President’s report

Proposed loan and grant to the Republic of Uzbekistan for the Agriculture Diversification and Modernization Project
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Abbreviations and acronyms

ADB  Asian Development Bank
M&E  monitoring and evaluation
PFI  participating financial institution
PMU  project management unit
RRA  Rural Restructuring Agency
UZS  Uzbek sum
WCA  water consumer association
Republic of Uzbekistan
Agriculture Diversification and Modernization Project

Map of the project area
Republic of Uzbekistan

Agriculture Diversification and Modernization Project

Financing summary

Initiating institution: IFAD
Borrower: Uzbekistan
Executing agency: Rural Restructuring Agency (RRA)
Total project cost: US$159.6 million
Amount of IFAD loan: US$46.2 million
Amount of IFAD grant: US$300,000
Terms of IFAD loan: Blend: 25 years, including a grace period of 5 years starting from the date of approval by the Executive Board, with a fixed interest rate equal to 1.25 per cent per annum and a service charge of 0.75 per cent per annum
Financing gap: US$47 million
Cofinanciers: Beneficiaries, Government and PFI
Contribution of borrower: US$27.0 million
Contribution of beneficiaries: US$19.5 million
Contribution of participating financial institutions (PFIs): US$19.5 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 Agriculture Diversification and Modernization Project, as contained in paragraph 42.

Proposed loan and grant to the Republic of Uzbekistan for the Agriculture Diversification and Modernization Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Uzbekistan is a 447,400 km² landlocked country in Central Asia bordering Kazakhstan, Tajikistan, Kyrgyzstan, Afghanistan and Turkmenistan. It had a population of 31.8 million in 2016, of which approximately 60 per cent is rural. With a per capita gross domestic product of US$2,130 in 2015, Uzbekistan is a lower-middle-income country. Data suggest that its economic growth has been broad based and inclusive.

2. Agriculture provides approximately 25 per cent of the country’s employment and its share of the gross domestic product was estimated at 17.6 per cent in 2014. Approximately 40 per cent of Uzbekistan’s rural population is directly engaged in agriculture-related activities. Food imports meet the country’s growing demand and the population’s enhanced purchasing capacity is increasingly applied to high-value goods, particularly meat and dairy products. In 2015, Uzbekistan’s agricultural imports totalled 11.5 per cent of the country’s total imports (US$1.3 billion) according to the Economist Intelligence Unit.

3. Poverty declined from 27.5 per cent in 2001 to 14 per cent in 2015. This was attributed to rapid economic growth, creation of new small businesses and employment, public investments in education, health and infrastructure, increases in public-sector salaries and increased remittances. In 2015, the poverty rate in rural areas was 17 per cent compared with 11 per cent among the urban population. The country’s low agricultural productivity, high tax burden among the rural population, high dependency within households, regional disparities and lack of formal rural labour markets are drivers of rural poverty. A lack of access to productive assets, infrastructure, energy, land and water, technical and financial services contribute to poverty and limited productivity, especially among rural women and young people. Other vulnerable groups include families with many children, people with disabilities, unemployed people and those with lower education levels.

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

4. Diversification, modernization and import substitution of agricultural production is a government policy priority as stipulated in Presidential Decree No.2460 on agriculture sector reforms and development for 2016-2020, and the Welfare Improvement Strategy (2013-2015). Diversification of products, particularly horticultural crops, livestock and related sub-sectors is expected to enhance rural families’ incomes and reduce the number of low-income households. IFAD’s experience with the value chain approach in the region suggests that private-sector actors are crucial for smallholder producers to participate in value chains. Traders, buyers, aggregators, processors, exporters and other private players shape how
value chains perform. From the viewpoint of smallholder producers (*Dekhan* and small private farmers), conducive partnerships with the private sector present a major opportunity for sustained income generation. The project integrates private-sector operators willing to invest time and resources to increase value chain competitiveness in a way that enhances the benefits for smallholder producers and supports their efforts to strengthen their businesses. This also makes value chains more inclusive of smallholder producers.

5. The project will work with selected value chains, providing holistic and coordinated support to all actors in order to improve their performance. Agribusinesses and other qualified entities will be invited to take the role of leading entity, with a focus on those willing to develop sound business models through productive partnerships with their suppliers. Smallholder producers, who are the project’s primary target group, will be targeted in each selected value chain in order to enhance their inclusiveness and improve their returns from agriculture. The project’s targeting strategy will therefore incorporate the principles of smallholder inclusiveness.

II. Project description

A. Project area and target group

6. Geographical target. The project will be implemented in the Fergana Valley in the regions of Andijan, Fergana and Namangan. The country strategic opportunities programme highlights the challenges experienced in the Fergana Valley due to high population density; Namangan registers the second lowest per capita gross domestic product in the country. Women make up half the population, with women-headed households comprising 18 per cent of the total. Approximately 20 per cent of youth are unemployed.

7. Target groups. The project’s main target groups are: (i) rural low-income households on *Dekhan* farms, who are striving to increase income from agriculture through active participation in project-supported value chains; (ii) small private horticulture and livestock farmers with a farm size of up to 5 hectares; (iii) agribusinesses with existing or potential linkages with groups (i) and (ii); and (iv) rural youth. Special attention will be paid to ensure the participation of women-headed *Dekhan* and private farming households, and young women.

8. 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.

B. Project development objective

9. The project’s goal is to improve the incomes and livelihoods of rural people in the target area. Its development objective is to increase the inclusiveness and profitability of selected value chains through enhanced productivity, market access and improved natural resource management.
C. **Components/outcomes**

10. The project will have three interrelated components; a fourth component will support project management and implementation. The components are: (i) inclusive value chain development; (ii) inclusive rural finance; (iii) climate-resilient rural infrastructure; and (iv) project management.

11. **Component 1: Inclusive value chain development.** The outcome of this component will be enhanced capacity for sustainable and efficient performance of targeted stakeholders, and an enabling business environment for agribusinesses in selected value chains, with strong backward linkages with smallholder producers. This component aims to strengthen the capacities of farmers and other stakeholders in targeted value chains. 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.

12. **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.

