
President's report
Proposed loan
Republic of Uzbekistan
Dairy Value Chains Development Project II
(DVCDP II)

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 59.

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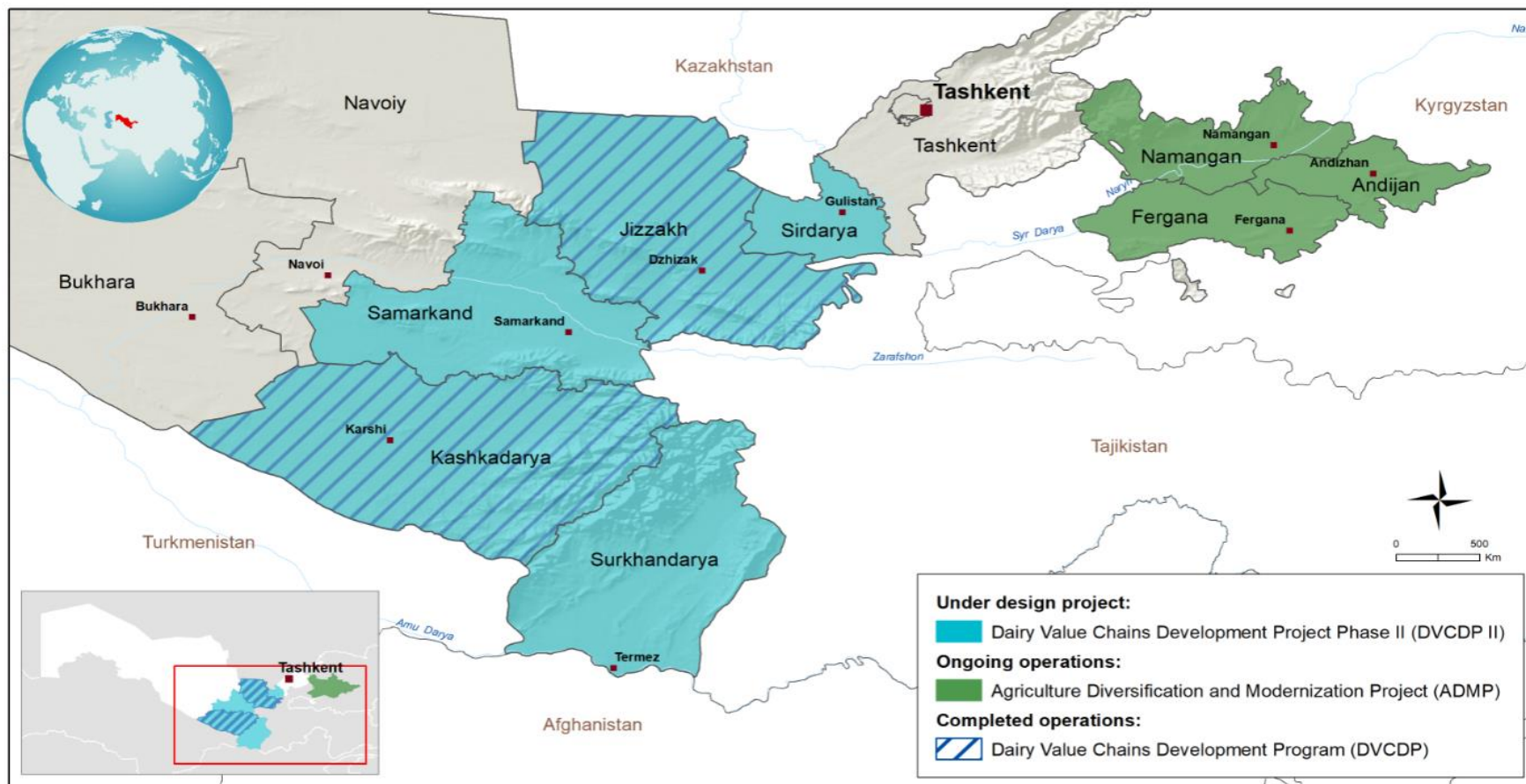
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Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 10-08-2023

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	The Republic of Uzbekistan
Executing agency:	Committee of Veterinary and Livestock Development (CVLD), Ministry of Agriculture
Total project cost:	US\$47.4 million
Amount of IFAD loan 1:	US\$30.0 million
Terms of IFAD loan 1:	Blend: maturity 25 years, including a grace period of 5 years, with a service charge of 0.75 per cent and interest rate of 1.25 per cent per annum in special drawing rights (adjustments for single-currency loans)
Amount of IFAD loan 2:	US\$7.8 million
Terms of IFAD loan 2:	Ordinary: maturity 25 years, including a grace period of 5 years, subject to interest at a rate equal to the IFAD reference interest rate including a variable spread
Contribution of borrower:	US\$3.7 million (in-kind)
Contribution of beneficiaries:	US\$5.1 million (in-cash) US\$0.8 million (in-kind)
Amount of IFAD climate finance:	US\$14.1 million
Cooperating institution:	Directly supervised by IFAD

I. Context

A. National context and rationale for IFAD involvement

National context

1. The Republic of Uzbekistan is the largest country in Central Asia, with an area of 447,400 km² and nearly 36 million people in 2022. A shift towards a diversified market economy has taken place since 2017, and annual GDP growth was a consistent 5 per cent between 2010 and 2020. Poverty fell from 24 per cent in 2000 to 11.5 per cent in 2020, improving the lives of 2.2 million people. However, the COVID-19 pandemic halted the country's progress.
2. **Alignment with national priorities.** The second phase of the Dairy Value Chains Development Project (DVCDP II) aims to boost national food security, reduce poverty and stimulate economic growth.
3. **Key actors and institutional arrangements.** Key actors include specialized service providers – some of the best-performing ones under the first phase – as well as women's, farmers' and youth organizations and community-based organizations.

Special aspects relating to IFAD's corporate mainstreaming priorities

4. More than 57 per cent of Uzbekistan's population is under 30, with a third under 18. A recent study shows that 50 per cent of young people skip higher education and enter the workforce after secondary school, especially young women. Rural youth, often undertrained, face unemployment and underemployment. In line with IFAD's mainstreaming commitments, DVCDP II has been validated as:
 - Including climate finance
 - Youth-sensitive
 - Including adaptive capacity
5. Uzbekistan faces climate change challenges, including water scarcity and weather events. The rise in temperatures is expected to harm open-access rangelands, stress livestock and lower productivity. To combat these issues, DVCDP II employs proven approaches in animal health management, cropping strategies and water efficiency. It also focuses on livestock adaptation, rotational grazing and optimized fodder production.

Rationale for IFAD involvement

6. IFAD has a relatively long and successful track record in Uzbekistan in the livestock and dairy value chain sector. The first phase of DVCDP led to improved finance access and stronger producer-processor connections. DVCDP II will build upon these to consolidate and scale up the results achieved in DVCDP.

B. Lessons learned

7. **Targeting strategy.** Building on experience under the first phase, DVCDP II adopts a pro-poor targeting strategy by focusing on household farmers, *dehkan* (smallholder) farmers and vulnerable groups within the value chain.
8. **Capacity-building and the creation of an enabling environment** are prioritized. Investment in training and technical assistance is crucial for including farmers in the value chain effectively.
9. **Access to land and water** will be improved through rainwater harvesting and the promotion of drought-tolerant fodder.
10. **Establishment of milk collection centres (MCCs).** The project also addresses the need for MCCs through government grants, recognizing that relying solely on loans is unrealistic.

11. **Increased access to finance for women and youth.** DVCDP II, in collaboration with the participating financial institutions (PFIs), will develop tailored financial products and instruments that are more in line with the needs of women, youth and unregistered household farmers.
12. **Introduction of improved breeds.** DVCDP II focuses on local generation and artificial insemination rather than importing animals, aligning with national livestock strategies and environmental concerns. It also facilitates linkages between private farmers selling improved calves and beneficiary farmers.
13. **Last mile services**, including extension, artificial intelligence and veterinary care, are vital and will be strengthened.
14. **Monitoring and evaluation (M&E) and knowledge management** will receive increased funding compared to the first phase to ensure effective project management.
15. **Financial management** deficiencies observed in the first phase (i.e. no full-time financial management staff, poor monitoring and reporting of flows to PFIs, weak manual accounting) will be addressed to enhance transparency and accuracy.
16. Lastly, **DVCDP II aims to align its design** with the Government's feasibility study to prevent implementation issues that occurred in the previous phase.

II. Project description

A. Objectives, geographical area of intervention and target groups

17. DVCDP II aims to enhance the incomes and livelihoods of small-scale dairy producers, ensuring a competitive and sustainable dairy value chain. This aligns with the first and second strategic objectives (SOs) of the country strategic opportunities programme (COSOP) for 2023–2027: SO1 increased resilience and productivity of small-scale producers; and SO2 improved access for small-scale producers to viable food systems and agricultural markets.
18. **Geographical targeting.** The project will continue to pursue investments in Jizzakh and Kashkadarya and will expand into Sirdarya, Samarkand and Surkhandarya, fostering broad regional development. Selection within these regions is based on multiple criteria, including rural poverty levels, existing dairy production, untapped smallholder potential, local market opportunities, coordination with other development efforts and climate change vulnerability.
19. **Target group.** Approximately 31,000 households in the five regions will benefit from the project, including 40 per cent women and 30 per cent youth. The main target groups encompass: (i) vulnerable household farmers; (ii) better-off household farmers (unregistered) and *dehkan* farmers (registered) owning larger livestock and having access to land; and (iii) near landless and unemployed women and youth, some with disabilities, and returning migrants.

B. Components, outcomes and activities

20. The project comprises three components:
 - **Component 1. Improving sustainable dairy production and access to services.** Focused on production, this component enhances dairy production by securing quality water and fodder, promoting climate-smart methods, and empowering smallholder households and farmer interest groups. It also seeks to improve access to dairy services, knowledge and inputs for smallholders.
 - **Component 2. Increasing participation of small-scale farmers in the dairy value chain.** Aiming to boost smallholder participation in the dairy value chain and increase incomes, this component establishes 100 MCCs and

provides credit access, including a window for youth, women and unregistered farmers, supported by a guarantee mechanism.

- **Component 3.** This component involves policy advocacy, project management and coordination. It includes establishing a national dairy platform or forum and participating in working groups to influence government policy, particularly related to land reform.

C. Theory of change

21. Despite the significant contribution made by small-scale farmers in Uzbekistan to the country's labour force and economy, they operate well below their business potential and are disproportionately affected by poverty, food insecurity and climate change.
22. To address this problem, three mutually reinforcing pathways will be pursued: (i) sustainable climate-smart dairy production, adopting new livestock practices and improving extension and research for smallholder farmers; (ii) increased competitiveness of the dairy value chain, increasing access to rural financial service and supporting market linkages; and (iii) sustainable institutional and organizational development.
23. Assumptions include: interest among PFIs to increase access to rural finance products for small-scale farmers; availability of adequate financing instruments for smallholders in the value chain; training and investments resulting in adoption of climate resilient practices; interest by the private sector to invest in the dairy value chain; and smallholders adopting a business mindset and acquiring management skills.

D. Alignment, ownership and partnerships

24. DVCDP II is aligned with the IFAD Strategic Framework 2016–2025,¹ the Development Strategy of New Uzbekistan for 2022–2026 and the newly adopted Livestock Subsector Development Strategy for 2021–2030. The project will build on ongoing country programme partnerships.
25. **Ownership.** Country ownership will be ensured, among others, by: (i) having the CVLD as the lead implementing agency; (ii) leveraging government social support systems and registry to identify and mobilize target beneficiaries; (iii) the mobilization of local public agencies as key project implementing partners (i.e. Women's Committee, *mahalla* or local communities, the AKIS Center for Agricultural Services, universities and research institutes); and (iv) the identification of an exit strategy from the outset.
26. DVCDP II will be fully aligned with and complementary to other projects funded by other development partners in the livestock sector, in particular the Asian Development Bank (ADB) and World Bank. This optimal alignment with other donor initiatives will be facilitated by the fact that all these four projects will be implemented by the same executing agency (CVLD).

E. Costs, benefits and financing

Project costs

27. Total project costs are estimated at US\$47.4 million, which will be distributed over seven years' duration. The recurrent costs of the project constitute US\$3.2 million (6.8 per cent of the total project cost), whereas the investment costs constitute 93.2 per cent of the total project cost. The recurrent costs financed by IFAD represent 6.7 per cent of total IFAD financing, extended under the performance-based allocation system (PBAS) and the Borrowed Resource Access Mechanism

¹ The project contributes to achieving the United Nations Sustainable Development Goals (SDGs) 1 (no poverty), 2 (zero hunger), 5 (gender equality), 8 (decent work and economic growth), 13 (climate action) and 15 (life on land).

(BRAM), and are entirely financed using resources under the Twelfth Replenishment of IFAD's Resources (IFAD12).

28. Project components 1 and 2 count in part towards IFAD climate finance.² The total amount of IFAD climate finance for this project is estimated as US\$14.1 million.

² As per the [MDB Methodologies for Tracking Climate Adaptation and Mitigation Finance](#).

