recognize the importance of social infrastructure, and it has been agreed that about AZN 2 million would be specifically provisioned in the 2013/2014 AWPB for CSIs. In view of the long delay, implementation performance of this component is assessed as **moderately satisfactory**.

27. **Component 3. Financial Services and Enterprise Promotion** has 2 sub-components:

3.1. Micro-finance, and 3.2. Agribusiness and Enterprise Development. Activities so far include the following: i) signing of a tripartite Subsidiary Loan Agreement (SLA) between the NBFIs (AgrarKredit and MadadCredit) and the MOF and SAAC in 2010 for a period of 30 months that enabled them to borrow project funds at 2% interest rate and on-lend to sub-borrowers at 15% interest rate; ii) extending both group and individual loans to people in 40% of the villages in the Project area of which 27% are situated in the upland areas. The overall component performance is **satisfactory**.

28. As of 15 September 2013, an aggregate amount of about AZN 6.96 million (102% of IFAD total allocation for the credit line) has been disbursed. A total of 2,377 working capital loans (98 individual

loans for a total of AZN 851,500 and 2,279 borrower group loans for a total of AZN 6,105,900 (including NBF contribution)) were extended to some 8,954 beneficiaries of whom 11% (250 borrower groups) were second-time borrowers. Women, given their limited access to household assets ownership, are only granted access to group loans where they reached a remarkable 67.4% ratio. The average loan size for individual loan is AZN 8,689 (USD 11,165)² with an average maturity of 28 months; for group loans it is AZN 2,679 (USD 3,443) with a fixed maturity of 12 months respectively. The repayment rate for both interest and capital is 100%. Credit demand has increased significantly over project implementation.

29. As stipulated in the SLAs, NBFs deposit principle borrowers' payments into a Revolving Fund managed by the PMU to provide loans to project beneficiaries using the same conditions established under the SLAs. As of 15 September 2013, the reflows into the revolving fund amounted to USD 3.7 million.

30. The majority of loans, 1,644 (69%), financed livestock production (cattle and sheep fattening), 486 (20.4 %) vegetable production, and 246 (10.4%) field crop production.

31. There are no issues identified under this sub-component, and it will follow the planned schedule.

32. **Component 4. Project Coordination and Implementation:** All of the envisaged elements of project management are in place with the IPMU and RCC almost fully staffed and operating **satisfactory**. The Project Steering Committee (PSC) that was constituted on 28 November 2008 as specified in the Loan Agreement remains fully operational with 11 members. However, M&E aspects of the project remains underdeveloped. It has been agreed that an International M&E consultant would be recruited to assist with the preparatory work for project evaluation and impact survey/assessment.

33. In view of the above issues, it has been discussed and agreed to undertake the following activities:

Agreed action	Responsibility	Agreed date
Inclusion of additional area of 30,700 ha for rehabilitation of irrigation systems into AWPB 2013 and AWPB 2014 and provision of adequate financing from the government budget. Approval of AWPB 2013-14 by the PSC	IPMU/MOF	Mid October 2013
Provision of government financing of about AZN 3 million for irrigation O&M machinery	IPMU/MOF	January 2014
Provision of government financing of about AZN 2 million for WUAs' O&M	IPMU/MOF	January 2014
Updating and start-up of the WUA capacity building programme	IPMU	End October 2013
Hiring an independent field construction supervision consultancy	IPMU	End November 2013
Provision of government financing of about AZN 2 million for social infrastructure	IPMU/MOA	Mid October 2013
Recruitment of International M&E consultant	IPMU	Mid-January 2014

E. Fiduciary aspects

34. **Financial management.** The quality of financial management continues being satisfactory. The project financial team currently comprise a Financial Manager and a support staff. As already reported in MTR, the IPMU is using simultaneously 2 accounting systems, a "C1 accounting software" and one based on excel. The accounting software was purchased in 2009 from a local company. The Financial Manager (FM) together with a freelance consultant carried out the customisation of the system in line

²1 AZN=1.285 USD

with IFAD, Ministry of Finance and Ministry of Agriculture requirements. The same person is also dealing with its maintenance, which is performed as needed.

