The International Fund for Agricultural Development

REPUBLIC OF UZBEKISTAN

HORTICULTURAL SUPPORT PROJECT

Project Final Design Report

Volume I: Main Report and Annexes
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WORKING PAPERS

- Working Paper 1: Poverty, Gender and Targeting
- Working Paper 2: Support to Horticultural Production and Marketing
- Working Paper 3: Rural Finance
- Working Paper 4: Improved Irrigation Network
- Working Paper 5: Project Costs and Financing
Currency Equivalents

<table>
<thead>
<tr>
<th>Monetary Unit</th>
<th>Uzbekistan Som (UZS)</th>
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<tbody>
<tr>
<td>1 USD</td>
<td>1 700</td>
</tr>
<tr>
<td>1000 UZS</td>
<td>USD 0.59</td>
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</table>

Weights and Measures

<table>
<thead>
<tr>
<th>Unit</th>
<th>Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 kilogram (kg)</td>
<td>2.204 pounds</td>
</tr>
<tr>
<td>1 000 kg</td>
<td>1 metric ton (t)</td>
</tr>
<tr>
<td>1 pound (lb)</td>
<td>450 grams (gr)</td>
</tr>
<tr>
<td>1 kilometre (km)</td>
<td>0.62 miles</td>
</tr>
<tr>
<td>1 metre (m)</td>
<td>1.09 yards</td>
</tr>
<tr>
<td>1 square metre (m²)</td>
<td>10.76 square feet</td>
</tr>
<tr>
<td>1 acre (ac)</td>
<td>0.405 hectares (ha)</td>
</tr>
<tr>
<td>1 hectare (ha)</td>
<td>2.47 acres</td>
</tr>
<tr>
<td>1 quintal (qq)</td>
<td>45.3 kilograms</td>
</tr>
</tbody>
</table>

Fiscal Year

1st January – 31st December
### Abbreviations and Acronyms

<table>
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<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AF</td>
<td>Association of Farmers</td>
</tr>
<tr>
<td>AWPB</td>
<td>Annual Work Plan and Budget</td>
</tr>
<tr>
<td>BWA</td>
<td>Business Women’s Association of Uzbekistan</td>
</tr>
<tr>
<td>CBU</td>
<td>Central Bank of Uzbekistan</td>
</tr>
<tr>
<td>CEDAW</td>
<td>Convention on the Elimination of All Forms of Discrimination against Women</td>
</tr>
<tr>
<td>CER</td>
<td>Centre for Economic Research</td>
</tr>
<tr>
<td>CPAP</td>
<td>Country Programme Action Plan</td>
</tr>
<tr>
<td>ELS</td>
<td>Enhance of Living Standards Project</td>
</tr>
<tr>
<td>ERR</td>
<td>Economic Rate of Return</td>
</tr>
<tr>
<td>ESRN</td>
<td>Environmental and Social Research Note (IFAD)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation of the United Nations</td>
</tr>
<tr>
<td>FBS</td>
<td>Family Budget Survey</td>
</tr>
<tr>
<td>GDI</td>
<td>Gross Domestic Income</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEM</td>
<td>Gender Empowerment Measure</td>
</tr>
<tr>
<td>GIZ</td>
<td>German Agency for International Cooperation</td>
</tr>
<tr>
<td>GOU</td>
<td>Government of Uzbekistan</td>
</tr>
<tr>
<td>GIZ</td>
<td>German Society for International Cooperation</td>
</tr>
<tr>
<td>Ha</td>
<td>Hectare</td>
</tr>
<tr>
<td>HBS</td>
<td>Household Budget Survey</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>HDR</td>
<td>Human Development Report</td>
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<tr>
<td>HSP</td>
<td>Horticulture Support Project</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IIN</td>
<td>Improved Irrigation Network(s)</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
</tr>
<tr>
<td>ITA</td>
<td>International Technical Assistance</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
</tr>
<tr>
<td>LSMS</td>
<td>Living Standards Measurement Survey</td>
</tr>
<tr>
<td>LTD</td>
<td>Limited (Company)</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MAWR</td>
<td>Ministry of Agriculture and Water Resources</td>
</tr>
<tr>
<td>MD</td>
<td>Marketing Department</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>Mehr</td>
<td>Association of Women’s Non-governmental Organizations of Uzbekistan</td>
</tr>
<tr>
<td>MICS</td>
<td>Multiple Indicators Cluster Survey</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MSPQ</td>
<td>Main State Inspection Agency for Plants’ Quarantine</td>
</tr>
<tr>
<td>MTR</td>
<td>Mid Term Review</td>
</tr>
<tr>
<td>ND</td>
<td>Nursery Department</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>Operation and Maintenance</td>
</tr>
<tr>
<td>OMD</td>
<td>Orchard Management Department</td>
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<tr>
<td>OVI</td>
<td>Objectively Verifiable Indicator</td>
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## Abbreviations and Acronyms (cont’d)

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<th>Abbreviation</th>
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<tr>
<td>PCR/IA</td>
<td>Project Completion Report/Impact Assessment</td>
</tr>
<tr>
<td>PFI</td>
<td>Participating Financial Institution</td>
</tr>
<tr>
<td>PHD</td>
<td>Produce Handling Department</td>
</tr>
<tr>
<td>PIM (1)</td>
<td>Participatory Impact Monitoring</td>
</tr>
<tr>
<td>PIM (2)</td>
<td>Project Implementation Manual</td>
</tr>
<tr>
<td>PMU</td>
<td>Project Management Unit</td>
</tr>
<tr>
<td>PRA</td>
<td>Participatory (Rapid) Rural Appraisal</td>
</tr>
<tr>
<td>PSC</td>
<td>Project Steering Committee</td>
</tr>
<tr>
<td>PY</td>
<td>Project Year</td>
</tr>
<tr>
<td>RIMS</td>
<td>Results and Impact Management System (IFAD)</td>
</tr>
<tr>
<td>RRA</td>
<td>Rural Restructuring Agency</td>
</tr>
<tr>
<td>SD</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>SHPM</td>
<td>Support to Horticultural Production and Marketing</td>
</tr>
<tr>
<td>SILS</td>
<td>Strategy for Improving Living Standards</td>
</tr>
<tr>
<td>SLA</td>
<td>Subsidiary Loan Agreement</td>
</tr>
<tr>
<td>SRIVMP</td>
<td>Scientific Research Institute of Vegetables, Melons and Potato</td>
</tr>
<tr>
<td>STA</td>
<td>Senior Technical Assistance</td>
</tr>
<tr>
<td>t</td>
<td>Metric tonne</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
</tr>
<tr>
<td>TSA</td>
<td>Targeted Social Assistance</td>
</tr>
<tr>
<td>UNDAF</td>
<td>United Nations Development Assistance Framework</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>USD</td>
<td>United States Dollar (currency)</td>
</tr>
<tr>
<td>UZS</td>
<td>Uzbekistan Som (currency)</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organisation</td>
</tr>
<tr>
<td>WIS</td>
<td>Welfare Improvement Strategy 2008-2010</td>
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Map of the Project Area

