President’s report

Proposed loan and grant to the Republic of Uzbekistan for the Horticultural Support Project

Note to Executive Board representatives

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<td><strong>Technical questions:</strong></td>
<td><strong>Deirdre McGrenra</strong></td>
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Executive Board — 105th Session
Rome, 3-4 April 2012

For: Approval
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<tr>
<td>AsDB</td>
<td>Asian Development Bank</td>
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<tr>
<td>RB-COSOP</td>
<td>results-based country strategic opportunities programme</td>
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<tr>
<td>M&amp;E</td>
<td>monitoring and evaluation</td>
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<tr>
<td>PFI</td>
<td>participating financial institution</td>
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<td>PIM</td>
<td>participatory impact monitoring</td>
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<td>PMU</td>
<td>project management unit</td>
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<td>PY</td>
<td>project year</td>
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<td>RRA</td>
<td>Rural Restructuring Agency</td>
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<td>WIS</td>
<td>Welfare Improvement Strategy 2008-2010</td>
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Republic of Uzbekistan
Horticultural Support Project - HSP
Complete design report

Map of the project area

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

24-11-2011
Republic of Uzbekistan
Horticultural Support Project

Financing summary

Initiating institution: IFAD
Borrower: Republic of Uzbekistan
Executing agencies: Ministry of Agriculture and Water Resources; Rural Restructuring Agency
Total project cost: US$31.7 million
Amount of IFAD loan: SDR 6.19 million (equivalent to approximately US$9.6 million)
Amount of IFAD grant: SDR 0.645 million (equivalent to approximately US$1.0 million)
Amount of Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) loan: EUR 8.46 million (equivalent to approximately US$11.4 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Terms of Spanish Trust Fund loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinanciers: Government (6.1 per cent) Participating financial institutions (PFIs) (8.2 per cent) Beneficiaries (16.2 per cent)
Amount of cofinancing: PFIs: US$2.59 million
Contribution of borrower: US$1.94 million
Contribution of beneficiaries: US$5.1 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Uzbekistan for the Horticultural Support Project, as contained in paragraph 39.

Proposed loan and grant to the Republic of Uzbekistan for the Horticultural Support Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Uzbekistan emerged as an independent state after the breakdown of the Soviet Union in 1991. In 2010, it had a GNI per capita of US$1,280, a population of 28 million and a land area of 447,400 square kilometres. Transition to a market economy has been gradual and cautious, characterized by reductions in public debt, tight monetary policy, and state-controlled wheat production to ensure food security. The state retains ownership of all land, with the exception of small household plots that are privately owned (hereinafter: dekhan farms). This has averted the economic turmoil experienced by some other ex-Soviet countries and maintained social and political stability. It has, however, also kept the country from achieving its full economic potential.

2. Agriculture’s share of GDP decreased from 30 per cent in 2000 to 17.5 per cent in 2010. Agriculture nevertheless remains important: around 49 per cent of the population is rural and 25 per cent of the national workforce is directly employed in the sector. Moreover, agriculture provides 90 per cent of domestic demand for agricultural products and 70 per cent of domestic trade. Approximately 4.5 million rural people live below the poverty line, defined as consuming less than 2,100 calories per adult equivalent per day. This represents about 73.4 per cent of the national total. The position of rural people below the poverty line is precarious not only because of their limited access to land but also because of the low level of employment opportunities in rural areas.

3. The Government of Uzbekistan’s main growth and poverty reduction strategy is the Welfare Improvement Strategy 2008-2010 (WIS). With regard to agriculture, WIS proposals include: gradually improving crop selection in favour of cash crops with higher yields; using new varieties of plants, agro-technologies and agricultural practices in order to enhance crop yields; substantially increasing capital investment in irrigation water supply and implementing water-efficient technologies; facilitating the increase in land plots allocated to dekhan farms; creating new forms of cooperation among farmers for the storing and processing of fruits and vegetables; improving private farmers’ access to financial services; and providing support for farmers’ training.

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

4. Modernization of current systems of horticultural production – in terms of support to updated planting varieties/rootstock, producer knowledge and skills, technologies and appropriate financial products – can reasonably be expected to lead to productivity and quality gains, which will increase access to both domestic and export markets, improve food security and safety, and raise producers’ incomes. Greater productivity and market access offer opportunities for additional entrants into production as operators or wage labour, especially if efficiency gains in land and water use ease the growing natural resource base constraints. The project will be the
The first loan-funded donor project in Uzbekistan that specifically reaches out to small-scale farmers, and particularly dekhans, which according to studies and statistics constitute a highly viable and efficient production platform, accounting for 63 per cent of total agricultural output in 2010.

5. IFAD’s Governing Council approved Uzbekistan as a member of IFAD in February 2011 and this is the first IFAD-funded project in the country. The project is aligned with the key development objectives of the WIS, under which the Government is committed to continued economic liberalization and comprehensive area-based development, which envisages that economic growth will mitigate the existing differences in the level of economic development and welfare. On the basis of the socio-economic data above, there are strong indications that modernization of a privatized horticulture sector can offer sustainable economic growth combined with significant welfare improvement. Horticultural produce for domestic markets is already dominated by dekan farm production, contributing importantly to increasing the incomes of less advantaged households. The project factors in the provisions of the Fund’s overarching strategy, policy papers and guidelines, and is formulated within the framework of a strategy and country note, approved by IFAD Senior Management. An IFAD results-based country strategic opportunities programme (RB-COSOP) will be developed for the next performance-based allocation system cycle.