35. The financial statements are available in the relevant reporting formats requested by the Ministry of Finance and Ministry of Agriculture, and the payments\expenditures are distinguished by category, component, activity and sources of financing. The system also automatically produces WAs.

36. The Excel system is used by the FM as a back-up and control tool, and the data is recorded by sources of financing, components and categories for all project transactions.

37. With respect to the present internal controls set-up, the support staff is responsible for preparing the payment orders and imputing the payments\expenditures in the accounting software. The FM holds jointly with the PMU Director the approval and control functions. She is also responsible for checking the eligibility of payments in accordance with the AWPB, procurement plan, contract payment conditions and availability of supporting documentation.

38. **Disbursement.** At the time of the mission, 21 withdrawal applications (WAs) had been submitted to IFAD, for a total amount of USD 12.7 million (SDR 8.25 million equiv.), representing 76% of the loan amount. Disbursement is thus proceeding in a moderately satisfactory manner.

39. **Counterpart funds.** Government of Azerbaijan's (GoA) counterpart funds are mainly used for civil works, taxes and contributions to operation, maintenance and project recurrent costs, for a cumulative amount of USD 20.9 million, which represents approximately 33% of the target estimated at appraisal (USD 63.00 million) . For the year 2013, the GoA contribution was about USD 10.6 million. The Government funds have always been timely transferred to the project.

40. Non-Bank Financial Institutions. Cumulative contributions from MadadCredit and AgrarCredit to the project were USD 0.07 million, and USD 0.9 million up to 15 September 2013. These represent 150% of the target at appraisal.

41. Beneficiaries Contributions. Cumulative beneficiaries' contributions in cash, up to 15 September 2013, are equivalent to USD 1.8 million, which represent 110% of the target estimated at the appraisal (USD 1.62 million - cash and in kind).

42. **Compliance with loan covenants.** The PMU has largely complied with the loan covenants. Their performance is considered moderately satisfactory (see Appendix 6).

43. **Procurement.** Since the MTR compliance in procurement has been moderately satisfactory. There have been 39 contracts concluded under IFAD financing. This, however, is behind the schedule specified in the 2012-13 Procurement Plan.

44. For irrigation system rehabilitation the MOA/ SAAC/PSC awarded a contract on 11 April 2012 to a private contractor by direct contracting³ through a special waiver granted by concerned Government Authorities. The value of the awarded contract to Korpu-Bina-Tikinti is AZN 41.18 million (approx. USD 52 million) is fully financed by Government Counterpart Funds. So far AZN xx million has been disbursed to the contractor. The receipt and acceptance of works have been certified by a committee comprising 14 members representing Ministries of Emergency and Agriculture, Local Authorities and Technical Specialists. A monthly working group certifies the progress of works and submits the progress certificates to Ministry of Finance for payment. While IFAD is not financing this activity, the mission expressed the need for prior consultation as these activities are complementary and the programme interventions should be looked at from a holistic point of view.

45. It was foreseen during design, that the project would support WUAs through procurement of earthmoving equipment. It has been agreed that the Government would finance the purchase of the

³ The Law on public procurement came into effect under Decree of the President of Azerbaijan Republic No.668 dated 29 January 2002. According to this Law, all public procurement at the amount of AZN250 (two hundred and fifty) million and more are carried out through open tender. If proposed price of goods (works and services) is less than the amount of AZN 250 (two hundred and fifty) million, procurement organization uses any procurement method. (Source: State Agency on Procurement established 16 May 1997.) Exceptions prevail when the procurement contains a foreign element of financing which is then managed with the unit costs set by the Ministry of Emergency.

required equipment in consultation with IFAD. The mission advised that the PIM Group to carry out a market search to have a realistic estimate of the purchase. It has been also agreed that this procurement item would be included into 2013/14 Procurement Plan.

46. **Audit.** The Audit Report for the FY2012 was carried out by Kapital Karden and submitted to IFAD. The IFAD deadline for audit submission, which is 30 June 2013, was complied with satisfactorily. The CPM and IFAD Controller's and Financial Department cleared the terms of reference for FY2012 exercise. The auditor's opinion is overall Unqualified.