Republic of Uzbekistan
Horticultural Support Project - HSP

Complete design report

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
EXECUTIVE SUMMARY

1. **Economic and Agricultural Development Context.** Since the attainment of Independence in 1991 from the former Soviet Union, the Government of Uzbekistan has implemented a State-led approach to reorienting the command economy it inherited through a graduated introduction of market economy measures. This approach is shaped by Government’s view that it is necessary to strengthen the domestic economy before competing in the global market while also maintaining social and political stability. It has been broadly successful in that Uzbekistan experienced a relatively modest decline in Gross Domestic Product (GDP) of around 20% in the first five years of independence compared to an average fall of around 40% for other former Soviet countries. From 2004 onwards, annual growth rates averaged more than 7%, driven by increasing liberalisation of the economy, current account convertibility and a favourable external environment for the main export commodities of cotton, gold, oil and gas. The growth rate for 2010 was about 9%. Sector trends show that industry’s share of GDP has increased from 14% in 2000 to 24% today and the service sector from 37% in 2000 to 40% today. Agriculture’s share of GDP has decreased from 30% in 2000 to 17.5% in 2010. However, agriculture remains important: around 49% of the population is rural and 25% of the national workforce is directly employed in the sector. Moreover, agriculture provides 90% of domestic demand for agricultural products and 70% of domestic trade. With a GNI per capita of US$1100 in 2009 Uzbekistan is classified as an upper low-income country.

2. The total area under crops in 2010 was 3.7 million hectares (ha). In 2010 agricultural output was valued at USD 8.9 billion and accounted for 21% of exports. While cotton and grain are the most important crops in Uzbekistan, horticultural products contributed significantly to Uzbekistan’s agricultural output in 2010, including: potato (1.7 million tons (t)); melons and gourds (1.2 million t); fruits and berries (1.7 million t); grapes (1 million t) and other vegetables (0.63 million t). Agro-processing of fruits and vegetables amounted to 1.27 million t in 2010. Significant contributors to horticultural production are *dekan* farms, which are small allocations of up to 0.35 hectare on irrigated lands, 0.5 ha on non-irrigated lands and 1 ha on land classified as desert. According to the State Statistics Committee, *dekan* farms, originally introduced by Government as a food security measure whereby small-scale farmers as private sector operators could grow for their own subsistence and sell surpluses to local markets, accounted for a 63% share of total agricultural output in 2010 off 0.47 million ha of land. Private sector agriculture also includes leasehold farms made available under Government’s land reform and rural restructuring policies. There are around 81 000 private leasehold farms in the country with an average size approaching 150 ha with more than 1.5 million people employed on these lands. In 2010 private farms accounted for 35% of total agricultural output off 3.14 million ha.

3. **Rural Poverty.** In 2007, 4.7 million rural people were living below a poverty line defined as consuming less than 2 100 calories per adult equivalent per day and accounted for 73.4% of all people below the poverty line. Government estimates the overall poverty incidence in 2009-2010 to have been about 18%. Key factors in rural poverty include: (i) family composition and dependency ratios; (ii) levels of education; (iii) employment; (iv) access to social services; and (v) access to land. The strongest determinants of rural poverty are low levels of employment opportunities combined with limited access to land. This combination has led to high levels of internal and international migration. Figures are difficult to determine although estimates for 2008-2009 are of 2.5-3.0 million Uzbek international migrants remitting around USD 3 billion or 13% of GDP in 2008 falling to 8.6% of GDP in the first half of 2009 as a result of the global economic and financial crisis.

4. Factors in disadvantaging women, especially rural women, include: a relatively low 44% share of formal employment with a high concentration in low-paid sectors such
as health and education; relative dependence on the informal economy and agricultural piecework; limited access to credit and property; the relatively low level of social services provision in rural areas; and increasing cultural conservatism manifested in strengthening trends to early marriage and child-bearing, decreasing engagement with higher education and limited mobility, notwithstanding that women internal migrants are reportedly increasing.

5. **Agricultural and Rural Development Policy.** The Welfare Improvement Strategy 2008-2010 (WIS) is Government’s main growth and poverty reduction strategy. WIS development objectives include: (i) gradual reorientation of export policies from raw materials to products with high value added; (ii) continued economic liberalisation, in particular focussing on strengthening private property and protecting ownership rights; (iii) financial sector development; (iv) encouraging innovations in large and small businesses and creating mechanisms of technology transfer; and (v) comprehensive area-based development, which mitigates regional differences in economic development and welfare. With regard to agriculture WIS proposals include: gradually improving crop selection in favour of cash crops with higher yields; using new varieties of plants, agro-technologies and agricultural practices in order to enhance the yield of crops; substantially increasing capital investment into irrigation water supply and implementing water efficient technologies; facilitating the increase in land plots allocated to dekhan farms; creating new forms of cooperation between farmers for storing and processing fruits and vegetables; improving private farmers’ access to credit; and support to training farmers. With regard to **rural finance**, the WIS anticipates involving both banks and non-banking financial institutions in the process of microfinance. With regard to **environment, water supply and improved sanitation**, the WIS notes that reducing poverty and improving public health are directly related to improving access to safe water and sanitation. According to the WIS, such access remains relatively low in rural areas and small towns. 21% of the rural population does not have access to safe drinking water and 95% are without municipal sewerage.