13. **Component 3: Climate-resilient rural infrastructure.** 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. This will be achieved through modernization of the inter-farm irrigation network operated by water consumer associations (WCAs). It will enable targeted farmers’ groups to: (i) diversify agricultural production from low-value to high-value crops; (ii) increase land productivity; (iii) address the challenges of drought due to climate change; and (iv) increase the capacity of WCAs and the Basin Irrigation System Administration in efficient water resource management and irrigation system operation and maintenance. The outcome of this component will be improved farmland productivity resulting from modernized irrigation infrastructure, as measured by the following indicator: at least 1,000 farmers report improved supply of irrigation water and increased productivity.

III. **Project implementation**

A. **Approach**

14. The project will promote a demand-driven value chain approach. 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.

15. The project will promote the upgrading of selected value chains and will include actions taken by producers, processors, input suppliers and traders at various points in the value chain to increase future productive capacity and
competitiveness. The leading entities with successful value chain development plans prepared through component 1 will be considered for receiving loans from PFIs through component 2. While loan applications will be assessed individually, the project will provide support to their business operations through the provision of technical assistance and training to farmer suppliers and other actors, and access to improved infrastructure under component 3 to enhance value chains’ competitiveness and efficiency. The project will also promote coordination with projects funded by other donors, especially those managed by the Rural Restructuring Agency (RR) – based on smooth information flow and open dialogue – in order to ensure synergies and avoid duplication of efforts.

B. Organizational framework

16. 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 the 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. This council will provide guidance and direction to the project implementing agency; the project manager will act as secretary to the council.

17. The PMU will be led by a project manager and be composed of: a chief accountant; procurement officer; rural finance/youth officer; administrative assistant/translator; 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; a 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.

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

18. The project results framework will form the basis for the results-based M&E system, including performance monitoring and impact assessment. The PMU/M&E officer will be responsible for all internal M&E of the project. The PMU will submit progress reports in English to the Ministry of Agriculture and Water Resources, the Ministry of Finance and IFAD. A mid-term review will be carried out towards the end of the project’s third year. During the final year of project implementation, as part of the preparation of the project completion report and impact assessment required by IFAD, the M&E data collected over the project implementation period will be used in a thorough assessment of project achievements. This assessment will focus on changes in beneficiaries’ livelihoods as a result of project activities, and the sharing of lessons learned and experiences.

19. Learning and knowledge management. To ensure that the experiences gained are captured, comprehensive provisions have been made for M&E. The project’s knowledge management programme will be an essential tool for meeting project objectives. Two approaches will be used: (i) a knowledge management programme for supporting within- and between-project learning; and (ii) support for a broader knowledge management programme aimed at informing government decision makers and influencing policies. The project will also support efforts to broaden information dissemination through: development of farmer networks (to share knowledge on successful adaptation); farmer-to-farmer extension approaches
(to facilitate technology transfer); development of private technical services (e.g. private veterinarians); and strengthening linkages among universities, research and development institutions, and farmer networks to ensure the relevance of the technology.

D. Financial management, procurement and governance

20. In accordance with IFAD guidelines, a financial management assessment was undertaken. The inherent risk was assessed as high. In order to mitigate this risk, a stand-alone PMU will be established within RRA with separate financial management arrangements. This system is already in place for ongoing IFAD projects and some World Bank projects, and the quality of financial management has been largely assessed as satisfactory. As a result, the new project will be able to draw on the capacities already established and working satisfactorily as part of the ongoing IFAD projects. The ongoing IFAD project, the Horticultural Support Project, has also shown strong disbursement rates with regards to credit lines.

21. Financial Management. The PMU, with support from the RRA finance unit, will be responsible for the financial management of the project, including budgeting, accounting, preparing withdrawal applications, monitoring implementing partners, preparing consolidated financial reports and internal and external audit arrangements.

22. Accounting and financial reporting arrangements. The accounting, financial reporting and audit arrangements have already been established under the ongoing IFAD projects. Accordingly, all project transactions will be recorded in customized accounting and financial software on a cash basis in accordance with International Public Sector Accounting Standards, and quarterly financial reports will be prepared in formats agreed with IFAD. The project’s consolidated financial statements will be audited annually by an independent audit firm in accordance with internationally accepted auditing standards and IFAD’s Guidelines on Project Audits.

23. Disbursement arrangements and flow of funds. IFAD financing will be disbursed in accordance with IFAD disbursement procedures to be specified in the programme implementation manual and letter to the borrower. Two separate designated accounts denominated in United States dollars (US$) will be opened for the IFAD loan and grant in a commercial bank, and will not be mingled with other funds. From the designated accounts, the funds will flow to the project account denominated in Uzbek sum (UZS) to finance eligible project expenditures. The project loan account, funds (US$ or UZS) will be transferred to incremental credit accounts (one account in US$ and one in UZS) maintained by the PFIs in the form of credit to finance sub-projects undertaken by beneficiaries. Transfers to the rural guarantee facility will be made using the direct-payment method to a separate account maintained in US$ in a commercial bank, and IFAD funds will not be mingled with other funds. Specific conditions for disbursement will be included in the financing agreement to ensure that proper safeguards are in place before transferring any funds to the PFIs and the Guarantee Facility and remedies will be applied in case of non-compliance.

24. Procurement. As part of the detailed project design, IFAD assessed the public procurement systems and institutions in Uzbekistan for the purpose of identifying an entity to handle procurement. Despite recent efforts to modernize and strengthen Uzbekistan’s public procurement system, there are critical gaps in compatibility with IFAD’s procurement guidelines and procedures. However, the capacity of RRA to conduct procurement was found to be in line with IFAD procurement regulations and procedures.

25. Anti-corruption policy. IFAD applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in all projects financed through its loans and grants. IFAD’s anticorruption policy and whistleblowing procedures will be included in the project implementation manual.
E. **Supervision**

26. **Supervision and implementation support.** A supervision plan covering the period until the mid-term review will be agreed at project start-up. The project will be supervised directly by IFAD. This will include annual risk-based financial management supervision by a financial management specialist and operational reviews covering a random sample of project activities, to be carried out in project years 2 and 4 by independent auditors and under terms of reference acceptable to IFAD. Details of financial management supervision are provided in appendix 7 of the project design document. The timely completion of a baseline survey in line with the project’s outcome and output indicators is fundamental to effective project supervision.