F. Sustainability

47. The adoption of the PIM approach is supposed to assist WUAs to become sustainable and efficient institutions through: i) accustoming WUAs to consider options and opportunities open to them; ii) assisting them to organise themselves voluntarily to manage rehabilitation and O&M activities and to interact effectively with SAIC for the delivery of services; and iii) orienting members to a commercial approach ensuring their livelihoods as part of a market-oriented economy. The project would strengthen WUA capacities, not only to implement the project, but also to build up human and logistical capabilities, in terms of soft and hardware facilities.

48. A preliminary assessment conducted by the mission on the stage of maturity of WUAs shows that most of them are in need for further support to be self-sufficient technically and financially. After the project closure they will be left to themselves in performing management responsibilities and contracting procedures with the Regional Irrigation Department. This constitutes a major risk to sustainability and hence would require a robust support programme for the remaining period of project implementation.

49. In view of the above, the following actions have been agreed:

Agreed action	Responsibility	Agreed date
Provision of government financing of about AZN 3 million for irrigation machinery	IPMU	January 2014
Provision of government financing of about AZN 2 million for WUAs' O&M	IPMU/MOF	January 2014
Updating and start-up of the WUA capacity building programme	IPMU	End October 2013

G. Conclusion

50. The project management has largely followed the recommendations provided by the MTR, and the project is now on a satisfactory track. However, the project's overall performance is rated as moderately satisfactorily due to the long delays in implementation of the most activities. Should the project management timely undertake the actions proposed throughout this Aide-memoire, there is a good chance for the project to be satisfactorily implemented.

51. IFAD and the Government of Azerbaijan endorsed the findings of the supervision and implementation support mission.

Appendix 1: Summary of project status and ratings

A. Basic Facts

Country	Azerbaijan		Project ID		Loan/Grant No.	745 AZ
Project	Rural Development Project for North West				Supp. Loan/Grant	
Date of Update:	2-Jun-14	Last Supervision	June 2012		Financing terms	HC Loan
Supervising Inst.	IFAD	No. of Supervisions	3 (incl. MTR)			
						USD million Disb. rate
Approval	13 December 2007			Total costs		
Agreement	17 June 2008	Effectiveness lag	13.2 months	IFAD loan		76
Effectiveness	13 January 2009	Problem project	Yes	DSF grant		
MTR				IFAD grant		
Current completion	31 March 2014	Last Amendment		Domestic		
Current closing	30 September 2014	Last Audit	June 2013	Co-financing		
No. of extensions	0			Co-financiers		

B. Project Performance Ratings

B.1 Fiduciary Aspects			Last	Current	B.2 Project implementation progress			Last	Current
1.	Quality of financial management		5	5	1.	Quality of project management		4	4
2.	Acceptable disbursement rate		5	5	2.	Performance of M&E		3	3
3.	Counterpart funds		5	5	3.	Coherence between AWPB & implementation		3	3
4.	Compliance with loan covenants		4	4	4.	Gender focus		3	3
5.	Compliance with procurement		3	4	5.	Poverty focus		5	5
6.	Quality and timeliness of audits		5	5	6.	Effectiveness of targeting approach		5	5
					7.	Innovation and learning		4	4
B.3 Outputs and outcomes			Last	Current	B.4 Sustainability			Last	Current
1.	Actual outputs/component 1		3	3	1.	Institution building (organizations, etc.)		3	3
2.	Actual outputs/component 2		4	4	2.	Empowerment		4	4
3.	Actual outputs/component 3		5	5	3.	Quality of beneficiary participation		4	4
4.	Actual outputs/component 4		4	4	4.	Responsiveness of service providers		3	3
5.					5.	Exit strategy (readiness and quality)		4	3
6.					6.	Potential for scaling up and replication		5	5

C. Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets	5	5
C.2 Food security	4	4
C 1 Overall implementation progress (Sections B1 and B2)	4	4
<i>Justification for rating</i>		
C 2 Likelihood of achieving the development objectives (section B 3)	4	4
<i>Justification for rating</i>		
The project progress remains moderately satisfactory towards achieving its development objectives.		
If the recommendations of the mission are implemented as agreed, RDPNW would be satisfactorily completed.		

