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Investing in rural people

President's memorandum

Proposed additional financing

Republic of Uzbekistan

Agriculture Diversification and Modernization Project

Project ID: 2000001283

Note to Executive Board representatives

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For: **Approval**

Contents

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Abbreviations and acronyms

ADMP	Agriculture Diversification and Modernization Project
CLARA	Cash-flow Linked Agricultural Risk Assessment
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
M&E	monitoring and evaluation
PBAS	performance-based allocation system
PFI	participating financial institution
PMU	project management unit
REDP	Ferghana Valley Rural Enterprise Development Project
SECAP	Social, Environmental and Climate Assessment Procedures
UZAIFSA	Agro-Industry and Food Security Agency
UZS	Uzbek sum
WCA	water consumer association

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Uzbekistan
Executing agency:	Agro-Industry and Food Security Agency of the Republic of Uzbekistan
Total project cost:	US$163.4 million
Amount of original IFAD loan:	US$46.2 million
Amount of original IFAD grant:	US$0.3 million
Terms of original IFAD financing:	Blend terms/grant
Amount of additional IFAD loan:	US$46.2 million
Amount of additional IFAD grant:	US$0.8 million
Terms of additional IFAD financing:	Blend terms/grant
Cofinanciers:	Participating financial institutions
Amount of cofinancing:	US$21.4 million
International cofinanciers (parallel financing):	International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC)
Amount of international cofinancing (parallel financing):	IBRD: US$200.0 million IFC: US$0.8 million
Contribution of borrower/recipient:	US$27.0 million
Contribution of beneficiaries:	US$21.4 million
Amount of IFAD climate finance:	US$11.4 million
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 41.

I. Background and project description

A. Background

1. This President's memorandum seeks the approval of the Executive Board for additional financing in the form of a loan of US$46.2 million on blend terms and a grant of US$0.8 million for the Agriculture Diversification and Modernization Project (ADMP). The project, with a total cost of US$159.6 million, was submitted to the Executive Board in December 2017 (document EB 2017/122/R.27/Rev.1), and the loan of US$46.2 million and grant of US$0.3 million were approved. Cofinancing in the amount of US$66.0 million was provided by the Government (US$27.0 million), beneficiaries (US$19.5 million), and participating financial institutions (PFIs) (US$19.5 million). The approved financing left a financing gap of US$47.0 million to "be sourced by subsequent performance-based allocation system (PBAS) cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval), or by cofinancing identified during implementation".[1]

2. The objective of the additional financing is to close the financing gap of US$47.0 million and thus allow the implementation and completion of the project as foreseen. The project design will remain unchanged, as will the project goal, objectives, components and subcomponents, and the implementation and financial arrangements. Likewise, the project completion and closing dates will remain 31 March 2025 and 30 September 2025, respectively, as originally envisaged.

B. Original project description

3. ADMP is IFAD's third investment in Uzbekistan. The overall goal of the project is to improve the incomes and livelihoods of rural people in the target area of the Fergana Valley (Andijan, Fergana and Namangan regions). Its development objective is to increase the inclusiveness and profitability of selected value chains through enhanced productivity, market access and natural resource management. The theory of change on which ADMP is based is that the agribusinesses of selected value chains can be motivated and driven by their own commercial interests to anchor and lead the process of including smallholder producers in their supply chains, resulting in job creation, income generation and poverty reduction for these beneficiaries. The project will work in selected value chains and will provide holistic support to all the actors within a value chain to improve the chain's performance. Implementation of the project began on 9 January 2019. During this initial implementation period, project staff have been recruited and key documents and studies that will guide project implementation have been prepared.

4. The project is taking a three-pronged approach: (i) enhancing the capacities of targeted stakeholders in order to strengthen their performance, leading to an increase in commercial agreements between smallholder producers and enterprises, and promoting the adoption of new/improved technologies and practices; (ii) enhancing productivity and efficiency along targeted smallholder-inclusive value chains – with particular attention to smallholders and youth – through access to financial services, including the establishment of a rural guarantee facility, which will lead to an increase in access to credit and in the volume of credit for smallholder farmers; and (iii) promoting climate-resilient infrastructure, leading to enhanced irrigation efficiency.

[1] EB 2017/122/R.27/Rev.1, para. 29.

II. Rationale for additional financing

A. Rationale

5. The Government has formally requested additional financing under the current PBAS cycle to cover the ADMP financing gap of US$47.0 million. With this financing, it will be possible to ensure coverage of all project activities as designed.

6. Since the design of the project in 2017, Uzbekistan has initiated major economic and social reforms aimed at building a more open and market-oriented economy. This new policy course places increased emphasis on the agricultural sector as a driver of an export-oriented economy, focusing on diversification away from cotton and wheat and revitalizing rural areas by harnessing the productive potential of the 4.8 million smallholder farms. The value chain approach taken by ADMP, together with the new policy framework's focus on the importance of *dekhan* farms,[2] is expected eventually to provide a viable model for unlocking the productive and developmental potential of a large number of smallholders, thus further increasing the strategic relevance of the project. Reforms launched in the financial sector are also expected to support this transformation and private sector-led growth.

Special aspects relating to IFAD's corporate mainstreaming priorities

7. **Climate and environment.** Environmental challenges in Uzbekistan include freshwater resource depletion and deterioration of water quality, desertification, salinization and erosion, all of which are being aggravated by climate change. Widespread irrigation and the use of poor, inefficient and water-wasting technologies have significantly impacted highly sensitive desert ecosystems. About 26 per cent of croplands and 17 per cent of rangelands have been affected by degradation, leading to substantial loss of productivity. Climate change projections forecast higher temperatures, changes in precipitation regimes and more severe droughts, with decreases in water availability. The project will invest in modernization of inter-farm irrigation networks to diversify agricultural production from low- to high-value crops and to address challenges of reduced water availability due to climate change.