II. Project description

A. Project area and target group

6. The project area (see map) will comprise districts in the region of Surkhandarya with a comparative advantage and potential for modern horticulture. Subject to performance, the project may subsequently be scaled up as a separate second-phase initiative for similar districts in other parts of Uzbekistan, in particular the adjacent region of Kashkadarya. According to the latest available data, Surkhandarya and Kashkadarya have the highest percentages, at 34.6 per cent and 41.0 per cent respectively, of people below the poverty line in the whole of Uzbekistan with the sole exception of the Republic of Karakalpakstan.

7. The project will directly reach 11,800 households of all ethnicities with the following specific target group: small-scale, private-sector, actual or potential horticulture producers operating six hectares or less, with special provisions for those operating less than two hectares, including dekan farmers; small-scale horticultural market services providers; horticulture-related agrofirms; and unemployed rural people.

B. Project development objective

8. The project’s development objective is increased incomes and assets accruing to smallholder farmers, processors and service providers within the horticultural subsector. To achieve this, the project will support: a viable horticultural subsector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets; investments by producers, processors and service providers in productive assets in Uzbekistan horticulture; and farming efficiency and mobility of productive assets and produce.

C. Components/outcomes

9. In addition to project management, the project will have three components:

   (a) **Support for horticultural production and marketing.** Three subcomponents are envisaged: (i) upgrading of nurseries, through a central nursery, which will import, test and propagate modern varieties and rootstock for sale to actors in the horticultural value chain; (ii) modernization of private entities active in the horticultural production and processing sector (agrofirms), by building the capacity of 10-15 privately owned agrofirms in the project area to act in the horticultural value chain, generating benefits for both themselves
and their less advantaged suppliers, who are the project’s primary target group; and (iii) modernization of primary horticultural production by supporting small-scale farmers with affordable investment finance, technical assistance and training.

(b) **Rural finance.** The component will support improved access to appropriate financial products through the establishment of refinancing facilities to finance investments under the above subcomponents (ii) and (iii) to allow selected commercial banks to provide medium- to long-term financing for agrofirms relevant for the value chain backward linkages and small-scale investments in modern on-farm technology.

(c) **Rural infrastructure: improved irrigation network.** The component will support the achievement of the full economic potential of the beneficiary clusters identified and supported under component (a), and complement and strengthen project investments under that component through improvement in irrigation water supply infrastructure.

10. The project’s outcomes will be: (i) creation of a viable horticultural subsector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets; (ii) increased investments by producers, processors and service providers in productive assets in the horticultural sector; and (iii) improved farming efficiency and mobility of productive assets and produce.

**III. Project implementation**

A. **Approach**

11. The project will improve the assets and incomes of small-scale horticulture producers (those producing on no more than six hectares, with special provisions for those producing on less than two hectares, including dekhan farmers), horticulture-related market services providers and unemployed rural people. It will do so by modernizing horticultural production in terms of technical and managerial efficiency and effectiveness gains at key points of the horticulture value chain, namely: (i) support to importation, propagation and onward distribution/sale of modern varieties and rootstock; (ii) support to agrofirms' competence as input suppliers, technical advisors, contractors of small horticulture farmers and/or providers of post-harvesting services such as storage, processing and marketing; and (iii) technical and financial support to primary producers and small-scale market services entities. Project support will be delivered in the context of a management approach that is targeted, demand-driven and participatory.

B. **Organizational framework**

12. Overall management oversight will rest with a project steering committee consisting of representatives from ministries, regional authorities and other relevant stakeholder organizations. The Ministry of Agriculture and Water Resources will be the implementing agency for the project. Day-to-day oversight of the project’s management will rest with a project management unit (PMU) embedded in the Rural Restructuring Agency (RRA), a state entity that has extensive experience in the implementation of World Bank and Asian Development Bank (AsDB) projects. An RRA/project regional office will be opened in Surkhandarya as from the first project year (PY).

13. For implementation of the upgrading of nurseries subcomponent, a central nursery, embedded within the Scientific Research Institute of Horticulture, Viticulture and Wine Making (the Shreder Institute), will manage demonstration orchards and propagation activities in the nursery, and sales to interested parties. The financing under the rural finance component will be disbursed by participating financial institutions (PFIs), selected on the basis of a due diligence exercise. At field level,
lead responsibility for this and the rural infrastructure component will rest with the project’s regional office.

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

14. Project implementation will follow annual workplans and budgets (AWP/Bs), which will be prepared in close consultation with representatives of beneficiaries and service providers and will therefore comply with beneficiaries’ real needs and priorities. The annual inter-entity implementation review workshop will provide feedback for adjusting the implementation strategy.

15. The project’s logical framework will form the basis for the overall results-based monitoring and evaluation (M&E) system and comprise performance monitoring and impact assessment. Performance monitoring will be based on quarterly, semi-annual and annual progress reports, and will concentrate on financial and physical outputs and on the outcomes of project activities. The joint RRA/project PMU will submit progress reports in English to the Government (the Ministries of Agriculture and Finance through the project steering committee) and IFAD. Impact assessment will be a function of concurrent participatory impact monitoring (PIM) and evaluation based on quantitative repeater surveys combined with interviews to capture qualitative aspects.