Table 1
Project costs by component and subcomponent and financier
(Thousands of United States dollars)

Components/subcomponents	IFAD loan 1		IFAD loan 2		Government in-kind contribution		Government in-kind contribution (office space)		Beneficiaries in-cash contribution		Beneficiaries in-kind contribution		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Improving sustainable dairy production and access to services														
1.1. Mobilizing farmers and households and building capacities	768.9	100.0	-	-	-	-	-	-	-	-	-	-	768.9	1.6
1.2. Improving access to water, fodder production and grazing land	1 641.9	58.3	530.0	18.8	294.4	10.4	-	-	175.7	6.2	175.7	6.2	2 817.1	5.9
1.3. Improving dairy production and farm management	3 020.4	93.8	-	-	110.0	3.4	-	-	44.9	1.4	44.9	1.4	3 220.3	6.8
1.4. Improving access to extension, health and input services	1 988.9	74.7	-	-	207.2	7.8	-	-	373.8	14.0	93.5	3.5	2 663.4	5.6
1.5. Applied research, pilots and dissemination	769.8	100.0	-	-	-	-	-	-	-	-	-	-	769.8	1.6
Subtotal	8 190.0	80.0	530.0	5.2	611.6	6.0	-	-	594.5	5.4	314.1	2.9	10 240.2	21.6
2. Increasing participation of small-scale farmers in the dairy value chain														
2.1. Establishing MCCs	8 225.4	63.0	1 270.0	9.7	2 307.7	17.7	-	-	694.1	5.3	553.3	4.2	13 050.6	27.5
2.2. Facilitating access to credit for stakeholders in the value chain	9 844.6	50.1	6 000.0	30.6	-	-	-	-	3 788.9	19.4	-	-	19 633.5	41.1
Subtotal	18 070.0	55.3	7 270.0	22.2	2 307.7	7.1	-	-	4 483.0	14.5	553.3	1.5	32 684.1	68.9
3. Policy support and project coordination and management														
3.1. Policy support	468.8	100.0	-	-	-	-	-	-	-	-	-	-	468.8	1.0
3.2. M&E and knowledge management	466.0	100.0	-	-	-	-	-	-	-	-	-	-	466.0	1.0
3.3.a Project management unit (PMU) – Tashkent	1999.5	79.1	-	-	451.8	17.9	76.3	3.0	-	-	-	-	2 527.6	5.3
3.3.b Project implementation teams (PIT) – regional	805.7	77.1	-	-	201.6	19.3	38.2	3.7	-	-	-	-	1 045.5	2.2
Subtotal	3 740.0	83.0	-	-	653.5	14.5	114.5	2.5	-	-	-	-	4 508.0	9.5
Total	30 000.0	63.2	7 800.0	16.4	3 572.8	7.5	114.5	0.2	5 077.5	10.7	867.4	1.8	47 432.2	100.0

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

	IFAD loan 1		IFAD loan 2		Government in-kind contribution		Government in-kind contribution (office space)		Beneficiaries in-cash contribution		Beneficiaries in-kind contribution		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs														
A. Equipment and goods	8 044.9	62.5	1 270.0	9.9	21318.6	18.0	-	-	694.1	5.4	553.3	4.3	12 880.9	27.2
B. Vehicles	91.4	75.0	-	-	30.5	25.0	-	-	-	-	-	-	121.8	0.3
C. Technical assistance	3 116.0	100.0	-	-	-	-	-	-	-	-	-	-	3 116.0	6.6
D. Training	579.2	100.0	-	-	-	-	-	-	-	-	-	-	579.2	1.2
E. Consultancies	1 149.0	100.0	-	-	-	-	-	-	-	-	-	-	1 149.0	2.4
F. Studies and workshops	1 147.6	100.0	-	-	-	-	-	-	-	-	-	-	1 147.6	2.4
G. Grants and subsidies	3 506.9	63.1	530.0	9.5	611.2	11.0	-	-	594.5	10.7	314.1	5.7	5 556.8	11.7
H. Credit, guarantee funds window														
1. Women, youth, non-registered households	700.0	90.0	-	-	-	-	-	-	77.8	10.0	-	-	777.8	1.6
2. <i>Dehkan</i> farmers	4 484.6	80.0	-	-	-	-	-	-	1 121.1	20.0	-	-	5 605.7	11.8
3. Private farmers	-	-	6 000.0	80.0	-	-	-	-	1 500.0	20.0	-	-	7 500.0	15.8
4. Agriprocessors	3 300.0	80.0	-	-	-	-	-	-	825.0	20.0	-	-	4 125.0	8.7
5. Service providers and input	1 060.0	80.0	-	-	-	-	-	-	265.0	20.0	-	-	1 325.0	2.8
6. Guarantee mechanism	300.0	100.0	-	-	-	-	-	-	-	-	-	-	300.0	0.6
Subtotal credit, guarantee funds	9 844.0	50.1	6 000.0	30.6	-	-	-	-	3 788.9	19.3	-	-	19 633.5	41.4
Total investment costs	27 479.7	62.2	7 800.0	17.7	2 960.2	6.7	-	-	5 077.5	11.5	867.4	2.0	44 184.9	93.2
II. Recurrent costs														
A. Salaries	1 711.2	80.0	-	-	427.8	20.0	-	-	-	-	-	-	2 139.0	4.5
B. Operation and maintenance	209.9	83.3	-	-	42.0	16.7	-	-	-	-	-	-	251.9	0.5
C. Other operating costs	599.2	70.0	-	-	142.8	16.7	114.5	13.4	-	-	-	-	856.5	1.8
Total recurrent costs	2 520.3	77.6	-	-	612.6	18.9	114.5	3.5	-	-	-	-	3 274.4	6.8
Total	30 000.0	63.2	7 800.0	16.4	3 572.8	7.5	114.5	0.2	5 077.5	10.7	867.4	1.8	47 432.2	100.0

Table 3
Project costs by component and subcomponent and project year
 (Thousands of United States dollars)

Components/subcomponents	<i>Totals including contingencies</i>							<i>Total</i>
	2025	2026	2027	2028	2029	2030	2031	
1. Improving sustainable dairy production and access to services								
1.1. Mobilizing farmers and households and building capacities	307.5	325.1	99.1	8.9	9.1	9.4	9.7	768.9
1.2. Improving access to water, fodder production and grazing land	212.6	606.8	539.6	687.6	505.7	263.9	1.5	2 817.1
1.3. Improving dairy production and farm management	353.8	550.2	447.7	560.5	571.3	482.4	254.5	3 220.3
1.4. Improving access to extension, health and input services	201.7	144.1	724.4	742.2	525.6	285.5	39.7	2 663.4
1.5. Applied research, pilots and dissemination	50.8	146.4	150.8	155.3	137.1	123.5	6.1	769.8
Subtotal	1 126.4	1 772.7	1 961.5	2 154.5	1 748.9	1 164.8	311.4	10 240.2
2. Increasing participation of small-scale farmers in the dairy value chain								
2.1. Establishing MCCs	463.9	4 212.7	4 334.8	2 863.0	612.0	397.5	166.7	13 050.6
2.2. Facilitating access to credit for stakeholders in the value chain	1 682.8	5 030.0	4 830.0	4 330.0	3 130.0	630.7	-	19 633.6
Subtotal	2 146.6	9 164.8	9 164.8	7 193.0	3 742.0	1 028.2	166.7	32 684.1
3. Policy support and project coordination and management								
3.1. Policy support	50.8	86.1	86.1	88.7	91.4	36.8	-	468.8
3.2. M&E and knowledge management	195.2	18.8	18.8	74.9	20.0	20.6	118.2	466.0
3.3.a PMU – Tashkent	347.0	353.7	357.7	368.5	366.1	368.1	366.5	2527.6
3.3.b PIT – regional	129.7	149.5	150.7	152.0	153.2	154.5	155.9	1 045.5
Subtotal	722.7	636.5	613.4	684.0	630.7	580.1	640.5	4 508.0
Total	3 995.7	11 651.9	11 739.7	10 031.5	6 121.6	2 773.1	1 118.7	47 432.2

Financing and cofinancing strategy and plan

29. The overall cost of the project is estimated at US\$47.4 million over a seven-year period. Of this total financing, IFAD's contribution to the project is US\$37.8 million (79.7 per cent), including US\$30.0 million from the PBAS under IFAD12 and US\$7.8 million under BRAM. The project is expected to leverage domestic cofinancing of US\$9.6 million, including US\$3.7 million from the Government (7.7 per cent of project cost) and the beneficiaries will contribute to the project with US\$5.1 million (10.7 per cent) in cash and with US\$0.8 million in kind.
30. Potential additional parallel financing was discussed with ADB. There is also potential for climate financing from the Adaptation Fund that could be linked to DVCDP II.
31. Additional resources for the project will also be explored from resources under IFAD13, under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval.

Disbursement

32. The IFAD loans will be disbursed in two designated United States dollar denominated accounts at a commercial bank acceptable to IFAD, based on interim financial reports submitted quarterly. Local currency Uzbek sum (UZS) project accounts will be maintained to receive funds from the designated account. A revolving fund mechanism will facilitate the flow of IFAD funds, including transfers to PFIs and the Entrepreneurship Development Company (EDC) for credit lines and the guarantee fund. Government cofinancing will be in kind, mostly in the form of exemptions to taxes/duties. Specific conditions for first disbursement to the designated account and fund transfers to PFIs and EDC will be outlined in the financing agreement and project implementation manual (PIM).

Summary of benefits and economic analysis

33. The economic and financial analysis of DVCDP II shows that the targeted activities are sound and the project is economically viable. The economic rate of return for the entire project is 16.4 per cent, and the economic net present value amounts to US\$41.6 million. Sensitivity analysis shows that milk price and productivity assumptions have a more significant impact on the models' performance than changes in investment and operating costs, emphasizing the need for careful monitoring. The sensitivity analysis also demonstrates that all models remain attractive even in scenarios where costs increase and benefits decrease. This resilience indicates the project's ability to withstand potential fluctuations in market conditions and financial variables. The economic indicators confirm that the project is economically viable.

Exit strategy and sustainability

34. The project's exit strategy will be based on several elements presented in the PIM and project sustainability will be ensured through: (i) participatory criteria for smallholder producer groups; (ii) prioritizing training of trainers and capacity-building of local implementing partners; (iii) involving public-private-producer partnerships (4Ps) and productive alliances for economically sustainable and mutually beneficial business models; (iv) promoting efficient natural resources and management practices to strengthen the environmental sustainability of the value chain; and (v) generating evidence for policy development to support smallholder production at the policy level.

III. Risk management

A. Risks and mitigation measures

35. The project's overall inherent risk rating is moderate, as is the residual risk rating. Top risk factors include: (i) a potential mismatch between the timing of government reforms and the project timeline; (ii) environmental challenges leading to livestock

productivity losses; (iii) project relevance in view of the constraints on *dehkan* farmers and financial product misalignment with vulnerable groups; and (iv) financial management and internal control issues.

36. Risk mitigation measures are as follows: (i) sector strategy and policy – IFAD will provide policy support and maintain dialogue with the Government for alignment with project priorities and IFAD themes; (ii) environment and climate-related risks – DVCDP II will introduce environmentally sustainable natural resource management practices; (iii) project relevance - tailored pro-poor financial products will be developed; (iv) project financial management risks - the internal control systems will be strengthened, including enhancing the PMU financial function, upgrading accounting software and establishing comprehensive financial procedures in the PIM.

Table 4

Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Moderate	Moderate
Sector strategies and policies	Substantial	Moderate
Environment and climate context	Substantial	Moderate
Project scope	Substantial	Moderate
Institutional capacity for implementation and sustainability	Moderate	Moderate
Financial management	Substantial	Substantial
Project procurement	Moderate	Moderate
Environment, social and climate impact	Moderate	Moderate
Stakeholders	Moderate	Moderate
Overall	Moderate	Moderate

B. Environment and social category

37. The environmental and social risk of DVCDP II is assessed as substantial due to its intensive livestock focus. Social risks include youth unemployment, labour conditions and gender-based violence. The project addresses these by creating safe youth jobs and addresses gender-based violence through mentoring. Environmental concerns involve biodiversity degradation, water extraction, pesticide use, dairy pollution and waste management. The project pilots water management technologies, sustainable feed production and resource management. Component 2 aligns with sustainably reducing greenhouse gases, land degradation and biodiversity impacts. To ensure PFIs follow standards, their environmental and social management systems will be tailored during due diligence.

C. Climate risk classification

38. The climate risk for DVCDP II is moderate. Uzbekistan faces climate change vulnerabilities attributable primarily to water scarcity, inefficient irrigation practices, drought and potential extreme weather events. The project aims to reduce vulnerability to climate hazards and enhance resilience by promoting sustainable agricultural practices. It addresses greenhouse gas emissions by improving animal health and feed efficiency, deploys solar energy installations, and focuses on land and soil management for sequestration efforts.

D. Debt sustainability

39. Debt sustainability:³ external debt remains at low risk of distress. External financing is expected to continue to provide most of the financing over the medium term. The International Monetary Fund's November 2022 assessment concluded that the country's economic growth remained strong despite new headwinds posed by the war in Ukraine, global price pressures and a tightening of global financial market

³ International Monetary Fund, Article VI Consultation Uzbekistan, June 2022, and confirmed in Article VI, July 2024.

conditions. Growth is also expected to remain strong, as the authorities continue with sound macroeconomic policies and reforms. This should allow Uzbekistan to achieve the goal of becoming an upper-middle-income country by 2030.

IV. Implementation

A. Organizational framework

Project management and coordination

40. **Project management and coordination.** The lead project agency will be the Ministry of Agriculture through the Committee of Veterinary and Livestock Development (CVLD). Specifically, CVLD within the Ministry of Agriculture serves as the lead executing agency. The lead project agency directs the project's overall strategy and appoints the project director, subject to IFAD's approval. A PMU within the CVLD manages day-to-day activities. It comprises a central unit in Tashkent and two regional units in Kashkadarya and Surkhandarya, facilitating local engagement. Additionally, a project steering committee, led by the Ministry of Agriculture, supervises project progress.
41. **Legally binding contractual vehicles** will be signed between the lead project agency and the additional project parties, including the Women's Committee of Uzbekistan, *mahalla* (to support targeting and beneficiary mapping), the Tashkent State Agrarian University and the Samarkand Institute of Veterinary Medicine (for research).