IV. **Project costs, financing, and benefits**

A. **Project costs**

27. The main assumptions underlying the derivation of project costs, estimated project costs and financing plan are that: (i) project costs are based on September 2017 prices; (ii) the project will be financed over a six-year period; and (iii) the official annual inflation rate of 5.7 per cent is taken as constant for the duration of the project period (2018-2023). The international inflation rate is set at 2 per cent per year in line with medium- to long-term projections of the Economist Intelligence Unit and the World Bank Group (Commodity Market Outlook, January 2017) for the United States dollars. Further to the devaluation of the UZS on 5 September 2017, the base exchange rate for this analysis was set at UZS 8,092 to US$1 as the official exchange rate prevailing at the end of the final design mission. Project costs are presented in both UZS and US$; conversions from current US$ values into UZS use constant purchasing power exchange rates. A 20 per cent value-added tax will be levied on all imported and locally procured goods and services. For directly recruited local staff, the project will cover the social insurance rate of 25 per cent.

28. **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.
Table 1
Project costs by component and financier
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Component</th>
<th>IFAD loan</th>
<th>IFAD grant</th>
<th>Financing gap</th>
<th>Government</th>
<th>PFIs</th>
<th>Beneficiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount %</td>
</tr>
<tr>
<td>1. Inclusive Value Chains Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Enabling business environment for inclusive value chains</td>
<td>52</td>
<td>14.8</td>
<td>82</td>
<td>23.3</td>
<td>159</td>
<td>45.2</td>
<td>352</td>
</tr>
<tr>
<td>1.2 Capacity development for value chain stakeholders</td>
<td>3,918</td>
<td>37.4</td>
<td>125</td>
<td>1.2</td>
<td>4,519</td>
<td>43.1</td>
<td>10,480</td>
</tr>
<tr>
<td>Subtotal 1. Inclusive value chain development</td>
<td>3,970</td>
<td>36.7</td>
<td>207</td>
<td>1.9</td>
<td>4,678</td>
<td>43.2</td>
<td>10,831</td>
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<tr>
<td>2. Inclusive rural finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Rural guarantee facility</td>
<td>1,000</td>
<td>10.1</td>
<td>-</td>
<td>-</td>
<td>6,935</td>
<td>69.8</td>
<td>9,935</td>
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<td>2.2 Agriculture diversification and modernization credit lines</td>
<td>33,712</td>
<td>28.3</td>
<td>93</td>
<td>0.1</td>
<td>26,538</td>
<td>22.3</td>
<td>66,283</td>
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<td>2.3 Credit line for youth</td>
<td>5,000</td>
<td>41.7</td>
<td>-</td>
<td>-</td>
<td>5,000</td>
<td>41.7</td>
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<tr>
<td>Subtotal 2. Inclusive rural finance</td>
<td>39,712</td>
<td>28.1</td>
<td>93</td>
<td>0.1</td>
<td>38,473</td>
<td>27.3</td>
<td>101,178</td>
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<td>3. Climate-resilient rural infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Modernization of irrigation systems</td>
<td>1,109</td>
<td>21.2</td>
<td>-</td>
<td>-</td>
<td>3,260</td>
<td>62.2</td>
<td>5,343</td>
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<tr>
<td>3.2 Increasing capacities of WCAs</td>
<td>37</td>
<td>37.3</td>
<td>-</td>
<td>-</td>
<td>46</td>
<td>46.0</td>
<td>100</td>
</tr>
<tr>
<td>Subtotal 3. Climate-resilient rural infrastructure</td>
<td>1,146</td>
<td>21.5</td>
<td>-</td>
<td>-</td>
<td>3,305</td>
<td>61.9</td>
<td>5,441</td>
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<tr>
<td>4. Project management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 Project management unit</td>
<td>800</td>
<td>62.9</td>
<td>-</td>
<td>-</td>
<td>275</td>
<td>21.6</td>
<td>1,075</td>
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<tr>
<td>4.2 Project implementation team</td>
<td>572</td>
<td>59.9</td>
<td>-</td>
<td>-</td>
<td>269</td>
<td>28.2</td>
<td>955</td>
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<tr>
<td>Subtotal 4. Project management</td>
<td>1,372</td>
<td>61.6</td>
<td>-</td>
<td>-</td>
<td>544</td>
<td>24.4</td>
<td>2,228</td>
</tr>
<tr>
<td>Total</td>
<td>46,200</td>
<td>29.0</td>
<td>300</td>
<td>0.2</td>
<td>47,000</td>
<td>29.1</td>
<td>27,041</td>
</tr>
</tbody>
</table>

B. Project financing

29. 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$9.3 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$27.0 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.
Table 2  
Project costs by expenditure category and financier  
(Thousands of United States dollars)