C 3	Risks	Short description of major risks for each section and their impact on achievement of development objectives and sustainability		
	Fiduciary aspects			
	Project implementation progress	Moderately satisfactorily		
	Outputs and outcomes	It is unlikely that the project will achieve all its outcomes.		
	Sustainability	A preliminary assessment conducted by the mission on the stage of maturity of WUAs shows that most of them are in need for further support to be self-sufficient technically and financially. After the project closure they will be left to themselves in performing management responsibilities and contracting procedures with the Regional Irrigation Department. This constitutes a major risk to sustainability and hence would require a robust support programme for the remaining period of project implementation. Should the project management follow the proposed action plan, this situation could be reverted.		

D. Follow-up Action (critical)

Issue/problem	Recommended Action	Status/Timing
Satisfactory project implementation and performance.	Provision of government financing of about AZN 2 million for social infrastructure	Mid October 2013
	Provision of government financing of about AZN 5 million for irrigation equipment/machinery and WUAs' O&M	January 2014
	Updating and start-up of the WUA capacity building programme	End November 2013

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Results Hierarchy	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			Political stability prevails
Income poverty, malnutrition and food insecurity is reduced in the rayons of Tovuz, Agstafa, Shamkir and Gazakh. Development Objectives(DO)	<ul style="list-style-type: none"> Reduction in prevalence of child malnutrition (RIMS Level 3) Increase in household assets (RIMS Level 3) Increase in no. of households with access to safe, reliable drinking water (RIMS Level 3) 	HBS Nutrition surveys SPPRSD M&E System RIMS annual reporting and Impact surveys Project Completion Report (PCR)	Macro-economic situation does not deteriorate Existing markets for livestock and crops do not deteriorate Local agricultural products remain competitive
The DOs are:			SAIC maintains support for WUA registration
i)to improve WUA members' access to timely and sufficient irrigation;	<ul style="list-style-type: none"> No. of democratically managed WUAs operating sustainably 		Primary and secondary canals rehabilitated by SAIC
ii) to assist the the rural poor in increasing agricultural productivity and farm incomes;	<ul style="list-style-type: none"> 80% of command area efficiently irrigated by WUAs No. of farmers reporting increases income from agriculture and related activities 		The Law on Amelioration and Irrigation is enforced
iii) to develop critical communal infrastructure; and	<ul style="list-style-type: none"> Increase in number of borrowers from intermediary institutions No. NBFIs providing sustainable financial services 	WUA records IMPU progress reports MTR and PCR Participatory monitoring by beneficiaries RIMS annual reporting and impact surveys	WUAs able to collect water fees from members
iv) to improve access of rural communities to credit. Outcomes	<ul style="list-style-type: none"> No. of women borrowing 	Village Development Plans	Legislation continues to support NBFIs/MFIs
a. Democratically managed WUAs providing sufficient water to members operating sustainably	<ul style="list-style-type: none"> WUAs fulfilling irrigation requirements of all members Trained management in place at WUAs 	MTR and PCR IMPU progress reports WUA records Participatory monitoring by beneficiaries and CFPs RIMS annual reporting and impact surveys Village Development Plans	Subsidies do not distort markets
b. Agricultural production increased with improved cross-fertilization between farmers	<ul style="list-style-type: none"> New agronomic packages with better yielding varieties adopted on rainfed and irrigated plots 		Primary and secondary canals rehabilitated by SAIC
			No deterioration in existing markets for livestock and crops