Financial management, procurement and governance

42. The financial management unit will operate in Tashkent, recruiting financial management staff competitively subject to IFAD's approval. Project accounting will be done on a cash basis in accordance with the International Public Sector Accounting Standards using dedicated software (1C) to track transactions by component and expenditure category. Quarterly interim financial reports, including those from PFIs and EDC established under the Ministry of Economy and Finance for the provision of guarantee schemes, will be submitted to IFAD quarterly. Formalized financial reporting requirements for PFIs will be ensured through a presidential decree as part of the subsidiary loan agreements. The PMU will develop an annual work plan and budget (AWPB) aligned with the procurement plan, credit line activities and the design document. Internal control measures mandated by Uzbekistan and the PIM will be followed. In the absence of an internal audit unit in the CVLD, the PMU will hire a private service provider for internal audits to carry out spot checks on fund utilization by beneficiaries, including credit lines and guarantee schemes.
43. External auditing will be conducted by an independent firm in line with the International Standards on Auditing and IFAD guidelines. The audit scope will include credit lines and guarantee schemes.
44. **Procurement.** The inherent risk is assessed as moderate. Until the national public procurement law of 2021 is operationalized, reviewed and found satisfactory by IFAD, procurement of goods, works and services for DVCDP II will be carried out in accordance with the provisions of the IFAD's Project Procurement Guidelines, as amended from time to time, and provisions stipulated in the financing agreement and letter to the borrower. In the event of a conflict between the Government's decrees, rules and regulations and the IFAD procurement guidelines, the latter will prevail.
45. **Procurement plan.** A procurement plan based on the AWPB will be developed annually at the national and regional levels. This plan will specify procurement methods, estimated costs, timing, etc. The consolidated plan, as well as any updates, will be submitted to IFAD for prior review.

46. **Governance.** In the Transparency International's 2022 Corruption Perceptions Index the country ranks in 126th place of 180 countries. A 2018 public expenditure and financial accountability assessment showed that public financial management is reliable in terms of budget credibility, debt management and treasury functions, but weaknesses exist when it comes to transparency, public participation, off-budget funding, annual financial reports, and internal and external audit. IFAD's anticorruption policy is integrated into IFAD's legal framework, requiring prompt reporting of fraud or corruption allegations in relation to project activities.

Target group engagement and feedback and grievance redress

47. **A stakeholder engagement plan** will be prepared and implemented to enhance transparency and stakeholder relations. Information campaigns will clarify the project's objectives and operational mechanisms for guiding, training and financing young people in starting or consolidating their economic activities. Beneficiaries and partners feedback will be gathered in accordance with the PIM.
48. **Grievance redress.** A grievance redress mechanism (GRM) will be established to respond to queries or clarifications about the project, resolve any problems with implementation, and address complaints and grievances efficiently and effectively. Existing GRM mechanisms at the local, district and national levels will be leveraged by the project. The grievance will be handled by PMU gender and social inclusion specialist and regional field facilitators, and escalated to the project director, to CVLD and potentially to IFAD, depending on the level of priority.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

49. The PMU will prepare an AWPB outlining the activities to be implemented, along with a calendar, stakeholders, and the budget and corresponding procurement plan. Continuous monitoring of the AWPB by the M&E officer ensures resources use assessment.
50. The PMU establishes an M&E system to meet IFAD and government requirements. The M&E system will measure the achievement of expected results and validate the project's theory of change for informed decision-making and derive lessons from implementation experience.
51. As part of learning, knowledge management and communication, the project will encourage exchange and sharing of know-how among different actors. The PMU, in close collaboration with the Government, *mahalla*, and other stakeholders, will develop and implement an integrated knowledge management and communication strategy.

Innovation and scaling up

52. DVCDP II will: (i) introduce the novel concept of livestock farmer field schools in Uzbekistan; (ii) introduce extension via media outlets for smallholder farms; (iii) support the privatization of (para)veterinarians; (iv) establish breeding groups and breeding records; (v) issue a tender for Masters of Science study proposals on topics relevant to smallholder farms; (vi) set up youth fodder production and service provision groups; and (vii) scale up MCCs under a cooperative management model and in partnership with the Women's Committee.

C. Implementation plans

Implementation readiness and start-up plans

53. Between the approval and start-up of DVCDP II, the PMU will engage in the following preparatory activities: (i) recruit key staff; (ii) establish the accounting system; (iii) prepare the first AWPB and procurement plan; (iv) finalize the investment guidelines, baseline survey and mapping of beneficiaries, and recruit the bulking facilitation operator; and (v) organize a start-up workshop. A start-up advance of up to US\$300,000 may be made from the IFAD loan to pay for

expenditures for project start-up prior to fulfilment of the conditions precedent to withdrawal.

Supervision, midterm review and completion plans

54. Supervision of DVCDP II will be performed jointly by IFAD and the Government through annual implementation support and supervision missions during the project's lifetime. Four annual missions will be organized during the overall implementation period. A midterm review will be conducted before the end of the fourth year of implementation.
55. **Project completion:** After the project completion date and no later than the closing date, IFAD in collaboration with the CVLD will prepare a project completion report complying with IFAD standards. In addition, the PMU will conduct a project impact evaluation to adequately inform the completion report.

V. Legal instruments and authority

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

VI. Recommendation

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

RESOLVED: that the Fund shall provide to the Republic of Uzbekistan a loan on blend terms in an amount of thirty million United States dollars (US\$30,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

FURTHER RESOLVED: that the Fund shall provide a loan on ordinary terms in an amount of seven million eight hundred thousand United States dollars (US\$7,800,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

Loan No: _____
Loan No: _____

Project name: Dairy Value Chains Development Project II ("DVCDP II "or the "Project")

The Republic of Uzbekistan (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

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

WHEREAS:

- A.** The Borrower requested a financing in the form of two loans from the Fund for the purpose of financing the Project, as further described in Schedule 1 to this financing agreement;
- B.** It is expected that the Project will be co-financed by various sources, such as other international financial institutions and donors active within the Republic of Uzbekistan and other potential co-financiers;
- C.** The Borrower has undertaken to provide additional support, that may be needed to the Project; and
- D.** The Fund agreed to provide financing for the Project.

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this present financing agreement (the "Agreement"): i) this document (the "Special Conditions"); ii) the Project Description and Implementation Arrangements, attached in Schedule 1 hereto; iii) the Allocation Table, attached in Schedule 2 hereto; iv) the Special Covenants, attached in Schedule 3 hereto; and v) the Eligibility criteria for PFIs, attached in Schedule 4 hereto.
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, 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 two (2) loans, a loan A (the "Loan A") and a loan B (the "Loan B") (collectively referred to as the "Financing") to the Borrower which the Borrower shall use solely in order to implement the Project in accordance with the terms and conditions stipulated within this present Agreement.

4. *Credit lines and Guarantee mechanism.*

A. Definitions. For the avoidance of doubt and regarding activities falling under:

Component 1: Improving and increasing sustainable climate smart dairy production and access to required services; and Component 2. Increasing participation of small-scale farmers in the dairy VC and Sub-component 2.2. – Facilitating access to credit for stakeholders in the dairy VC; the following definitions shall apply:

"*Commercial Banks*" shall mean any commercial bank established and operating in compliance with all banking laws and prudential regulations of the Central Bank of Uzbekistan (the "CBU"), and which are eligible to receive subsidiary loans from the Borrower and to enter into a Subsidiary Loan Agreements with eligible beneficiaries of sub-loans;

"*Participating Financial Institution*" or "*PFI*" shall mean, a Commercial Bank selected by the Borrower and subject to IFAD's no-objection for the provision of Subsidiary Loan Agreements;

"*PFI Subsidiary Loan Agreement*" means a loan agreement between the Borrower and each of the eligible PFIs with respect to the implementation of Activity 2.5 – Extending lines of credit to banks and developing tailored financial products for the dairy sector as the same may be amended or otherwise modified from time to time only with the prior consent of the Fund; a Subsidiary Loan Agreement shall include right of access to PFI records by project's auditors, PMU staff and IFAD for purposes of supervision.

B. Selection of PFIs. Eligible PFIs will be selected in line with the agreed eligibility criteria and through a competitive tender process open to Commercial Banks, upon IFAD's non-objection. The applicable due diligence process will be led by the Project Management Unit (the "PMU") and shall be subject to IFAD's no objection.

The applicable indicative eligibility criteria for the selection of PFIs as further detailed in Schedule 4 to this Agreement have been agreed between the Parties. During Project implementation these criteria may be modified, following the PIU's suggestion and upon IFAD's no-objection.

Eligible PFIs shall be responsible for identifying sub-borrowers and for following the eligibility criteria for sub-loan beneficiaries described in the PFI Subsidiary Loan Agreements. The PFIs shall assume the full credit risk on all sub-loans financed under the Project. The terms and conditions applicable to PFI Subsidiary Loan Agreements and to sub-loan agreements shall be subject to IFAD's no-objection.

Section B

1. A. The amount of the Loan A is of thirty million US dollar (USD 30 000 000).
- B. The amount of the Loan B is of seven million eight hundred thousand US dollar (USD 7 800 000).

2. Loan A 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 Loan A by the Fund's Executive Board (the "EB"). 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 EB. The principal of Loan A will be repaid in equal instalments.

3. Loan B is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan B, at a rate equal to the IFAD Reference Interest Rate including a variable spread, payable semi-annually in the Loan Service Payment Currency, and have a maturity period of twenty-five (25) years, including a grace period of five (5) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
4. The Loan Service Payment Currency shall be in US dollar (USD).
5. The first day of the applicable Fiscal Year shall be 1 January.
6. Payments of principal, interest and service charge of the Loans shall be payable on each 20 January and 20 July.
7. The Borrower shall confirm two (2) Designated Accounts (the "DA") in USD, at a bank acceptable to IFAD, for the exclusive use of the Project, in order to receive the proceeds of the Loan A and Loan B, respectively.
8. The Project Implementation Unit (the "PIU"), as further described in Schedule 1 of this present Agreement, shall open and maintain two separate Project Accounts (the "PA"), one for credit lines and one for other eligible project expenditure, respectively, in UZS currency at a commercial bank acceptable to IFAD, for the exclusive use of the Project, in order to receive the proceeds of the IFAD Financing from the DAs.
9. The Borrower shall cause the Entrepreneurship Development Company (the "EDC") to open and maintain one separate account in order to receive funds from the DA-Loan A for the Rural Guarantee Fund (the "RGF").
10. The Borrower shall cause each eligible PFI to open and maintain:
 - two separate accounts, one in USD and one in UZS, in order to receive proceeds of the Financing from the DAs and the PA for credit lines to Project's beneficiaries, respectively;
 - two separate accounts, one in USD and one in UZS, to receive the reflows from the credit lines. The Borrower shall inform IFAD of the persons entitled to operate such accounts.
11. The Borrower shall provide counterpart financing in-kind in the form of exemptions on taxes and custom duties in the amount of approximately USD 3 570 000. The Borrower will also contribute in-kind in the form of office space for the Project approximately in the equivalent amount of USD 110 000.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture (the "MoA") through the Committee of Veterinary and Livestock Development (the "CVLD") (both referred to as the "LPA").
2. The following are designated as additional Project parties (the "Additional Project Parties"): i) the Women Committee of Uzbekistan; ii) the Mahallah; iii) the University State Agrarian University; iv) the EDC v) eligible PFIs and vi) the Veterinary University in Samarkand.

3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.

4. The Project Completion Date shall be the seventh (7th) anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.

5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Fund's Project Procurement Guidelines dated December 2019, as may be amended from time to time by the Fund.

Section D

1. The Fund will administer the Financing and will supervise the Project.

Section E

1. The following are designated as additional grounds for suspension of this Agreement, complementing Article XII, Section 12.01 - Suspension by the Fund of the GCs:

(a) i. The PIM and/or any provision thereof, has been waived, suspended, terminated, amended or modified without IFAD's prior agreement; and IFAD, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.

ii. The Parties agree that under the rules and regulations of the Borrower a feasibility study, according to the national legislation is required prior to the implementation of the Project. IFAD shall cover the costs of the Study and both Parties shall approve it.

For the avoidance of doubt, the feasibility study will be provided in English and/or any provision thereof, should not be waived, suspended, terminated, amended or modified without IFAD's prior agreement.

(b) In the event that the Borrower did not request a disbursement of the Financing for a period of at least twelve (12) consecutive months without valid justification.

(c) In the event that within twelve (12) months of the entry into force of this present Agreement, the Project has not entered into relevant agreements with the Additional Project Parties (a list of which shall be agreed and revised on a timely basis by the Parties), as further defined in Section C para 2 of the Special Conditions, that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting, subject to IFAD no-objection.

2. The following are designated as additional grounds for cancellation of this Agreement:

In the event that the Borrower did not request a disbursement of the Financing for a period of at least twelve (12) months without justification.