<table>
<thead>
<tr>
<th>Category</th>
<th>IFAD loan</th>
<th>IFAD grant</th>
<th>Financing gap</th>
<th>Government</th>
<th>PFIs</th>
<th>Beneficiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>1. Equipment and goods</td>
<td>2 448</td>
<td>39.4</td>
<td>-</td>
<td>-</td>
<td>2 718</td>
<td>43.8</td>
<td>1 035</td>
</tr>
<tr>
<td>2. Civil works</td>
<td>1 513</td>
<td>26.0</td>
<td>3 192</td>
<td>54.8</td>
<td>1 123</td>
<td>19.3</td>
<td>-</td>
</tr>
<tr>
<td>3. Vehicles</td>
<td>82</td>
<td>75.0</td>
<td>27</td>
<td>25.0</td>
<td>-</td>
<td>-</td>
<td>109</td>
</tr>
<tr>
<td>4. Technical assistance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International TA</td>
<td>494</td>
<td>43.0</td>
<td>418</td>
<td>36.4</td>
<td>192</td>
<td>16.7</td>
<td>-</td>
</tr>
<tr>
<td>National TA</td>
<td>600</td>
<td>20.5</td>
<td>1 486</td>
<td>50.8</td>
<td>500</td>
<td>17.1</td>
<td>85</td>
</tr>
<tr>
<td>Subtotal Technical Assistance</td>
<td>1 094</td>
<td>26.8</td>
<td>1 904</td>
<td>46.7</td>
<td>692</td>
<td>17.0</td>
<td>85</td>
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<tr>
<td>and Studies</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>5. Training</td>
<td>251</td>
<td>36.8</td>
<td>317</td>
<td>46.5</td>
<td>114</td>
<td>16.7</td>
<td>-</td>
</tr>
<tr>
<td>6. Inclusive value chain financing</td>
<td>1 000</td>
<td>10.1</td>
<td>6 935</td>
<td>69.8</td>
<td>2 000</td>
<td>20.1</td>
<td>9 935</td>
</tr>
<tr>
<td>Guarantee Finance</td>
<td>33 712</td>
<td>28.4</td>
<td>19 815</td>
<td>16.7</td>
<td>19 458</td>
<td>16.4</td>
<td>118 888</td>
</tr>
<tr>
<td>Credit Line for AMD</td>
<td>5 000</td>
<td>41.7</td>
<td>5 000</td>
<td>41.7</td>
<td>2 000</td>
<td>16.7</td>
<td>12 000</td>
</tr>
<tr>
<td>Credit Line for Youth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal Inclusive Value Chain Financing</td>
<td>39 712</td>
<td>28.2</td>
<td>23 815</td>
<td>16.9</td>
<td>19 458</td>
<td>13.8</td>
<td>140 823</td>
</tr>
<tr>
<td>Total Investment Costs</td>
<td>45 100</td>
<td>28.6</td>
<td>300</td>
<td>0.2</td>
<td>46 510</td>
<td>29.5</td>
<td>26 805</td>
</tr>
<tr>
<td>7. Salaries</td>
<td>746</td>
<td>68.9</td>
<td>337</td>
<td>31.1</td>
<td>34</td>
<td>16.7</td>
<td>-</td>
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<tr>
<td>Operations &amp; Maintenance</td>
<td>111</td>
<td>54.8</td>
<td>58</td>
<td>28.6</td>
<td>202</td>
<td>37.4</td>
<td>-</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>243</td>
<td>45.0</td>
<td>95</td>
<td>17.6</td>
<td>202</td>
<td>37.4</td>
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<tr>
<td>Total Recurrent Costs</td>
<td>1 100</td>
<td>60.3</td>
<td>490</td>
<td>26.8</td>
<td>235</td>
<td>12.9</td>
<td>-</td>
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<tr>
<td>Total</td>
<td>46 200</td>
<td>29.0</td>
<td>300</td>
<td>0.2</td>
<td>47 000</td>
<td>29</td>
<td>27 041</td>
</tr>
</tbody>
</table>

C. Summary benefit and economic analysis

30. The project is expected to generate substantial net incremental benefits for farming households, Dekhan farmers, commercial farmers, agri-firms and rural entrepreneurs. These include: (i) at least 80 per cent of project beneficiaries reporting at least a 20 per cent increase in income; (ii) at least 75,000 households receiving services promoted or supported by the project; (iii) at least 10,000 full-time jobs (or equivalent) created; and (iv) at least 70 per cent of supported smallholder producers, including Dekhans, reporting a 20 per cent increase in sales along their value chains.

31. Economic rate of return. On the basis of the above assumptions, the economic analysis of the project indicates that the total investment gains are significant and robust in economic terms. The analysis results in an internal economic rate of return of 16.5 per cent and a net present value of US$33.7 million over 20 years based on quantifiable benefits that relate directly to the activities undertaken by the project.

D. Sustainability

32. The sustainability of the project’s results is based on: (i) the value chain-champion business and technical capacity-building activities to be promoted; (ii) the demand-driven nature of the intervention; and (iii) the preparation of value chain development plans as the basis for all investments, which should lead to inclusive and more equitable and profitable value chains. The project’s sustainability is also based on an exit strategy that comprises: (i) ensuring the ownership by beneficiaries of the financed activities; (ii) the participatory development of demand-driven technology; (iii) integration along value chains, including input...
suppliers and service providers; and (iv) limited project operational, staff and recurrent costs.

E. Risk identification and mitigation

33. The major risks are: (i) a distortive policy environment; (ii) a lack of stakeholder participation; (iii) market-related risks including potential exchange rate fluctuations; (iv) a failure of communication; (v) deteriorating financial performance of some PFIs; and (vi) the outbreak of transboundary animal disease, (vii) complex flow of funds, as well as (viii) relatively large financing gap. Mitigation measures include: regular supervision, and preparation of a detailed project implementation manual; separate US$ accounts for IFAD financing and procedures to manage foreign exchange risks, in-depth, participatory analysis of production and business opportunities; intensive training for farmers on how to position their products; establishment of proper contracts; training on business management; regular project monitoring; annual assessment of banks against minimum eligibility requirements; upgrading critical competencies in active disease surveillance and reporting from the field; and ensuring that there are veterinary field staff capable of sharing information and specimens with the Government’s veterinary disease diagnostic laboratories. Moreover, specific conditions related to disbursement and audit will be included in the financing agreement to ensure that proper safeguards are in place with regards to funds being transferred to the PFIs and the guarantee facility. The PFIs also will also be subject to strict monitoring measures, as well as compliance based disbursement procedures. As the financing gap will mainly finance credit lines, the project will still be able to function, even if the additional financing does not materialize.

V. Corporate considerations

A. Compliance with IFAD policies

34. The project design is aligned with all relevant IFAD strategies and policies, including the: (i) Strategic Framework (2016-2025); (ii) Policy on Targeting; (iii) Policy on Gender Equality and Women’s Empowerment; (iv) Rural Finance Policy; (v) Private-Sector Development and Partnership Strategy; (vi) Rural Enterprise Policy; (vii) Environment and Natural Resource Management Policy; and (viii) Social, Environmental and Climate Assessment Procedures. Given the nature and extent of the likely environmental impacts, the project is classified as a category B in line with IFAD’s environmental assessment procedures. The potential negative environmental impacts are assessed to be within controllable limits.