16. Annual project performance reports will feed into the annual stakeholder review and planning workshops. Feedback from each workshop will be factored into the project’s AWP/B for the succeeding year, thus closing a circle of participatory, demand-driven planning and implementation.

17. The project is centred on modernization of Uzbekistan’s horticulture sector in a manner that particularly improves the welfare of small-scale producers and market services entities and unemployed rural people by supporting key links in the horticulture value chain. It is the first international loan-financed donor project in Uzbekistan that specifically targets small-scale farmers. To assure capture of experience gained (learning), comprehensive provision has been made for M&E of project activities and for a participatory approach to the operation of the project’s proposed management information system.

18. The RRA will be responsible for developing a communications strategy for the project and thereafter documenting the technical content of project activities and the institutional arrangements for their delivery. Towards the end of the project, PMU staff, beneficiary representatives and representatives of PFIs and non-financial implementing partners will produce a management handbook for horticulture modernization, based on the project’s experiences. Handbooks will be disseminated to project stakeholders.

D. Financial management, procurement and governance

19. The RRA will be responsible for overall project financial management. The RRA general director will have oversight responsibility for the project’s financial management and for ensuring compliance with established procedures.

20. The borrower will open and maintain one or more accounts designated to receive funds in advance in United States dollars in a bank acceptable to IFAD. The project director of the joint project/RRA PMU will be authorized to operate these accounts. Based on World Bank and AsDB operations, the RRA has developed a manual of financial procedures and internal control mechanisms to be followed with respect to projects for which the agency has overall implementation responsibility. As a public-sector entity, RRA undergoes internal audits in the form of regular inspections by the Government Control and Revision Unit. These arrangements have been considered acceptable to the World Bank and are endorsed in the scope of the project. The borrower, through the RRA, will appoint independent auditors acceptable to IFAD, under terms of reference cleared by IFAD, and in line with the current IFAD
Guidelines on Project Audits. The auditors will give a separate opinion on each project account with respect to the funding mechanism, use of project resources, adherence to procurement rules and accountability of project participants.

21. The project design incorporates various measures to assure good governance as indicated by democratic accountability, transparency of financial management, gender equality and mechanisms for complaints and remedies. These include: (i) the terms and conditions of subsidiary loan agreements with PFIs; (ii) consistent stakeholder representation in the project’s planning, M&E and impact assessment cycle, affording mechanisms for complaints and remedies; (iii) quotas for women beneficiaries; (iv) application of guidelines and procedures for procurement consistent with the current IFAD Procurement Guidelines; (v) application of initially low procurement thresholds; (vi) intensive direct supervision by IFAD, including risk-based financial management supervision and operational reviews (see section E below); and (vii) provision for regular external audit.

E. Supervision

22. The project will be supervised directly by IFAD. This will include risk-based financial management supervisions, initially after every six months for the first two years of project implementation and thereafter at appropriate intervals based on IFAD’s assessment of risk. In addition, operational reviews covering a random sample of project activities will be carried out in PY2 and PY4 by independent auditors and under terms of reference acceptable to IFAD.

IV. Project costs, financing, benefits

A. Project costs

23. The project will be implemented over a period of six years, with a total cost of US$31.7 million. Physical and price contingencies account for about 1.0 per cent of total project costs. In calculating costs, rates of inflation of 2.5 per cent for foreign expenditures and 7.5 per cent for local expenditures are used, in accordance with the Government’s inflation targets. A constant purchasing parity rate has been applied in projecting the exchange rate during the project’s implementation period.

Physical and price contingencies as a percentage of total project costs are shown in the following table.

B. Project financing

24. The project will be financed by an IFAD loan of approximately US$9.6 million, and grant of about US$1.0 million to be used for capacity-building and technical assistance. The IFAD-administered Spanish Trust Fund will provide a loan of US$11.4 million; the Government will provide US$2.0 million; PFIs will contribute US$2.6 million and beneficiaries US$5.1 million. The details of the financing arrangements are shown in the following table.

C. Summary benefit and economic analysis

25. The project’s benefits to its primary target group of small-scale horticulturalists and horticulture-related market services providers will be training and finance. Greater access to markets through production, productivity and quality gains meeting domestic and international standards is expected through backward linkages, which
will open up more rural employment opportunities in production and market services provision.

26. An economic analysis was undertaken to calculate the overall benefits of the project, making a conservative estimate using illustrative farm and enterprise models of beneficiaries. The period of analysis was 20 years to account for the phasing and gestation period of the proposed interventions. The base case economic rate of return is estimated at 22 per cent. The base case net present value of the project’s net benefit stream, discounted at 12 per cent, is US$21.8 million. These indicators establish the economic feasibility of the project.

D. Sustainability

27. The project-supported modernization of the horticultural sector is expected to lead to: production and productivity gains across an increased range of horticultural products; an extended period of harvesting; efficiency gains in input supply and marketing; and the establishment of an affordable, ongoing cycle of investment. Consequently, as a result of project support, the sector will become more likely to be competitive in domestic and export markets and thus a vehicle for sustained economic growth, particularly among small-scale producers and horticulture-related market services providers.

