

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

Report No.: PIDA61676

Project Name	Integrated Dairy Productivity Improvement Project (P155412)
Region	EUROPE AND CENTRAL ASIA
Country	Kyrgyz Republic
Sector(s)	Animal production (70%), General finance sector (20%), Agro-industry, marketing, and trade (10%)
Theme(s)	Rural services and infrastructure (25%), Rural policies and institutions (25%), Trade facilitation and market access (25%), Micro, S mall and Medium Enterprise support (15%), Climate change (10%)
Lending Instrument	Investment Project Financing
Project ID	P155412
Borrower(s)	Kyrgyz Republic
Implementing Agency	Ministry of Finance, Ministry of Agriculture and Melioration
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	11-Apr-2016
Date PID Approved/Disclosed	11-Apr-2016
Estimated Date of Appraisal Completion	08-Apr-2016
Estimated Date of Board Approval	02-Jun-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

With GNI per capita of US\$1,269 (2014), the Kyrgyz Republic is one of the low income economies of the Europe and Central Asia Region. In 2014, approximately 30.6% of the population lived below the poverty line, with the incidence of poverty slightly higher in rural area than in urban areas (32.6% vs. 26.9%). Economic growth in the country has been quite volatile. GDP growth was 6% in 2011 but contracted to 0.9% in 2012, owing to a sharp drop in gold output. In 2013, the economy grew at a whopping 10.9%, but slowed to 3.6% in 2014 and remained at 3.5% at the end of 2015. The narrow export base is dominated by gold, with agricultural products representing on average 16% of total exports from 2009 to 2013. The economy is highly vulnerable to external shocks, in particular many households depend on remittances from the energy-based economies of Russia and Kazakhstan. It is partially dependent on wheat imports from Kazakhstan and the past global food price shocks quickly transmitted to the country. The official unemployment rate in the country has hovered below 10% for the past decade, however mostly on account of significant

outmigration of labor force (predominantly men, a majority from rural areas) to Russia and Kazakhstan. The recent economic difficulties of Russia and the strong devaluation of the ruble have negatively affected the earnings of the migrants and their remittances to their families in Kyrgyzstan.

Sectoral and institutional Context

Agriculture is an important sector for the Kyrgyz Republic's economy and livestock production is a major livelihood support system for rural people. Agriculture represents about 15% of GDP, and it is still a major employer, providing more than a third of jobs. The sector's growth rate in 2015 was a relatively high 6.2%. Agriculture is a key priority for the government because of its contribution to poverty reduction and rural employment. Livestock production, which accounts for about 50% of the agricultural GDP, is dominated by household and small farm production. It is important for rural household food security, nutrition, regular income generation, and acts as a social safety net with animals sold in times of hardship and economic distress. The primary land use of the country is native pasture production (87% of the total land is under pastures), which provides an advantage for livestock-based livelihood and food security for the rural population.

With the accession of the Kyrgyz Republic to the Eurasian Economic Union (EAEU), the country's agriculture sector is facing new challenges, and also new opportunities. The Kyrgyz Republic became a full member of the EAEU in May 2015. The EAEU includes Russia and Kazakhstan, which are the Kyrgyz Republic's main export markets. However, since 2012, a partial dairy export ban has been in force, limiting the number of dairy exporters to seven (more information in paragraph 7 below). The Kyrgyz dairy producers and processors may be unable to capitalize on new market opportunities due to their inability to meet the animal health, food safety and quality standards of the EAEU. However, Kyrgyz dairy products benefit from a reputation of better taste due to the production model based on natural pastures. Addressing current constraints in the Kyrgyz dairy sector would allow to capitalize on new market opportunities, as well as on the achievements and initiatives of the previous and ongoing projects in the agriculture sector.

