

Document:	<u>EB 2019/128/R.30/Sup.1</u>
Agenda:	<u>7(d)(iii)(c)</u>
Date:	<u>25 November 2019</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Investing in rural people

Republic of Uzbekistan

Agriculture Diversification and Modernization
Project

Negotiated financing agreement

Executive Board — 128th Session
Rome, 10-12 December 2019

For: Information

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 (UZAIFFSA).

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 , 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:

- () The SFSDEA has become operational and 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) separate account for the IFAD loan funds in the SFSDEA has been duly opened.
- () The template for 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.