E. Risk identification and mitigation

28. The main risks relate to the potential lack of incentives for the various actors, farmers and companies expected to participate in the project. Mitigating measures include a careful analysis of opportunities and constraints, involvement and endorsement of all stakeholders involved in project design, and a thorough institutional, technical and financial analysis.

V. Corporate considerations

A. Compliance with IFAD policies

29. Project design is fully in line with the IFAD Strategic Framework 2011-2015, and with IFAD’s Policy on Targeting, its Rural Finance Policy and its Environment and Natural Resource Management Policy. The project will promote a gender-sensitive and enabling implementation environment through various capacity-building activities and project management arrangements. IFAD’s targeting requirements are addressed by ensuring in the targeting and implementation arrangements that women and the unemployed are included among the poor rural people whose capacities are strengthened so that they can take advantage of the economic opportunities provided by the project. IFAD’s rural finance policy provides guidance as to whether a rural finance component is appropriate in a specific IFAD-financed project and also as to what considerations such a rural finance component should be based on.

30. The project is classified as a Category B operation as few, if any, negative environmental impacts are expected to result from its activities. Investments in improved irrigation and drainage networks and structures will only result in positive outcomes. The project is expected to reduce pressure on natural resources by introducing more environmentally sound natural resource management practices and by diversifying livelihoods. These developments will also enhance the resilience of rural households to climate change and reduce their vulnerability to extreme weather events.

B. Alignment and harmonization

31. The project has been developed within the framework of the strategy and concept note approved by IFAD’s Senior Management, and the WIS, the Government’s main growth and poverty reduction strategy. The project complies fully with key WIS proposals (see paragraph 3).
32. No large loan-financed projects by multilateral donors are present in the project area that will be specifically targeting the horticultural sector. The German Agency for International Cooperation (GIZ) is preparing a horticultural project that will involve grant-based investments in technical assistance. Clear synergies have been identified between the project and the upcoming GIZ project, and close cooperation has been contemplated to make use of such synergies. Further coordination will be provided in the context of the project’s start-up workshop, which will be held with representatives of key potential stakeholders and project participants including, among others, representatives of other relevant development assistance donors, e.g. the World Bank, AsDB, GIZ and the United Nations Development Programme.

**C. Innovations and scaling up**

33. The project is centred on modernization of Uzbekistan’s horticultural sector in a manner that particularly improves the welfare of small-scale producers and market services entities and unemployed rural people by supporting key links in the horticulture value chain. It is the first international loan-financed donor project in Uzbekistan that specifically targets small-scale farmers.

34. A communications strategy will document the technical content of project activities and the institutional arrangements for their delivery. Towards the end of the project, a management handbook for horticulture modernization will be produced, based on the project’s experiences. Handbooks will be disseminated to project stakeholders and used for subsequent scaling up.

**D. Policy engagement**

35. Through policy dialogue, the project will promote measures to link project target groups to markets in an efficient, competitive and sustainable manner. This will include addressing issues related to accreditation and quality standards, thereby broadening sustainable access by target groups to rural financial services, especially with respect to developing acceptable alternatives to current collateral requirements. In particular, IFAD’s engagement will spearhead policy dialogue in support of small-scale farmers, especially dekhan farmers.

**VI. Legal instruments and authority**

36. A project financing agreement between the Republic of Uzbekistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.

37. The Republic of Uzbekistan is empowered under its laws to receive financing from IFAD and the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the trustee.

38. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

**VII. Recommendation**

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

   RESOLVED: that the Fund shall make a loan on highly concessional terms to the Republic of Uzbekistan in an amount equivalent to six million one hundred ninety thousand special drawing rights (SDR 6,190,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.
RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Uzbekistan in an amount equivalent to six hundred forty five thousand special drawing rights (SDR 645,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the trustee, shall make a loan on highly concessional terms to the Republic of Uzbekistan in an amount equivalent eight million four hundred sixty thousand Euro (EUR 8,460,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.”

Kanayo F. Nwanze
President
Negotiated financing agreement: "Horticultural Support Project"
(Negotiations concluded on 25 March 2012)

IFAD Loan number: ____________
IFAD Grant number: ____________
Trust Loan number: ____________

Project Title: Horticultural Support Project (the "Project")
The Republic of Uzbekistan (the "Borrower/Recipient")
and
The International Fund for Agricultural Development (the “Fund” or “IFAD”) and
The Spanish Food Security Cofinancing Facility Trust Fund (the “Trust”)
(each a “Party” and all of them collectively the “Parties”)

WHEREAS the Executive Board of IFAD at its 100th Session approved the establishment of the Trust and further approved that the Trust, acting through IFAD in its capacity as the Trustee, enter into a Borrowing Agreement with the Kingdom of Spain; and

WHEREAS the Kingdom of Spain and IFAD, in its capacity as the Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010.

WHEREAS IFAD has agreed to extend financing to the Borrower/Recipient for the purpose of financing the Horticultural Support Project, on the terms and conditions set forth in this Agreement;

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower/Recipient for the purpose of increasing the financing in respect of the above referenced Project, on the terms and conditions set forth in this Agreement;

WHEREAS, the Borrower/Recipient, in accordance with its national legislation, has completed a Project Feasibility Study which is acceptable to the Fund;

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the “General Conditions”) are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have
the meanings set forth therein. The term “Loan” in the General Conditions shall apply equally to the IFAD Loan and the Trust Loan.