c. Critical infrastructure in upland villages rehabilitated	<ul style="list-style-type: none"> Access to inputs and markets improved through well-functioning voluntary interest groups formed by farmers 		Local agricultural products remain competitive
d. Access to credit of the rural households improved	<ul style="list-style-type: none"> Participatory mechanisms in place in 68 villages for community decisions regarding critical infrastructure investments MFI/NBFIs providing easy access to loans with preferred borrowing conditions 		Quality inputs available
Components / Outputs <u>C.1 Irrigation Rehabilitation and Participatory Management</u>			
C1.1 Development and Strengthening of Water User Associations (WUAs)	<ul style="list-style-type: none"> Number of WUAs re-registered 		
	<ul style="list-style-type: none"> No of WUAs' with staff having completed management and O&M training 		
	<ul style="list-style-type: none"> No. of trained staff/management in place by end of Project 		
	<ul style="list-style-type: none"> No. of WUAs investing in machinery, and equipment for O&M (based on needs assessment) 	IPMU Progress Reports SAIC Statistics Supervision reports WUA records IPMU progress reports MTR and PCR	SAIC rehabilitation program is synchronized to Project activities
	<ul style="list-style-type: none"> No. of WUAs able to pay 100% staff costs by end of Project 		Democratic management in place in WUAs
	<ul style="list-style-type: none"> No. of WUAs with women comprising 30 % boards by end of Project 		WUAs remain amalgamated to maintain optimized command area
	<ul style="list-style-type: none"> No. of WUAs where 80% of members pay dues on time 		SAIC maintains current policies for WUAs Farmers pay for water
C.1.2 Rehabilitation of On-Farm Irrigation Systems (100% of cost to be financed by GoAZ)	<ul style="list-style-type: none"> Km of canals rehabilitated (by type) No. of structures replaced/repared Ha farmland with access to improved irrigation and drainage (Target. 60,000 ha) % increase in water available on-farm % of water charges collected on time by 	IPMU Progress Reports SAIC Statistics Supervision reports WUA records Contractors' progress reports IPMU progress reports Beneficiary impact assessments	GoAZ funds for tertiary and on-farm works available on time and required amount SAIC honors contracts with WUAs and maintains fair water pricing policies

	<ul style="list-style-type: none"> WUAs % increase in yields in irrigated areas 		SAIC capable of delivering required amounts water to WUAs
C.2 Agricultural and Community Development			Transparent and objective criteria for screening, ranking and qualification of community infrastructure projects
C.2.1 Critical Social Infrastructure Development	<ul style="list-style-type: none"> Number of Village Development Plans (VDPs) prepared No of community infrastructure projects implemented, by type No of village administration staff trained in infrastructure O&M 	MTR Supervision reports IPMU and RCC Progress reports M&E data CFP logbooks Project Audit	Willingness of beneficiary community to participate in cost sharing
	<ul style="list-style-type: none"> No of demonstrations conducted No of field days held No of farmer training sessions conducted (rainfed and irrigated) % hhs reporting increase in livestock ownership No of villagers visiting CFPs No of farmers adopting technology recommended by Project (by crop/type/gender) No of Farmers reporting decrease in production costs No of calves born as result of a.i. % increase in yields % increase in crops taken to market No of farmers requesting meteorological data No of farmers reporting increased income from livestock production No of farmers reporting increase in milk yields No of farmers reporting increased income from fruit production No of farmers reporting increased income from fruit production No of farmers reporting increased 	MTR Supervision reports Annual Progress Reports IPMU and RCC Progress reports M&E data Participatory Impact Monitoring	Inputs are available in desired quantity and quality RCC and IPMU provide required support to AM and CFP Qualified technical staff available in Project area Inputs are timely available, in recommended quantity and quality Mechanization is accessible and affordable by the farmers at the required time
C.2.1 Agricultural Development (con't)		Annual Progress Reports IPMU and RCC Progress reports M&E data Participatory Impact Monitoring	No deterioration in existing markets for livestock and crops

