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Investing in rural people

Republic of Uzbekistan

Agriculture Diversification and Modernization  
Project

Addendum

Executive Board — 122<sup>nd</sup> Session  
Rome, 11-12 December 2017

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For: Approval

# Agriculture Diversification and Modernization Project

## Addendum

The attention of the Executive Board is drawn to the following addenda and modifications to the President's report on the Agriculture Diversification and Modernization Project (EB 2017/122/R.27). For ease of reference, the changes to the text of the report are shown in boldface, while underscore indicates deleted text.

Page iv, Financing summary

|                                       |                          |
|---------------------------------------|--------------------------|
| <b>Total project cost:</b>            | <b>US\$159.6 million</b> |
| <b>Contribution of borrower:</b>      | <b>US\$27.0 million</b>  |
| <b>Contribution of beneficiaries:</b> | <b>US\$19.5 million</b>  |

Page 2, paragraph 8

The paragraph should read:

"Beneficiaries. The project is expected to directly reach 75,000 households and approximately 21,000 indirect beneficiaries. These include 11,000 households benefitting of loans and training, and approximately 54,000 incremental suppliers of the leading entities benefitting from project loans. In addition, 10,000 full-time jobs will be created by the leading entities' incremental economic activities. \_\_\_ In its first phase, the project is expected to reach out directly to 30,000 households, and about 10,000 indirect beneficiaries. These include 5,000, households benefitting from loans and training, plus approximately 20,000 incremental suppliers of the leading entities (LEs) benefitting from ADMP loans, and some 4,000 full time equivalent incremental jobs created by the LEs' incremental economic activities. "

Page 3, paragraph 11

The last sentence should read:

"Three activities will be implemented to create an enabling business environment for agribusinesses: (i) value chain mapping exercises based on rapid market assessment results for small ruminants, fisheries, sericulture and honey prepared during the design; (ii) rapid market assessments of additional sub-sectors; and (iii) preparation of value chain development plans, which will be roadmaps for LEs."

Page 3, paragraph 12

The paragraph should read:

"Component 2: Inclusive rural finance. The outcome of this component will be increased productivity and efficiency among targeted smallholders, enabling value chain actors to increase their investments in profitable value chains\_\_\_\_. The project will support the State Fund for Support of the Development of Entrepreneurial Activity in providing credit guarantees to smallholders and rural entrepreneurs who lack acceptable collateral by offering partial coverage of lending risks. It will also work with banks interested in lending to farmers in the target regions (and that meet the project's eligibility criteria) to facilitate farmers' and agricultural businesses' access to financing. Finally, this component will establish a \_\_\_ credit window for youth who lack access to affordable and flexible lending products. Banks will be free to set their own interest rates, allowing them to serve project

beneficiaries in a sustainable manner. These banks will be selected through a competitive process to ensure that those offering the best conditions are chosen. The outcome will be measured by the following indicator: PFIs' portfolio risk is below 5 per cent."

Page 3, paragraph 13

The first sentence should read:

"This component aims to remove bottlenecks to a reliable irrigation water supply, which inhibit \_\_\_ Dekhans and small \_\_\_ farmers from enhancing the diversification and efficiency of agriculture in the selected value chains."

Page 3, paragraph 14

The second sentence should read:

"This approach will focus on analysing each step of the value chain and investing in those \_\_\_ needs that have the potential to improve the productivity, profitability and competitiveness of value chain players, especially Dekhan farmers."