Market opportunities for Kyrgyz milk and dairy products. The demand for Kyrgyz dairy products, in particular in Kazakhstan, is significant. Even though the border is closed to most of the official dairy exports (only seven companies can export dairy products to Kazakhstan), informal trade is booming. While the official value of exports of milk/dairy products in 2012 was US\$30 million (equivalent to 4% of the annual milk production volume), the unofficial export revenues were closer to US\$ 100 million (14% of the milk production volume). Russia is also considered a potentially large export market for dairy products (in particular, cheese). Once milk quality is upgraded, exporting to other countries (such as China, Afghanistan and Pakistan) should be possible.

The Kyrgyz dairy sector is primarily dependent on smallholder private dairy units with an average herd size of 3-5 heads of cattle. Around 60% of the rural population own livestock, but the average herd size tends to be small. Milk is an important part of the diet and around 90% of the population consume dairy products regularly. In value terms, milk is one of the top five agricultural products of the country. Per capita availability of milk is around 193 kg and 25% of the milk produced is surplus, for processing and export. It should be noted, however, that farmers who keep animals do not consider themselves dairy farmers (animals are rather considered a subsistence livelihood source), and the animal breeding and management practices are poor, which accounts for low dairy

sector productivity.

Livestock productivity is low compared to countries with similar production conditions. Furthermore, productivity has been declining from 2,041 kg in 2009, to 2023 kg in 2012 and 2,013 kg in 2013. Many factors cause this low productivity at the farm level: inadequate on-farm animal health management, poorly equipped laboratories and disease diagnostic services, irregular and incomplete vaccinations, low breed stock (genetic) quality, absence of sustainable breeding policies and practices, inadequate feeding, improper shed maintenance, and farm hygiene issues, overall poor knowledge of animal husbandry techniques, low level of investments into production and marketing infrastructure. Addressing these issues can significantly increase both the productivity and total output of milk, which would contribute to increasing producers' incomes and help address the sourcing problems faced by dairy processors. Processors experience a shortage of clean and high quality milk, and as a result underutilize their processing capacities and forego additional incomes that could come from exporting to other countries, and primarily, to the neighboring Kazakhstan. Export bans have a multiplier effect, as they affect not only the processors but also the milk-selling farmers and households and other players in the value chain.

The Kyrgyz Dairy Sector Development Program (KDSDP) was initiated with support from IFC's advisory program in 2015, to help the country capitalize on market opportunities presented by the EAEU. The Program is designed to help ensure steady milk exports to Kazakhstan (and other countries) through a dairy value chain approach, which would enable farmers to receive steady and increased incomes for the milk. It has already started working by supporting dairy processors in Issyk-kul Region. However, issues related to animal health and low productivity continue to persist. To make value chain development successful, it is imperative that on-farm improvements as well as necessary public sector investments are supported to ensure high quality and increased volume of milk. Thus, the KDSDP has grown into a comprehensive program addressing the various bottlenecks affecting the dairy value chain. The program covers all aspects of the dairy value chain: cattle breed improvement, animal feed improvement, improvements of animal productivity and milk quality, extension education and outreach services, animal health and hygiene, milk collection upgrades, laboratory, disease diagnosis and testing capacity (animal disease control, food safety and milk quality) upgrades, processing capacity upgrades, food safety standard upgrades, enabling regulatory framework, and export promotion.

II. Proposed Development Objectives

The Development Objective of the Project is to enhance dairy animal productivity and milk quality on beneficiary farms.

III. Project Description

Component Name

Component 1: Strengthening Public and Private Services in the Dairy Sector

Comments (optional)

This component would contribute to the program development objective by improving the public-private dialogue on private sector development issues, and by supporting the improvements in the breed stock (genetic quality) of the dairy cows. This component would focus on the following activities: (i) Improving the Public-Private Dialogue; (ii) cattle identification and registration in Issyk-kul Region; (iii) Establishment of a World Organization for Animal Health-certified Zone

Free of Animal Diseases (with a focus on Foot and Mouth Disease in close collaboration with the Islamic Development Bank); and (iv) Support to Artificial Insemination (AI) Service Providers.