B. Alignment and harmonization

35. The project is closely aligned with and supports the Government’s priorities for diversification and modernization of the agriculture sector, as expressed in the Welfare Improvement Strategy (2013-2015) and Presidential Decree No.2460 on agriculture sector reforms and development for 2016-2020, which stresses the need to gradually shift from cotton and wheat to value-added commodities, and introduce resource-saving technologies.

36. Seeking to avoid the duplication of efforts and foster complementarities while taking advantage of business-related best practices and technological innovations, the intervention strategy will be based on: (i) building partnerships with the country’s private commercial sector, and related stakeholders; (ii) local research institutions and industry associations, particularly for expanding technical assistance services and market channels; (iii) harmonization with the initiatives of development partners present in the country such as ADB, the Food and Agriculture Organization of the United Nations and the World Bank; and (iv) the principles of the Paris Declaration on Aid Effectiveness.
C. Innovations and scaling up
37. The project has two main innovative features. First, it will introduce a rural guarantee facility that will leverage up to five times the value of the facility; the US$9.9 million invested will help to attract US$49.5 million into Uzbekistan’s agricultural sector. IFAD will be a pioneer among international financial institutions by investing in the State Fund, and will document and disseminate its experiences among other funders to attract more resources to the State Fund. In addition, the adoption of the specialized automated Cash-flow Linked Agri-Risk Assessment tool for loan analysis and management will build the capacity of participating banks to lend to the agricultural sector and manage their agricultural loan portfolios more efficiently.

D. Policy engagement
38. Successful policy engagement will depend on the capacity to generate analytical evidence at the outcome and impact levels. To capture experience gained, two approaches are envisaged: (i) a knowledge management programme within the project to support within- and between-project learning; and (ii) support for a broader programme of knowledge management aimed at informing government decision-makers and influencing policy. Considering the relatively recent IFAD experience in the country and collaboration with the ADB and the World Bank, IFAD is transitioning to a more integrated, strategic, and programmatic dialogue to identify barriers to a conducive business environment.

VI. Legal instruments and authority
39. A project financing agreement between the Republic of Uzbekistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
40. The Republic of Uzbekistan is empowered under its laws to receive financing from IFAD.
41. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

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

RESOLVED: that the Fund shall provide a loan on blend terms to the Republic of Uzbekistan in an amount equivalent to of forty-six million two hundred thousand United States dollars (US$46,200,000) 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 three hundred thousand United States dollars (US$300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Houngbo
President
**Negotiated financing agreement**

**Agriculture Diversification and Modernization Project**

(Negotiations concluded on 22 November 2017)

Loan Number: _______
Grant Number: _______

Project Title: Agriculture Diversification and Modernization Project (“ADMP” or “the Project”)

The Republic of Uzbekistan (the “Borrower/Recipient”)

and

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

(each a “Party” and both of them collectively the “Parties”)

hereby 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), and the Special Covenants (Schedule 3).

2. The Fund’s General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter 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 and a Grant to the Borrower/Recipient (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 Loan is forty-six million and two hundred thousand United States dollars (USD 46 200 000).

   B. The amount of the Grant is three hundred thousand dollars (USD 300 000).

2. The Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding at a fixed rate of 1.25 per cent and in addition a service charge of 0.75 per cent per annum payable semiannually in the Loan Service Payment Currency and shall have a maturity period of twenty five (25) years, including a grace period of five (5) years, starting from the date of approval by the Executive Board.

3. The Loan Service Payment Currency shall be the United States dollar (USD).

4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal, interest and service charge shall be payable on each 15 May and 15 November.

6. There shall be two Designed Accounts in USD, one for the IFAD loan and one for the IFAD grant for the benefit of the Project in a commercial bank. The IFAD funds shall not be mingled with other funds. In addition, there shall be two project accounts in UZS to receive the Financing from the respective Designated Accounts in a commercial bank.

7. The Borrower/Recipient shall provide as its contribution to the Project counterpart financing in sufficient amount to cover taxes and custom duties associated with the implementation of the Project.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Water Resources (MAWR).

2. The following are designated an additional Project Party: Rural Restructuring Agency (RRA).

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 grounds for suspension of this Agreement:

   (a) The Project Implementation Manual ("PIM") referred to in Paragraph 19, Section II of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

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

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

   (b) Key Staff, including a Project Manager, a Chief Accountant and a Procurement Officer with qualifications and experience acceptable to the Fund have been duly appointed;

   (c) A Project Implementation Manual (PIM) containing the Financial Administration and Accounting procedures, has been cleared by the Fund;
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Batir Asadillaevich Khodjaev
Minister for Finance of the Republic of Uzbekistan
Ministry of Finance
5, Mustaqillik Square
10000-8 Tashkent

For the Fund:

The 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 (1) for the Fund and one (1) for the Borrower/Recipient.

REPUBLIC OF UZBEKISTAN

____________________
(Authorized Representative)
(Name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

___________________
Gilbert F. Houngbo
President
Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Project Area.** The Project will be implemented in Fergana Valley, in the regions of Andijan, Fergana and Namangan.

2. **Target Population.** The main target groups of the Project are: (i) rural households of dehkan farms, who strive to increase income from agriculture through active participation in the Project supported value chains; (ii) small farmers engaged/interested in horticulture and livestock (with farm size of up to 5 ha); (iii) agribusinesses with existing or potential linkages with (i) and (ii); and (iv) youth living in the Project regions. Special attention will be paid to ensure the participation of female-headed households both in dehkan and small farmers, as well as to reach out female youth.

3. 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 of ADMP loans, and some 4,000 full time equivalent incremental jobs created by the LEs’ incremental economic activities.

4. **Goal.** The development goal of the Project to improve the incomes and livelihoods of rural people in the Project area.

5. **Objective.** The Project’s Development Objective is to increase inclusiveness and profitability of selected value chains through enhanced productivity, market access and improved natural resources.