6. The Horticulture Support Project (HSP) would be the first development initiative financed by IFAD in Uzbekistan. There is no IFAD Results-based Country Strategic Opportunities Paper (RB-COSOP) for the country and project design therefore factors in the provisions of the Fund’s overarching strategy, policy papers and guidelines as well as those of the WIS.

7. **Project Rationale.** Modernization of a privatized horticulture sector will offer sustainable rural economic growth combined with significant rural welfare improvement. Horticultural produce for domestic markets is already dominated by small-scale household plot/dekhan farm production, contributing importantly to increasing the incomes of less advantaged households. Modernisation of current systems of horticultural production in terms of support to up-dating planting varieties/rootstock, improving the knowledge and skills of small-scale producers and market services providers and agrofirms, and the introduction of modern technologies and appropriate financial products can reasonably be expected to lead to productivity and quality gains which will increase access to both domestic and export markets, improve food security and safety and augment small-scale producers’ and market service providers’ incomes. Greater productivity and market access will offer opportunities for further entrants from the rural unemployed into production as operators or as wage labour at different levels of the horticultural value chain; especially if efficiency gains in land and water use ease growing natural resource base and climate change constraints.

8. **HSP Development Objective, Outcomes and Outputs.** The HSP’s development objective is to increase the incomes and assets of smallholder farmers, processors and service providers within the horticultural sub-sector. HSP outcomes would be: (i) creation of a viable horticultural sub-sector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets; (ii) increased investments by producers, processors and service providers into productive assets in horticulture; and (iii) improved farming
efficiency and mobility of productive assets and produce. Outputs for outcome 1 would be: capacity-building of a Central Nursery to propagate modern varieties and rootstock for sales to Agrofirms and beneficiaries; capacity building of Agrofirms and other entities active in the horticultural value chain to engage in contract farming, technology transfer, produce handling and marketing support; and training in modern farming methods, marketing, professional skills and entrepreneurship. The outputs for outcome 2 would be: establishment of refinancing facilities to provide refinancing capital to Participating Financial Institutions (PFIs) for on-lending to actors in the horticultural production and marketing. Outputs for outcome 3 would be: construction of small-scale modern on-farm irrigation systems and training in their operation, management and maintenance.

9. **Targeting.** The project’s principal target groups would be: (i) small-scale, private sector, actual or potential horticulture producers operating up to a maximum of 5 hectares, with special provision for those, including dekhan farmers, operating less than 2 hectares; (ii) horticulture-related small-scale market services providers; and (iii) the rural unemployed.

10. **Project Components.** The HSP would have three components, besides project management, these being: (a) Support to Horticultural Production and Marketing; (b) Rural Finance; and (c) Improved Irrigation Network. The Support to Horticultural Production and Marketing component will comprise three sub-components: (i) Upgrading of a Central Nursery to import, test and propagate modern horticultural varieties/rootstocks and also the nurseries of Agrofirms and other interested parties to allow them to propagate on a commercial basis mother plants supplied by the Central Nursery; (ii) Modernisation of Agrofirms’ capabilities with respect to input supply, technical advice to primary small-scale producers and post-harvesting services such as storage, processing and marketing, and the development of contract farming; and (iii) Modernisation of Horticultural Production through support to small-scale horticultural producers and market services providers to access affordable finance, technical assistance and training. The Rural Finance component will comprise three sub-components, these being the establishment of refinancing facilities at three levels: (i) to allow selected commercial banks to provide medium to long term financing for Agrofirms, identified as eligible for project support, to invest in processing, storage, and other services relevant to horticultural producers; (ii) for the purpose of investments requiring access to medium and longer-term finance in activities related to horticultural activities; and (iii) for the purpose of providing financing for small-scale investments in modern on-farm technology, with emphasis on small production units. The Improved Irrigation Network component would finance investments in irrigation and drainage systems that complement support to beneficiaries under the Support to Horticultural Production and Marketing component so that they are more likely to achieve the full economic potential of their commercial engagement in fruit, nut and vegetable production.

11. **Project Management.** Day-to-day management and implementation of the Programme would rest with the Rural Restructuring Agency (RRA) of MAWR. The RRA has satisfactorily discharged similar functions in previous agriculture-related development operations financed by the World Bank and the Asian Development Bank. Field linkage would be through a Regional Office in the proposed project area region of Surkhandarya. Linkage with national government would be through a Project Steering Committee, which would have overall oversight of project implementation.

12. **Project Area, Scaling Up and Period.** The project area would initially be districts with a comparative advantage for modern horticulture in the Surkhandarya region. Subject to performance, the project would be subsequently scaled up under a new financing envelope, at present most likely in the adjacent region of Kashkadarya. Surkhandarya and Kashkadarya have the third and second highest percentages at 34.6% and 41% respectively of people below the poverty line. The period of HSP implementation would be 2012 to 2017.
13. **Project Cost and Financing.** Tables 1 and 2 below set out the expected costs and financing of the project.

<table>
<thead>
<tr>
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14. **Project Benefits.** Benefits of the project to its primary target group of small-scale horticulturalists and horticulture-related market services providers would be training and finance. Under the project’s Support to Horticultural Production and Marketing component, it is expected that around 3,200 beneficiary households would be reached under this component. Under the Rural Finance component an estimated 980 loans would be extended to the primary target group in the first rotation. The Improved Irrigation Network component is estimated to reach about 8,000 households, or about 47,200 beneficiaries (assuming that there would be on average 1.6 beneficiary households per USD 1,000 investment). Greater access to markets through production, productivity and quality gains meeting domestic and international standards is expected through backward linkage to open up greater rural employment opportunities in production and market services provision.

15. **Sustainability.** Modernisation is expected to lead to: production and productivity gains across an increased range of horticultural products; an extended period of harvesting; efficiency gains in input supply and marketing; and the establishment of an affordable, ongoing cycle of investment. Consequently, the sector would become more likely, as a result of project support, to be competitive in domestic and export markets and a vehicle for economic growth, particularly among small-scale producers and horticulture-related market services providers. A 20-year economic analysis of the project generated a 22% rate and a net present value of USD 21.8 million. Apart from repayment of any loan finance, implications for Government’s budget are limited in terms of its contribution to project costs and there are no requirements for post-project
funding by Government in that scaling up and replication would be, subject to Government policy, feasible and attractive for the private sector.
## GOAL

**Improved living standards for the rural population in the project area.**

- 10% reduction in the prevalence of malnutrition for children for target population (RIMS mandatory impact indicator) by PY6 in the Project Area.