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

- (a) The IFAD no objection to the PIM shall have been obtained and no change and/or any provision thereof, has been waived, suspended, terminated, amended or modified without IFAD's prior agreement;
 - (b) Key Project staff, as further defined in Schedule III- Section 11 of the Special Conditions shall be competitively recruited, following an open call and shall be timely appointed subject to IFAD's no-objection;
 - (c) A suitable accounting software, with fully automated accounting and financial reporting functions is in place in compliance with IFAD's requirements; and
 - (d) The opening of a designated account (the "DA") in compliance with Section B paragraph 7 of this Agreement.
4. The following are designated as additional specific conditions precedent to withdrawal:
- (a) No proceeds from the Financing will be disbursed by the Borrower to EDC for the RGF prior to the fulfilment of the following conditions:
 - i. The signature and entry into force of the agreement between the Borrower and EDC subject to IFAD no-objection; and
 - ii. The Borrower has complied with Section B paragraph 9 of the Agreement.
 - (b) No proceeds from the Financing will be disbursed by the Borrower to PFIs for Credit Lines prior to the fulfilment of the following conditions:
 - i. The signature and entry into force of the agreements between the Borrower and eligible PFIs, subject to IFAD no-objection;
 - ii. The formalisation, in accordance with the applicable regulation, of the financial reporting requirements in the agreements with the eligible PFIs; and
 - iii. The Borrower has complied with Section B paragraph 10 of the Agreement.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

For the Fund:

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

Copy to:

If applicable, The Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

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

"[Authorised Representative Name]"
"[Authorised Representative title]"

Date: _____⁴

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
President

Date: _____

⁴ In case the FA is not signed in IFAD HQ

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project shall benefit approximately 31,000 households, with 40% being women and 30% youth. The main target groups encompass: a) Vulnerable household farmers; b) better-off household farmers (unregistered) and dekhani farmers (registered) owning larger livestock and having access to land; c) Near landless and unemployed women and youth, some with disabilities and returning migrants.

2. **Project area.** The Project will invest in five regions – Jizzakh, Kashkadarya - Sirdarya, Samarkand, and Surkhandarya (the "Project Area").

3. **Goal.** The goal of the Project is Reduce poverty level among small scale dairy producers and mitigate the impacts of climate change in the sub-sector.

Objectives. The objective of the Project is to improve the income and the livelihood of small-scale producers involved in a competitive and sustainable dairy value chain and promote food security.

4. **Components.** The Project shall consist of the following Components:

Component 1: Improving and increasing sustainable climate smart dairy production and access to required services. This component is focusing on production as well as increasing and improving access to suitable dairy production services, knowledge and inputs for smallholders and strengthening institutional capacity for smallholder dairy development.

Activity 1.1: Mobilizing farmers and households and building capacities. The Project will be highly inclusive, with dedicated activities aimed at fostering social mobilization and participation. Most training activities will be delivered through the implementation of farmer-to farmer and learning by doing methodologies, most notably Livestock Farmer Field Schools.

Activity 1.2: Improving access to water, fodder production and grazing land. Access to water and land for fodder production is critical for livestock and dairy production. The Project will provide technical trainings and capacity buildings to dekhani and private farms on best practices for improved water management and irrigation.

Activity 1.3: Improving dairy production and farm management. For improving dairy production, productivity and generating additional farmer income, acquiring technical as well as business knowledge and best practices skills, is essential. The Project will provide training to the targeted farmers, following a Livestock Farmer Field School (L-FFS) model.

Activity 1.4: Improving access to extension, health and input services. Extension will complement the farmer field school training that project smallholder farmers receive. Animal health management is pivotal for productivity increase and also for reducing greenhouse gas (GHG) emission intensities, reducing zoonotic and transboundary disease risks, and securing food safety and animal welfare.

Activity 1.5: Applied research, pilots and dissemination. Investments in short and applied research studies have the aim to assist in piloting innovations for scaling up in DVCDP II Project, generate knowledge for project beneficiaries, inform policy and/or build institutional capacity with regards to further climate smart dairy development and dairy management practices.

Component 2: Increasing participation of small-scale farmers in the dairy VC. The aiming of this component is to increased participation of smallholder farmers in the dairy and enhance the competitiveness of the value chain.

Sub-Component 2.1: Establishing Milk Collection Centres

Activity 2.1 – Construction and equipment of new Milk Collection Centres. During DVCDP, four MCCs were established by the end of the Project.

Activity 2.2 – Organization and equipment of milk collectors/traders. DVCDP II will provide through catalytic grants, around 600 refrigerated tricycles for young milk collectors who will also receive milk containers and a portable milk testing kit each.

Activity 2.3 – Equipment of producer groups with milk refrigerators. At the production level, around 1,000 groups of producers (the ones who were formed through the L-FFS) will also benefit through the catalytic grants from small-scale milk cooling equipment functioning with solar panels, milk containers and a simple lacto-densimeter for milk testing.

Activity 2.4 – Providing women involved in artisanal dairy processing with small-scale processing and packaging equipment. Around 1,700 Women who are currently involved in artisanal milk processing and transformation to dairy products such as kefir, cheese, cream, etc. will also benefit from catalytic grants to purchase small-scale equipment for dairy processing and packaging to improve the quality and the preservation of their products, and facilitate its marketing.

Sub-component 2.2: Facilitating access to credit for stakeholders in the dairy VC. Under this subcomponent the Project will extend lines of credit to banks and developing tailored financial products for the dairy sector. This will be achieved through:

Activity 2.5 – Extending lines of credit to banks and developing tailored financial products for the dairy sector. To achieve the expected outcomes in rural financing, the Project will support the establishment of five (5) targeted financing windows through subsidiary agreements/ sub-lending to selected Participating Financial Institutions (PFIs).

Activity 2.6 - Guarantee mechanism. A partial credit guarantee scheme for youth, women, and unregistered HH borrowers who have limited access to collaterals will also be considered in the framework of DVCDP II.

Activity 2.7 - Capacity building of PFIs. The Project will also support capacity building of the PFIs for the design of loan products tailored to the needs of the project target groups and for improved targeting to women and youth.

Component 3: Policy support and Project coordination and management. This component involves policy advocacy, project management, and coordination. It includes establishing a national dairy platform/forum and participating in working groups to influence government policy, particularly related to land reform.

Sub –Component 3.1: Policy support. This subcomponent will foresee the *Establishment of a national dairy platform/forum* that includes the main value chain actors involved (producers, collectors/traders, MCCs, processors) and government decision makers. The platform will play an important role in involving and taking into consideration the dairy VC actor propositions and in related policy and strategies developed by the government.

Influencing government policy on land reform with the aim to improve smallholders and youth access to agricultural land. The Project will also develop a study assessing the current status/results of the land reform and its potential future impacts, especially with regards access to land for smallholder farmers, youth and women.

Sub- Component 3.2: Project Implementation Unit. The Project will support the establishment of PIU within the CLVD for the day-to-day management and implementation of project activities. The PIU will consist of: (i) a **central unit in Tashkent**, and (ii) **two decentralized units in Kashkadarya and Surkhandarya regions**,

II. Implementation Arrangements

5. *Lead Programme Agency*: The Lead Project Agency (the "LPA") shall be the Minister of Agriculture (the "MoA") through the Committee of Veterinary and Livestock Development (the "CVLD"), that falls under the supervision of the MoA. The LPA will ensure overall guidance and strategic directions of the project implementation process and will appoint the Project Director from its own staff, upon IFAD's no objection.

6. **Project Steering Committee (PSC)** will be established to oversee the implementation and progress, provide strategic guidance and ensure alignment with national policies.

7. *Programme Implementation Unit*. A PIU will be established within the CLVD for the day-to-day management and implementation of project activities as per approved work plan and budget, consisting of: (i) a central unit in Tashkent, and (ii) two decentralized units in Kashkadarya and Surkhandarya regions, that will be the so-called extended hands of the PMU in these two regions. This organizational set-up aims to ensure close monitoring of project activities and to facilitate awareness-raising and outreach of project beneficiaries in all project regions.

8. *Implementing partners*. **Agreements or other relevant contractual arrangements** will be concluded between the PIU and envisaged implementing partners, as further defined in Section C para 3 of the Agreement.

9. *Monitoring and Evaluation*. In alignment with the directives of RoU to reinforce the monitoring and evaluation of international development projects and building on the recommendations from the completion of DVCDP, DVCDP II will allocate appropriate funding for the establishment of a robust M&E system to track the implementation, achievement and impact of all project activities including the appointment of one full-time dedicated M&E Specialist based in Tashkent, and the 2 Regional Field Facilitators (RFFs) in Surkhandarya and Kashkadarya regions.

A Monitoring Information System (MIS) will be set-up at the project's start to allow systematic and consistent data collection.

An online application system for credit/grant windows will be established allowing the identification/categorization of all types of target groups, eligible investments, and the collection of necessary data to feed the information needs of the Project as defined in the Project documents.

10. *Knowledge Management*. The overall purpose of knowledge management is to help build a credible knowledge base through practical know-how that leads to improved performance and results and scaling up of successes for inclusive and sustainable rural transformation. The PMU, in close collaboration with the Government, Mahallas, and other stakeholders, will develop and lead an integrated KM and Communication Strategy that supports achievement of DVCDP II goals and objectives as well as the COSOP strategic objectives.

Relevant information from the project MIS will be used to document lessons learnt, best practices and success stories. Cross-learning between IFAD-financed projects in Uzbekistan will be promoted by the PMU through workshops/meetings to share knowledge and lessons learned on various topics such as M&E, FM, procurement, gender and youth, climate change and any other relevant area. In addition, collaboration will be pursued with other development partners (who are also involved in the livestock/dairy subsector and the issues related to access to land), in drafting policy briefs and technical documents. Potential partners would be the WB, AFD and the ADB.

Extension via media outlets and MSc study grants will generate and disseminate knowledge, while raising awareness on DVCDPII approaches and pilots, and SHF challenges for dairy development in general.

11. *Programme Implementation Manual*. The Project Implementation Manual (PIM) has been developed to determine implementation arrangements of the DVCDP II, including roles, functions, mutual relations and responsibilities of different agencies involved in the Project implementation. The PIM will be finalized in the start-up phase of the project and is to be used by the PMU for the implementation of the DVCDP II. All Annexes to the PIM form an integral part of the Project Implementation procedures and should be considered and applied during Project implementation. The PIM shall be approved by the LPA and agreed with IFAD. In the course of Project implementation, amendments and additions may be made in the PIM based on the needs in efficient Project implementation. All amendments to the PIM shall be agreed with the Government (CVLD) and with IFAD. Proposals on amendments to the PIM may be proposed by the PMU. They shall be submitted for approval to the Government of the Republic of Uzbekistan (CVLD) and IFAD and, after approval by the Government and receipt of IFAD's no objection, such amendments will become effective.

Schedule 2

Allocation Table

1. Allocation of the Financing Proceeds.

(a) The Table below sets forth the components eligible for expenditure under the Financing, the amounts of the Financing allocated to each component and the percentages of expenditures for items to be financed in each component:

Component	IFAD Loan A (expressed in USD)	IFAD Loan B (expressed in USD)	Percentage (net of Taxes, Government and Beneficiaries' contributions)
COMPONENT 1	8 190 000	530 000	100%
COMPONENT 2	18 070 000	7 270 000	100%
COMPONENT 3	3 740 000		100%
TOTAL	30 000 000	7 800 000	

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

- (i) Components are defined in Schedule 1;
- (ii) Expenditure for *Component 1* will include technical assistance, training, studies and workshops, consultancy services, equipment and materials;
- (iii) Expenditure for *Component 2* will include equipment and materials, training, as well as credit to the following beneficiary groups: (i) Women, youth, non-registered households; (ii) Dekhan farmers; (iii) Private farmers; (iv) Agri processors; (v) Service providers; (iv) Guarantee fund. Detailed financial allocations to each of these groups will be provided in the Project's Annual Work Plan and Budget (AWPB) subject to IFAD no-objection; and
- (iv) Expenditure for *Component 3* will include technical assistance, training, studies and workshops, consultancy services, equipment and materials, vehicles, salaries and operating costs.

2. Disbursement arrangements

Start-up Advance. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of three hundred thousand US Dollar (USD 300 000). Activities to be financed by the Start-up Advance will require the no objection from IFAD to be considered eligible.

Schedule 3

Special Covenants

I. General Provisions

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 to request withdrawals from the Financing Account if the Borrower 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. **Financial Management.** The Chief Accountant and the Financial Specialist shall have completed the IFAD e-learning course on financial management (FM) within three (3) months from the date of his/her appointment in the PMU.
2. **Planning, Monitoring and Evaluation.** The Borrower shall ensure that either (i) an updated Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement; or ii) a new Planning, Monitoring and Evaluation (PM&E) system shall be established within eighteen (18) months from the date of entry into force of this Agreement.
3. **Gender.** The Borrower shall ensure that the resources and benefits of the Project, to the fullest extent practicable, are allocated among the Target Population using gender disaggregated methods.
4. **Anticorruption Measures.** The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.
5. **Sexual Harassment, Sexual Exploitation and Abuse.** The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
6. **Use of Project Vehicles and Other Equipment.** The Borrower shall ensure that:
 - (a) all vehicles and other equipment procured under the Policy Support and project management Component 3 of the Project are allocated to the PIU in Tashkent and to the regional offices for Project implementation;
 - (b) The types of vehicles and other equipment procured under the Project are appropriate to the needs of the Project;
 - (c) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use; and
 - (d) At Project closure, the Borrower shall confirm that all procured assets under the Project are properly transferred.
7. **IFAD Client Portal (ICP) Contract Monitoring Tool.** The Borrower shall ensure that a request is sent to IFAD to access the project procurement Contract Monitoring Tool in the IFAD Client Portal (ICP). The Borrower shall ensure that all contracts, memoranda of understanding, purchase orders and related payments are registered in the Project Procurement Contract Monitoring Tool in the IFAD Client Portal (ICP) in relation to the procurement of goods, works, services, consultancy, non-consulting services, community contracts, grants and financing contracts. The Borrower shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project.