Page 4, paragraph 15

The fourth sentence should read:

"The project will also promote coordination with projects funded by \_\_\_ other donors, especially those managed by the Rural Restructuring Agency (RRA) – based on smooth information flow and open dialogue – in order to ensure synergies and avoid duplication of efforts. "

Page 4, paragraph 16

The paragraph should read:

"The Ministry of Agriculture and Water Resources will have overall responsibility for managing the project on behalf of the Government. Daily oversight will rest with a project management unit (PMU) \_\_\_ under RRA, a state entity within the Ministry of Agriculture and Water Resources. Overall management oversight will rest with an inter-agency council for cooperation with international financial institutions, foreign governments and donor countries implementing large-scale investment projects. \_\_\_ "

Page 4, paragraph 17

The paragraph should read:

"The PMU will be led by a project manager and \_\_\_ be composed of: a chief accountant; procurement officer; \_\_\_ rural finance/youth officer; administrative assistant\_\_\_; and driver. The project will utilize legal staff from the Dairy Value Chains Development Project. In addition, the project will rely on the services of national and international specialists in various fields. A project implementation team will be established in one of the project regions in year 1 (the region will be determined by the Government, but will most likely be Namangan). The team will comprise a: regional coordinator (value chain and business specialist); three rural finance and youth officers; engineer; \_\_\_ monitoring and evaluation (M&E) specialist and a driver. Regional coordinators will be recruited to coordinate project activities in the remaining regions. The project implementation team will be responsible for daily implementation of all aspects of the project, except for financial administration and procurement, which will be managed by the PMU within RRA."

## Page 6, paragraph 28

The paragraph should read:

“Project costs. The total investment and incremental recurrent project costs, including physical and price contingencies, are estimated at approximately US\$159.6 million (UZS 1,291 billion). Physical and price contingencies are 1 per cent of the total project cost. This is largely due to the fact that investments associated with rural finance (lump sum with no contingency) comprise approximately 88 per cent of the total project costs. The foreign-exchange component is estimated at US\$112.4 million or 70 per cent of the total project cost. This is due to the fact that most of the project financing is in the form of credit lines which will be used by the beneficiaries to purchase assets for local production and also for financing the export of their produce. \_\_\_The Government’s contribution, mainly in the form of taxes, represents 17 per cent of the total cost, or US\$27.0 million. The project management cost is approximately 1.4 per cent of the total project cost (US\$2.2 million). Table 1 provides a summary of the project financing plan by component. ”

## Page 7, paragraph 29

The paragraph should read:

“The project will be financed through multiple sources, including an IFAD loan, an IFAD grant, the Government, beneficiaries and PFIs. The IFAD loan from the 2016-2018 performance-based allocation system (PBAS) totalling US\$46.2 million will cover 29 per cent of project costs, contributing to: 37 per cent of the inclusive value chains development component (component 1, totalling US\$10.8 million); 28 per cent of the inclusive rural finance component (component 2, US\$141.8 million); 21 per cent of the climate-resilient rural infrastructure component (component 3, US\$5.3 million); and 62 per cent of the project management component (component 4, US\$2.2 million). In addition, IFAD will provide a grant of US\$300,000 to cover part of the international technical assistance and training provided under component 1, and technical assistance to Ministry of Agriculture and Water Resources under component 2. The Government will waive all taxes related to project expenditures, including all those associated with goods and services procured with the loans generated by the project’s funded credit lines, and the social fund associated with personnel. \_\_\_ The Government’s contribution, mainly in the form of taxes, represents 17 per cent of the total cost or US\$27 million. PFIs are expected to contribute US\$19.5 million to match the funds made available by the project. Beneficiaries will contribute at least US\$19.5 million. The financing gap of US\$47 million may be sourced by subsequent PBAS cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval), or by cofinancing identified during implementation.”