**Means of Verification**
- Government: FBS, other public socio-economic surveys and statistics, health welfare surveys;
- UNICEF Multiple Indicators Cluster Survey (MICS);
- WB LSMS
- Project M&E/PIM;
- Project completion report.

**Assumptions**
- No severe climatic or economic shocks.

## DEVELOPMENT OBJECTIVE

**Increased incomes and assets generated by small-scale producers, processors and service providers within the horticultural sub-sector.**

- Increase in value in household asset ownership for target population participating in project resulting from investments into horticultural production from USD 15,000/HH to USD 18,000/HH by PY3 and to USD 21,000/HH by PY6 (RIMS mandatory impact indicator);
- Increase in income for target population households participating in the project resulting from investments into horticultural production from USD 1,500 to USD 1,800 by PY6;
- 2,000 employment opportunities (50% women, 50% men) provided annually (RIMS 2nd level) by PY6.

**Means of Verification**
- Baseline and follow up surveys;
- Project M&E/PIM;
- Agrofirm records.

**Assumptions**
- No deterioration in the macroeconomic situation.

## OUTCOME 1

**Viable horticultural sub-sector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets created.**

- 390 households adopting recommended technologies (RIMS 2nd level) by PY6;
- 600 ha of land put under production of horticultural high value produce with recommended technologies by PY6;
- 30% increase in volume/value of horticultural produce handled by Agrofirms sold on export markets by PY6;
- Decrease in volume/value of wastage of produce by farms among target population from USD 6 million to USD 4 million PY6;
- Increase in number of functioning market, storage, processing facilities with 3 by PY3 and 20 by PY6 (RIMS 2nd level).

**Means of Verification**
- Baseline and follow up surveys;
- Market studies;
- Government forestry/agricultural statistics;
- Household interviews;
- Agrofirms' financial statements;
- Records from Agrofirms and nurseries.

**Assumptions**
- Export policies with improved economic effect on beneficiaries.
- Land access and use policies with improved economic effect on beneficiaries.

## Output 1

**Central Nursery supported and endowed with capacity to propagate modern varieties and rootstock for sales to Agrofirms and beneficiaries.**

- Central Nursery is grafting first plants by PY2;
- Plants purchased by Agrofirms and beneficiaries from Central Nursery in an amount sufficient for establishing 300 ha of orchards by PY6.

**Means of Verification**
- Records from Central Nursery and Agrofirms;
- Project M&E/PIM.

## Output 2

**Agrofirms identified and strengthened for providing services to small horticulture clients, contract farming, technology transfer, produce handling and marketing support.**

- 15 Agrofirms supported by PY6.

**Means of Verification**
- Project M&E/PIM.
### Output 1

**Refinancing Facility established to provide refinancing capital to PFIs for on lending to the horticultural value chain.**

- Refinancing Facility operating by PY2;
- 4 PFIs participating in the project (RIMS 1st level) by PY4.

**Output 2**

**Financially viable participating financial institutions supported providing a range of financial services to small horticulture clients.**

- 100 business plans used as collateral for loans by PY4;
- 50 of staff (30% women, 70% men) of service providers trained (RIMS 1st level) by PY2.

### Outcome 2

**Investments by producers, processors and service providers into productive assets in horticultural value chain increased.**

- Value of gross loan portfolio (RIMS 1st level) at USD 11 million by PY 6;
- Portfolio at risk (RIMS 1st level) kept at below 10%;
- Improved access of the poor to financial Services (RIMS 2nd level);
- 700 active borrowers (30% women, 70% men) by type of service (RIMS 1st level) by PY6.

### Output 3

**Training in modern farming methods, marketing, professional skills and entrepreneurship provided.**

- 450 people (30% women, 70% men) trained in business and entrepreneurship (RIMS 1st level) by PY5;
- 900 people (30% women, 70% men) trained in crop production practices and technologies (RIMS 1st level) by PY5;
- 450 people (30% women, 70% men) trained in post-production, processing and marketing (RIMS 1st level) by PY5.

**Outcome 3**

**Farming efficiency and mobility of productive assets and produce improved.**

- Likelihood of sustainability of the roads constructed/rehabilitated (RIMS 2nd level);
- 20% increase in volume of water saved (in m³);
- 1 000 ha of land improved through water conservation methods (RIMS 2nd level);
- 8 000 HH reached by PY6.

**Output 1**

**Rural infrastructure for modern irrigation methods and techniques at farm level constructed.**

- 1 000 ha land under irrigation schemes constructed and/or rehabilitated (RIMS 1st level) by PY4;
- 20 other infrastructure constructed (RIMS 1st level) by PY6.

**Output 2**

**Training in infrastructure management provided.**

- 100 people (30% women, 70% men) trained in infrastructure management (RIMS 1st level) by PY4;
- 100 people (30% women, 70% men) trained in NRM (RIMS 1st level) by PY 4.
I. STRATEGIC CONTEXT AND RATIONALE

A. Country and Rural Development Context

1. Of the 15 independent states that emerged from the break-up of the Soviet Union in 1991, the Republic of Uzbekistan is the third largest in terms of population (28 million people in 2010) and the fourth largest in land area (447,400 sq. km).

2. Following independence, the Government embarked on gradual and cautious State-led development approach in which features of an open market economy have been and continue to be introduced in a step by step manner. This is manifested in minimizing public debt, tight monetary policy and State-controlled wheat production for food security. This gradualist model is based on the assumption that it is necessary to build up the domestic economy before competing in the global market place. Also, the approach has the objective of maintaining social and political stability among a heterogeneous population. The result has meant that Uzbekistan has been relatively shielded from the impact of the global financial crisis. However, it has also meant that the country has still to achieve its full economic potential.