8. **Scope of External Audit.** Project's external audit scope shall include scrutiny of credit lines and guarantee fund activities, through end-use review, including auditor's field visits to PFIs and beneficiaries, to verify use of the IFAD Loans for Project's eligible expenditures.

9. **Utilization funds.** After Project Financing Closure:

- i. All funds revolved and/or to be revolved to PFIs, from the repayment of beneficiaries' credit lines funded by IFAD, shall be used by PFIs to finance projects under the same conditions of DVCDP 2, as it will be set in the relevant agreements between the Borrower and eligible PFIs;
- ii. Any outstanding balance on the bank account held by EDC for the RGF, shall continue to be administered by EDC in order to guarantee groups of final beneficiaries similar to those targeted under DVCDP II, as it will be set in the relevant agreement between the Borrower and EDC.

10. **Key Project Personnel.**

- i. The Key Project Personnel shall be: i) Project Manager, ii) Chief Accountant, iii) Officer for Monitoring and Evaluation, iv) Procurement Officer, v) Social Inclusion and Gender Specialist, vi) Environment and Climate Assessment Specialist.
- ii. In order to assist in the implementation of the Project, the PMU, unless otherwise agreed with IFAD, shall employ or cause to be employed, as required, key staff whose qualifications, experience and terms of reference are satisfactory to IFAD. Key Project Personnel shall be seconded to the PMU in the case of government officials or recruited under a consulting contract following the individual consultant selection method in the IFAD Procurement Handbook, or any equivalent selection method in the national procurement system that is acceptable to IFAD. The recruitment of Key Project Personnel is subject to IFAD's prior review as is the dismissal of Key Project Personnel. Key Project Personnel are subject to annual evaluation and the continuation of their contract is subject to satisfactory performance. Any contract signed for Key Project Personnel shall be compliant with the national labour regulations or the ILO International Labour Standards (whichever is more stringent) in order to satisfy the conditions of IFAD's updated SECAP. Repeated short-term contracts must be avoided, unless appropriately justified under the Project's circumstances.

II. SECAP Provisions

1. The Borrower shall carry out the preparation, design, construction, implementation, and operation of the Project in accordance with the nine standards and other measures and requirements set forth in the Updated Social, Environmental Climate Assessment Procedures of IFAD ("SECAP 2021 Edition"), as well as with all applicable laws and regulations to the Borrower/Recipient and/or the sub-national entities relating to social, environmental and climate change issues in a manner and substance satisfactory to IFAD. The Borrower shall not amend, vary or waive any provision of the SECAP 2021 Edition, unless agreed in writing by the Fund in the Agreement and/or in the Management Plan(s), if any.

2. For Projects presenting high or substantial social, environmental and climate risks, the Borrower shall carry out the implementation of the Project in accordance with the measures and requirements set forth in the Environmental and Social Impact Assessments (ESIAs)/Environmental, Social and Climate Management Frameworks (ESCMFs) and/or

Resettlement Action Plans/Frameworks (RAPs/Fs) and Environmental, Social and Climate Management Plans (ESCMPs) for high risk projects and Abbreviated ESIA and/or Abbreviated RAP/F and ESCMPs for substantial risk projects and Free, Prior and Informed Consent (FPIC) Plans, FPIC Implementation Plans, Indigenous Peoples Plans (IPPs), Pesticide Management Plans, Cultural Resources Management Plans and Chance Finds Plans] (the "Management Plan(s)"), as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund.

The Borrower shall not amend, vary or waive any provision of the ESCMPs and Management Plan(s), unless agreed in writing by the Fund and if the Borrower has complied with the same requirements as applicable to the original adoption of the ESCMPs and Management Plan(s).

3. The Borrower shall not, and shall cause the Lead Project Agency, all its contractors, its sub-contractors and suppliers not to commence implementation of any works, unless all Project affected persons have been compensated and/or resettled in accordance with the specific RAP/Abbreviated RAP, FPIC and/ or the agreed works and compensation schedule.

4. The Borrower shall cause the Lead Project Agency to comply at all times while carrying out the Project/Programme with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s), if any.

5. The Borrower shall disclose the draft and final ESIA reports and all other relevant Management Plan(s) with Project stakeholders and interested parties in an accessible place in the Project-affected area, in a form and language understandable to Project-affected persons and other stakeholders. The disclosure will take into account any specific information needs of the community (e.g. culture, disability, literacy, mobility or gender).

6. The Borrower shall ensure or cause the LPA and the Additional Project Parties to ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition, ESCMPs and the Management Plan(s), if any.

7. The Borrower will ensure that a Project-level grievance mechanism is established that is easily accessible, culturally appropriate, available in local languages, and scaled to the nature of the Project's activity and its potential impacts to promptly receive and resolve concerns and complaints (e.g. compensation, relocation or livelihood restoration) related to the environmental and social performance of the Project for people who may be unduly and adversely affected or potentially harmed if the Project fails to meet the SECAP standards and related policies. The Project -level grievance mechanism needs to take into account indigenous peoples, customary laws and dispute resolution processes. Traditional or informal dispute mechanisms of affected indigenous peoples should be used to the greatest extent possible.

8. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below); labor issues or to adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or create material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Borrower shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements; and
- Adjust, as appropriate, the Project-level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

Serious ESHS incident means serious incident, accident, complaint with respect to environmental, social (including labor and community), health and safety (ESHS) issues that occur in loan or within the Borrower/Recipient's activities. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower/Recipient (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and -violence involving Project workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegation that require intervention by the police/other law enforcement authorities, such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

9. The Borrower shall ensure or cause the LPA, the Additional Project Parties, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the ESCMPs and Management Plan(s) (if any) are respected.

10. Without limitation on its other reporting obligations under this Agreement, the Borrower shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition, ESCMPs and the management plan (if any) on a semi-annual basis - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower will disclose relevant information from such reports to affected persons promptly upon submission of the said reports ; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s) (if any) promptly after becoming aware of such a breach.

11. The Borrower shall fully cooperate with the Fund concerning supervision missions, midterm reviews, field visits, audits and follow-up visits to be undertaken in accordance with the requirements of SECAP 2021 Edition and the Management Plan(s) (if any) as the Fund considers appropriate depending on the scale, nature and risks of the Project.

12. In the event of a contradiction/conflict between the Management Plan(s), if any and the Financing Agreement, the Financing Agreement shall prevail.

Schedule 4

Indicative Eligibility criteria for PFIs⁵

Requirement	Means of verification and monitoring	
A. General Standards		
Be in compliance with all banking laws and prudential regulations of the Central Bank of Uzbekistan (CBU)	Initial Due Diligence, the CBU	
Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the Project	Initial Due Diligence, on-going updates	
Be committed to co-funding the demand analysis at the project start (the co-funding amount may be around USD 5 000 per participating financial institution)		
Have or be willing to open branches or mini-banks (outlets) in the Project area or ensure other ways of servicing the potential borrowers in the Project area	Initial Due Diligence (one-time mapping), on-going updates	
Undergo an annual audit that is conducted in accordance with the International Standards on Auditing (ISA) by an audit company acceptable to IFAD and have an unqualified audit opinion	Bank to select auditor, PMU to confirm ISA capable auditor appointed	
Have the necessary staff, knowledge, physical and other resources to implement the credit lines under the Project	Initial Due Diligence, on-going updates	
B. Financial Standards		
At all times, meet the prudential ratios and requirements set by the CBU (see table below)	Table on compliance with prudential ratios ("Расчёт экономических нормативов") as reported to the CBU	
Have a positive net income for the current and two immediately preceding financial years, as reflected in the audited financial statements audited in accordance with ISA	Audited annual financial statements	
Have acceptable asset quality (non-performing loan [NPL] ratio should not exceed [10%]) and quality management policies, procedures and skills	Table on loans past due ("Анализ просроченных кредитов и финансового лизинга к получению") as reported to the CBU	
Have the aggregate share of sub-loans outstanding under DVCDP not exceeding [50%] of capital according to IAS	Project data, Audited financial statements	

⁵ Any changes to this Schedule, as agreed between the Parties, shall not require an amendment to this present Agreement.

C. Corporate Governance and Managerial Standards		
Have a Board of Directors, responsible for setting the overall bank policy and perform appropriate oversight of the bank's operations	Initial Due Diligence, on-going updates	
Have a qualified and capable management team		
Have a sound business plan and appropriate budgeting and budget control procedures	Initial Due Diligence, Business Plan	
Have sound lending policies and procedures, including in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, etc.	Initial Due Diligence, Audited financial statements	
Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors	Initial Due Diligence, Audited financial statements	
Not be exposed to undue interest rate risk, as confirmed by annual audited financial statements	Initial Due Diligence, Audited financial statements	
Have an internal reporting and management information system capable of providing sufficient information necessary for managing the bank's operations, performance and risks	Initial Due Diligence, Audited financial statements	

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility		
Outreach Number of persons receiving services promoted/ supported by the project and corresponding number of households reached and estimated corresponding total number of HH members (based of HH average size of 5.7 members)	1 Persons receiving services promoted or supported by the project				M&E system	Annual/Semi-annual	aw M&E unit, Component leads		
	Males - Males	0	7,440	18,600					
	Females - Females	0	4,960	12,400					
	Young - Young people	0	3,720	9,300					
	Total number of persons receiving services - Number of people	0	12,400	31,000					
	1.a Corresponding number of households reached				M&E system	Annual/Semi-annual	PMU M&E unit, Component leads		
	Women-headed households - Households	0	124	310					
	Non-women-headed households - Households	0	12,276	30,690					
	1.b Estimated corresponding total number of households members				M&E system	Annual/Semi-annual	PMU M&E unit		
	Household members - Number of people	0	70,680	176,700					
Project Goal Reduce poverty level among small scale dairy producers and <i>mitigate the impacts of climate change in the sub-sector</i>	Households experiencing economic mobility (proxied by asset indicators i.e. Household, durable, productive, and livestock)⁶				COI survey ⁷	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
	Households – Number	0	3,100	7,750					
	Households - Percentage	0	10	25					
	3.2.1 Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered				FAO Ex-ACT and GLEAM-I assessment	Baseline, Mid-term, Endline	FAO, IFAD's ECG Division, PMU M&E unit,		
	Hectares of land - Area (ha)	0		25,000					
	tCO2e/20 years - Number	0		TBC					
	tCO2e/ha - Number	0		TBC					
	tCO2e/ha/year - Number	0		TBC					
Tons of carbon avoided ⁸	0								
Development Objective to improve the income and the livelihood of small-scale producers involved in a competitive and sustainable dairy value chain and promote food security	Households reporting an increase in resilience and recovery to shocks				COI survey ⁹	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Enabling business and political environment: Policy support to facilitate access to land and water for smallholders, in particular youth	
	Households - Number	0	3,100	7,750					
	Households - Percentage (%)	0	10	25					
	Households reporting an increase of incomes deriving from livestock or dairy production				COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
	Households - Number	0	9,920	24,800	COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
	Households - Percentage (%)	0	32	80					
	Percent reduction in the prevalence of moderate or severe food insecurity among beneficiary households (FIES)				COI Survey (FIES Methodology)	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
	Percent reduction	0	5	15					
	Outcome 1: Sustainable climate	SF.2.1 Households satisfied with project-supported services				COI survey	Baseline, Mid-term, Endline		
		Household members - Number of people	0	53,010	132,525				

⁶ Economic mobility is defined as the changes in economic status from one time period or generation to another (Fields and Ok 1999) and for the purpose of the project is proxied by assets indicator.

Economic mobility measures captures welfare gains of farmers across the entire welfare distribution.

⁷ The questionnaire for project specific indicators in the Log-Frame will be integrated in the COI module.

⁸ Through the deployment of solar electricity.

⁹ The questionnaire for project specific indicators in the Log-Frame will be integrated in the COI module.

smart dairy production through improved fodder and feed production, animal husbandry, water access and land use	Women-headed households - Number	0	93	232			PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
	Households - Percentage (%)	0	30	75					
	Households – Number	0	9,300	23,250					
	SF.2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers					COI Survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	
	Household members - Number	0	53,010	132,525					
	Women-headed households – Number	0	93	232					
	Households - Percentage (%)	0	30	75					
	Households (number) - Households	0	9,300	23,250					
	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices¹⁰					COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Trainings and investments result in adoption of adequate climate resilient practices
	Household members - Number	0	42,408	106,020					
Households - Percentage (%)	0	24	60						
3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices					COI Survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
Household members - Number	0	49,476	123,690						
Households - Percentage (%)	0	28	70						
Households – Number	0	8,680	21,700						
1.2.3 Households reporting reduced water shortage vis-à-vis production needs					COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
Households - Percentage (%)	0	40	80						
Households – Number	0	1600	3200 ¹¹						
Total number of household members	0	9120	18,240						
1.2.9 Households with improved nutrition Knowledge, Attitudes and Practices (KAP)¹²					COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
Households (number)	0	11,200	22,400						
Households (%)	0	40	80						
Household members	0	63,840	127,680						
Percentage increase in milk production					COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors		
Litre/cow/day	0	12.5	25						
Output 1.1 Training and capacity building of dairy value chain actors	1.1.4 Persons trained in production practices and/or technologies				M&E system, Service provider records	Annual/Semi-annual	PMU M&E unit, Service Providers/external trainers	Adequate level of adoption of management practices in milk production by the farmers	
	Total number of attendances to training sessions ¹³	0	18,798	31,330					
	Men trained in crop	0	1349	2,249					
	Women trained in crop	0	556	926					
	Young people trained in crop - Young people	0	465	775					
	Men trained in livestock - Males	0	10,136	16,893					
	Women trained in livestock - Females	0	6,757	11,262					
	Young people trained in livestock - Young people	0	5,067	8446					
	Total persons trained in crop -	0	1,905	3,175					
	Total persons trained in livestock -	0	16,893	28,155					
Output 1.2 Access to technology, inputs and improved	3.1.4 Land brought under climate-resilient practices				M&E system GIS	Annual/Semi-annual	PMU M&E unit, Component lead	Access to land and water technologies for the smallholders is facilitated	
	Hectares of land	0	12,500	25,000					
	1.1.3 Rural producers accessing production inputs and/or technological packages				M&E system	Annual/Semi-annual	PMU M&E unit, Component lead		
Males – Number	0	6,688	13,377						

¹⁰ The outcome for the target under Outputs CI 1.1.3 and CI 1.1.4 will be reported under Outcome CI 1.2.2.