8. **Gender.** Indicators of human development[3] suggest that progress towards gender equality in Uzbekistan has been slow, with gender-based disparities in human development. ADMP will mainstream gender through the implementation of a gender action plan with specific targets for women's participation in project activities, as presented in the logical framework, and an overall target of 30 per cent women beneficiaries.

9. **Youth.** More than two-thirds of the population of Uzbekistan are under 30 years of age, with an unemployment rate of 17 per cent. The main causes of unemployment are high demographic pressure on the labour market, lack of skills and insufficient availability of new jobs, and low productivity. The project will support rural youth (women and men) who are interested in starting up or expanding businesses in agriculture through dedicated access to finance under a special credit window for youth.

10. **Nutrition.** There have been significant improvements in diet and nutrition in Uzbekistan since independence. According to estimates (International Food Policy Research Institute, 2017), Uzbekistan has reduced its Global Hunger Index score from 21.8 in 2000 (considered "severe") to 13.1 in 2016 (considered "moderate"). The project will support diversification of food production in rural areas and will

[2] *Dekhan* farms are legally registered, small farming enterprises governed by the law on *Dekhan* farms (1998). *Dekhan* farmers have lifelong leaseholds on their land, with inheritable possession rights. *Dekhan* farms have a maximum plot size of 0.35 ha for irrigated land, 0.5 ha for rainfed land and 1 ha for pasture land.

[3] United Nations Development Programme, *Human Development Indices and Indicators: 2018 Statistical Update* (New York: UNDP, 2018).

cover topics related to nutrition and gender equality under the farmer field school programme.

11. In line with the Eleventh Replenishment of IFAD's Resources mainstreaming commitments, the project has been classified as:

☒ Climate-focused;

☒ Youth-sensitive.

B. Description of geographical area and target groups

12. **Geographical target.** The project is being implemented in the Andijan, Fergana and Namangan regions in the Fergana Valley. The country strategic opportunities programme highlights the challenges experienced in the Fergana Valley due to high population density and low per capita gross domestic product (the second lowest in the country). Women make up half the population, with woman-headed households comprising 18 per cent of all households.

13. **Target groups.** The project's main target groups are: (i) rural low-income households of *dekhan* farmers 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 is being paid to ensure the participation of young women and woman-headed farming households.

14. **Beneficiaries.** The project is expected to reach 75,000 households directly (an estimated total of 375,000 direct beneficiaries) and approximately 21,000 households indirectly. These include 11,000 households benefiting from loans and training and approximately 54,000 incremental suppliers of the leading entities benefiting from project loans. In addition, 10,000 full-time jobs will be created by the leading entities' incremental economic activities.

C. Components/outcomes and activities

15. The project has three interrelated components: (i) inclusive value chain development; (ii) inclusive rural finance; (iii) climate-resilient rural infrastructure; and (iv) project management.

16. **Component 1: Inclusive value chain development.** The outcome of this component will be enhanced capacity for sustainable and efficient performance of stakeholders and an enabling business environment for agribusinesses in selected value chains, with strong linkages with smallholder producers. This component aims to strengthen the capacities of farmers and other stakeholders in targeted value chains. Three activities are being implemented in the initial phase of the project: (i) value chain mapping assessment for small ruminants, fisheries, sericulture and honey; (ii) rapid market assessments of additional subsectors; and (iii) preparation of value chain development plans. Furthermore, demand-driven capacity-building support is being provided to: (i) private enterprises considered to be lead entities; (ii) *mahallas*[4] for their facilitation of community mobilization; (iii) *dekhan* and small private farmers; (iv) public institutions and service providers; and (v) research institutions and industry associations. The outcome will be measured by means of the following indicators: (i) 70 per cent of supported smallholder producers engaged in commercial agreements with lead entities and (ii) 80 per cent of smallholder producers reporting adoption of new/improved technologies.

17. **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 through the

[4] *Mahalla* means a traditional forum of self-governance at the neighbourhood community level.

provision of credit and a guarantee scheme. The project supports 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. The project also works with banks interested in lending to farmers in the target regions (who meet the project's eligibility criteria) to facilitate farmers' access to financing. Finally, this component is establishing a credit window for youth who lack access to affordable and flexible lending products. Banks are selected through a competitive process and set their own interest rates, allowing them to serve project beneficiaries in a sustainable manner. The outcome is measured by means of the following indicator: PFIs' portfolio risk is below 5 per cent.

18. **Component 3: Climate-resilient rural infrastructure.** This component aims to remove bottlenecks to a reliable irrigation water supply, which hinder *dekhan* and other small-scale farmers from enhancing the diversification and efficiency of agriculture. This is being achieved through modernization of the inter-farm irrigation network operated by water consumer associations. It enables targeted farmers to: (i) diversify agricultural production from low- to high-value crops; (ii) increase land productivity; (iii) address climate change challenges; and (iv) increase stakeholder capacity for efficient water resource management. 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.

D. Benefits, costs and financing

Project costs

19. The original total project cost was US$159.6 million. Due to a slight increase in the contributions of PFIs and beneficiaries subsequent to project approval, the total project cost has increased to US$163.4 million (as indicated in table 1). The largest component in terms of cost is component 2 – inclusive rural finance – which accounts for 89.5 per cent of total project costs, followed by component 1, inclusive value chain development (5.9 per cent) and component 3, climate-resilient rural infrastructure (3.3 per cent). Project management and coordination represent 1.3 per cent of total project costs. IFAD grants, representing 0.6 per cent of the total project cost, will cover part of the technical assistance and training under project components 1 and 2, as indicated in table 2. Components 1 and 2 are partially counted as climate finance, while component 3 is fully counted as climate finance. As per the Multilateral Development Banks Methodology for Tracking Climate Adaptation and Mitigation Finance, the total amount of IFAD climate finance for this project is estimated at US$11.4 million.