6. **Components.** The Project will have three principal inter-related components as well as another one to support Project management and implementation:

7. Component 1: **Inclusive Value Chains Development:** The outcome of this component is enhanced capacity for sustainable and efficient performance of targeted stakeholders and aimed to create an enabling business environment for agribusinesses in selected value chains (VC) with strong backward linkages with smallholder producers; and to strengthen the capacities of the farmers and other stakeholders of those VC. Three activities will be implemented under this component: (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 VC development Roadmaps for LEs.

8. Component 2: **Inclusive Rural Finance:** The outcome of this component is increased productivity and efficiency along targeted smallholder-inclusive value chains to enable value chain actors to increase investment in profitable value chains through the provision of credit and a guarantee facility. The Project will support (i) the State Fund for the Support of the Development of Entrepreneurial Activity (SFSDEA) to render credit guarantees to smallholders and other rural enterprises who lack acceptable collateral by offering the partial coverage of lending risks; (ii) work with banks interested in lending to agriculture in the target regions and meeting the Project’s eligibility criteria to facilitate farmers and agricultural businesses’ access to finance; and (iii) establish credit window for youth who are underserved by financial services with affordable lending products. Banks will be free to set their own interest rates allowing serving the Project beneficiaries in a sustainable manner; however the banks will be selected through a competitive process to ensure that those offering the best conditions are chosen.

9. Component 3: **Climate-resilient Rural Infrastructure:** This component aims at removing bottlenecks for reliable irrigation water supply, which inhibit increasing participation for dehkans and small farmers in enhanced diversification and efficiency of
agriculture for the selected value chains. This will be achieved through modernization of inter-farm irrigation network operated by Water Consumer Associations (WCAs) and will provide conditions for targeted farmers' group to: (i) diversify agricultural production from low to high value crops; (ii) increase land productivity; (iii) address challenges of drought due to climate change; and (iv) increase capacity of WCAs and Basin Administration of Irrigation System (BAIS) in efficient water resource management and irrigation system operation and maintenance.

II. Implementation Arrangements

10. **Approach.** The Project will promote a demand driven value chain approach. The value chain approach will focus on analyzing each step of the value chain and investment on those needs which have the potential for improving productivity, profitability and competitiveness of the value chain players, particularly focusing on *dehkan* farmers.

11. The Project will promote upgrading of selected value chains and will include actions taken by producers, processors, input suppliers and traders at various points in the value chain to increase future productive capacity and competitiveness. The LEs with successful Value Chain Roadmaps prepared under Component 1 will be favourably considered for receiving loans from PFIs under Component 2. While loan applications will be assessed individually, the Project will provide complementary support to enhance their business operations through provision of technical assistance and training to farmer suppliers and other actors as well as access to improved infrastructure under Component 3 to enhance overall competitiveness and efficiency of the value chains. The ADMP will promote close coordination with projects funded by other donors organizations especially with those projects also under the Rural Restructuring Agency (RRA).

12. **Organizational framework.** The MAWR will have the overall responsibility for management of the Project on behalf of the Borrower/Recipient. Day-to-day oversight of the ADMP’s management will rest with a Project Management Unit (PMU) under the RRA. The overall management oversight of the Project will rest with an Inter-agency Council (IC). The IC is an inter-governmental institutions agency for Cooperation with International Financial Institutions, Foreign Government Agencies and Donor Countries in Implementation of Large-scale and Strategically Important Investment Projects.

13. The PMU for the ADMP will be headed by a Project Manager and be composed of (preliminary): a Chief Accountant; Procurement Officer; Rural Finance /Youth Officer; Administrative Assistant; and a Driver. The ADMP will use Horticultural Support Project/Dairy Value Chains Development Project legal staff. In addition, the Project will count on the services of national and international specialists in various fields. A Project Implementation Team (PIT, RRA regional representation) will be established in one of the regions of the Project area in PY1. The PIT would comprise: a Regional Coordinator (Value Chain and Business Specialist), three Rural Finance Officer/gender/youth, Engineer, Monitoring and Evaluation (M&E Specialist) and a driver. The PIT will 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 will be managed entirely by the relevant personnel of the RRA/ADMP PMU at central level.

14. The PMU/PIT shall coordinate the work of consultants and participating financial institutions (PFIs) that will interact with VC actors on planning and financial matters.

15. The MOF shall make the Subsidiary Loans available to the PFIs under Subsidiary Loan Agreements (SLAs) to be entered into between the Borrower/Recipient, the RRA and each PFI. The SLAs shall be under terms and conditions cleared by the Fund and in adherence with the Investment Guidelines. Except as the Fund shall otherwise agree, the MOF shall not assign, amend, abrogate or waive any SLA or any of its provisions. The project monitoring and evaluation system and processes will be established and managed in accordance with established IFAD procedures by the PMU with support from IFAD. The
Logical Framework provides indicators for implementation along with their corresponding means of verification. These will form the basis on which the M&E system will be built.

16. At the start of the Project and no later than 90 days after the date of entry into force of this Agreement, the PMU shall manage a comprehensive baseline survey which will be updated on an annual basis to track the different Project indicators over time, including for the mid-term review. During the Project’s final year, a completion survey will be conducted. Results will be compared against the baseline survey results to assess project impact.

17. **Supervision.** The Project will be directly supervised by IFAD. The IFAD country team shall provide continuous implementation support to the Project and shall undertake supervision missions on an annual basis to assess overall management arrangements and performance including financial and procurement aspects and monitoring and evaluation. The supervision shall be carried out jointly with the Borrower representatives and IFAD.

18. **Mid-Term Review.** A mid-term review shall be carried out towards the end of third Project year. The review shall be undertaken in accordance with IFAD-MTR guidelines in consultation with the Borrower representatives.