Component Name

Component 2: On-farm Productivity Enhancement

Comments (optional)

During Phase I, the Model Dairy Village (MDV) concept would be introduced, determining the locations of the MDV service points, and providing the initial support to these services. The component would start with the most-needed services (which could be a veterinarian, an AI office, a milking center, a milk collection point, etc.). It would work predominantly with groups of beneficiaries. It would provide training, demonstrations and advice to farmers on good animal breeding practices, including: (i) fodder production and feeding management; (ii) animal husbandry and farm management, including (a) animal housing, general management and handling; (b) animal health, farm hygiene & clean milk production; (c) breeding management; and (d) manure management; and (iii) milk cooling and handling.

Component Name

Component 3: Farm-level Investments

Comments (optional)

Phase I would finance: (i) a US\$ 1.2 million Revolving Fund to facilitate access to finance for small farmer for the purchase of inputs and small equipment; and (ii) technical assistance and capacity building to project beneficiaries to enable them to access existing financing programs.

Component Name

Component 4: Project Management

Comments (optional)

The component would cover the costs associated with project management, including Monitoring and Evaluation for the project implementation, as well as the establishment and maintenance of the Grievance Redress Mechanism (GRM).

IV. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	5.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			2.75
IDA Grant			2.25
Total			5.00

V. Implementation

The Ministry of Agriculture and Melioration (MOAM) and the Ministry of Finance (MOF) would be the Implementing Agencies for the project. Both Ministries have prior extensive experience with implementation of Bank-financed projects.

The Agribusiness Competitiveness Center (ABCC) reporting to MOAM, and the Credit Line Management Unit (CLMU) at MOF would be responsible for implementation of the technical assistance and credit line activities, respectively. Both implementing units have extensive

experience in implementing Bank-financed projects. The technical assistance activities (Components 1 and 2) would be implemented through the ABCC, which has been successfully implementing technical assistance activities in the agriculture sector in three Bank-financed projects (Agribusiness and Marketing Project, Agricultural Productivity Assistance Project, and the JSDF-financed Support to the Community Seed Funds Project). The Revolving Fund for farmers, farmer associations, agro-processors and traders would be managed by the CLMU which has successfully managed credit lines in three previous Bank-financed projects (Rural Finance II Project, Agribusiness and Marketing Project, and Agricultural Productivity Assistance Project). Similar to the previous projects, procurement functions for the proposed project would be carried out by ABCC and the overall Financial Management would be the responsibility of CLMU. Safeguards support would be the responsibility of the ABCC. ABCC would also open a regional office in Issyk-kul, where the technical staff and Environmental Specialist would be located. Both PMUs, but, in particular, ABCC would closely liaise with the other projects under the KSDSP, to ensure that all necessary activities are implemented, and no duplications occur.

A Steering Committee would be set up to provide strategic guidance for project implementation, as well as ensure that key issues that need to be resolved are brought to the attention of the Government and their resolution facilitated. The Steering Committee would consist of representatives of the Prime Minister's Office, MOAM, Ministry of Economic Regulation, MOF, Issyk-kul Oblast Governor's Office, and private sector representatives.

A consulting firm with international experience in dairy sector development, in particular, in working with farmers to improve on-farm productivity and milk quality, would be contracted under the project to support project implementation. The consultants would have the following main responsibilities: (i) identify the locations for the service points for the Dairy Model Villages (Component 2); (ii) provide training-of-trainers to local consulting companies that would train farmers in the project area (Component 2); (iii) provide advisory services to individual larger farmers; or groups of farmers, on specific areas related to the improvement of milk quality and quantity on beneficiary farms (Component 2); and (iv) assist ABCC in coordinating the project activities with other activities of the program, in particular, those financed by IsDB and other donors (Component 1 and Component 4).

In addition, local consulting companies and/or NGOs would be hired under the project to ensure outreach to farmers, training and advisory services on the ground (under Component 2).

Finally, a local consulting company or NGO experienced in group mobilization and group lending arrangements would be hired under the project to provide the necessary training to the groups of beneficiaries of the Revolving Fund, as well as help with ensuring collection of repayments due to the Revolving Fund (Component 3).

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)**VII. Contact point****World Bank**

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