Table 1
Original and additional financing summary
(Thousands of United States dollars)

	*Original financing**	*Additional financing*	*Total*
IFAD loan	46 200	46 200	92 400
IFAD grant	300	800	1 100
Domestic cofinancier	19 543	1 885	21 428
Beneficiaries (in kind)	19 466	1 934	21 400
Borrower/counterpart	27 041	-	27 041
Gap	47 000		
Total	**159 550**	**50 819**	**163 370**

* See tables 1 and 2 in document EB 2017/122/R.27/Rev.1 for detailed breakdown.

Table 2
Additional financing: project costs by component and financier
(Thousands of United States dollars)

Component/subcomponent	IFAD loan		IFAD grant		Additional IFAD loan		Additional IFAD grant		PFIs		Beneficiaries			Government			Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Cash	In kind	%	Cash	In kind	%	Amount
1. Inclusive value chain development	**3 894**	**20**	**225**	**1**	**2.752**	**14**	**800**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**1 972**	**10**	**9 644**
Enabling business environment for inclusive value chains	51	16	75	24	33	10	123	39	-	-	-	-	-	-	30	10	311
Capacity development for value chain stakeholders	3 844	41	151	2	2 720	29.	677	7	-	-	-	-	-	-	1 942	21	9 333
2. Inclusive rural finance	**39 785**	**27**	**75**	**-**	**39 825**	**27**	**-**	**-**	**21 428**	**15**	**-**	**21 400**	**15**	**-**	**23 732**	**16**	**146 246**
Rural guarantee facility	1 001	15	-	-	4 500	69	-	-	-	-	-	-	-	-	1 000	15	6 500
Agricultural diversification and modernization credit lines	33 784	26	75	-	30 325	24	-	-	21 428	17	-	21 400	17	-	20 732	16	127 744
Credit line for youth	5 000	42	-	-	5 000	42	-	-	-	-	-	-	-	-	2 000	17	12 000
3. Climate-resilient rural infrastructure	**1 171**	**22**	**-**	**-**	**3 126**	**58**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**1 074**	**20**	**5 372**
Modernization of irrigation systems	1 146	22	-	-	3 083	58	-	-	-	-	-	-	-	-	1 057	20	5 287
Increasing capacities of water consumer associations	25	29	-	-	43	51	-	-	-	-	-	-	-	-	17	20	85
4. Project management	**1 349**	**64**	**-**	**-**	**497**	**24**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**263**	**12**	**2 109**
Project management unit	938	67	-	-	295	21	-	-	-	-	-	-	-	-	169	12	1 402
Project implementation team	411	58	-	-	202	29	-	-	-	-	-	-	-	-	94	13	707
Total	**46 200**	**28**	**300**	**-**	**46 200**	**28**	**800**	**-**	**21 428**	**13**	**-**	**21 400**	**13**	**-**	**27 041**	**17**	**163 370**

Table 3
Additional financing: project costs by expenditure category and financier
(Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		Additional IFAD loan		Additional IFAD grant		PFIs		Beneficiaries		Government		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	In kind	%	In kind	%	Amount
Equipment, goods and vehicles	2 494	44	-	-	2 038	36	-	-	-	-	-	-	1 133	20	5 665
Civil works	1 564	27	-	-	2 950	50	-	-	-	-	-	-	1 310	23	5 825
Consultancies (technical assistance and training)	1 318	32	300	7	1 020	24	800	19	28	1	-	-	669	16	4 135
Inclusive value chain finance	39 710	27	-	-	39 733	27	-	-	21 400	15	21 400	15	23 706	16	145 449
Total investment costs	45 086	28	300	-	45 742	28	800	1	21 428	13	21 400	13	26 818	17	161 075
Recurrent costs	1 114	62	-	-	458	26	-	-	-	-	-	-	223	12	1 795
Total	**46 200**	**28**	**300**	**-**	**46 200**	**28**	**800**	**-**	**21 428**	**13**	**21 400**	**13**	**27 041**	**17**	**163 370**

Table 4
Project costs by component and project year (PY)
(Thousands of United States dollars)

	PY1		PY2		PY3		PY4		PY5		PY6		Total
Component	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*
1. Inclusive value chain development	1 846	19	4 218	44	2 002	21	1 047	11	303	1	229	2	9 644
2. Inclusive rural finance	4 511	3	62 326	43	49 901	34	25 858	18	3 650	1	-	-	146 246
3. Climate-resilient rural Infrastructure	198	4	449	8	1 482	28	1 493	28	1 368	26	381	7	5 372
4. Project management	648	31	310	15	276	13	298	14	255	5	323	15	2 109
Total	**7 203**	**4**	**67 302**	**41**	**53 660**	**33**	**28 697**	**18**	**5 576**	**2**	**932**	**1**	**163 370**

Financing and cofinancing strategy and plan

20. The project will be financed by an IFAD loan (original) of US$ 46.2 million, an IFAD loan (additional) of US$46.2 million, an IFAD grant (original) of US$0.3 million and an IFAD grant (additional) of US$0.8 million, totalling US$93.5 million. In addition, US$21.4 million will be financed by local PFIs, US$21.4 by the beneficiaries (in kind) and US$27.0 million by contributions from the Government of Uzbekistan (in kind). Each dollar of IFAD financing will leverage 75 cents of domestic contribution.