3. The Fund shall provide a Loan and a Grant and the Trust shall provide a Loan to the Borrower/Recipient (all of which are collectively referred to as “the Financing”), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the IFAD Loan is six million one hundred ninety thousand Special Drawing Rights (SDR 6 190 000).

   B. The amount of the IFAD Grant is six hundred forty five thousand Special Drawing Rights (SDR 645 000).

   C. The amount of the Trust Loan is eight million four hundred sixty thousand Euros (Euro 8 460 000).

2. The IFAD Loan and the Trust Loan are granted on Highly Concessional Terms, as defined in Section 5.01(a) of the General Conditions.

3. A. The Loan Service Payment Currency for the IFAD Loan shall be US dollar.

   B. The Loan Service Payment Currency for the Trust Loan shall be the Euro.

4. The first day of the applicable Fiscal Year shall be 1 January.

5. Payments of principal and service charge of the IFAD Loan and the Trust Loan shall be payable on each 15 March and 15 September.

6. Withdrawals from the Loan and Grant Accounts shall be made in conformity with the procedures established by the Fund in accordance with Section 4.04 of the General Conditions.

7. Procurement of goods, works and consulting services financed by the Financing shall be carried out in accordance with the provisions of the Fund’s “Procurement Guidelines” approved by the Fund’s Executive Board in September 2010, (the “Procurement Guidelines”) as may be amended from time to time by the Fund.

8. The Borrower/Recipient shall provide counterpart financing for the Project to cover social charges associated with PMU salaries, support for the Shreder Institute, and exemption from duties and taxes as per the Project Feasibility Study and as agreed between the Borrower/Recipient and the Fund.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Water Resources of the Borrower/Recipient.

2. The following is designated as an additional Project Party: the Rural Restructuring Agency.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.
**Section D**

The Financing will be administered and the Project supervised by the Fund.

**Section E**

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

   (a) a Governmental Decree confirming the Rural Restructuring Agency as the agency responsible for the management of the Project shall have been issued;

   (b) a project manager and a chief accountant, with qualifications and experience acceptable to the Fund, have been appointed.

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

   **For the Borrower/Recipient:**
   
   Minister of Finance  
   5 Mustaqqillik Square  
   Tashkent 100008, Republic of Uzbekistan

   **For the Fund:**
   
   President  
   International Fund for Agricultural Development  
   Via Paolo di Dono 44  
   00142 Rome, Italy

   **For the Spanish Food Security Co-Financing Facility Trust Fund**
   
   President  
   International Fund for Agricultural Development in its capacity as Trustee of the Spanish Food Security co-Financing Facility Trust Fund  
   Via Paolo di Dono 44  
   00142 Rome, Italy
This agreement, dated __________, has been prepared in the English language in three (3) original copies, one for the Fund, one for the Trust and one for the Borrower/Recipient.

REPUBLIC OF UZBEKISTAN

Authorized Representative
Title

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

FOR THE SPANISH FOOD SECURITY CO-FINANCING FACILITY TRUST FUND

Kanayo F. Nwanze
President
Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project shall benefit small-scale, private sector, actual or potential horticulture producers operating horticultural fields of 6 ha or less, including dekhan farmers; agrofirms and other service providers active in the horticultural value chain; and the rural unemployed. The Project Area shall be the Surkhandarya region.

2. **Goal.** The goal of the Project shall be improved living standards for the rural population in the Project Area.

3. **Objectives.** The objective of the Project shall be increased incomes and assets accruing to smallholder farmers, processors and service providers within the horticultural sub-sector.

4. **Components.** The Project shall consist of four components: (i) Support to Horticultural Production and Marketing; (ii) Rural Finance; (iii) Improved Irrigation and Drainage Network; and (iv) Project Management.

4.1 **Component 1: Support to Horticultural Production and Marketing.** This Component shall support the importation of highly-productive new varieties of plants and rootstock including varieties and rootstock not yet listed in the Borrower/Recipient’s Official Catalogue of Authorized Planting Materials for propagation and onward sales to beneficiaries. A resolution shall be adopted by the Cabinet of Ministers to allow such importation in order to avoid lengthy trial periods before license for commercial use is granted. The imported modern varieties and rootstock mother plants would be used to set up demonstration orchards to be managed by a Central Nursery located at one of the existing Shreder Institute facilities in the Project Area and for propagation by the Central Nursery. The component would further

   (i) support the Central Nursery comprising the financing of: (i) office equipment; (ii) nursery equipment; (iii) tissue laboratory equipment; international technical assistance to assist the Central Nursery in modernising its propagating activities; (iv) necessary vehicles; and (v) operation and maintenance by the Shreder Institute of the Central Nursery and the tissue laboratory.

   (ii) provide technical assistance and training for (i) business planning; and (ii) orchard and horticulture field management and growing techniques for Project beneficiaries.

4.2 **Component 2: Rural Finance.** This Component shall support provision of financing products to beneficiaries for investments in (i) establishment or improvement of orchards and vegetable fields with high yielding new varieties; (ii) introduction of modern production technologies; and (iii) establishment or improvement of non-farm value chain facilities such as processing and cold storage facilities, specialized transport, and farm services. Each financing product shall be composed of the following elements:

   (i) **Debt Financing,** in the form of loans, up to a maximum of 80% of the total investment cost;
(ii) **Beneficiary Contribution**, which shall be a minimum of at least 20% of the total investment cost.