Component 3: Financial Services and Enterprise Promotion Component 4: Project Coordination and Management	income from field crops(including forage)		
	<ul style="list-style-type: none"> ▪ Da of new greenhouses established ▪ No of CFP meetings held ▪ No of interest groups formed (by type) ▪ No of interest groups led by women (by type) 		
	<ul style="list-style-type: none"> ▪ Value of gross loan portfolio (by NBF, activity financed, gender, rayon) ▪ % increase in number of loans of minimum 2 years maturity ▪ % increase in no of small holdings that use credit ▪ Average loan size (by activity, NBF, gender, district) (>AZM 8 000) ▪ Repayment rate (> 95%) ▪ PAR 30 days/90 days (<10%; <3%) ▪ Number of NBFs' staff trained ▪ % of NBFs' loans from revolving funds ▪ No of NBF field staff in project rayons (by NBF) ▪ No of borrower groups borrowing more than once ▪ % increase in no of women borrowing ▪ Average ratio of women in borrower groups 	Ministry of Finance records Local administrations' records NBF audits IPMU and RCC Progress Reports Supervision reports Mid-term Review Participatory Impact Monitoring	Contracted NBFs remain interested in participating in the Project Government of Azerbaijan maintains support for agreements with financial institutions Commercial environment remains conducive for investments Financially attractive investments available No deterioration in existing markets agricultural products
	<ul style="list-style-type: none"> ▪ Project Implementation Manual completed by end of 2009 ▪ M&E, accounting and procurement staff trained data collection, interpretation and reporting ▪ Office refurbishment completed ▪ Results-based monitoring reports rely on accurate data from the RCC ▪ M&E system generating data used as basis for AWPBs ▪ Vehicles rented 	Mid-term Review Supervision reports Project accounts/records Project audit	Qualified technical staff available in Project districts AWPBs and PPs produced according to IFAD standards Timely availability of operational funds
IFAD Program Management Unit (IPMU; Baku)			

Regional Coordination Center (Agstafa)	<ul style="list-style-type: none"> ▪ Annual audits conducted ▪ Key RCC staff in place ▪ Activity Managers for C2 in place ▪ Vehicles rented ▪ Field M&E system in place ▪ Monthly, quarterly and annual reports acceptable to IPMU M&E specialist produced 	Mid-term Review Supervision and progress reports Project accounts/records	Qualified technical staff available in Project districts
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Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Date	Whom	Progress
Outputs	Inclusion of additional area of 30,700 ha for rehabilitation of irrigation systems into AWPB 2013 and AWPB 2014 and provision of adequate financing from the government budget. Approval of AWPB 2013-14 by the PSC	Mid October 2013	IPMU/MOF	
	Hiring an independent field construction supervision consultancy	End November 2013	IPMU	
	Provision of government financing of about AZN 2 million for social infrastructure	Mid October 2013	IPMU/MOA	
Sustainability	Provision of government financing of about AZN 5 million for irrigation O&M machinery and WUAs' O&M	End October 2013	IPMU/MOF	
	Updating and start-up of the WUA capacity building programme	End November 2013	IPMU	
Fiduciary Aspects	Recruitment of International M&E consultant	Mid January 2014	IPMU	

Appendix 4: Physical progress measured against AWP&B, including RIMS indicators

Component/ Sub-component or Output	Indicator	Unit	Period: Jan to Sep 2013			Cumulative Actual	Appraisal Target	%
			AWP&B	Actual	%			
Component 1								
Irrigation Rehabilitation and Participatory Management								
Sub-component Development and Strengthening of Water User Associations (WUAs)	• Number of WUAs re-registered		NA	0	0	19	42	
	• No of WUAs' with staff having completed management and O&M training		12	19	158	19	42	
	• No. of trained staff/management in place by end of Project		12	19	158	19	NA	
	• No. of WUAs investing in machinery, and equipment for O&M (based on needs assessment)		12	0	0	19	19	
	• No. of WUAs able to pay 100% staff costs by end of Project		19	19	100	19	NA	
	• No. of WUAs with women comprising 30 % boards by end of Project		19	3	16	3	NA	
	• No. of WUAs where 80% of members pay dues on time		19	5	26	5	NA	
Rehabilitation of On-Farm Irrigation Systems (with associated assurance of Primary and Secondary System functionality by SAIC)	• Km of canals rehabilitated (by type)		980	180	18	180	NA	
	• No. of structures replaced/repared		3378	521	15	521	NA	
	• Ha farmland with access to improved irrigation and drainage (Target. 60,000 ha)		60000	8000	13	8000	NA	
	• % increase in water available on-farm		NA	NA	NA		NA	
	• % of water charges collected on time by WUAs		100	45	45	45	NA	
	• % increase in yields in irrigated areas							
Component 2								
Agricultural and Community Development								