Page 7, table 1 should be replaced with the table below

| Component  | IFAD loan     |             | IFAD grant |            | Financing gap |             | Government    |             | PFIs          |             | Beneficiaries |             | Total          |              |
|--|---------------|-------------|------------|------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|----------------|--------------|
|  | Amount        | %           | Amount     | %          | Amount        | %           | Amount        | %           | Amount        | %           | Amount        | %           | Amount         | %            |
| <b>1. Inclusive Value Chains Development</b>                   |               |             |            |            |               |             |               |             |               |             |               |             |                |              |
| 1.1 Enabling business environment for inclusive value chains   | 52            | 14.8        | 82         | 23.3       | 159           | 45.2        | 59            | 16.7        | -             | -           | -             | -           | 352            | 0.2          |
| 1.2 Capacity development for value chain stakeholders          | 3 918         | 37.4        | 125        | 1.2        | 4 519         | 43.1        | 1 911         | 18.2        | -             | -           | 7             | 0.1         | 10 480         | 6.6          |
| Subtotal 1. Inclusive value chain development                  | 3 970         | 36.7        | 207        | 1.9        | 4 678         | 43.2        | 1 969         | 18.2        | -             | -           | 7             | 0.1         | 10 831         | 0.1          |
| <b>2. Inclusive rural finance</b>                              |               |             |            |            |               |             |               |             |               |             |               |             |                |              |
| 2.1 Rural guarantee facility                                   | 1 000         | 10.1        | -          | -          | 6 935         | 69.8        | 2 000         | 20.1        | -             | -           | -             | -           | 9 935          | 6.2          |
| 2.2 Agriculture diversification and modernization credit lines | 33 712        | 28.3        | 93         | 0.1        | 26 538        | 22.3        | 19 869        | 16.7        | 19 543        | 16.4        | 19 466        | 16.3        | 119 214        | 74.7         |
| 2.3 Credit line for youth                                      | 5 000         | 41.7        | -          | -          | 5 000         | 41.7        | 2 000         | 16.7        | -             | -           | -             | -           | 12 000         | 7.5          |
| Subtotal 2. Inclusive rural finance                            | 39 712        | 28.1        | 93         | 0.1        | 38 473        | 27.3        | 23 869        | 16.9        | 19 543        | 13.8        | 19 466        | 13.8        | 141 149        | 88.5         |
| <b>3. Climate-resilient rural infrastructure</b>               |               |             |            |            |               |             |               |             |               |             |               |             |                |              |
| 3.1 Modernization of irrigation systems                        | 1 109         | 21.2        | -          | -          | 3 260         | 62.2        | 874           | 16.7        | -             | -           | -             | -           | 5 243          | 3.3          |
| 3.2 Increasing capacities of WCAs                              | 37            | 37.3        | -          | -          | 46            | 46.0        | 17            | 16.7        | -             | -           | -             | -           | 100            | 0.1          |
| Subtotal 3. Climate-resilient rural infrastructure             | 1 146         | 21.5        | -          | -          | 3 305         | 61.9        | 890           | 16.7        | -             | -           | -             | -           | 5 342          | 3.3          |
| <b>4. Project management</b>                                   |               |             |            |            |               |             |               |             |               |             |               |             |                |              |
| 4.1 Project management unit                                    | 800           | 62.9        | -          | -          | 275           | 21.6        | 198           | 15.5        | -             | -           | -             | -           | 1 273          | 0.8          |
| 4.2 Project implementation team                                | 572           | 59.9        | -          | -          | 269           | 28.2        | 114           | 11.9        | -             | -           | -             | -           | 955            | 0.6          |
| Subtotal 4. Project management                                 | 1 372         | 61.6        | -          | -          | 544           | 24.4        | 312           | 14.0        | -             | -           | -             | -           | 2 228          | 1.4          |
| <b>Total</b>   | <b>46 200</b> | <b>29.0</b> | <b>300</b> | <b>0.2</b> | <b>47 000</b> | <b>29.1</b> | <b>27 041</b> | <b>16.9</b> | <b>19 543</b> | <b>12.2</b> | <b>19 466</b> | <b>12.2</b> | <b>159 550</b> | <b>100.0</b> |