Three financing product categories shall be made available for beneficiaries as follows:

(i) **Credit Line for Horticultural Processing and Storage**: Legal entities active in the horticultural value chain including Agrofirms shall be eligible to receive Debt Financing to a maximum amount of USD 600 000 equivalent per borrower.

(ii) **Credit Line for Farmers**: Farmers operating horticultural fields of less than 6 ha; and small market services entities active in value chain including storage, processing, packaging, distributing shall be eligible to receive Debt Financing to a maximum amount of USD 100 000 equivalent per borrower.

(iii) **Credit Line for Small Producers**: Small production units operating high value cash crop land of less than 2 ha, including dekhan farmers; and micro market services entities shall be eligible to receive Debt Financing to a maximum amount of USD 20 000 equivalent per borrower.

4.3 **Component 3: Improved Irrigation and Drainage Network**. This component shall finance investments in public irrigation and drainage infrastructure that complement support to activities under Components 1 and/or 2.

Eligibility criteria shall be set out in the Project Implementation Manual based upon the Project Feasibility Study and as agreed between the Borrower/Recipient and the Fund. Criteria shall include direct linkage with the horticulture activities selected for support under Components 1 and/or 2, authenticated through the respective producers and processors; and a proposal for a feasible and sustainable procedure for operation and maintenance of the proposed facility, endorsed by the responsible institution.

4.4 **Component 4: Programme Management**. This Component shall support Programme management as outlined in Section II below.
II. Implementation Arrangements

5. **Interagency Council (IC).** The Interagency Council for Cooperation with International Financial Institutions, Foreign Government Agencies and Donor Countries in Implementation of Large-scale and Strategically Important Investment Projects shall have the overall responsibility for management and oversight of the Project, and shall provide guidance and direction to the Lead Project Agency (LPA).

6. **Rural Restructuring Agency and Project Management Unit.** Day-to-day oversight of the Project’s management shall rest with a Project Management Unit (PMU) embedded in the Rural Restructuring Agency (RRA). The RRA shall report to the LPA.

6.1 The PMU shall have a Central Office in Tashkent and a Regional Office in the Project Area. The main functions of the PMU shall be: (i) project planning; (ii) financial administration including budgeting, procurement, accounting and disbursement; (iii) monitoring and evaluation; and (iv) providing, as appropriate, implementation support to implementing partners and beneficiaries. Appropriate arrangements for monitoring of the Rural Finance component after Project completion shall be agreed between the Borrower/Recipient and the Fund.

6.2 The Regional Office shall be responsible for day-to-day implementation in the field of all aspects of the Project, with the exception of financial administration and procurement, which shall be managed entirely by the PMU central office.

**Component Management**

7. **Component 1: Shreder Institute and nurseries.** Imported plants shall be purchased by the RRA following technical specifications provided by the Shreder Institute for propagation and on sales to Project beneficiaries. A Central Nursery, located at one of the existing Shreder Institute facilities in the Project Area, shall manage demonstration orchards and the propagation activities in the nursery, as well as sales to Project beneficiaries. The Shreder Institute and the Central Nursery shall provide appropriate technical support to beneficiaries such as agrofirms, which purchase plants from the Central Nursery for purposes of maintaining regional nurseries.

8. **Component 2: Rural Finance: Participating Financial Institutions (PFI).** Proceeds of the Financing under Component 2 shall be used to provide Subsidiary Loans to pre-qualified commercial banks and other eligible participating financial institutions (PFIs) approved by the Fund and the Borrower/Recipient. The PFIs shall use the Subsidiary Loans to provide the Debt Financing element of the financing products described at paragraph 4.2 above. Due diligence of each PFI shall be carried out by an international bank assessment consultant in collaboration with the RRA.

8.1 The Subsidiary Loans to PFIs shall be governed by Investment Guidelines approved by the Fund and the Borrower/Recipient, which shall provide an overall framework for the distribution of the Subsidiary Loans and financing products including: (i) eligibility criteria for PFIs and end-borrowers; (ii) eligibility of loan purposes; (iii) a general description of refinancing activities; (iv) principal conditions and procedures for refinancing, approval, disbursement, repayment; (v) PFI accounting and audit requirements; and (vi) monitoring and reporting.

8.2 The Borrower/Recipient shall make the Subsidiary Loans available to the PFIs under Subsidiary Loan Agreements (SLAs) to be entered into between the Borrower/Recipient and the RRA on one hand, and each PFI on the other. The SLAs shall be under terms and conditions approved by the Fund and in adherence with the Investment Guidelines.
Except as the Fund shall otherwise agree, the Borrower/Recipient shall not assign, amend, abrogate or waive any SLA or any of its provisions.

