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Investing in rural people

Republic of Uzbekistan

Dairy Value Chains Development Project  
(DVCDP)

Negotiated financing agreement

Executive Board — 115<sup>th</sup> Session  
Rome, 15-16 September 2015

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For: Information

## Negotiated financing agreement:

### "Dairy Value Chains Development Project (DVCDP)"

(Negotiations concluded on 10<sup>th</sup> September 2015)

Loan number: \_\_\_\_\_

Grant number: \_\_\_\_\_

Project Title: Dairy Value Chains Development Project (the "Project")

The Republic of Uzbekistan (the "Borrower/Recipient")

and

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

(each a "Party" and collectively the "Parties")

agree as follows:

#### Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, 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.
3. The Fund shall provide a loan (the "Loan") and a grant (the "Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

#### Section B

4.
  - A. The amount of the Loan is seventeen million Special Drawing Rights (SDR 17 000 000).
  - B. The amount of the Grant is five hundred thousand Special Drawing Rights (SDR 500 000).
5. The Loan shall be extended on Blend Terms, as defined in Paragraph 15(a)(iii) of the Policies and Criteria for IFAD Financing dated 14 February 2013.
6. The Loan Service Payment Currency for the Loan shall be US dollar.
7. The first day of the applicable Fiscal Year shall be 1 January.
8. Payments of principal, interest and service charge of the Loan shall be payable on each 15 May and 15 November.

9. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Fund's Project Procurement Guidelines dated September 2010, as may be amended from time to time by the Fund.

10. The Borrower/Recipient shall provide to the Project counterpart financing in sufficient amount to cover taxes and social charges associated with the implementation of the Project.

#### Section C

11. The Lead Project Agency shall be the Ministry of Agriculture and Water Resources of the Borrower/Recipient (the "MAWR").

12. The following is designated as an additional Project Party: the Rural Restructuring Agency (the "RRA").

13. 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

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

(a) the Project Management Office (the "PMO") as referred to in Schedule 1 to this Agreement shall have been duly staffed;

(b) an accounting software acceptable to the Fund shall be configured for the use with the Project; and

(c) the Project Implementation Manual (the "PIM") as referred to in Schedule 1 to this Agreement shall have been duly approved.

15. The following is designated as additional specific conditions precedent to withdrawal under category 5 as referred to in Schedule 2: at least one (1) Subsidiary Loan Agreement (the "SLA") as referred to in Schedule 1 to this Agreement shall have been duly concluded and executed.

16. 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 Mustaqillik Square  
Tashkent 100008, Republic of Uzbekistan

For the Fund:

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

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

REPUBLIC OF UZBEKISTAN

\_\_\_\_\_  
Authorized Representative  
Title

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

## Schedule 1

### Project Description and Implementation Arrangements

#### I. Project Description

1. Target Population. The Project shall benefit (i) dehkan farmers; (ii) private farmers producing milk and forage; (iii) local entrepreneurs holding small-to-medium dairy processing units; (iv) provincial dairy sector input suppliers and service providers; (v) national scientific and academic institute staff; and (vi) the rural unemployed for whom the Project is expected to create employment opportunities at farm and processing levels of targeted dairy value chains. The Project Area shall be Jizzakh and Kashkadarya provinces.

2. Goal. The goal of the Project shall be to improve the livelihood of rural people in the Project Area.

3. Objectives. The objective of the Project shall be to increase the productivity, competitiveness and market access of domestic dairy products.

4. Components. The Project shall consist of three (3) components: (i) Dairy Value Chain Capacity Building and Innovation; (ii) Dairy Production and Processing Development Financing; and (iii) Project Management.

4.1. Component 1: Dairy Value Chain Capacity Building and Innovation  
This Component aims to provide support to the Target Population in order to establish their capacity for sustainable, efficient milk production, processing and marketing. Component 1 is composed of three (3) sub-components as follows:

Sub-component 1.1: Dairy Value Chain Stakeholder Capacity Building. This sub-component, in coordination with the PMO supported by national and international Technical Assistance (TA), shall deliver tailored technical and business management training to (i) dehkan farmers, particularly female livestock owners and managers; (ii) private farmers; (iii) input supply and service providers; and (iv) dairy agroprocessors.

Sub-component 1.2: Technology Innovation. This sub-component shall support the development of innovative, demand-driven milk production and processing and food safety technologies through participatory on-farm/factory applied research and technology demonstration, delivered by national academic/research institutions, private companies or non-governmental organizations (NGOs).

Sub-component 1.3: Forum for Private-Public Collaboration (FPPC). This sub-component shall support the establishment of an iterative process of consultation and permanent learning and partnership through Provincial Fora. The FPPC shall involve male and female stakeholders of all relevant private and public actors engaged in the dairy sector in each targeted oblasts.

4.2. Component 2: Dairy Production and Processing Development Financing  
This Component aims at increasing profitably the productivity and efficiency along targeted smallholder-inclusive dairy value chains, and enabling Participating Financial Institutions (the "PFIs") to increase their investment in profitable dairy value chains in the Project Area. It is composed of two (2) sub-components as follows:

Sub-component 2.1: Dairy Value Chain Investment Plans (the "IPs"). The Project shall recruit business advisory service provider(s), who, with the PMO and FPPC support, shall invite dairy value chain "Lead Enterprise" (the "LE") processors to submit competitive proposals for dairy value chain development. Following a criteria-based evaluation of those LE proposals, the service providers shall prepare IPs for the selected dairy value chains and assist LEs and associated value chain participants to prepare bankable investment proposals at key points along the value chain.