21. In 2018 the World Bank designed the Ferghana Valley Rural Enterprise Development Project (REDP), with financing of US$200 million. The project targets the same geographical region, with the same implementing agency and similar development objectives and approaches to ADMP. There is ample scope for developing synergies between the two projects, which could enhance the efficiency of project investments, particularly as they target different players within value chains: ADMP is primarily focused on smallholder farmers, while the REDP focuses on other, often larger, players such as agricultural processors and marketing clusters, which could secure marketing opportunities for the ADMP beneficiaries. Moreover, partnership in implementation would allow efficiency gains, better coordinated procurement leading to economies of scale, a more efficient use of grant funding for both projects through joint support of capacity-building activities and, ultimately, enhanced outreach and impact of both projects. The World Bank and IFAD teams have pledged to strive for the closest possible coordination and collaboration between the two projects through the exchange of project information and documentation, mutual consultation on project implementation modalities to ensure effective alignment, joint participation in supervision and reviews, and mutual recognition of the financing provided by the other institution as cofinancing.

22. Synergies have also been identified with the International Finance Corporation (IFC), which has provided its Cash-flow Linked Agricultural Risk Assessment (CLARA) software to the local banks participating in ADMP and has pledged its cost of US$0.8 million for that activity as cofinancing. The CLARA system will be used to assess the financial sustainability of ADMP credit beneficiaries and is also expected to contribute to the internal transformation needed in the banking system to achieve success in agricultural lending.

Disbursement

23. The project is projected to disburse rapidly through the credit lines for productive investments, with about 78 per cent of total project resources disbursed by midterm (end of project year 3). IFAD financing is being disbursed in accordance with the IFAD disbursement procedures specified in the project implementation manual and the letter to the borrower/recipient. Two separate designated accounts denominated in United States dollars (US$) have been opened for the IFAD loan and grant in a commercial bank. From the designated accounts, the funds flow to the project account denominated in Uzbek sum (UZS) to finance eligible project expenditures. From the designated loan account and the project loan account,

funds (US$ or UZS) are transferred to incremental credit accounts (one account in US$ and one in UZS) maintained by the PFIs in the form of credit to finance subprojects undertaken by beneficiaries. Transfers to the rural guarantee facility are made using the direct payment method to a separate account maintained in US$ in a commercial bank, and IFAD funds are not mingled with other funds.

Summary of benefits and economic analysis

24. ADMP is expected to generate substantial net incremental benefits for farming households, *dekhan* farmers, commercial farmers, agri-firms and rural entrepreneurs. Benefits will accrue from: (i) increased farm and herd productivity and reduction of production costs due to the adoption of modern technologies; (ii) reduced losses during harvesting; (iii) marketing of an increased proportion of farm produce; (iv) improved quality and safety of agricultural products, which will attract higher prices as a result of the demand by processors for more reliable outputs and increased sales and net margins; (v) increased farm income through diversification away from wheat and cotton production; (vi) increased employment opportunities in both on-farm and off-farm activities; (vii) increased trade (export) and improved balance of payments; and (viii) increased revenues for the Government as a result of increased volume of taxable production. Increases in incomes will be largely dependent on farmers/households/rural entrepreneurs accessing dedicated credit lines from PFIs, benefiting from project capacity development activities (including demonstrations) and adopting efficient technologies (including in irrigation), all of which will contribute to a favourable economic environment in the Fergana Valley, encouraging farmers/rural entrepreneurs to produce more competitive products and establish stronger commercial linkages.

25. The economic analysis carried out in the design phase in 2017 took account of the financing gap of US$47 million and encompassed the entire project as designed. The analysis is thus unaffected by the additional financing and its findings remain applicable. However, it has been adjusted in 2019 by updating the UZS:US$ exchange rate and the discount rate. The analysis indicates that the total investment gains will be significant and robust in economic terms. The analysis resulted in an internal economic rate of return of 23.9 per cent and a net present value of US$85.85 million over 20 years, based on quantifiable benefits that relate directly to the activities undertaken by the project.

Exit strategy and sustainability

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

III. Risk management

A. Project risks and mitigation measures

27. The major risks are: (i) a distortive policy environment; (ii) lack of stakeholder participation; (iii) market-related risks, including potential exchange rate fluctuations; (iv) deteriorating financial performance of some PFIs; (v) the outbreak of transboundary animal disease; and (vi) complex flow of funds. Mitigation measures include: regular project supervision; a detailed project implementation manual; separate US$ accounts for IFAD financing and procedures to manage foreign exchange risks; regular assessments of banks against eligibility requirements; and upgrading of critical competencies for active disease

surveillance and reporting from the field. Moreover, specific conditions related to disbursement and audit have been included in the financing agreement to ensure safeguards are in place with regard to funds being transferred to the PFIs and the guarantee facility. The PFIs are also subject to strict monitoring measures and compliance-based disbursement procedures.

B. Environment and social category

28. A Social, Environmental and Climate Assessment Procedures (SECAP) review of the entire project was carried out at design in 2017, and the project received a category B classification. No significant environmental or social impacts are expected to arise from project activities. The project targets vulnerable groups, including women and youth, and will contribute to the diversification of both income-generating activities and diets. No major infrastructure works are part of the project. Agricultural diversification and modernization activities linked to agribusiness development and agricultural production could potentially have impacts, but these are expected to be negligible. In view of the reforms initiated since the design of the project, coupled with possible developments in the project context and target area, an update of the SECAP review was carried out in August 2019, but no justification was found for changing the category classification, which remains B.

C. Climate risk classification

29. The SECAP review in 2017 concluded that, while climate change is an issue for Uzbekistan, its climate risk in the context of the project is moderate. The project will seek to mitigate the risk, but also to adapt to climate-related environmental events, by improving (tertiary) water management systems and their governance at the level of water consumer associations and Basin Irrigation System Authorities. Also, by contributing to the diversification of the rural economy, the project will increase the resilience of rural communities to the effects of climate change. The updated SECAP analysis confirmed the climate risk classification as moderate. IFAD climate adaptation for ADMP amounts to US$11.4 million (representing 24 per cent of the IFAD financing).