3. Uzbekistan experienced a relatively modest decline in Gross Domestic Product (GDP) of around 20% in the first five years of independence compared to an average fall of around 40% for other former Soviet countries. From 2004 onwards, annual growth rates averaged more than 7%, driven by increasing liberalisation of the economy, current account convertibility and a favourable external environment for the main export commodities of cotton, gold, oil and gas. The growth rate for 2010 was about 9%. Sector trends show that industry’s share of GDP has increased from 14% in 2000 to 24% today and the service sector from 37% in 2000 to 40% today. Agriculture’s share of GDP has decreased from 30% in 2000 to 17.5% in 2010. However, agriculture remains important: around 49% of the population is rural and 25% of the national workforce is directly employed in the sector. Moreover, agriculture provides 90% of domestic demand for agricultural products and 70% of domestic trade. With a GNI per capita of USD 1,100 in 2009 Uzbekistan is classified as an upper low-income country.

4. Rural Poverty. In 2007 4.7 million rural people were living below a poverty line defined as consuming less than 2,100 calories per adult equivalent per day. As such, rural areas accounted in 2007 for 73.4% of all people below the poverty line in Uzbekistan.¹

5. Key factors in rural poverty include: (i) family composition and dependency ratios; (ii) levels of education; (iii) employment; (iv) access to social services; and (v) access to land.

6. Rural people below the poverty line are particularly at risk from the low level of employment opportunities in rural areas on the one hand and limited access to land on the other. Families with no employment other than their own subsistence farming of household plots are more likely to be poor. For example, according to the 2005 Family Budget Survey (FBS) data, overall 33.7% of family heads were employed in agriculture

whereas for poor households the total was 48.7% and only 29.6% heads of non-poor families were employed in agriculture. However, employment is of itself no guarantee against the risk of poverty since there is a prevalence of low-income, unskilled or semi-skilled jobs in rural areas and by normative measures of productivity there is considerable underemployment. At the same time there is already a shortage of arable land in Uzbekistan and there is a premium on irrigated land due to the country’s prevalent agro-climatic conditions. During the last 25 years irrigated land per inhabitant has declined from 0.22 to 0.12 hectares. In addition, while many families own livestock or poultry, such assets are usually meagre. Moreover, there is often a perennial shortage of fertilizers, chemical pesticides or seeds. Income from micro-enterprises, usually from selling agricultural products or handicrafts is low and erratic for most households. Finally, as a result of limited local income-generating opportunities about one-fifth of households express interest in migrating.

7. **Coping Measures.** Uzbekistan is characterized by significant internal (rural to urban) migration and also international migration, notably to Russia and to a lesser extent Kazakhstan. Figures are difficult to determine although a 2009 study estimated that at that time there were some 2.5-3.0 million Uzbek international migrants and that the value of their annual remittances from Russia, as calculated by that country’s Central Bank, was about USD 3 billion. The Centre for Economic Research (CER), by comparison, calculates that remittances in 2008 reached a high of 13.3% of GDP, falling to 8.6% of GDP in the first half of 2009 as a result of the global recession.

8. It has been noted above that part of Government’s approach to attaining national food security was the introduction of procurement quotas for wheat which meant that the State, which retains ownership of all land with the exception of household plots, reserved land for wheat production and set targets and prices. As a result cropland under wheat expanded by 227% between 1991 and 2009, from 488 000 ha to over 1.6 million ha, thereby significantly increasing the wheat harvest from 610 000 t in 1991 to over 6.5 million t in 2009. At the same time Government incorporated a private sector solution as well, by allotting households with up to 0.35 hectare (ha) on irrigated, 0.5 ha on non-irrigated lands and 1 ha on land classified as desert. These allocations have the special status of single-family dekhan farms that can be cultivated both for personal consumption and market production. Surveys indicate that the increased access of less advantaged rural households to dekhan allocations has had a major impact not only on their food security but on their incomes. Indeed, according to the State Statistics Committee, dekhan farms’ share in gross agriculture product of the country was 63% in 2010. Concurrently, the Government, under its land reform programme, has steadily offered land to larger private farmers on a leasehold basis. The average size of these larger private farms has risen to 150 ha as Government seeks a balance between optimising access and economies of scale. In order to ensure a regular all year round domestically produced supply of fruits and vegetables, the Government is helping agricultural communities to set up greenhouses with low-cost heating systems. As a result, in 2010 entrepreneurs, larger private farmers (up to 150 ha) and dekhan farmers set up 522 greenhouses covering 290 ha.

9. Food security measures have been accompanied by special programmes to provide adequate nutrition to young children and babies that were particularly susceptible to insufficient or unbalanced food rations. As a result Uzbekistan has witnessed a decline in

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2 CER op.cit.
3 CER op.cit.
4 Andrea Riester, German Technical Cooperation (GTZ): Background Paper for an ADB Conference in Hanoi 2009 on implications of the global recession.
5 CER op.cit.
7 For further details see Annex 2.
8 CER.
child mortality and significant improvement of anthropometric indicators. Also, 50% of flour is fortified with iron and folic acid, bringing about a 50% reduction in the incidence of anaemia. Salt iodization in Uzbekistan is required by the national Law on the Control of Iodine Deficiency Disorders and by 2006 iodization covered more than half of Uzbek households. However, food safety remains a priority concern. Hygienic and food safety conditions including water sanitation are difficult to control since food products are mostly supplied from multiple sources by private farmers, dekhan farms and semi-formal public catering outlets. Presently state control of food safety and quality is often not sufficiently effective with regard to vegetable, meat and milk products sold at dekhan markets.

10. Besides increased access to land and migrant labour, welfare among the less advantaged population is significant improved by targeted social transfers. Uzbekistan maintains two main social assistance benefits mechanisms: child allowances and low-income family benefits. Some 6% of all State expenditures go to needy families through the mahalla system of social assistance. Mahallas are local self-government organisations elected by adult franchise (18 years and over) by urban and rural communities of anything between 150 and 1,500 families. Their committees have responsibility for supporting their local communities in improving living conditions, organizing ceremonial events, maintaining public order, housing stock, finances and overseeing issues concerning women, youth and veterans. Although legally ‘non-governmental’ they identify needy households for eligibility for social transfers and these transfers are paid by Government through them to end-recipients. Uzbekistan’s Welfare Improvement Strategy 2008-2010 (WIS) states that: ‘Uzbekistan’s unique system of targeting social security through mahallas is, despite some shortcomings, more efficient compared with other systems. The FBS survey data (2005) shows that the majority of households of poorer quintiles receive allowances and the major part of allowances are paid to the lowest quintiles (i.e. allowances are being distributed progressively), although some outflows of funds into highest quintiles also occurs.’