¹¹ 80% of 4000 households benefiting from 20 water points constructed/rehabilitated.

¹² The outcome for the target under Outputs CI 1.1.8 will be reported under Outcome CI 1.2.9.

¹³ The sum of Total persons trained in each sector.

access and use of land and water	Females – Number	0	2,867	5,733				
	Young – Number	0	3,822	7,644				
	Total rural producers - Number	0	9,555	19,110				
	Household members benefitted - Number	0	54,463	108,927				
	Rural service providers accessing technological packages				M&E system	Annual/Semi-annual	PMU M&E unit, Component lead	
	Males – Number	0	552	920				
	Females – Number	0	48	80				
	Young – Number	0	420	700				
	Total rural service providers - Number	0	600	1,000				
	Household members benefitted - Number	0	3,420	5,700				
Output 1.3 Improved nutrition sensitive production and farm management	1.1.8 Households provided with targeted support to improve their nutrition				M&E system, Service provider records	Annual/Semi-annual	PMU M&E unit, Service providers in charge of the implementation of nutrition related activities	Small scale producers face no issues with physical availability of food
	Total persons participating – Number	0	14,000	28,000				
	Males – Number	0	8,400	16800				
	Females – Number	0	5,600	11200				
	Young – Number	0	4,200	8400				
	Households – Number	0	14,000	28,000				
	Household members benefitted - Number	0	79,500	159,600				
Output 1.4. Applied research, pilots and dissemination	No of applied research studies		1	2	M&E system	Annual/Semi-annual	PMU M&E unit, Component lead	
	No of MSC research studies		2	4				
Outcome 2: Increased competitiveness of the dairy value chain through enhanced business linkages, service provision, and financial innovations	2.2.1 Persons with new jobs/employment opportunities¹⁴				COI Survey, M&E system	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Interest of Partner Financial Institutions (PFI) to increase access to rural finance products for small-scale farmers. Interest of private sector entities in participating in the project. Dairy producers groups' capacity is strengthened to manage efficiently the business of milk production
	Males	0	752	1505				
	Females	0	95	190				
	Young	0	589	1179				
	Total number of persons with new jobs/employment opportunities	0	847	1695				
	2.2.5 Households reporting using rural financial services				COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Dairy producers groups' capacity is strengthened to manage efficiently the business of milk production
	Total number of household members	0	2287	3,944				
	Households - Percentage (%)	0	46%	80%				
	Households – Number	0	401	692				
	2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities				COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Dairy producers groups' capacity is strengthened to manage efficiently the business of milk production
	Number of POs -	0	61	122				
	Total number of POs members	0	1408	2817				
	Women PO members	0	561	1122				
	Men PO members	0	847	1695				
	Young PO members	0	428	857				
	2.2.6: Households reporting improved physical access to markets, processing and storage facilities				COI survey	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Interest of private sector to invest in the dairy VC Smallholders adopt a business mindset and acquire management skills
Households reporting improved physical access to storage facilities (number)	0	7,916	10,416					
Households reporting improved physical access to storage facilities (%)	0	60%	80%					

¹⁴ Number of new full-time or recurrent seasonal on-farm and off-farm jobs created thanks to project activities since project start-up, either as independent individuals (self-employed) or as employees of micro, small and medium-sized enterprises.

	Size of Households (number of people) -storage facilities	0	45,121	59,371				
Output 2.1. Improved milk collection, aggregation and processing through productive Alliances, 4Ps and cluster approaches	2.1.2 Persons trained in income-generating activities or business management				M&E system, Service provider records	Annual/Semi-annual	PMU M&E unit, Service providers/external trainers	
	Persons trained in IGAs or BM (total)	0	17,847	29,745				
	- Males	0	10,178	-16,963				
	- Females	0	7,669	12,782				
	- Young	0	5,646	9,410				
	2.1.3 Rural producers' organizations supported				M&E System	Annual/Semi-annual	PMU M&E unit, Component lead	
	Rural POs supported (number)	0	612	1,225				
	- Total size of POs (number of people)	0	14,087	28,175				
- Females	0	5,613	11,226					
- Males	0	8,474	16,949					
- Young	0	4287	8,575					
- Rural POs supported that are headed by women	0	6	12					
2.1.6 Market, processing or storage facilities constructed or rehabilitated¹⁵				M&E System	Annual/Semi-annual	PMU M&E unit, Component lead		
Total number of facilities	0	76	100					
Storage facilities constructed/rehabilitated	0	76	100					
Output 2.2: Increased access to credits by value chain actors	1.1.5 Persons in rural areas accessing financial services				M&E system, PFI records	Annual/Semi-annual	PMU M&E Unit, PFIs	Adequate financing instruments available for the smallholders in the VC
	Men in rural areas accessing financial services - credit - Males	0	380	655				
	Women in rural areas accessing financial services - credit - Females	0	122	210				
	Young people in rural areas accessing financial services - credit - Young people	0	122	211				
	Total persons accessing financial services - credit - Number of people	0	502	865				
Outcome 3: Sustainable institutional and organisational development in the dairy sector	Policy 3 Existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment				M&E system, relevant legal in-country institutions	Baseline, Mid-term, Endline	PMU M&E unit, Baseline, Mid-term and Impact assessment contractors	Interest and motivation among dairy value chain actors
	Number		0	0				
Output 3.1 Dialogue between dairy sector stakeholders strengthened.	Policy 2 Functioning multi-stakeholder platforms supported				M&E system	Annual/Semi-annual	PMU M&E unit	
	Number		0	4				

¹⁵ Processing facilities include equipment and machinery that are used for the transformation of agricultural produce (such as mills, hullers, shellers, extractors) where value is added. Storage facilities include structures used for mid- to long-term storage or preservation of produce. The facilities may be on-farm storage structures such as containers and small silos, or village/community facilities such as warehouses, granaries and large silos.

Integrated project risk matrix

Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
Country Context	Moderate	Moderate
<i>Political Commitment</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Governance</i>	<i>Substantial</i>	<i>Moderate</i>
<i>Macroeconomic</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Fragility and Security</i>	<i>Moderate</i>	<i>Low</i>
Sector Strategies and Policies	Substantial	Moderate
<i>Policy alignment</i>	<i>Substantial</i>	<i>Moderate</i>
<i>Policy Development and Implementation</i>	<i>Substantial</i>	<i>Moderate</i>
Environment and Climate Context	Substantial	Moderate
<i>Project vulnerability to environmental conditions</i>	<i>Substantial</i>	<i>Moderate</i>
<i>Project vulnerability to climate change impacts</i>	<i>Moderate</i>	<i>Moderate</i>
Project Scope	Substantial	Moderate
<i>Project Relevance</i>	<i>Substantial</i>	<i>Moderate</i>
<i>Technical Soundness</i>	<i>Moderate</i>	<i>Moderate</i>
Institutional Capacity for Implementation and Sustainability	Moderate	Moderate
<i>Implementation Arrangements</i>	<i>Moderate</i>	<i>Low</i>
<i>Monitoring and Evaluation Arrangements</i>	<i>Moderate</i>	<i>Moderate</i>
Project Financial Management	Substantial	Substantial
<i>Project Organization and Staffing</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Project Budgeting</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Project Funds Flow/Disbursement Arrangements</i>	<i>Substantial</i>	<i>Substantial</i>
<i>Project Internal Controls</i>	<i>Substantial</i>	<i>Substantial</i>
<i>Project Accounting and Financial Reporting</i>	<i>Substantial</i>	<i>Substantial</i>
<i>Project External Audit</i>	<i>Moderate</i>	<i>Moderate</i>
Project Procurement	Moderate	Moderate
<i>Legal and Regulatory Framework</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Accountability and Transparency</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Capability in Public Procurement</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Public Procurement Processes</i>	<i>Moderate</i>	<i>Moderate</i>
Environment, Social and Climate Impact	Moderate	Moderate
<i>Biodiversity Conservation</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Resource Efficiency and Pollution Prevention</i>	<i>Substantial</i>	<i>Moderate</i>
<i>Cultural Heritage</i>	<i>Low</i>	<i>Low</i>
<i>Indigenous People</i>	<i>Low</i>	<i>Low</i>
<i>Labour and Working Conditions</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Community Health and Safety</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Physical and Economic Resettlement</i>	<i>Low</i>	<i>Low</i>

<i>Greenhouse Gas Emissions</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Vulnerability of target populations and ecosystems to climate variability and hazards</i>	<i>Moderate</i>	<i>Moderate</i>
Stakeholders	Moderate	Moderate
<i>Stakeholder Engagement/Coordination</i>	<i>Moderate</i>	<i>Moderate</i>
<i>Stakeholder Grievances</i>	<i>Moderate</i>	<i>Low</i>
Overall	Moderate	Moderate

Country Context	Moderate	Moderate
Political Commitment	Moderate	Moderate
<p>Risk:</p> <p>The sixth presidential elections were held in October 2021, which confirmed the second term of the President Mirziyoyev with a majority of more than 80%. Early presidential elections will be held in July 2023, called after the approval of the constitutional referendum which reset the Presidential term limits. IFAD relations with Uzbek Government has further improved with the signature of an ambitious new country strategy 2023- 2027. Consequently, a host country agreement for opening IFAD office in Tashkent was signed in Tashkent in October 2022. However, institutional fragmentation and high ministerial and staff turnover could negatively affect the communication between IFAD and the Government.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>IFAD will enhance the country dialogue through its country presence, active engagement with policy makers and participation in key national and high-level policy events. Furthermore, the Government of Uzbekistan and IFAD will convene rural sector partners in a country platform which will help to coordinate development interventions and incentivise evidence-based investment decisions. No major political changes are expected to occur following the elections in July.</p>		
Governance	Substantial	Moderate
<p>Risk:</p> <p>The Transparency International's 2021 Corruption Perceptions Index ranks Uzbekistan in 140th place out of 180 countries in the Index. The World Bank 2021 Country Policy and Institutional Assessment (CPIA) rates Uzbekistan as medium policy reformer with a score of 3.5. The country shows weaknesses in the Public Sector Management and Institutions (Quality of Public Administration and Transparency scored 3).</p>	Substantial	Moderate
<p>Mitigations:</p> <p>With the support of development partners, Uzbekistan has been steadily improving in terms of the CPI, gaining 11 points since 2012. The country is setting an example in Central Asia as it begins to show signs of democratisation and sanction corruption and abuse of power within government agencies. In recent years, the country undertook a number of key reforms in anti- corruption policies, identifying prevention as one of its priorities. IFAD is going to increase the monitoring on the quality and transparency of the allocation of resources for rural development through in-country staff based in Tashkent. The ICO is expected to be established in Q4 2023.</p>		

Macroeconomic	Moderate	Moderate
<p>Risk:</p> <p>Based on the Joint Bank-Fund Low-Income Country Debt Sustainability Analysis (LIC-DSA), Uzbekistan has a low risk of debt distress, with debt burden indicators below relevant thresholds in the baseline and all stress scenarios. Over the medium term, the public debt-to-GDP ratio is expected to increase moderately, while the total external debt-to-GDP ratio is expected to decline somewhat. Despite COVID 19 and the war in Ukraine, the economy remains resilient to shocks thanks to gold, natural gas and textile exports. In particular, both the real income and GDP (5.5%) grew in 2022 and the country recorded lowest unemployment rate since 2018. In terms of remittances, the Central Bank of Uzbekistan released the statistical data on the total inbound flow for 2022, corresponding to more than double (+109.8%) the inflow in 2021. Nonetheless, assistance from development partners remains critical to helping offset the social implications of the compounded effects on the most vulnerable groups. In addition, the potential impact of returning migrants from Russia is still unclear as information is limited and challenging to capture.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The Government has assigned a pioneering role for IFAD for smallholder agriculture development - through bringing in new approaches and technologies for agriculture and targeting the most vulnerable groups of population. This role was confirmed with the signature of the new COSOP and the design of a second phase of DVCDP which will adopt a stronger pro-poor approach. With regard to returning migrants, close partnership with ILO and the World Bank at the country team level will be sought to gather and analyse data related to this topic. This collaboration can help improve IFAD understanding of poverty and return migration, enabling the Government to develop more effective policies and interventions.</p>		
Fragility and Security	Moderate	Low
<p>Risk:</p> <p>The core of Uzbekistan's political system is largely unchanged. There is continuity at the Head of State level with the recent election of the incumbent President for a third term, assuring political stability and continuity. However, the war in Ukraine is affecting the regional trade and the supply of inputs as well as the increase in prices. There are also some issues of returning migrants from Russia who are mainly young men.</p>	Moderate	Low
<p>Mitigations:</p> <p>The project is also targeting returning migrants through its youth activities, thus trying to somehow alleviate the issue related to jobless migrants.</p>		
Sector Strategies and Policies	Substantial	Moderate
Policy alignment	Substantial	Moderate
<p>Risk:</p> <p>The overall framework for development in Uzbekistan is guided by the Development Strategy of New Uzbekistan for 2022-2026 and its vision of reducing poverty by half by 2026, including through key interventions targeted at vulnerable segments of the population, and aiming for an upper-middle-income status by 2030. Sustainable rural development is a priority with the specific goals of an annual growth of the sector by at least 5 percent and doubling of farmers' incomes. Agricultural and rural development in Uzbekistan is regulated by the Agro-Food Development Strategy for 2020-2030 which aims to develop a competitive, market and export-oriented agri-food sector to increase farm incomes, create jobs, enhance food security and ensure sustainable natural resources. However, given the ambitious reform agenda, there is a risk that the above mentioned strategies will not be implemented in a timely manner that is suitable to the new project implementation timeline, to effectively support targeting of small scale producers.</p>	Substantial	Moderate