IV. Implementation

A. Compliance with IFAD policies

30. The project design is aligned with all relevant IFAD strategies and policies, including the: (i) Strategic Framework 2016-2025; (ii) Revised Operational Guidelines on Targeting; (iii) Policy on Gender Equality and Women's Empowerment; (iv) Rural Finance Policy; (v) Private Sector Engagement Strategy 2019-2024; (vi) Rural Enterprise Policy; (vii) Environment and Natural Resource Management Policy; (viii) SECAP; and (iv) Rural Youth Action Plan 2019-2021.

B. Organizational framework

Management and coordination

31. The overall responsibility for managing the project on behalf of the Government rests with the Agro-Industry and Food Security Agency (UZAIFSA), a state agency under the Cabinet of Ministers. Responsibility for daily oversight rests with a project management unit (PMU) under UZAIFSA. Overall management oversight is the responsibility of an inter-agency council for cooperation with international financial institutions, foreign governments and donor countries implementing large-scale investment projects. This council provides guidance and direction to the project implementing agency; the project manager acts as secretary to the council.

Financial management, procurement and governance

32. In accordance with IFAD guidelines, a financial management assessment was undertaken at the project design stage. The inherent risk was assessed as high. In order to mitigate this risk, a stand-alone PMU, with separate financial management

arrangements, has been established within UZAIFSA. This system was already in place for ongoing IFAD projects and some World Bank projects, and the quality of financial management of those projects has been largely assessed as satisfactory. The project will thus draw on existing capacity that has worked satisfactorily in earlier IFAD projects.

33. **Financial Management.** The PMU, with support from the UZAIFSA finance unit, is 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.

34. Accounting, financial reporting and audit arrangements have already been established under earlier IFAD projects. All project transactions are recorded in customized accounting and financial software on a cash basis in accordance with the International Public Sector Accounting Standards, and quarterly financial reports are prepared in formats agreed with IFAD. The project's consolidated financial statements are audited annually by an independent audit firm in accordance with internationally accepted auditing standards and IFAD guidelines on project audits.

35. **Procurement.** IFAD assessed the public procurement systems and institutions in Uzbekistan for the purpose of identifying an entity to handle procurement and found critical gaps in compatibility with IFAD's procurement guidelines and procedures. However, the procurement capacity and experience of UZAIFSA have been found to be fully in line with IFAD procurement regulations and procedures.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

36. The project results framework is the basis for the results-based monitoring and evaluation (M&E) system, including performance monitoring and impact assessment. The PMU is responsible for all internal M&E and submits progress reports to UZAIFSA, the Ministry of Finance and IFAD. A midterm review will be conducted 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, the M&E data will be used to carry out 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 experience.

37. **Learning and knowledge management.** To ensure that the experience gained is captured, comprehensive provisions have been made for M&E. Two approaches are being used: (i) a knowledge management programme to support 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 also supports efforts to broaden information dissemination through the development of farmer networks, farmer-to-farmer extension approaches, development of private technical services and strengthening of linkages among research and development institutions.

V. Legal instruments and authority

38. To extend the proposed additional financing, the Republic of Uzbekistan and IFAD will enter into a new financing agreement, separate from and additional to the financing agreement that entered into force on 9 January 2019, under which the original financing was extended. A copy of the negotiated financing agreement is attached as appendix I.

39. The Republic of Uzbekistan is empowered under its laws to receive additional financing from IFAD.

40. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

41. I recommend that the Executive Board approve the proposed additional 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 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 of eight hundred thousand United States dollars (US$800,000) 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 18 November 2019)

Additional Loan No. _______
Additional Grant No. _______

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")

A. WHEREAS, the Borrower/Recipient and IFAD entered into a financing agreement on 9 January 2019 (the "Original Financing Agreement") for the provision of a loan for the amount of forty six million two hundred thousand United States dollars (USD 46 200 000) and a grant for the amount of three hundred thousand United States dollars (USD 300 000) from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

B. WHEREAS, the Project was approved by the Executive Board of the Fund with a financing gap of forty seven million United States dollars (USD 47 000 000) to be sourced by subsequent performance-based allocation system (PBAS) cycles and/or external co-financing identified during implementation;

C. WHEREAS, the Borrower/Recipient has requested an additional loan for the amount of forty six million, two hundred thousand United States dollars (USD 46,200,000) and an additional grant for the amount of eight hundred thousand United States dollars (USD 800,000) from the Fund for the purpose of covering the financing gap of the Project/Programme described in Schedule 1 to this Agreement; and

D. WHEREAS, in addition to the Original Financing Agreement, the Borrower/Recipient has requested to enter into a new and separate financing agreement (the "Agreement") with the Fund for the provision of the financing gap referenced to in recital C.

NOW THEREFORE, 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 December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide an Additional Loan and an Additional 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 Additional Loan is forty-six million and two hundred thousand United States dollars (USD 46 200 000).

   B. The amount of the Additional Grant is eight hundred thousand United States dollars (USD 800 000).

2. The Additional Loan is granted on blend terms, and shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the Additional Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually 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 of the Loan by the Fund's 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 April and 15 October.

6. There shall be two Additional Designed Accounts in USD, one for the Additional Loan and one for the Additional 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 Additional 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. The implementing agency for the Project shall be the Agency of the Republic of Uzbekistan for the implementation of projects in the field of agro industry and food security (UZAIFSA).

2. The Project Completion Date of this Agreement shall be the Project Completion Date of the Original Financing Agreement.