11. Gender. Uzbekistan had an estimated population of 28.33 million in 2010, of which women constitute almost 50% (13.98 million). The gender profile in Uzbekistan is influenced by three dominant factors: the Soviet inheritance, the social and economic challenges of the transition period, and the traditional Uzbek values and cultural traditions.

12. UNDP’s 2010 Human Development Report (HDR) gives Uzbekistan a Human Development Index (HDI) value of 0.617, up from 0.588 in 2005, and a ranking of 102 out of 169 countries. The 2010 HDR gives Uzbekistan no rank or value with respect to the recently introduced Gender Inequality Index measure. However, it notes: (i) the 2008 Maternal Mortality Ratio (number of maternal deaths per 100,000 live births)

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9 The United Nations Statistics Division reports that the percentage of children less than 5 years old considered moderately or severely underweight declined from nearly 19% in 1996 to 5.1% in 2006 and for the severely underweight declined from 5% in 1996 to 0.8% in 2006. According to UNICEF’s Multiple Indicators Cluster Survey, stunting among children 3 years of age and younger was 31.2% in 1996, and subsequently declined to 21.2% in 2002 and 14.6% in 2006. The risks of poor nutrition tend to be greater in rural areas including water sanitation are diff... 50% reduction in the incidence of anaemia. Salt iodization in Uzbekistan is required by the national Law on the Control of Iodine Deficiency Disorders and by 2006 iodization covered more than half of Uzbek households. However, food safety remains a priority concern. Hygienic and food safety conditions including water sanitation are difficult to control since food products are mostly supplied from multiple sources by private farmers, dekhan farms and semi-formal public catering outlets. Presently state control of food safety and quality is often not sufficiently effective with regard to vegetable, meat and milk products sold at dekhan markets.

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was 24; (ii) 2008 female representation in Parliament was 16.4%; (iii) the 2008 labour force participation was 61.7% for women and 73.7% for men; and (iv) antenatal coverage of at least one visit was 99% in 2008. UNDP’s National Human Development Report 2007-2008 gives Uzbekistan a Gender Empowerment Measure (GEM) value of 0.500 for 2005.

13. Other main gender differences are in life expectancy, where men have a lower value than women (66.7 years compared to 72.4 for women); and per capita income, where women have a lower value than men (the gender gap score is 0.691).14 Literacy rates and school enrolment indicators are roughly equal. In the period 2000-2008 the ratio of girls to boys at these levels of education has been around 0.95. However, in higher education male students still markedly outnumber female students.

14. The share of women employed in the economy is less than 44% and the share of women employed by the informal sector is increasing. The trend is for women to be increasingly employed in low-paid sectors such as health (in which women are 78.4% of all employees) and education (69.3%). In 2008 women’s wages were lower than men’s by 37%.

15. While women constitute 52.6% of the population employed in agriculture, it is striking that of 235 000 leasehold (private) farms registered by January 2008 only 17 000 or 7.2% of them were led by women. For the most part rural women in agriculture are unpaid family labour or low-paid agricultural labour, often working on a seasonal basis. At present, it is often the case that rural women have the main responsibility for production from household plots and dekhan farms.

16. The entrepreneurial activities of rural women, whether it is heading their own agricultural enterprises or focused on micro and small-scale non-farm enterprises, cross border trade, subcontracting work at home or street trading is severely constrained by limited access to credit and property. A significant barrier to developing female-headed farming and non-farming enterprises has been the inability of the women to provide collateral against credit applications. According to information the State Statistical Department (2009), 85% of micro-credits go to men and only 15% to women. However, privatization under the land reform programme appears to have increased credit demand in the sector.

17. Finally, the economic challenges of the transition period have resulted in less access to health and other social services, particularly in rural areas. Notwithstanding the excellent targeting of the social transfer system, constraints on social services tend to impact more on women than men, increasing their risks and responsibilities with respect to maternity, childcare and other domestic responsibilities while not reducing their obligations to contribute to meeting household subsistence and income requirements.

18. **Strategic Context of Rural Welfare Improvement.** The Welfare Improvement Strategy 2008-2010 (WIS) is Government’s principal poverty-reducing, agricultural and rural development strategy. For the purposes of HSP design its key development objectives are: (i) gradual reorientation of export policies from raw materials export towards the export of products with high value added; (ii) continued economic liberalisation, in particular focussing on strengthening private property and protecting ownership rights; (iii) financial sector development; (iv) establishment of innovation institutions for encouraging innovations both in large and small businesses and creating mechanisms of commercially exploiting research along with programmes of technology transfer; and (v) comprehensive area-based development, which envisages that economic growth should cover all regions of the country and mitigate the existing differences in the level of economic development and welfare.

19. With regard to **agriculture** the WIS proposes to focus on: gradually improving crop selection in favour of cash crops with higher yields; using newly bred varieties of plants and animals, agro-technologies and agricultural practices in order to enhance the yield of crops and productivity of livestock farming; substantially increasing capital investment into irrigation water supply and implementing water efficient technologies; and improving economic relations between all actors in the agricultural sector. In particular, agricultural policy objectives under the WIS include: (i) completion of the transition process to private farmers, strengthening the institution of long term lease rights to encourage farmers to effectively use and make long term capital investment in improving the quality of the leased land; (ii) facilitating the increase in land plots allocated to *dekhan* farms through land development, utilising unused land as well as the existing resources of *dekhan* farms; (iii) creation of new forms of cooperation between farmers for storing and processing fruits and vegetables, meat and dairy products. Using tax incentives to be granted to Agro-firms of farmers associations for the processing of their agricultural produce; (iv) substantial improvement of the terms of trade for agricultural producers through better access to the essential material and technical resources (seeds, fertilisers, high-breed livestock, veterinary services, etc.) and agricultural equipment as well as the system of storage, delivery, sale, and processing of their products at market prices; (v) improvement of the system of private farmers’ access to credit resources and the financial services market; (vi) State support in breeding new high yield crops and high-breed animals, fighting domestic livestock diseases, as well as the introduction of new agricultural technologies; and (vii) Government support to various forms of training for farmers to improve their professional, technical, and management knowledge. Appropriate farmer training will be arranged at vocational colleges specialised in agriculture, economics, and technical disciplines. Furthermore, training will be provided with the technical assistance of donors.