Page 8, table 2 should be replaced with the table below

| Category   | IFAD loan     |             | IFAD grant |            | Financing gap |           | Government    |             | PFIs          |             | Beneficiaries |             | Total          |              |
|--|---------------|-------------|------------|------------|---------------|-----------|---------------|-------------|---------------|-------------|---------------|-------------|----------------|--------------|
|  | Amount        | %           | Amount     | %          | Amount        | %         | Amount        | %           | Amount        | %           | Amount        | %           | Amount         | %            |
| 1. Equipment and goods                           | 2 448         | 39.4        | -          | -          | 2 718         | 43.8      | 1 035         | 16.7        | -             | -           | 7             | 0.1         | 6 208          | 3.9          |
| 2. Civil works                                   | 1 513         | 26.0        |            |            | 3 192         | 54.8      | 1 123         | 19.3        | -             | -           | -             | -           | 5 828          | 3.7          |
| 3. Vehicles                                      | 82            | 75.0        |            |            |               |           | 27            | 25.0        |               |             |               |             | 109            | 0.1          |
| 4. Technical assistance                          |               |             |            |            |               |           |               |             |               |             |               |             |                |              |
| International TA                                 | 494           | 43.0        | 46         | 4.0        | 418           | 36.4      | 192           | 16.7        |               |             | -             | -           | 1 150          | 0.7          |
| National TA                                      | 600           | 20.5        | 254        | 8.7        | 1 486         | 50.8      | 500           | 17.1        | 85            | 2.9         |               |             | 2 925          | 1.8          |
| <b>Subtotal Technical Assistance and Studies</b> |               |             |            |            |               |           |               |             |               |             |               |             |                |              |
|  | 1 094         | 26.8        | 300        | 7.4        | 1 904         | 46.7      | 692           | 17.0        | 85            | 2.1         |               |             | 4 075          | 2.6          |
| 5. Training                                      | 251           | 36.8        |            |            | 317           | 46.5      | 114           | 16.7        |               |             |               |             | 682            | 0.4          |
| 6. Inclusive value chain financing               |               |             |            |            |               |           |               |             |               |             |               |             |                |              |
| Guarantee Finance                                |               |             |            |            |               |           |               |             |               |             |               |             |                |              |
| Credit Line for AMD                              | 1 000         | 10.1        |            |            | 6 935         | 69.8      | 2 000         | 20.1        |               |             |               |             | 9 935          | 6.2          |
| Credit Line for Youth                            | 33 712        | 28.4        |            |            | 26 444        | 22.2      | 19 815        | 16.7        | 19 458        | 16.4        | 19 458        | 16.4        | 118 888        | 74.5         |
| Subtotal Inclusive Value Chain Financing         | 5 000         | 41.7        |            |            | 5 000         | 41.7      | 2 000         | 16.7        |               |             |               |             | 12 000         | 7.5          |
| <b>Total Investment Costs</b>                    | 39 712        | 28.2        |            |            | 38 379        | 27.3      | 23 815        | 16.9        | 19 458        | 13.8        | 19 458        | 13.8        | 140 823        | 88.3         |
| 7. Salaries                                      | 746           | 68.9        |            |            | 337           | 31.1      |               |             |               |             |               |             | 1 084          | 0.7          |
| Operations & Maintenance                         | 111           | 54.8        |            |            | 58            | 28.6      | 34            | 16.7        |               |             |               |             | 203            | 0.1          |
| Operating Costs                                  | 243           | 45.0        |            |            | 95            | 17.6      | 202           | 37.4        |               |             |               |             | 539            | 0.3          |
| <b>Total Recurrent Costs</b>                     | 1 100         | 60.3        |            |            | 490           | 26.8      | 235           | 12.9        |               |             |               |             | 1 825          | 1.1          |
| <b>Total</b>                                     | <b>46 200</b> | <b>29.0</b> | <b>300</b> | <b>0.2</b> | <b>47 000</b> | <b>29</b> | <b>27 041</b> | <b>16.9</b> | <b>19 543</b> | <b>12.2</b> | <b>19 465</b> | <b>12.2</b> | <b>159 550</b> | <b>100.0</b> |