19. **Project Implementation Manual (PIM).** The RRA/PMU shall prepare a draft PIM acceptable to the Fund and submit it to the Fund for no objection. The PIM may be amended when necessary with the approval of the Fund in order to introduce clarification in procedures, eliminating constraints for project implementation and for facilitating access of producers to the project services.
## Schedule 2

### Allocation Table

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Loan Amount Allocated (expressed in USD)</th>
<th>Grant Amount Allocated (expressed in USD)</th>
<th>Percentage net of Taxes, Government contribution, Co-financing and beneficiary contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Civil Works</td>
<td>1 490 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>II. Equipment and Materials (including Vehicles)</td>
<td>2 420 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>III. Consultancies (including Technical Assistance and training)</td>
<td>1 170 000</td>
<td>300 000</td>
<td>100%</td>
</tr>
<tr>
<td>IV. Credit and Guarantee Funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Guarantee Finance</td>
<td>1 000 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(b) Credit line for AMD</td>
<td>33 710 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(c) Credit line for Youth</td>
<td>5 000 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>V. Operating cost (Salaries and recurrent cost)</td>
<td>1 040 000</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Unallocated (1%)</td>
<td>370 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>46 200 000</strong></td>
<td><strong>300 000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

Category II "Equipment and Materials" means Eligible Expenditures related to Goods, Equipment and Materials as well as Vehicles.

Category III "Consultancies" means Eligible Expenditures related to Consultancies, Technical Assistance, Trainings and Workshops.

Category V "Operating cost" means Eligible Expenditures related to Salaries and Allowances, operating cost of the PMU/PIU and other recurrent cost.
2. **Start-up Costs.** To facilitate a prompt start-up, a withdrawal up to USD 200,000 may be made to incur expenditures related to the Project start-up activities before the satisfaction of the general conditions precedent to withdrawal. The start-up activities may include *inter alia:* (i) establishment of the PMU and salaries of key staff, (ii) Formulating of the Project Implementation Manual; (iii) Preparation of the first AWPB and procurement plan; (iv) Organization of a start-up workshop, (v) Prepare specifications for the accounting software; (vi) Finalization of Investment Guidelines, Value Chain Development Roadmaps, and templates for Subsidiary loan agreements.

3. **Specific Conditions of withdrawal.** In addition to the general conditions precedent to withdrawal listed in Section E, the following specific conditions for first withdrawal will apply.
   
   I. No funds will be transferred to the Participating Financial Institutions (PFIs) before the following conditions have been fulfilled:
      
      (a) The first three Value Chain Roadmaps have been prepared and received the Fund’s no-objection.
      
      (b) The Investment Guidelines (or equivalent) for the use of PFI loan proceeds, including the operating modalities including the eligibility criteria for the PFIs and end-borrowers for each credit window (agricultural diversification and modernization window or youth window) has received the Fund’s no-objection.
      
      (c) The Subsidiary Loan agreements (SLA) for providing credit to PFI received the Fund’s no-objection.
      
      (d) The PFI has opened an account to receive IFAD loan funds and a revolving account for credit refloows.
   
   II. No funds will be transferred as part of the guarantee finance before the following conditions have been fulfilled:
      
      (a) The SFSDEA has become operational and a due diligence assessment including an assessment of its Financial Management capacity has been conducted and shared with the Fund.
      
      (b) An agreement, specifying all the necessary modalities for the guarantee finance, between the RRA (or other entity as agreed with the Fund) and the SFSDEA has been duly formalized and received the Fund’s no-objection.
      
      (c) The Investment Guidelines (or equivalent) and operating modalities including the eligibility criteria for issuing guarantee finance have received IFAD’s no-objection.
      
      (d) A separate account for the IFAD loan funds in the SFSDEA has been duly opened.
      
      (e) The template for a sub agreement for providing guarantees to financial institution/smallholder/rural business has received IFAD's no-objection.
Schedule 3

Special Covenants

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 Loan Account and the Grant 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. Guarantee Financing. The Borrower/Recipient shall ensure that funds transferred for the guarantee financing are deposited in a separate bank account and will not be mingled with other funds. At all times the Borrower/Recipient shall ensure that the funds are used for the intended purpose and made available in a timely manner in order not to adversely affect the development impact of the activity. In addition the Borrower/Recipient shall ensure that the SFSDEA (i) keeps records of all the transactions related to the Project in accordance with international accounting standards, and (ii) issues timely periodic financial reports on the use of the Project funds to the PMU to satisfy their reporting requirements.

2. Audit arrangements. The Borrower/Recipient, through the RRA, will appoint independent auditors acceptable to IFAD, under the terms of reference cleared by IFAD, and in line with the IFAD Guidelines for Project Audits. An audited annual financial statement for the entire Project, together with a management letter on audit observations on internal controls, shall be submitted to the Fund within six (6) months of the fiscal year end. Moreover, the Borrower/Recipient shall ensure that the IFAD funds transferred to the SFSDEA are part of the audit and that the auditors are granted full access to all documentation as may be required.
### 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></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved incomes and livelihoods of rural people in the Project area</td>
<td>Percentage of project beneficiaries reporting at least 20% increase in income&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Baseline, mid-term and impact surveys</td>
<td>Overall political and economic situation remains stable; Stability of prices in agricultural commodities</td>
</tr>
<tr>
<td></td>
<td>Number of HHs receiving services promoted or supported by the project</td>
<td>Uzagroexport</td>
<td></td>
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<tr>
<td></td>
<td>Percentage of supported smallholder producers including dekhans reporting 20% increase in sales along the value chains</td>
<td>Project baseline study and mid-term review and implementation completion report</td>
<td>Macro-economic conditions remains stable</td>
</tr>
<tr>
<td><strong>Project development objective</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased inclusiveness and profitability of selected value chains through enhanced productivity and market access and improved natural resources</td>
<td>Number of full-time job (or equivalent) created&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Baseline, mid-term and impact surveys</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percentage of supported smallholder producers including dekhans reporting 20% increase in sales along the value chains</td>
<td>Annual outcome surveys</td>
<td></td>
</tr>
<tr>
<td><strong>Component 1. Inclusive Value Chains Development</strong></td>
<td></td>
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<tr>
<td><strong>Outcome 1. Enhanced capacity for sustainable and efficient performance of targeted stakeholder</strong></td>
<td>Percentage of supported smallholder/dekhan farmers engaged in partnerships/commercial agreements&lt;sup&gt;3&lt;/sup&gt; with LEs</td>
<td>Project’s M&amp;E records and report</td>
<td>Government policies and rural economic reforms supporting smallholders, private sector development and the agriculture sector are implemented</td>
</tr>
<tr>
<td></td>
<td>Percentage of smallholder producers reporting adoption of new/improved technologies or practices&lt;sup&gt;4&lt;/sup&gt;</td>
<td>Government’s national, regional and local production data</td>
<td></td>
</tr>
<tr>
<td><strong>Output 1.1</strong></td>
<td>Number of LEs supported in the preparation of a Value Chain Development Plan</td>
<td>Targeted field studies and surveys</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of value chain stakeholders receiving training on better agronomic,</td>
<td>Project records</td>
<td></td>
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<tr>
<td><strong>Output 1.2</strong></td>
<td></td>
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</tbody>
</table>

