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IFAD
Investing in rural people

The Republic of Uzbekistan

Agriculture Diversification and Modernization Project

Negotiated financing agreement

Executive Board — 122nd Session
Rome, 11-12 December 2017

For: Information

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 VCs. 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 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:

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

(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 reflows.

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.