8.3 Each SLA entered into shall comply with the following terms and conditions:

(i) the amount of Subsidiary Loan to each PFI shall be made available in USD or Uzbek Soum (Soum);

(ii) the principal amount of the Subsidiary Loan shall be repaid by the concerned PFI in USD or in Soum to the Borrower/Recipient after 20 years from the entry into force of the respective SLA, unless the Borrower/Recipient and PFIs jointly agree to extend the period of refinancing beyond the initial 20 years’ period;

(iii) interest shall be charged on the outstanding balances of each Subsidiary Loan at a rate acceptable to the Fund;

(iv) the PFI shall keep records that show the amount of the outstanding balance of the Subsidiary Loan disbursed as Debt Financing;

(v) if a PFI is unable to disburse a substantial share of the Subsidiary Loan made available to it, the RRA shall suggest to the Borrower/Recipient reallocation of such funds partially or in full to other eligible PFIs.

8.4 The PFIs shall evaluate applications for Debt Financing, bear the lending risk and ensure that the investments meet the eligibility criteria. If approved by a PFI, the application shall be forwarded to the PMU for review and approval. Applications for Debt Financing above USD 250,000 shall require a no objection from IFAD. After approval and no objection as applicable, the Debt Financing shall be disbursed by the respective PFI.

9. Component 3: Improved Irrigation and Drainage Network. The implementation of this Component shall be managed by RRA through the PMU, which shall:

(i) on the central level in Tashkent: (a) review, finalize and submit recommendations for irrigation/drainage investment proposals with required supporting documents for LPA and IFAD approval; and (b) conduct procurement of design services and civil works and submit evaluation reports to the Procurement Committee for approval and to IFAD for review and written no-objection;

(ii) on the regional level through the Regional Office: (a) publicize the availability of the irrigation and drainage support component in the Project Area, its application format and arrangements, selection procedures and implementation modality; (b) assist interested applicants in application preparation and submission; (c) undertake technical review of investment proposals; (d) based on the technical review, evaluate and rank applications in accordance with the guidelines and mechanisms in accordance with the Project Implementation Manual; (e) submit recommendations for irrigation/drainage investments with required supporting documents for review at the PMU central level; (f) develop engineering designs’ Terms of References for selected investment proposals; (g) assist the PMU on the central level in evaluation of bids; (h) review and approve engineering designs; and (i) monitor and carry out supervision of the implementation by contractors of all civil works.
10. **Project Implementation Manual (PIM).** The PMU shall prepare a draft Project Implementation Manual acceptable to the Fund and submit it for approval to the Lead Project Agency. When so approved, a copy of the PIM shall be provided by the Lead Project Agency to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

11. **Mid-Term Review (MTR).** A Mid-term Review shall be conducted at the end of Project Year three, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Lead Project Agency and IFAD.
**Schedule 2**

*Allocation Table*

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

<table>
<thead>
<tr>
<th>Category</th>
<th>IFAD Loan</th>
<th>IFAD Grant</th>
<th>Trust Loan</th>
<th>% of Expenditures to be financed (net of taxes and beneficiary, PFI and government contributions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Works including Design &amp; Supervision</td>
<td>2 360 000</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>II. Vehicles, Equipment and Materials</td>
<td></td>
<td>475 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>III. Technical Assistance</td>
<td></td>
<td>645 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>IV. Training</td>
<td></td>
<td>230 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>V. Rural Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Credit Line for Horticultural Processing and Storage</td>
<td>2 620 000</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(b) Credit line for Farmers</td>
<td></td>
<td>4 840 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(c) Credit line for Small Producers</td>
<td></td>
<td>2 480 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>VI. Recurrent Cost</td>
<td>960 000</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>VII. Unallocated</td>
<td>250 000</td>
<td>435 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>6 190 000</td>
<td>645 000</td>
<td>8 460 000</td>
<td></td>
</tr>
</tbody>
</table>

(b) Withdrawals for activities under category V above shall be limited to USD 300,000 until the Fund has received satisfactory evidence that due diligence has been carried out by an international bank assessment consultant for at least three potential and interested PFIs; and Investment Guidelines and a model Subsidiary Loan Agreement have been agreed upon between the Borrower/Recipient and the Fund.
Schedule 3

Special Covenants

(a) In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the IFAD Loan Account, the Grant Account and the Trust Loan Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. The Borrower/Recipient shall ensure that no later than one year from the date of entry into force of this Agreement the Cabinet of Ministers shall adopt a resolution to allow the importing of highly productive new varieties of plants and rootstock including varieties and rootstock not yet listed in the Official Catalogue of Authorized Planting Materials in order to avoid lengthy trial periods before license for commercial use. The resolution shall allow the propagation of the new varieties and rootstock and unrestricted distribution of the propagated plants within the Project Area.

2. The Borrower/Recipient shall ensure that all Subsidiary Loans shall be disbursed from and repaid to a dedicated RRA Subsidiary Loan Account operated by the RRA.

3. At all times during the Project Implementation Period the Borrower/Recipient shall ensure that all civil works, equipment and services imported for the purposes of the Project shall be exempted from any custom duties or taxes.