Section D

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

Section E

1. The following is designated as additional grounds for suspension of this Agreement:

(a) The Project Implementation Manual ("PIM") referred to in Paragraph 18, 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 or other applicable official document of the Borrower/Recipient shall have been issued for the purposes of the implementation of the Project;

(b) An updated version of the 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:

Minister for Finance
Ministry of Finance
29, Istiqlol Street
100008, Tashkent

Minister for Agriculture
Ministry of Agriculture
____

For the Fund:

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

This Agreement 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

____
Name and title of the Authorised Representative

Date: _________________________

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Gilbert F. Houngbo
President

Date: _________________________

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. The Project is expected to reach 75,000 households directly (an estimated total of 375,000 direct beneficiaries) and approximately 21,000 households indirectly. These include 11,000 households benefiting from loans and training and approximately 54,000 incremental suppliers of the leading entities benefiting from project loans. In addition, 10,000 full-time jobs will be created by the leading entities' 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 has three principal inter-related components as well as another one to support Project management and implementation:

7. 7. Component 1: **Inclusive Value Chain 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 are being 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. *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. *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 is being 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 the World Bank-funded Ferghana Valley Rural Enterprise Development Project (REDP) and the International Finance Corporation's Cash-flow Linked Agricultural Risk Assessment (CLARA) and other projects funded by other donors organizations especially with those projects also under the UZAIFSA.

12. *Organizational framework.* The Ministry of Agriculture will have the overall responsibility for the Project on behalf of the Borrower/Recipient. The day-to-day oversight of the ADMP's management will rest with a Project Management Unit (PMU) under the UZAIFSA. 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 has been established and is headed by a Project Manager and composed of a Chief Accountant; Procurement Officer; Rural Finance; Youth/Gender Officer; Administrative Assistant; and a Driver. The ADMP will use 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, UZAIFSA regional representation) has been established in one of the regions of the Project area. 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 UZAIFSA/ADMP PMU at central level. Any changes to the composition of the PMU and PIT shall be mutually agreed upon by the Parties.

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) that has been entered into between the Borrower/Recipient, the UZAIFSA 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. *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.

17. *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.

18. *Project Implementation Manual (PIM).* The UZAIFSA/PMU shall revise the project PIM to integrate additional financing 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 Additional Loan and the Additional Grant and the allocation of the amounts to each Category of the Financing 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	2 921 000		100%
II. Equipment and Materials (including Vehicles)	2 018 000		100%
III. Consultancies [including Technical Assistance, training and Capacity Building]	1 010 000	800 000	100%
IV. Credit and Guarantee Funds:			
(a) Guarantee Finance	4 455 000		100%
(b) Credit line for AMD	29 931 000		100%
(c) Credit line for Youth	4 950 000		100%
V. Operating Costs (salaries and recurrent costs)	454 000		100%
Unallocated (1%)	461 000		
TOTAL	46 200 000	800 000	

(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 Capacity Building [including related equipment and materials.]

Category V "Operating cost" means Eligible Expenditures related to Salaries and Allowances, operating and maintenance cost of the PMU/PIU and other recurrent cost.

2. 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.

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 UZAIFSA (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 UZAIFSA, 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.

Updated logical framework incorporating the additional financing

Results hierarchy		*Indicators*				*Means of Verification*			*Assumptions*
Hierarchy	*Indicator*	*C.I.*	*Baseline*	*Mid-term*	*End Target*	*Source*	*Frequency*	*Responsibility*	
Goal									
Improved incomes and livelihoods of rural people in the Project area	Percentage of project beneficiaries reporting at least 20% increase in income	Impact	0%	30%	80% (30% women)	Baseline, mid-term and impact surveys Specialized (qualitative / quantitative) thematic studies	Baseline, Mid-term, Completion Annually	PMU M&E unit	Overall political and economic situation remains stable Stability of prices in agricultural commodities
	Number of HHs receiving services promoted or supported by the project	Outreach	0	15.000	75,000 (30% women; 20 % youth)	Household income surveys			
Project development objective									
Increased inclusiveness and profitability of selected value chains through enhanced productivity and market access and improved natural resources	Number of full-time jobs (or equivalent) created	2.2.1	0	2,000	10,000 (30% women)	Baseline, mid-term and impact surveys Annual outcome surveys Project baseline study and mid-term review and implementation completion report	Baseline, Mid-term, Completion	PMU M&E unit	Macro-economic conditions remains stable
	Percentage of supported smallholder producers including *dekhans* reporting 20% increase in sales along the value chains	2.2.5	0	30%	70% (30% women)	UzAgroExport, plus reports from participating agri-firms (processor/aggregator) on access to foreign markets			
Outcomes/outputs									
Component 1. Inclusive Value Chains Development									
Outcome 1									
Enhanced capacity for sustainable and efficient performance of targeted stakeholder	Percentage of supported smallholder/*dekhan* farmers engaged in partnerships/ commercial agreements with LEs		0%	30%	70% (30% women)	Annual surveys Project's M&E records and report	Annually	PMU M&E unit	Government policies and rural economic reforms supporting smallholders, private sector development and the agriculture sector are implemented
	Percentage of smallholder producers reporting adoption of new / improved technologies or practices	1.2.2	0%	30%	80% (30% women)	Government's national, regional and local production data Targeted field studies and surveys			
Output 1.1									
Enabled business environment for inclusive value chains	Number of LEs supported in the preparation of a Value Chain Development Plan		0	800	1,200 (30% women)	Project records	Continuously	PMU M&E unit	
Output 1.2									
Strengthened value chains stakeholders	Number of value chain stakeholders receiving training on better agronomic, livestock and business practices		0	6,500	10,000 (30% women)	Project records	Continuously	PMU M&E unit	
Component 2. Inclusive Rural Finance									
Outcome 2									