20. With regard to **rural finance**, the WIS anticipates involving both banks and non-banking financial institutions in the process of microfinance and that banks as well as microfinance institutions shall be allocated a key intermediary role in the achievement of the envisaged high rates of economic growth and a more equal distribution among all segments of the population shall take place by encouraging savings and creating effective mechanisms for their transformation into investment.

21. With regard to **environment, water supply and improved sanitation**, the WIS notes that reducing poverty and improving public health are directly related to improving access to safe water and sanitation. According to the WIS, such access remains relatively low in rural areas and small towns. On average, 6% of urban residents and 21% of rural population do not have access to safe drinking water. Municipal sewers are accessible only for 38% of the urban population and 3-5% of the rural population.

22. In the context of the WIS other strategies that may be of significance to the HSP are those of the Asian Development Bank (ADB), the United Nations Development Assistance Framework (UNDAF)/United Nations Development Programme (UNDP) and the World Bank (WB). More details on the WIS and these multilateral donor strategies are provided in Annex 1.

### B. Project Rationale

23. Under the WIS’s key development objectives, Government is committed to (i) continued economic liberalization; and (ii) comprehensive area-based development which envisages that economic growth should mitigate the existing differences in the level of economic development and welfare. On the basis of the socio-economic data above there are strong indications that modernization of a privatized horticulture sector can offer sustainable economic growth combined with significant welfare improvement. Horticultural produce for domestic markets is already dominated by small-scale household plot/ *dekhan* farm production, contributing importantly to increasing the
incomes of less advantaged households. Modernisation of current systems of horticultural production in terms of support to up-dated planting varieties/rootstock, producer knowledge and skills, technologies and appropriate financial products can reasonably be expected to lead to productivity and quality gains which will increase access to both domestic and export markets, improve food security and safety and augment producers’ incomes. Greater productivity and market access offer opportunities for further entrants into production as operators or wage labour, especially if efficiency gains in land and water use ease the growing natural resource base constraints that have been mentioned.

II. PROJECT DESCRIPTION

A. Project Area and Target Group

24. The project area (see Map above) would be districts in Surkhandarya region with a comparative advantage and potential for modern horticulture and, subject to performance, the project may be subsequently scaled up as a separate Phase II initiative for similar districts in other parts of Uzbekistan, in particular the adjacent region of Kashkadarya. On the latest available data, Surkhandarya and Kashkadarya have the highest percentages at 34.6% and 41% respectively of people below the poverty line in the whole of Uzbekistan with the sole exception of the Republic of Karakalpakstan.

25. The project target groups would be: small-scale, private sector, actual or potential horticulture producers operating 6 ha or less, with special provision for those operating less than 2 ha including dekhan farmers; small-scale horticultural market services providers; horticulture-related agrofirms and other entities active in the horticultural value chain; and the rural unemployed.

B. Development Objective and Impact Indicators

26. The development objective of the HSP is increased incomes and assets accruing to smallholder farmers, processors and service providers within the horticultural sub-sector.

C. Outcomes/Components

27. The HSP outcomes would be: (i) a viable horticultural sub-sector with modern farming techniques, backward linkages to poor rural smallholders and improved access to domestic and international markets created; (ii) increased investments by producers, processors and service providers into productive assets in Uzbekistan horticulture: and (iii) improved farming efficiency and mobility of productive assets and produce.

28. The HSP would have three components, besides project management, these being: (i) Support to Horticultural Production and Marketing; (ii) Rural Finance; and (iii) Improved Irrigation Network.

29. Component 1: Support to Horticultural Production and Marketing. The Support to Horticultural Production and Marketing (SHPM) component will comprise three sub-components:

30. Sub-component 1.1: Upgrading of nurseries. A Central Nursery receiving support under the project would propagate modern varieties and rootstock, which would allow the Central Nursery to: (i) provide Agrofirms and other interested parties with mother plants for propagation; and (ii) provide beneficiaries with ready-grafted seedlings for orchard establishment. In addition, the Central Nursery would be responsible for

16 See also Annex 4.
handling the shipment of plants to be on-sold to farmers for direct orchard establishment under sub-component 1.3 (see below).

31. The Central Nursery would be located at one of the existing Shreder Institute facilities in Surkhandarya region, which already possess much of the equipment and infrastructure required.

32. Support to the Central Nursery would comprise the financing of: (i) office equipment; (ii) nursery equipment; (iii) tissue laboratory equipment; (iv) importing of modern variety and rootstock mother plants to set up demonstration orchards to be managed by the Central Nursery; (v) importing of modern variety and rootstock mother plants for propagation by the Central Nursery; (vi) International Technical Assistance to assist the Central Nursery in modernising its propagating activities; (vii) necessary vehicles; and (viii) operation and maintenance by the Shreder Institute of the Central Nursery and the tissue laboratory.

33. The plant materials to be imported would consist of highly productive new varieties not yet listed in the Government’s ‘Official Catalogue of Authorized Planting Materials of Uzbekistan’ that could include apples, apricots, peaches, cherries, plum, almond (late blooming varieties), pistachio and minor crops such as olives, lemons and mandarins, for which there is known demand. The selection of varieties would be done with due regard to: (i) the findings and recommendations of a Project-financed ‘Strategic Marketing Study’ to be undertaken at project start-up and which would determine the character and opportunities of domestic and international markets relative to Uzbekistan’s current and potential horticultural products; (ii) possibilities of Agrofirms and other competent entities to act effectively in the value chain, e.g. necessity to create sufficient economies of scale in uniform produce for each selected crop/variety; and (iii) the need to have a drawn out harvesting season, thus alleviating the pressure on post harvesting bottlenecks such as limited availability of cold storage, and congested markets during high season. A special resolution from the Cabinet of Ministers would be required for importing of the varieties and rootstocks so to avoid lasting trial periods before license for commercial use is granted.