<p>Mitigations:</p> <p>IFAD will continue its country dialogue and sustained study of the impact of government policies and programmes at IFAD target group level, to ensure that commitment is maintained on the part of the Government, including alignment of project with main policy priorities of the implementing agency active and active participation in the UN coordination team assuring that IFAD mainstreaming themes are included in the UN cooperation development framework. Furthermore, IFAD will provide technical assistance to the Government in the design of land access and water use policies as a specific activity of DVCDP 2 (SC 3.1) and through a CPLE initiative.</p>		
<p>Policy Development and Implementation</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Risk:</p> <p>There is a risk that projects interventions could not be effectively scaled up/sustainable due to the not conducive policy environment. In particular, within the on-going policy reforms agenda of Uzbekistan, land access is becoming a growing issue and concern for IFAD target group and IFAD project outputs delivery. Following a Presidential Decree approved of August 2020, land allocation is granted to farmers only through an auction system which is typically proven challenging for smallholders who are not able to afford the cost of buying a new plot of land.</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Mitigations:</p> <p>TA and policy support activities will provide evidence basis for policy reform, and capacity building. In this regard, the GoU expressly asked IFAD to convene rural sector partners in a country platform that helps coordinate development interventions, promote policy coherence and incentivise evidence-based investment decisions. Concerning access to land, while several donors (EU, WB) are leading a working group to support the implementation of the land reform, IFAD will be focused on addressing the needs of access to land by smallholders through the financing of DVCDP II sub-component 3.1 "Policy support".</p>		
<p>Environment and Climate Context</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Project vulnerability to environmental conditions</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Risk:</p> <p>Environmental challenges in Uzbekistan include fresh water 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 17per cent of rangelands have been affected by degradation, leading to substantial loss of productivity. Dairy production is dependant both on croplands and rangeland as they provide forage and fodder feed for livestock.</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Mitigations:</p> <p>Investments in improved forage and fodder production, along with climate-smart agriculture/livestock production implemented as planned will result in positive outcomes. The new project is expected to reduce pressure on natural resources by introducing more environmentally sound natural resource management practices and by diversifying livelihoods. The DVCDP 2 will reduce pressure on natural resources by introducing sustainable NRM practices, e.g., improved stocking management, increased feed use efficiency, and manure techniques for proper nitrogen cycle management. These developments will also enhance the resilience of rural households to climate change and reduce their vulnerability to extreme weather events.</p>		

Project vulnerability to climate change impacts	Moderate	Moderate
<p>Risk:</p> <p>The impact of the climate change is evident in increased droughts, high temperatures, heat waves, heavy precipitation, mudflows, floods, and avalanches. Aridity and drought risks are high, especially during vegetation periods particularly for areas with increased demand and consumption from economic development and population growth. Water scarcity, heat waves and increased frequency of high heat days (Max T>39°C) are the most severe risks from climate change in Uzbekistan. Climate change may undermine the project's progress. Climate change tends to disproportionately affect the rural poor, as they have relatively fewer assets resulting in lower adaptive capacity, with the majority of their income typically spent on food. Reduced security in water access, changes in precipitation, and the increased frequency of drought in Uzbekistan have amplified these risks. The country's main climate hazards include more variable precipitation, higher temperatures, reduced water security, increased frequency and severity of extreme weather events; and increased frequency of crop failure – resulting in reduced, less certain, and lower quality crop and livestock yields. Climate change projections forecast higher temperatures, changes in precipitation regimes and more severe droughts, with decreases in water availability.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>In response, the project will promote numerous adaptation measures which include enhanced livestock management through improved health/nutrition practices and livestock breeds, improved pasture and stocking management practices, deployment of field-tested drought/salinity-resistant crop varieties, improved crop rotation and cover-cropping practices, minimum tillage and improved soil management practices, and deployment of more efficient irrigation techniques. For livestock production, the negative impact of the anticipated rise in temperature and consequent increased heat stress will be partially offset by the construction of improved cow sheds along with expected increased rainfall in the Steppe and Piedmont zones, and consequent increased quality of pasture and lucerne production.</p>		
Project Scope	Substantial	Moderate
Project Relevance	Substantial	Moderate
<p>Risk:</p> <p>The livestock sector plays an important role in the economy and society of Uzbekistan, contributing about 43 per cent of the country's agricultural GDP (2022). Most production comes from the 4.7 million small dehkan farms, with the balance from private commercial and a limited number of cooperative (shirkat) farms. There is a risk that project implementation will not sufficiently address the principal constraints of the livestock sub-sector development which include: (i) limited dehkan farmer access to land; (ii) lack of access to sufficient fresh and conserved forage and the unreliable quality of forage and feed; (iii) limited access to reliable, quality animal health services; (iv) low genetic merit of much of the national herd; (v) inadequate sanitary conditions at farms and processors; (vi) constrained direct access to processors and markets; and (vii) lack of asset-building resources including training / advisory services, accessible financing and business capacity to increase sectoral and microenterprise productivity and efficiency. There is also a risk of misalignment between the financial products offered by the partner financial institutions and the project focus on vulnerable groups, with limited collateral, lack of sound business plans and limited financial literacy and capacity preventing them from accessing formal financial institutions.</p>	Substantial	Moderate

<p>Mitigations:</p> <p>The DVCDP 2 will continue addressing the aforementioned constraints and opportunities within dairy value chains, by: (i) facilitating access to modern production and processing technologies/ best practices, capacity building through training and on-farm demonstrations; and by an integrated support along key dairy value chains with development potential and comparative advantage at local/ regional levels; (ii) building linkages between knowledge and financial service providers and dairy value chain stakeholders; (iii) addressing the specific challenges and constraints for efficient production and market access faced by the Fund's target group — dehqan farmers (e.g., access to land and water resources, veterinary services, animal feeds and forage, fresh milk collection, etc.), and (iv) support landless farmers to initiate non-farm activities in rural areas or involve in agro-processing.</p> <p>The project will also pay close attention to the design of tailored pro-poor financial products, in close coordination with the project beneficiaries and the participating financial institutions. These financial products will include specific guarantee mechanisms, catalytic matching grants, and affordable loan products tailored to the specific needs of the different project target groups.</p>		
<p>Technical Soundness</p>	<p><i>Moderate</i></p>	<p><i>Moderate</i></p>
<p>Risk:</p> <p>The new project could face risks associated with innovativeness of activities related to pro-poor value chain development and the SPs approach which are mostly new in Uzbekistan. Additionally, new rural finance tools may be recommended an introduced with lacking stakeholders 'awareness on the technical implications' requirements.</p>	<p>Moderate</p>	<p>Moderate</p>
<p>Mitigations:</p> <p>The new project will benefit from several years of implementation experience of the first phase and build on the technical lessons that will derive from the first phase completion review. Furthermore, the design will benefit from a highly specialized team of experts across different domains. Adequate awareness and capacity building support for all stakeholders has been foreseen and will be factored into the design.</p>		
<p>Institutional Capacity for Implementation and Sustainability</p>	<p><i>Moderate</i></p>	<p><i>Moderate</i></p>
<p>Implementation Arrangements</p>	<p><i>Moderate</i></p>	<p><i>Low</i></p>
<p>Risk:</p> <p>The main risks of the implementation arrangements are related to: 1) Project management – some constraints have emerged in the phase I with respect to limited institutional capacity, particularly in attracting qualified local personnel, lack of knowledge and technical expertise in project management and in retaining staff. Furthermore, the limited resources allocated to the project management component results in PMU's limited capacity in M&E, KM and procurement and the PMU being understaffed and/or in certain cases employees working part-time for the Project. Additionally, limited field presence due to unavailability of field staff has resulted in limited engagement with the beneficiaries, lack of data to feed the Project information needs, poor communication of Project opportunities, etc. 2) The COVID-19 and the change of the implementing entity of the project (2021) led to slower implementation of project activities and hinder capacity of PMU to deliver. The country has been on lockdown during the pandemic resulting in slower progress and limited field access by PMU staff due to travel restrictions.</p>	<p>Moderate</p>	<p>Low</p>
<p>Mitigations:</p> <p>Regular follow up with PMU from IFAD country team, in particular through the recently recruited national programme officer and future country-based IFAD Country Director, IFAD supervision and implementation support missions and strengthened staff capacity through specific trainings. DVCDP 2 will allocate adequate human and financial resources at project management level in order to reduce staff turnover and increase the quality of M&E, KM and procurement and ensure the availability of field staff in target regions. The specific EU-led GEI initiative will strengthen the M&E system and capacity of the implementing agency.</p>		

Monitoring and Evaluation Arrangements	Moderate	Moderate
<p>Risk:</p> <p>The PMU of the first phase experienced issues in establishing a good M&E system, and the M&E processes were not adequately planned. IFAD projects in Uzbekistan have often used an unstructured and ad hoc approach for capturing and documenting M&E data on the outputs, outcomes and impact of interventions. There has been weak collaboration between Project different stakeholders (e.g. with PFIs) in terms of data collection and sharing in a consistent manner and in line with the Project information needs.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>Provision has been made for strengthening the capacity of the Minister of Agriculture and CVLD in M&E. Regular follow up, focused capacity building in M&E and Knowledge Management, including yearly IFAD supervision missions will be part of mitigation measures. Dedicated budget for M&E, including for the establishment of an adequate MIS for M&E will be included in the COSTAB.</p>		
Project Financial Management	Substantial	Substantial
Project Organization and Staffing	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> • Lack of full-time qualified and experienced Financial Management staff for the implementation of the project; • Absence of annual performance reviews and a lack of capacity among FM staff; • Risk of a lack of knowledge of IFAD's financial management practices and procedures that could lead to non-compliance. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> • Experienced Financial Management staff to be hired from the open market on a competitive basis, and each staff member to complete the IFAD e-learning course within 2 months of the start of the project; • Developing an annual performance appraisal process for FM staff to assess the performance of FM staff and determine skills gaps to identify appropriate training and capacity building needs. 		
Project Budgeting	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> • Lack of timely submission of the annual work plan budget may lead to implementation delays; • Component 2 includes line of credit activities. As implementation of line of credit activities relies on demand from beneficiaries and PFIs, it is difficult to forecast annual demand at the beginning of the year, and there is a risk that annual work plans may not be realistic, which may result in high variances between actual expenditure and budget. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> • The lead project agency to submit the draft Project AWPB to IFAD for comments no later than sixty (60) days before the start of the relevant year; • The PMU to prepare accurate cash forecasts, and monitor budget execution and demands from PFIs on a monthly basis to ensure that budget execution is on track, and revise the budget as needed to avoid high variances between budget and actual figures. 		
Project Funds Flow/Disbursement Arrangements	Substantial	Substantial
<p>Risk:</p> <ul style="list-style-type: none"> • Potential liquidity issues due to restrictions established on advance withdrawals from IFAD loan by the Ministry of Finance to avoid holding large amounts of unused funds in the Designated Account, and bear interest charges on ideal fund; • Complex and cumbersome flow of funds including transfers to and reflows from PFIs and Rural Guarantee Facility. As well as from PFIs to beneficiaries. 	Substantial	Substantial

<p>Mitigations:</p> <ul style="list-style-type: none"> • The PMU to open and maintain a Designated Account and all required operating accounts, including specific credit line transit account; • A separate account for RGF has been duly opened by EDC; • PFIs to open incremental accounts to receive funds from IFAD loan and a revolving account for credit reflows; • Finalize the lines of credit guidelines and draft SLAs, which include withdrawal procedures and the financial reporting obligations of the PFIs, subject to IFAD's no objection; • The Ministry of Finance to allow advance requests covering forecasted expenditures for at least one quarter. 		
<p>Project Internal Controls</p>	Substantial	Substantial
<p>Risk:</p> <ul style="list-style-type: none"> • Internal audit practice in Uzbekistan is weak, does not follow international standards, and no focus on system monitoring and there is no internal audit unit in CVLD; • Lack of internal controls and monitoring regarding the lines of credit and guarantee funds. 	Substantial	Substantial
<p>Mitigations:</p> <ul style="list-style-type: none"> • Hiring a private service provider to perform internal audit and spot checks on the use of funds by intended beneficiaries, including the lines of credit and RGF; • A comprehensive financial procedures manual to be formulated in the PIM as part of the start-up phase. The manual should include detailed internal control arrangements, including the lines of credit and Rural Guarantee Facility; • The executing agency to conduct a due diligence procedure on potential PFIs prior to signing the SLAs to ensure that PFIs have the satisfactory internal control and financial management structure to implement the activities; • The executing agency to ensure that satisfactory internal control procedures are maintained at PFIs throughout the implementation period, which are also validated by institutional audits that performed by an audit firm acceptable to IFAD; • Due diligence assessment of EDC, including an assessment of its FM capacity has been conducted and has been deemed satisfactory to IFAD; • The investment guidelines (or equivalent) and operating modalities including the eligibility criteria for RGF have received IFAD's no-objection; • The RGF agreement, specifying the legal structure of the funds, ownership, and all the necessary modalities, between CVLD and the entity managing RGF has been duly formalized and received IFAD's no objection. 		
<p>Project Accounting and Financial Reporting</p>	Substantial	Substantial
<p>Risk:</p> <ul style="list-style-type: none"> • The accounting software used in DVCDP phase one was an old version of 1C. The software did not allow recording of expenditures by components and categories, and was not able to generate the financial statements required by IFAD. Therefore, financial reports were prepared manually in Excel, which is prone to errors; • Risk of PFI's non-compliance with financial reporting requirements set out in the SLAs. 	Substantial	Substantial
<p>Mitigations:</p> <ul style="list-style-type: none"> • Procurement of a new version of 1C accounting software for fully automated accounting and financial reporting, and implementation of the new software within 2 months of the loan's effectiveness. (Dated covenant); • Financial reporting requirements from the PFIs to be formalized through a presidential decree to ensure that PFIs meet reporting requirements, and included in the Subsidiary Loan Agreements. 		
<p>Project External Audit</p>	Moderate	Moderate