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<sup>1</sup> This indicator is inspired by the RIMS Impact-level indicator “Number of people experiencing economic mobility”, corresponding to SDG target 1.1 and 1.2, but taking into account the specific aspect of income, where ADMP is expected to generate an impact. These project’s direct beneficiaries are estimated around 75,000 households. These include stakeholders benefitting of credit lines supported by the ADMP, as well as of trainings/other supports provided by the project and by the project’s supported LEs, or from FFS curricula and guided exposure to technological demonstration plots.

<sup>2</sup> RIMS impact level indicator, corresponding to SDG target 1.1 and 1.2.

<sup>3</sup> The target corresponding to some 80% of the number of full-time equivalent jobs created through ADMP interventions (see Appendix 10, Economic and Financial Analysis).

<sup>4</sup> Uzagroexport is a state enterprise that monitors the export. There is a branch in each region of Fergana Valley.

<sup>5</sup> Including, but not limited to, formal contracts with traders/aggregators/processors. LEs will specify those linkages in their Strategic Plans/ Roadmaps, developed by LEs within sub-comp. 1.1.

<sup>6</sup> The outreach is mostly determined by sub-component 1.2’s interventions. Beneficiaries include 1,200 LE representatives (also benefitting of support under sub-component 1.1 for their roadmap; about 5,000 LE suppliers, benefitting from inclusive workshops/ trainings; about 600 Mahalla leaders (community mobilization and TOT); about 1,000 additional Mahalla members; 3,200 producers benefitting of demo plots (10 farmers at least for each demo plot established); 2,250 FFS members. Adoption rate is about 80%.
### Results hierarchy

<table>
<thead>
<tr>
<th>Hierarchy</th>
<th>Indicator</th>
<th>C.I.</th>
<th>Baseline</th>
<th>Mid-term</th>
<th>End Target</th>
<th>Means of Verification</th>
<th>Frequency</th>
<th>Responsibility</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock and business practices</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Component 2. Inclusive Rural Finance</strong></td>
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</tr>
<tr>
<td><strong>Outcome 2.1:</strong> Productivity and efficiency along targeted smallholder-inclusive value chains increased</td>
<td>Number of incremental suppliers generated by investment along the selected value chains</td>
<td>1.1.5</td>
<td>0</td>
<td>10,000</td>
<td>50,000 (40% women)</td>
<td>Project baseline study and mid-term review and implementation completion report; Participating Financial Institutions and Central Bank Project M&amp;E records and report</td>
<td>Annually</td>
<td>PMU M&amp;E unit</td>
<td>Micro-economic conditions are supportive for doing business</td>
</tr>
<tr>
<td><strong>Operational Rural Guarantee Facility</strong></td>
<td>Value of loans guaranteed by the Rural Guarantee Facility</td>
<td>0</td>
<td>15.0 m US$</td>
<td>49.5 m US$</td>
<td>Project records</td>
<td>Continuously</td>
<td>PMU M&amp;E unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Output 2.2.</strong></td>
<td>Number of value chain stakeholders (Leading Entities) in the project areas accessing financial services</td>
<td>0</td>
<td>500</td>
<td>1,200 (30% women)</td>
<td>Project records</td>
<td>Continuously</td>
<td>PMU M&amp;E unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Output 2.3.</strong></td>
<td>Number of youth involved in the selected value chains accessing to the financial services</td>
<td>0</td>
<td>250</td>
<td>1,000 (50% women)</td>
<td>Project records</td>
<td>Continuously</td>
<td>PMU M&amp;E unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Component 3. Climate-resilient Rural Infrastructure</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Outcome 3.1:</strong> Improved farmland productivity resulting from modernized irrigation infrastructure</td>
<td>Number of HHs reporting increase in production as a result of the adoption of modern irrigation techniques</td>
<td>1.2.4</td>
<td>0</td>
<td>200</td>
<td>1,000 (30% women)</td>
<td>Annual outcome surveys</td>
<td>Annually</td>
<td>PMU M&amp;E unit</td>
<td>Government policies and rural economic reforms supporting smallholders, private sector development and the agriculture sector are implemented</td>
</tr>
<tr>
<td><strong>Enhanced access by smallholder farmers to modernized irrigation systems</strong></td>
<td>Number of hectares under upgraded irrigation</td>
<td>0</td>
<td>2,000</td>
<td>3,500</td>
<td>Project records</td>
<td>Continuously</td>
<td>PMU M&amp;E unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Output 3.2.</strong></td>
<td>Number of WCA representatives trained</td>
<td>0</td>
<td>20</td>
<td>30</td>
<td>Project records</td>
<td>Continuously</td>
<td>PMU M&amp;E unit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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7 Adapted from the RIMS CI 1.1.4: “Number of persons trained in production practices and/or technologies”.
8 The Rural Guarantee Facility (US$ 9.9m) would allow mobilizing a five-fold amount of loans. With an average loan size of US$ 20,000 (assumed also for other credit lines within ADMP’s scope, this implies some 2,475 loans.
9 ADMP’s funded credit lines (US$ 54.8m) would generate some 1,200 loans with average size of US$ 45,000. The target is expected to be achieved faster than the Rural Guarantee Facility as the credit lines are expected to be immediately operational.
10 Under the assumption that youth would borrow an average of US$ 10,000, the Youth Fund (US$ 10.0m) would be able to generate some 1,000 loans, one fourth by mid-term.
11 The modernization of the tertiary irrigation would benefit some 3,500 ha in the three regions, with 3.5 ha average land size / farm it implies some 1,000 households.