2.1 Agricultural Development	Number of Village Development Plans (VDPs) prepared	number	26	26	100	57
	▪ No of community infrastructure projects implemented, by type	number	27	0	0	15
	▪ No of village administration staff trained in infrastructure O&M	number	200	200	100	200
	▪ No of demonstrations conducted	number	NA	0	0	96
	▪ No of field days held	number	NA	26	26	85
	▪ No of farmer training sessions conducted (rainfed and irrigated)	number	NA	0	0	21
	▪ % hhs reporting increase in livestock ownership	%	NA	NA	NA	55
	▪ No of villagers visiting CFPs	number	NA	NA	NA	NA
	▪ No of farmers adopting technology recommended by Project (by crop/type/gender)	number	NA	NA	NA	NA
	▪ No of Farmers reporting decrease in production costs	number	NA	NA	NA	NA
	▪ No of calves born as result of a.i.	number	NA	NA	NA	NA
	▪ % increase in yields	%	NA	NA	NA	100
	▪ % increase in crops taken to market	%	NA	NA	NA	NA
	▪ No of farmers requesting meteorological data	number	NA	NA	NA	NA
	▪ No of farmers reporting increased income from livestock production	number	NA	NA	NA	NA
	▪ No of farmers reporting increase in milk yields	number	NA	NA	NA	NA
	▪ No of farmers reporting increased income from fruit production	number	NA	NA	NA	NA
	▪ No of farmers reporting increased income from fruit production	number	NA	NA	NA	NA
	▪ No of farmers reporting increased income from field crops (including forage)	number	NA	NA	NA	NA
	▪ Da of new greenhouses established	ha	NA	NA	NA	NA
	▪ No of CFP meetings held	number	NA	5	NA	NA
	▪ No of interest groups formed (by type)	number	NA	45	NA	NA
	▪ No of interest groups led by women (by type)	number	NA	NA	NA	NA

Component 3
Financial Services and
Enterprise Promotion

• Value of gross loan portfolio (by NBFIs, activity financed, gender, rayon)	USD	2,000,000	2,432,692	122	4,000,000	8,919,743	230
• % increase in number of loans of minimum 2 years maturity	%	NA	NA	NA			
• % increase in no of small holdings that use credit	%	NA	20	NA			
• Average loan size (by activity, NBFIs, gender, district) (>AZN 8 000)	AZN	NA	1000	NA	1000		
• Repayment rate (> 95%)	%	100	100	100	100		
• PAR 30 days/90 days (<10%; <3%)	%	NA	0	NA			
• Number of NBFIs' staff trained		NA	0	0	30		
• % of NBFIs loans from revolving funds					2		
• No of NBFIs field staff in project rayons (by NBFIs)							
• No of borrower groups borrowing more than once							
• % increase in no of women borrowing							
• Average ratio of women in borrower groups							

Component 4

Project Coordination and Management

- | | | |
|---|---|------|
| • National Project Management Unit (IPMU) | ▪ Project Implementation Manual completed by end of 2009 | Done |
| | ▪ M&E, accounting and procurement staff trained data collection, interpretation and reporting | Done |
| | ▪ Office refurbishment completed | Done |
| | ▪ Results-based monitoring reports rely on accurate data from the RCC | Done |
| | ▪ M&E system generating data used as basis for AWPBs | Done |
| | ▪ Vehicles rented | Done |
| | ▪ Annual audits conducted | Done |
| • Regional and District Implementation | ▪ Key RCC staff in place | Done |
| | ▪ Activity Managers for C2 in place | Done |
| | ▪ Vehicles rented | Done |
| | ▪ Field M&E system in place | Done |
| | ▪ Monthly, quarterly and annual reports acceptable to IPMU M&E specialist produced | Done |
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Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier

Financier	Appraisal (USD '000)	Disbursements (USD '000)	Per cent disbursed
IFAD loan	17195.92	12434.36	72.3
IFAD grant			
Co-financier			
Government	63006.61	20948.52	33.2
Beneficiaries	1622.43	266.27	16.4
NBFIs	500.00	563.51	112.7
Total	82324.96	34212.67	41.6

Table 5B: Financial performance by financier by component (USD '000)

Component	IFAD loan			Government			Beneficiaries			NBFIs			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
Participatory Management															
Irrigation	7814.03	2357.01	30.16	61893.65	19018.28	30.73	1110.26	266.27	23.98	0.00	0.00	0.00	70817.95	21641.56	30.56
1) Support to WUAs	1627.01	1872.46	115.09	611.21	95.70	15.66	612.35	266.27	43.48			0.00	2850.57	2234.43	78.39
2) Irrigation Rehabilitation	6187.01	484.55	7.83	61282.45	18922.58	30.88	497.92		0.00			0.00	67967.38	19407.13	28.55
Agriculture and Community Development	2426.36	2460.37	101.40	905.21	1245.74	137.62	512.17		0.00	0.00	0.00	0.00	3843.74	3706.11	96.42
Rural Finance Services	4483.89	4342.06	96.84	0.00	0.00	0.00	0.00		0.00	500.00	563.51	112.70	4983.89	4905.57	98.43
Project Management and Coordination	2471.63	3274.92	132.50	207.74	684.51	329.50			0.00	0.00	0.00	0.00	2679.38	3959.43	147.77
Total	17195.92	12434.36	72.31	63006.61	20948.52	33.25	1622.43	266.27	16.41	500.00	563.51	112.70	82324.96	34212.67	41.56

Table 5C: IFAD loan disbursements (SDR, as at 20-09-2013)

Category	Category description	Original Allocation	Revised Allocation	Disbursement	W/A pending	Balance	Per cent disbursed
I	CIVIL WORKS	1400000	0	747814.17	-	652185.83	53.42
II	VEHICLES, EQUIPMENT AND GOODS	400000	0	431043.14	-	-31043.14	107.76
III	TRAINING, STUDIES AND TECHNICAL ASSISTANCE	1070000	0	1316326.30	-	-246326.30	123.02
IV	CREDIT	6050000	0	2560971.56	-	3489028.44	42.33
V	PMU OPERATIONAL COST	1350000	0	1624084.02	-	-274084.02	120.30
VI	IRRIGATION OPERATIONS AND MAINTENANCE	580000	0	915460.88	-	-335460.88	157.84
	UNALLOCATED	0	0		-	0.00	0.00
	ADVANCE OF FUNDS		0	650805.66	-	-650805.66	0.00
	TOTAL	10,850,000	0	8,246,505.73	-	2,603,494.27	76.00

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Section 2.03	Opening of the Special Account	Opening prior to Effectiveness	Complied with	Special Account with International Bank of Azerbaijan
Section 2.04	Use of IFAD Loan proceeds	IFAD Loan proceeds to be used exclusively to finance Eligible Expenditures	Complied with	
Section 3.02	Annual Work Plans and Budgets and Procurement Plans to be submitted to Fund	No later than 60 days before beginning of each Fiscal Year	Complied with	
Section 3.03	Opening of Project Account	Opening in a commercial bank prior to Effectiveness	Complied with	Project Account with International Bank of Azerbaijan
Section 3.04	Availability of Loan Proceeds and Counterpart Funds	Continuous	Complied with	
Section 3.06	Procurement of goods, civil works and services in accordance with Schedule 4	Continuous	Complied with	
Section 4.01	Monitoring, establishment of information management system	Continuous	Complied with, but requires further improvements	
Section 4.02	Progress Reports to be submitted to IFAD on a six-monthly basis	No later than six weeks after the end of each six-month period	Complied with	
Section 4.03	A Mid-Term Review to be carried out jointly by Borrower and IFAD	No later than 36 months after the Effective Date	Complied with	
Section 5.01	Submission of Financial Statements	Within 3 months after the end of each fiscal year	Complied with	
Section 5.02	Audit Reports on project accounts of each year to be submitted to Fund	Within 6 months after the end of each fiscal year	Complied with	