Sub-component 2.2: Dairy Value Chain Investment Fund. This sub-component shall co-finance bankable IPs identified in sub-component 2.1 above through a competitive and criteria-based selection mechanism. It will include support for Borrower/Recipient's policy for veterinary service privatization and will operate through an investment fund with four dedicated financing windows (namely, Dehkan Farms, Private Farms, Dairy Processors and Private Input Suppliers and Service Providers). Under this sub-component, at least twenty percent (20%) of the costs shall be financed by contributions made by beneficiaries. PFIs shall provide parallel financing in the amount of at least twenty percent (20%) of the costs.

#### 4.3. Component 3: Project Management

This Component shall support Project management as outlined in Section II below.

## II. Implementation Arrangements

5. Lead Project Agency. The MAWR shall have the overall responsibility for the execution of the Project.

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

7. PMO. A PMO shall be in place for the day-to-day Project implementation and coordination, including, inter alia, (i) Project planning; (ii) financial administration, including budgeting, procurement, accounting, disbursement and internal audit; (iii) monitoring and evaluation; and (iv) providing, as appropriate, implementation support to the Project's implementing partners and PFIs, Project-supported LEs and other entities active in the dairy value chain and, ultimately, to the Project's primary target groups of dehkan and private dairy farmers. The PMO shall be headed by a Project Director and comprise in addition a Chief Accountant, a Procurement Officer, a Dairy Value Chain Coordinator, a Rural Finance Project Coordinator, a Monitoring and Evaluation Officer, a Gender Specialist, an Administrative Assistant/Translator and a Driver. The Project Director and other professional staff of the PMO shall be contracted, through procedures acceptable to the Fund, on an open, transparent and competitive basis and have qualifications and experience commensurate with their duties. The recruitment and removal of the Project Director or the chief accountant shall be subject to the concurrence between the Fund and the Borrower/Recipient.

8. Project Director. The Project Director, as the Head of PMO, shall work full-time for the Project, and shall have no additional responsibilities within any other government agency. The major responsibilities of the Project Director shall be to ensure that Project Parties deliver activities in line with the Project approach, operating schedules and procedures. The Project Director shall be provided with adequate executive authorities and accountabilities through a Decision of the RRA.

9. The PMO shall coordinate the work of competitively selected private service providers and PFIs who shall interact with value chain actors on planning and financial matters.
10. Subsidiary Loan Agreements (the "SLAs"): SLAs shall be concluded between the Borrower/Recipient, the RRA and PFIs providing the terms, conditions and procedures for PFIs' participation in the Project, including investment guidelines and operational guidance specifying targeted sub-sectoral allocations and targeted beneficiaries. The Fund's no-objection shall be sought for SLAs.
11. Project Implementation Manual (the "PIM"). The PMO shall prepare a draft PIM 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 to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.
12. Mid-Term Review (the "MTR"). An MTR shall be conducted at the end of the third Project Year, 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 RRA and the Fund.

## Schedule 2

## Allocation Table

Allocation of the Loan and Grant Proceeds.

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

| Category   | Loan Amount<br>Allocated<br>(SDR) | Grant Amount<br>Allocated<br>(SDR) | % of Expenditures to<br>be financed |
|--|-----------------------------------|------------------------------------|-------------------------------------|
| 1. Equipment, Goods and Vehicles                 | 38 000                            |                                    | See notes below                     |
| 2. Consultancies                                 | 285 000                           | 278 000                            |                                     |
| 3. Training                                      | 285 000                           | 222 000                            |                                     |
| 4. Goods, Services and Inputs                    | 285 000                           |                                    |                                     |
| 5. Credit  |                                   |                                    |                                     |
| a) Dekhan Farmer Finance                         | 3 585 000                         |                                    |                                     |
| b) Private Farmer Finance                        | 6 412 000                         |                                    |                                     |
| c) Private Service and Input<br>Supplier Finance | 1 622 000                         |                                    |                                     |
| d) Dairy Processor Finance                       | 3 840 000                         |                                    |                                     |
| 6. Operational Costs                             | 648 000                           |                                    |                                     |
| <b>Total</b>                                     | <b>17 000 000</b>                 | <b>500 000</b>                     |                                     |

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

Expenditures under Categories 1 and 2 shall be financed 100% by the Financing, excluding taxes which shall be financed by counterpart financing.

Expenditures under Category 3 shall be financed 100% by the Financing, excluding taxes

Category 4 includes expenditures on Goods, Services, and Inputs for the sub-component on demand driven technology development. These shall be financed 100% by the Loan excluding taxes.

Category 5 includes Dairy Value Chain Financing channelled through PFIs. Beneficiaries shall co-finance 20% of total expenditures under this category, including taxes. PFIs shall provide parallel financing of 20% of total expenditures under this category, including taxes.

Category 6 includes salaries of full time Project staff and office expenses of the PMO.