

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA1005

Project Name	AGRICULTURAL COMPETITIVENESS IMPROVEMENT PROJECT (P122812)
Region	EUROPE AND CENTRAL ASIA
Country	Azerbaijan
Sector(s)	Agro-industry, marketing, and trade (60%), General agriculture, fishing and forestry sector (20%), Agricultural extension and research (20%)
Theme(s)	Rural markets (30%), Rural non-farm income generation (30%), Other social protection and risk management (20%), Rural services and infrastructure (20%)
Lending Instrument	Specific Investment Loan
Project ID	P122812
Borrower(s)	Government of Azerbaijan/Ministry of Finance
Implementing Agency	ADCP PMU in State Agency on Agricultural Credit under the Ministry of Agriculture
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/Updated	14-Jun-2013
Date PID Approved/Disclosed	29-Apr-2013, 20-Jun-2013
Estimated Date of Appraisal Completion	08-May-2013
Estimated Date of Board Approval	21-Oct-2013
Decision	

I. Project Context

Country Context

Azerbaijan is the largest and most populous (9.5 million) country in the South Caucasus. Thanks to the oil and gas boom, Azerbaijan's economy grew significantly in recent years with an average annual GDP growth rate of 14.1 percent in 2006-2011, including 10 percent for the non-oil sectors. Driven by the oil boom, per capita income rose from US\$490 in 1998 to US\$7,490 in 2012. The impact of the economic crisis has been less significant in Azerbaijan than in other countries in the region, and while GDP growth slowed down as a consequence of it, it remained positive, at an average of 9 percent for the whole economy, and of 3 percent for the non-oil sectors, between 2009 and 2011. In 2011, 7.6 percent of the Azerbaijan population was poor, compared to 49 percent in 2001. Rural poverty declined from 44 percent in 2001 to 13 percent in 2010. Nonetheless, about 51 percent of Azerbaijan's poor live in rural areas, which account for 45 percent of the total population.

With limited oil and gas reserves, the Government's main challenge and priority are to diversify the economy and reduce economic dependence on the oil sector.

Sectoral and institutional Context

The agricultural sector is a key component of Azerbaijan non-oil economy with great potential for competing on the internal and external markets. While the agriculture accounts for only 7 percent of GDP, it is a key employer of the economy, providing income and employment for about 40 percent of the workforce. The sector is seen as a priority in the context of food security and a priority for improving rural incomes. After experiencing a major decline during the transition period (1991-1995), the sector began to recover in 1998 and in terms of output has been growing at an average annual rate of 6 percent since. Given its existing knowledge and export base, and its climatic and geographic advantages, the sector has significant business, job creation and trade opportunities. However, a number of bottlenecks need to be resolved in order for these opportunities to materialize.

Policymakers in Azerbaijan have made a strong commitment to diversify from oil and promote the non-oil sectors such as agriculture. The Government's current agricultural policy is outlined in its strategy document "State Program on the Reliable Provision with Food Products (2008–2015)". The program seeks to address a number of the sector challenges, including development of food processing enterprises, improvement of food safety, genetic improvement of livestock, expansion of lending resources, etc. Modernization of the agricultural sector is a priority as a key component of the economic development strategy. The stated policy goals continually refer to the need for a modern and productive agricultural and food sector.

Azerbaijan's agriculture faces weaknesses in the legal and regulatory system and infrastructure provision, and in low availability of credit. Increasing domestic demand for agricultural products provides significant opportunities for the private sector, including shifting production from subsistence crops to high-value products that would have a competitive advantage. Growth in agricultural exports and value-added processing, and import substitution through investments in agriculture, would contribute to stimulating the rural economy. Investments in the oil and gas sector are expected to require the significant procurement of agri-food products for oil industry labor force, much of which is currently being imported. This creates a unique opportunity to stimulate domestic production of high quality and safe food products. Access to these market opportunities, however, would require significant modernization in the sector which needs to produce higher value added and safe products in order to meet the higher standards required to compete in the more demanding markets. The current lack of improved seed varieties and more productive livestock breeds, combined with outdated processing technologies, limits product quality and, in turn, restricts the ability of agrifood processors to access potentially lucrative markets. Cooperation between producers and agrifood processors is not sufficiently developed or systematically implemented, and this further restricts the development of efficient agrifood production value chains.