Results hierarchy		*Indicators*				*Means of Verification*			*Assumptions*
Hierarchy	*Indicator*	*C.I.*	*Baseline*	*Mid-term*	*End Target*	*Source*	*Frequency*	*Responsibility*	
Productivity and efficiency along targeted smallholder-inclusive value chains increased	Participating Financial Institutions' Portfolio at risk > 30 days	1.2.6	<5%	<5%	<5%	Project baseline study and mid-term review and implementation completion report; Participating Financial Institutions and Central Bank Project M&E records and report	Annually	PMU M&E unit	Micro-economic conditions are supportive for doing business
Output 2.1									
Operational Rural Guarantee Facility	Value of loans guaranteed by the Rural Guarantee Facility		0	10 m US$	24 m US$	Project records	Continuously	PMU M&E unit	
Output 2.2									
Increased access to credits by rural residents	Number of value chain stakeholders (Leading Entities) in the project areas accessing financial services	1.1.5	0	1,695	2,000 (30% women)	Project records	Continuously	PMU M&E unit	
Output 2.3									
Increased access to credits by youth	Number of youth involved in the selected value chains accessing to the financial services		0	250	1,000 (50% women)	Project records	Continuously	PMU M&E unit	
Component 3. Climate-resilient Rural Infrastructure									
Outcome 3									
Improved farmland productivity resulting from modernized irrigation infrastructure	Number of HHs reporting increase in production as a result of the adoption of modern irrigation techniques	1.2.4	0	200	1,000 (30% women)	Annual outcome surveys Project's M&E records and report Government's national, regional and local production data Targeted field studies and surveys	Annually	PMU M&E unit	Government policies and rural economic reforms supporting smallholders, private sector development and the agriculture sector are implemented
Output 3.1									
Enhanced access by smallholder farmers to modernized irrigation systems	Number of hectares of farmland under water-related infrastructure constructed/ rehabilitated	1.1.2	0	2,000	3,500	Project records	Continuously	PMU M&E unit	
Output 3.2									
Strengthened WCAs	Number of WCA representatives trained		0	20	30	Project records	Continuously	PMU M&E unit	

Updated summary of the economic and financial analysis

Table A

Financial cash flow models

UZBEKISTAN - AGRICULTURE DIVERSIFICATION AND MODERNIZATION PROJECT (ADMP)

	CATEGORY	Estimated Investment Costs (US$)			Annual Net Benefits (US$)			Annual Inc. net benefits per 1US$ of Inv.	IRR (%)	NPV (US$)	Return to labour, US$/day	Return to family labour, US$/day
		ADMP	Beneficiary Contribution	Total	Without Project	W. Project - Full Dvt	Incremental					
FINANCIAL ANALYSIS	**Large Leading Entities:**											
	Warehouses (80T)	17.393	11.595	28.988		19.716	19.716	0,7	19%	12.257	22,4	0,0
	Warehouses (1000T)	249.584	166.389	415.973		226.344	226.344	0,5	16%	19.500	25,7	0,0
	Slaughterhouses	5.125	3.417	8.542	635	10.065	9.429	1,1	85%	34.639	11,4	0,0
	Small-Medium Leading Entities:											
	Wheat to Vegetable (tomato)	1.057	705	1.762	890	2.399	1.508	0,9	43%	4.577	0,0	31,2
	Wheat to Orchard (apple)	5.268	3.512	8.781	890	7.665	6.775	0,8	21%	8.199	9,1	27,2
	Wheat to Orchard (vineyard)	6.560	4.373	10.933	890	9.157	8.266	0,8	29%	12.847	61,3	184,0
	(Y) Garden tomato to GH Tomato	2.728	1.819	4.547	4.201	5.531	1.330	0,3	50%	2.034	0,0	64,4
	(Y) Sheep/Goat: from 5 to 20 heads	474	316	790	142	300	158	0,2	23%	159	10,0	2,6
	Sheep/Goat: from 50 to 175 heads	4.023	2.682	6.705	1.510	3.077	1.567	0,2	29%	2.333	15,4	26,8
	(Y) Rabbit breeding (compared to Sheep/Goat)	623	415	1.038	300	727	427	0,4	71%	1.264	0,0	6,7
	Catfish aquaculture (extensive)	2.242	1.495	3.737	449	2.105	1.656	0,4	40%	3.510	8,8	0,0
	(Y) Catfish aquaculture (intensive)	2.281	1.520	3.801	300	2.039	1.739	0,5	48%	4.205	0,0	56,6
	(Y) Beekeeping	3.126	2.084	5.210		1.169	1.169	0,2	43%	1.857	4,9	19,5
	Demonstration											
	Drip irrigation	5.581	NA/Demo	5.581	4.152	8.859	4.708	0,8	23%	4.780		
	Minimum tillage (30ha)	8.221	NA/Demo	8.221	41.744	58.488	16.744	2,0	71%	56.122		
	Conservation agriculture (30ha)	30.830	NA/Demo	30.830	41.357	56.930	15.573	0,5	83%	56.502		

(Y) = Attractive for youth due to limited capital / collateral / land required for the investment

Table B
Project costs and logframe targets

Provides information on total project costs (broken down by component) and beneficiaries (broken down by category). This table also includes logframe targets as per the EFA.