<p>Risk:</p> <ul style="list-style-type: none"> • Chamber of Accounts (SAI) recently became a full member of INTOSAI. However, there is no independent quality assurance review of the CoA's practice performed by another INTOSAI member SAI or IFIs and the CoA undertakes the audits once in two years; • Risk that credit line activities implemented by PFIs are not covered by external audits. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> • An independent private audit firm to be hired by the project to undertake external audits in accordance with International Standards on auditing (ISAs) and IFAD requirements; • External audit terms of reference to include lines of credit and guarantee fund activities, including end use review, and field visits for an appropriate sample of end beneficiaries based on the control risk assessment to determine if funds provided were used for intended purposes. 		
Project Procurement	Moderate	Moderate
Legal and Regulatory Framework	Moderate	Moderate
<p>Risk:</p> <p>NB: This section was drafted on the basis of findings from last DVCDP supervision mission assessment on procurement – Sept 2022)</p> <ul style="list-style-type: none"> - Uzbekistan adopted a new about procurements, dated April 22, 2021, No. ZRU-684, although it still needs further improvements in the area of tenders' definition and complaint resolution and following international standards; - No national procurement manual exists; - Only one Standard Bidding Document is available for customization and adoption based on the type of procurement and method, and SBD does not include a standard contract form; - There is a risk of escaping competitive procurement methods in favour of direct contract awards. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> - Development of a detailed PIM to mitigate the absence of a national procurement manual is necessary; - Continue following IFAD Procurement Guidelines, Procurement Handbook and IFAD SBDs as stipulated in the Financing Agreement will be a critical mitigation measure. 		
Accountability and Transparency	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> - Complaints management are under the risk of ineffectiveness due to the presence of a single tier; - Public Anticorruption entities are not independent and all fall under the executive body increasing the risk of ineffectiveness. - The risk that accountability, transparency and oversight arrangements are inadequate to safeguard the integrity of project procurement and contract execution, leading to the unintended use of funds or execution of project procurements outside of the required time, cost and quality requirements 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> - The terms, procedures, and responsibilities as clearly specified in the "IFAD Policy on preventing fraud and corruption in its activities and operations" should be strictly followed. - IFAD's references to the anticorruption policy, corruption reporting hotlines and IFAD policies should be disseminated in all bidding documents. - The project should abide by NOITA, standstill and NOA provisions as per IFAD Handbook. 		
Capability in Public Procurement	Moderate	Moderate

<p>Risk:</p> <ul style="list-style-type: none"> - There is only one procurement specialist dedicated to the project procurement activities. - There is no official capacity building strategy, nor one for providing guidance in response to queries, and there are no obligations to use the public procurement training currently available. Public procurement is not professionalized, i.e. it does not provide a career path to public procurement officials involved in conducting and managing procurement; nor does it provide adequate opportunities for skills building, there is no official job description or qualification requirements specific to public procurement. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> - The Project shall hire additional procurement specialist to handle increased workload with respect of procurement related activities; - Quality of procurement related work, i.e. preparation of procurement plan revisions/upgrades, bidding documents for works and services, and evaluation reports shall be improved; - Institutional and management capacity needs improvement and procurement staff needs adequate training (ITC/LO BuildProc Certification Program); - A hands-on approach, including the introduction to NOTUS and CMT will allow the systematic tracking of procurement activities throughout the project cycle. 		
Public Procurement Processes	Moderate	Moderate
<p>Risk:</p> <ul style="list-style-type: none"> - The general limited procurement expertise is invested in AWPB preparation needs to be addressed to ensure embedding sufficient time with procurement; - A risk of non-transparent proceedings is present due to evidence of not sharing minutes of bid opening process and not publicizing awards. 	Moderate	Moderate
<p>Mitigations:</p> <ul style="list-style-type: none"> - During DVCDP 2 implementation, the AWPB needs to be prepared in consultation with the Procurement Officer/s; - The procedures of dissemination of bid opening minutes and publication of awards should be rigorously implemented to mitigate risks non-transparent proceedings; - If less than 3 quotations/bids/proposals are received, the project should seek IFAD's N.O. in order to proceed if deemed justifiable. 		
Environment, Social and Climate Impact	Moderate	Moderate
Biodiversity Conservation	Moderate	Moderate
<p>Risk:</p> <p>For Uzbekistan's biodiversity and ecosystem services the key issues remain desertification, soil erosion and salinization, and habitat loss, as the result of unsustainable agriculture and irrigation practices. In addition to a loss of habitat and biodiversity, the reduction of forests and other vegetation decreases absorption of carbon dioxide, thus accelerating climate change impacts.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The proposed interventions under the DVCDP 2 are expected to have negligible impact to biodiversity, with a substantial likelihood that they will result in some positive benefits. The project will be taking place in already highly modified landscapes under intense agricultural production, as well as in built up areas. As a result, project intervention sites will not take place in areas of high biodiversity value or in forested areas. Due diligence will also be undertaken to ensure that project field activities in no way intervene in the same areas as current or planned protected areas or forest management areas. In addition, only fodder and feed crop species that have completed field trials in Uzbekistan with government designated research bodies will be used in project extension activities.</p>		

Resource Efficiency and Pollution Prevention	Substantial	Moderate
<p>Risk:</p> <p>Dairy production intensification can challenge environmental sustainability goals, as intensification of dairy farming raises methane production and increases the risk of nitrate pollution and land degradation through pasture grazing and soil cultivation for fodder production, including on sloping land.</p>	Substantial	Moderate
<p>Mitigations:</p> <p>To address this and other possible environmental impacts, the Project will formulate an Environmental and Social Management Plan that will comprise adequate mitigation measures, climate-smart agriculture practices and adaptation investments, and compliance with IFAD environmental, social and climate change safeguard procedures whilst seeking sustainable management of natural resources in the targeted regions. The climate-smart agricultural approaches considered in the project are also agro-ecological in nature, therefore minimizing or eliminating the use of agro-chemical products and fertilizers. Existing forest management areas, along with areas planned for future restoration, are known and will be avoided in the project. Planned project activities include improving water use efficiency through improved irrigation practices, and improved energy use efficiency through the deployment of grid-connected solar energy installation in conjunction with cold chain requirements and water pumping for irrigation – thereby improving efficiencies in water use. While the project is fully dependent on production of living natural resources, it will be sited in areas of existing intense agricultural activity, with low environmental and/or social sensitivity.</p>		
Cultural Heritage	Low	Low
<p>Risk:</p> <p>Not applicable. There are 4 UNESCO recognised cultural heritage sites in Uzbekistan. The project is not implemented in the district where the sites are located.</p>	Low	Low
<p>Mitigations:</p> <p>Default mitigation text</p>		
Indigenous People	Low	Low
<p>Risk:</p> <p>Uzbekistan is made up of a number of traditional populations of Turkic (Uzbeks, Kazakhs, Karakalpaks), Semitic (Bukhara Jews), and Iranian origins (Tajiks), as well as minorities which arrived in the country more recently (Russians, Crimean Tatars, Meskhetian Turks, Koreans and Jews). The project target communities will include vulnerable and marginalized groups.</p>	Low	Low
<p>Mitigations:</p> <p>In the event during implementation that traditional/indigenous communities are identified in the project area, the project will follow the steps to seek their free, prior and informed consent (FPIC) outlined in the SECAP Review Note.</p>		
Labour and Working Conditions	Moderate	Moderate
<p>Risk:</p> <p>Risk pertains to enterprises generating new jobs who are not adhering to labour conditions.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>i) Local business development service providers guide the process of farm expansion and will provide information on safe and healthy working arrangements. ii) Project interventions support the development of healthy and safe working conditions by e.g. developing new health protocols and executing regular inspections.</p>		
Community Health and Safety	Moderate	Moderate
<p>Risk:</p> <p>Risk pertains to potential community health issues such as animal to human communicable diseases or issues related to the quality of dairy that can arise from an expanded and intensified dairy and livestock sector.</p>	Moderate	Moderate

<p>Mitigations:</p> <p>i) Training on animal health care will be included in the interventions that aim to strengthen the dairy value chain.</p> <p>ii) The project will increase the availability of reliable animal healthcare and vaccination services.</p> <p>iii) Public health inspectors in milk and dairy premises hygiene are trained and receive refresher training on regulatory control;</p> <p>iv) Beneficiaries receive training on quality control as part of value chain interventions.</p> <p>Through the organization of capacity building programmes, the target population shall be sensitized on zoonotic diseases related risks, communicable diseases related risks, best practices of keeping animals in a safe manner to avoid cross species contamination (e.g. safe disposal of fetus and placenta in case of abortion), and disposal of containers of veterinary medicines.</p>		
<p>Physical and Economic Resettlement</p>	Low	Low
<p>Risk:</p> <p>The project does not include any activities requiring physical resettlement.</p>	Low	Low
<p>Mitigations:</p> <p>Default mitigation text</p>		
<p>Greenhouse Gas Emissions</p>	Moderate	Moderate
<p>Risk:</p> <p>Intensification of dairy production may contribute to the increase of GHGs emission (directly or indirectly)</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The Programme will reduce GHG emissions as it promotes the “less animals, better animals” concept, while the technology innovation sub-programmes are expected to address environmental issues related to fodder production including pasture monitoring, management and reinforcement and manure management for nitrogen cycle control.</p>		
<p>Vulnerability of target populations and ecosystems to climate variability and hazards</p>	Moderate	Moderate
<p>Risk:</p> <p>The Second National Communication of Uzbekistan to the UNFCCC outlined future climate programmes for the country. Climatic trends in Central Asia, highlighted in IPCC Assessment Report 6 of 2022, indicates that the mean temperatures will continue to rise and precipitation will become more variable. This will result in greater aridity and variability with the increased probability of extreme events such as droughts and increased heat stress to livestock and crops. This will affect the livestock sector with respect to animal health, nutrition and availability of fodder. The frequency and severity of extreme heat events may result in impacts to animal health which in turn will lead to lower productivity. Indirect effects include reduced pasture/crop productivity and increased exposure to new pests and diseases. Climate change will also affect water availability for irrigation, with direct impacts on crop production.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>Proven strategies to address the trends noted above are well known and have been mainstreamed into the design of DVCDPII, in order to mitigate any impacts on dairy production, enhance resilience, and ensure that this key agricultural sector is able to adapt to likely climatic changes over the coming years. These include drought resistant fodder and feed crop varieties (including crop rotation), enhanced silage practices to improve the quality of animal feed, including ground cover and nitrogen fixing in rotation to maintain/improve soil fertility, introduction of climate- smart farming practices including improved processing and use of animal manure, promotion of minimum tillage of agricultural land, and agro-silvo practices – particularly tree planting along field/farm boundaries, canals, and irrigation works. Enhanced irrigation practices will also be deployed to improve efficiencies, water security, and soil quality.</p>		

Stakeholders	Moderate	Moderate
Stakeholder Engagement/Coordination	Moderate	Moderate
<p>Risk:</p> <p>A main programme implementation risk relate to the potential lack of incentives on the part of the various value chain actors and beneficiaries — dehkans and commercial private farmers and agroindustry entrepreneurs — to participate in the programme's activities and financing. Moreover, for the DVCDP the location of the main Project Management Unit in the capital meant that direct interaction with stakeholders and beneficiaries was limited. However, the recruitment of local field-based consultants and NGOs facilitated beneficiaries' engagement, especially women.</p>	Moderate	Moderate
<p>Mitigations:</p> <p>The project will conduct a regular project supervision with a focus in gender and targeting strategy development. An in-depth, participatory analysis of production/ business opportunities, input and other constraints, and actual financial risks, based on formulated bankable business plans. Mitigation in this regard also involves a widespread informational campaign on the programme's objectives/scope and initial support to farmer group formation at Mahalla level. Stronger grass-root support will be sought through increased partnerships with local NGOs operating in rural areas.</p>		
Stakeholder Grievances	Moderate	Low
<p>Risk:</p> <p>Stakeholder grievance will be introduced for the first time since a GRM was not adopted in the project first phase. The risk is associated with PMU limited capacity and understanding of this best practice the project should adopt.</p>	Moderate	Low
<p>Mitigations:</p> <p>The proposed project will use the existing IFAD's grievance mechanism with the introduction of SECAP. A specific grievance and redress mechanism will be designed in the phase II of the project with adequate training and awareness for all stakeholders.</p>		