(b) If at any time until the twentieth anniversary of the date of entry into force of this Agreement the outstanding balance of the proceeds of the Financing extended to Project beneficiaries under category V(a), V(b) or V(c) of Schedule 2 has for a sustained period of 18 months or longer remained below 70% of the total amount of Financing extended in the form of the Subsidiary Loans described in paragraph 8 of Schedule 1, thus implying that a balance of 30% or more of such Financing has remained unutilized, the Fund may (a) partially cancel the remaining undisbursed amount of the Financing up to a maximum of 50% of the unutilized balance; or (b) accelerate the maturity of an amount not exceeding 50% of the unutilized balance in accordance with section 12.05 of the General Conditions.
## Logical framework

<table>
<thead>
<tr>
<th>Results Hierarchy</th>
<th>Indicators</th>
<th>Means of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOAL</strong></td>
<td>Improved living standards for the rural population in the project area.</td>
<td>• 10 per cent reduction in the prevalence of malnutrition for children for target population (RIMS mandatory impact indicator) by PY6 in the Project Area.</td>
<td>• Government: FBS, other public socio-economic surveys and statistics, health welfare surveys; UNICEF Multiple Indicators Cluster Survey (MICS); World Bank LSMS; Project M&amp;E/PIM; Project completion report.</td>
</tr>
<tr>
<td><strong>DEVELOPMENT OBJECTIVE</strong></td>
<td>Increased incomes and assets generated by small-scale producers, processors and service providers within the horticultural subsector.</td>
<td>• Increase in value in household asset ownership for target population participating in project resulting from investments into horticultural production from USD 15,000/HH to USD 18,000/HH by PY3 and to USD 21,000/HH by PY6 (RIMS mandatory impact indicator); • Increase in income for target population households participating in the project resulting from investments into horticultural production from USD 1,500 to USD 1,800 by PY6; • 2,000 employment opportunities (50% women, 50% men) provided annually (RIMS 2nd level) by PY6.</td>
<td>• Baseline and follow up surveys; Project M&amp;E/PIM; Agrofirm records.</td>
</tr>
<tr>
<td><strong>OUTCOME 1</strong></td>
<td>Viable horticultural subsector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets created.</td>
<td>• 390 households adopting recommended technologies (RIMS 2nd level) by PY6; • 600 ha of land put under production of horticultural high value produce with recommended technologies by PY6; • 30% increase in volume/value of horticultural produce handled by Agrofirms sold on export markets by PY6; • Decrease in volume/value of wastage of produce by farms among target population from USD 6 million to USD 4 million PY6; • Increase in number of functioning market, storage, processing facilities with 3 by PY3 and 20 by PY6 (RIMS 2nd level).</td>
<td>• Baseline and follow up surveys; Market studies; Government forestry/agricultural statistics; Household interviews; Agrofirms’ financial statements; Records from Agrofirms and nurseries.</td>
</tr>
</tbody>
</table>

### Output 1
- Central Nursery supported and endowed with capacity to propagate modern varieties and rootstock for sales to Agrofirms and beneficiaries.
  - Central Nursery is grafting first plants by PY2;
  - Plants purchased by Agrofirms and beneficiaries from Central Nursery in an amount sufficient for establishing 300 ha of orchards by PY6.
  - Records from Central Nursery and Agrofirms;
  - Project M&E/PIM.

### Output 2
- Agrofirms identified and strengthened for providing services to small horticulture clients, contract farming, technology transfer, produce handling and marketing support.
  - 15 Agrofirms supported by PY6.
  - Project M&E/PIM.
## Output 3

Training in modern farming methods, marketing, professional skills and entrepreneurship provided.

- 450 people (30% women, 70% men) trained in business and entrepreneurship (RIMS 1st level) by PY5;
- 900 people (30% women, 70% men) trained in crop production practices and technologies (RIMS 1st level) by PY5;
- 450 people (30% women, 70% men) trained in post-production, processing and marketing (RIMS 1st level) by PY5.

### OUTCOME 2

**Investments by producers, processors and service providers into productive assets in horticultural value chain increased.**

- Value of gross loan portfolio (RIMS 1st level) at USD 11 million by PY 6;
- Portfolio at risk (RIMS 1st level) kept at below 10%;
- Improved access of the poor to financial Services (RIMS 2nd level);
- 700 active borrowers (30% women, 70% men) by type of service (RIMS 1st level) by PY6.

**Project M&E Database.**

### OUTCOME 3

**Farming efficiency and mobility of productive assets and produce improved.**

- Likelihood of sustainability of the roads constructed/rehabilitated (RIMS 2nd level);
- 20% increase in volume of water saved (in m³);
- 1 000 ha of land improved through water conservation methods (RIMS 2nd level);
- 8 000 HH reached by PY6.

**Project M&E Database.**

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### Output 1

**Refinancing Facility established to provide refinancing capital to PFIs for on lending to the horticultural value chain.**

- Refinancing Facility operating by PY2;
- 4 PFIs participating in the project (RIMS 1st level) by PY4.

**PFI records and transaction audits.**

### Output 2

**Financially viable PFIs supported providing a range of financial services to small horticulture clients.**

- 100 business plans used as collateral for loans by PY4;
- 50 of staff (30% women, 70% men) of service providers trained (RIMS 1st level) by PY2.

**Project M&E Database.**

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### Output 1

**Rural infrastructure for modern irrigation methods and techniques at farm level constructed.**

- 1 000 ha land under irrigation schemes constructed and/or rehabilitated (RIMS 1st level) by PY4;
- 20 other infrastructure constructed (RIMS 1st level) by PY6.

**M&E and impact assessments.**

### Output 2

**Training in infrastructure management provided.**

- 100 people (30% women, 70% men) trained in infrastructure management (RIMS 1st level) by PY4;
- 100 people (30% women, 70% men) trained in NRM (RIMS 1st level) by PY 4.

**Project M&E Database.**