PROJECT COSTS AND INDICATORS FOR LOGFRAME					
TOTAL Costs	**163,4**	**m US$**	**PMU**	**2,1**	**m US$**
Base Costs	**158,2**	**m US$**			
Beneficiaries (direct)	405 000	People	80 000 circa	HHs	**Adoption rates 80%**
Beneficiaries (including indirect)	500.000	People	101 000 circa	HHs	
Cost per beneficiary	316	US$/person			
	1.581	US$/HHs			

Components and Cost (USD million)		**Outcomes and Indicators**	
- Component 1. Inclusive Value Chains Development - m USD - -	9,6	Enhanced capacity for sustainable and efficient performance of targeted stakeholder	At least 70% supported smallholder household / *dehkan* farmers engaged in partnerships/ commercial agreements with LEs At least 80% small scale producers report adoption of new / improved technologies / practices
- Component 2. Inclusive Rural Finance - m USD -	145,7	Productivity and efficiency along targeted smallholder-inclusive value chains increased	Participating Financial Institutions' Portfolio at risk > 30 days are below 5% Up to 2,000 LE value chain stakeholders in the project areas accessing financial services
- Component 3. Climate-resilient Rural Infrastructure - m USD - -	5,4	Improved farmland productivity resulting from modernized irrigation infrastructure	At least 1,000 farms (including also HH/DFs) reporting increase in production as a result of the adoption of modern irrigation techniques. At least 3,500 hectares under upgraded irrigation

Table C
Main assumptions and shadow prices

Shows the basic assumptions on yields and process for the main inputs and outputs. The economic section shows shadow prices used in the conversion.

MAIN ASSUMPTIONS & SHADOW PRICES				
Official Exchange rate (OER)	9.366	Discount rate		16%
Shadow Exchange rate (SER)	9.618	Social Discount rate		16%
Standard Conversion Factor	1,03	Output conversion factor		0,90
Labour Conversion factor	0,92	Input Conversion factor		1,10

Table D

Beneficiary adoption rates and phasing

Shows the total number of project beneficiaries, subdivided into activities and phased following the inclusion pattern envisaged by the project and reflected in the EFA and COSTAB

Large Leading Entities:	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**
Warehouses (80T)	13	179	140	59		
Warehouses (1000T)	2	25	20	8		
Slaughterhouses	2	30	24	10		
Sub-total Large Leading Entities	*17*	*234*	*184*	*77*	*0*	*0*
Small-Medium Leading Entities:						
Wheat to Vegetable (tomato)	5	64	50	21		
Wheat to Orchard (apple)	1	19	15	6		
Wheat to Orchard (vineyard)	4	55	43	18		
Garden tomato to GH Tomato	2	21	16	7		
Sheep/Goat: from 5 to 20 heads	25	347	272	115		
Sheep/Goat: from 50 to 175 heads	2	31	24	10		
Rabbit breeding (compared to Sheep/Goat)	7	95	75	31		
Catfish aquaculture (extensive)	2	27	21	9		
Catfish aquaculture (intensive)	1	20	16	7		
Sub-total Medium-Small Leading Entities	*49*	*679*	*532*	*224*	*0*	*0*
Youth credit line (number of borrowers):						
Garden tomato to GH Tomato	8	99	69	115	38	
Sheep/Goat: from 5 to 20 heads	8	92	64	107	36	
Beekeeping	10	115	80	134	45	
Catfish aquaculture (intensive)	3	38	26	44	15	
Sub-total borrowers Youth credit line	29	344	239	401	134	0
Irrigation infrastructure	36	84	276	278	255	71
Incremental Suppliers	2231	30774	24131	10158	0	0
Incremental jobs	221	3054	2395	1008	0	0
Rural Guarantee Facility funds (credit lines)	0	20	80	100	1000	0
Total	2583	35199	27837	12246	1389	71
Total direct HH						80000
Indirect HH						21000
Grand Total (direct + indirect HH)						101000

Table E

Economic cash flow

Presents the overall project aggregation. Include the net incremental benefits of each financial model in economic terms, converted using shadow prices (table C) and multiplied by the number of beneficiaries (table D). Net incremental costs are to present all additional project costs. Last column indicates net cash flow to be used to calculate project profitability indicators such as NPV and economic IRR (EIRR).

	Values in '000 USD	***Net Inc. Benefits***	***Incr. Costs***	**Cash Flow**
ECONOMIC ANALYSIS	**PY1**	-7.518	6.592	**-14.110**
	PY2	-86.912	64.381	**-151.293**
	PY3	-72.447	51.513	**-123.960**
	PY4	-24.674	27.257	**-51.931**
	PY5	21.061	5.105	**15.956**
	PY6	52.473	738	**51.735**
	PY7	68.801	309	**68.491**
	PY8	82.903	309	**82.594**
	PY9	87.501	309	**87.192**
	PY10	89.099	309	**88.790**
	PY11	81.655	309	**81.346**
	PY12	78.102	309	**77.793**
	PY13	80.960	309	**80.651**
	PY14	86.605	309	**86.296**
	PY15	89.753	309	**89.444**
	PY16	89.751	309	**89.441**
	PY17	86.296	309	**85.986**
	PY18	87.173	309	**86.864**
	PY19	88.205	309	**87.896**
	PY20	89.571	309	**89.261**

NPV ('000 USD)	**85.850**
EIRR	**23,9%**

Table F
Sensitivity analysis

Demonstrates the sensitivity of project's profitability indicators to the risks identified in the project design document. For ease of reading, NPVs and EIRRs are colour coded. Sensitivity analysis should be used to identify critical values to be monitored during implementation (values in red).

SENSITIVITY ANALYSIS			
	Δ%	**Link with the risk matrix**	**FIRR**
Base scenario			24,0%
Project benefits	-10%	Combination of risks affecting output prices, productivity and adoption rates	22,2%
Project benefits	-20%		20,2%
Project benefits	-30%		18,1%
Project costs	10%	Increase of goods costs	14,2%
Project costs	20%		13,6%
1 year lag in ben.		Risks affecting adoption rates and low implementation capacity	15,6%
2 years lag in ben.			15,3%