Agriculture and agro-processing businesses have encountered problems in accessing credit. Though credit financing for agriculture has been increasing steady, the volume remains comparatively small, and the sector continues to be under-financed. Lending to agriculture and processing represents 4.7% of the total loan portfolio of the banking sector and 18% of the agricultural GDP. The share of agricultural lending is one of the lowest in the region. Demand for financing remains very high, especially for the long-term funding. In addition, the menu of financial products is limited to simple working capital and investment loans. Structured financial products tailored for the specific needs

of agribusiness are almost non-existent. In addition, agriculture is still perceived by the banking sector as a relatively risky sector, further aggravating the ability of agribusinesses to access credit.

Improvement in food safety and quality is a fundamental priority for the Government and is expected to drive agricultural competitiveness through the high value agrifood chains. The development of competitive value chains requires a rationalization between supply and demand with adequate processing capacity to ensure smooth process flow and ready market access. Considerable constraints are currently encountered along the supply chain, related to on-farm production, handling, distribution, warehousing, distribution centers, and processing for fruits, vegetables, nuts and animal source foods. Alignment of the currently fragmented agrifood supply chain would be driven by existing SMEs, but many of these enterprises lack the knowledge and motivation, and operate under ad hoc procedures with minimal strategic planning or commitment to food safety standards.

II. Proposed Development Objectives

The Project Development Objective is to facilitate the access of agricultural producers to markets by strengthening sanitary and phytosanitary services, enhancing selected value chains and providing financial services to agribusiness enterprises.

III. Project Description

Component Name

Support for sanitary and phytosanitary services

Comments (optional)

Component Name

Agribusiness Value Chain Development

Comments (optional)

Component Name

Financial Services to Agribusinesses

Comments (optional)

Component Name

Project Management

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	53.25	Total Bank Financing:	34.50
Total Cofinancing:		Financing Gap:	0.00
For Loans/Credits/Others			Amount
Borrower			18.75
International Bank for Reconstruction and Development			34.50

Total	53.25
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V. Implementation

The Project will be managed by the State Agency for Agricultural Credits (SAAC), which is the Ministry of Agriculture agency for overseeing international agricultural development projects, primarily through a Project Management Unit (PMU) constituted within SAAC. The PMU would have direct responsibilities for management, administration and coordination of the Project. The PMU has the necessary experience and competence to manage core functions including program management, capacity building, training, procurement, financial management, monitoring and evaluation (including environmental monitoring). The PMU will maintain core staff and also teams and units that would be responsible for coordination of the various components. These units include the Value Chain Development Secretariat (VCDS), the Veterinary team, and specialists responsible for the project credit line and activities related to seed sector development and upgrading plant protection services.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

Overall, the Project is not expected to have significant environmental implications, and anticipated positive effects are associated with the increased food safety and animal health, adoption of best practices by plant health laboratories and agri-businesses, and improving capacity of agricultural and banking organizations and farmers in terms of environmental management.

The Project is classified as FI because Financial Services to Agribusiness component which will provide agricultural credits through designated banks is the largest component of the Project. The environmental issues to be dealt with under the project will include collection and disposal of animal waste and waste water, construction related issues (in case of small scale construction of rural facilities), impacts related to agro-processing, and impacts related to environmental management practices in laboratories to be upgraded under the project. These impacts are anticipated to be temporary, reversible and can be avoided, minimized or duly mitigated if managed appropriately. In order to address the potential environmental impacts and identify relevant mitigation measures, an Environmental Management Plan (EMP) has been prepared and duly disclosed. The EMP has been discussed at the public consultation meetings which took place in several locations of the project area. The key stakeholders participated in the consultation meetings, and their feedback was duly addressed. The EMP has been placed on the web-site of the Ministry of Agriculture for public access.

VII. Contact point

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