34. **Sub-component 1.2: Modernisation of Agrofirms and other entities active in the horticultural value chain.** Central in the support to the horticultural sector is a functioning post harvesting segment in the value chain, the need for which is particularly accentuated by the tendency of Uzbek markets to be flooded during high harvesting season, leading to dumping prices and wastage levels as high as 30%. To this end, the sub-component would support 10-15 Agrofirms or other entities active in the horticultural value chain, selected using a competitive and objective methodology (see Annex 5) by providing access to appropriate financing products for capital investment through the Rural Finance component and also providing technical assistance to improve their managerial and technical competence. Entities engaged in export marketing would either already have or be enabled to install equipment and building structures necessary to meet appropriate international standards. These facilities could include a pack house, a pre-cooling unit, cold storage facility for fruit, and processing facilities for drying, sorting, juicing and vacuum packing.

35. The principal functions of the Project-supported Agrofirms and other such entities relative to the horticulture value chain would be to provide markets for primary producers’ inputs and produce through: (i) purchasing produce from farmers for sale as fresh or stored produce on domestic and export markets as well as for processing through engagement in systematic contract farming and supply arrangements; (ii) guiding and supporting the application of improved technology by primary producers in an effort to achieve uniform quality control and production standards to strengthen the competitiveness of Uzbek horticultural produce on the Russian and other export

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17 See Annex 9 draft PIM for details on Contract Farming and Supply Arrangements.
markets; and (iii) establishing and maintaining nurseries of improved cultivars to supply farmers with readily grafted saplings for orchard establishment and improvement.

36. In the above framework, key service functions of Agrofirms and other entities active in the horticultural value chain would be: (a) nurseries for the commercial multiplication of basic plant materials (rootstocks and varieties) under a centralised control system, with oversight being provided by the Shreder Institute. The nurseries would consist of a Central Nursery, mother trees for root stock multiplication, and mother trees for multiplication of selected varieties. The size of the nursery and its production capacity would be determined more in detail in connection with the investment in the Agrofirm or other such entity; and (b) post harvest aggregation, product traceability, storage, processing, packaging as well as marketing for international and domestic sales. It would be advisable to link smaller producers with Agrofirms or other such entities through formal contract farming and supply arrangements. Such arrangements would enable small farmers to receive support in orchard establishment, orchard management, field post-harvest handling and produce traceability, embedded within the contract relationship.

37. In order to assist Agrofirms and other market entities to better assess the costs, revenues and overall potential of markets for horticultural produce, the project would provide support for a Strategic Marketing Study. This would be undertaken as soon as practicable after project commencement. The study would select the six most important horticultural commodities produced in the project area in terms of current revenues, and conduct the following analyses: (i) the likely costs from farm to market for local sales; (ii) the likely costs from farm to market for export sales; (iii) the revenues for local and export sales; (iv) the costs of regulatory compliance for export sales; (v) the costs of efficient transport for export sales; and (vi) the physical and financial risks of export versus local sales.

38. An analysis of these factors would better inform Agrofirms and other market entities of the nature of export sales, the risks, and the true financial benefits.

39. **Sub-component 1.3: Modernisation of Horticultural Production.** This sub-component would contribute to modernisation of horticultural production through supporting small-scale farmers, including *dekan* farmers, who have previous farming experience but limited access to land and limited financial means to invest in their productive assets. The Project would also provide support to other small non-farming commercial value chain businesses which would be integral to the success of the value chain. The Project would provide these groups with financing for: (a) establishment of orchards and vegetable fields with high yielding new varieties; (b) introduction of modern production technologies such as drip irrigation, plastic tunnels and other modern techniques, machinery and equipment; and (c) non-farm value chain facilities such as small cold storage facilities, specialised transport (e.g. refrigerated), and farm services (small nurseries, plant protection services).

40. Finance would be provided to Beneficiaries in the form of Debt Financing and Competitive Grants issued under the project’s Rural Finance sub-components 2.2 and 2.3 described below.

41. **Training.** It is essential to provide farmers and proprietors/managers of small related businesses with appropriate training and training materials in (i) business planning in view of heavy investments required e.g. for the establishing of orchards; and (ii) orchard and horticulture field management and growing techniques.

42. The training on business planning would enable the participants to develop the business plans necessary for applying for loans, conceptualize revenues, costs, profits and risks over a long planning period. The training in business planning and orchard and horticulture field management and growing techniques would be open to all farmers in the Project Area, and would be very important for farmers who intend/have applied for finance under the Rural Finance component. Training would be provided with support
from Agrofirms or other such entities where this capacity exists, especially within contract farming/supply arrangements. Alternatively, the Project would, if necessary, contract local experts to provide such training. Provision of training to various project stakeholders would be managed by the Horticulture Value Chain Development Coordinator and/or the Rural Finance Programme Coordinator as appropriate to the type of training.

43. **Component 2: Rural Finance.** The rural finance component will comprise three sub-components that provide financing for the investments described under the project’s sub-components 1.2 and 1.3 above. Each investment would consist of:

   a) Debt Financing, in the form of loans from commercial banks, up to a maximum of 60% of the total new investment cost;

   b) Competitive Grant, which would be an advance paid by the Project to the beneficiary to assist with them making investments in the horticultural value chains supported by the Project. Co-financing would be a maximum of 20% of the total new investment cost.

   c) Beneficiary Contribution, which would be a minimum of at least 20% of the total new investment cost.

44. The total financing made available under the Project for the Competitive Grants would amount to a maximum of approximately USD 4.3 million. Such Competitive Grants would constitute an essential element in creating investments that introduce new technologies and support modernization of the horticultural sector in the Project Area. After full disbursement of the total financing available for Competitive Grants, investments would be financed by Debt Financing up to a maximum of 80% of the total new investment cost, the rest being covered by the Beneficiary Contribution.

45. **Sub-component 2.1.** The financing available for Sub-component 2.1 is estimated to amount to USD 7 million, and derives from the following sources:

   a) IFAD/co-financier Loan USD 3.36 million to cover the Debt Financing;

   b) IFAD/co-financier Loan USD 1.4 million to cover the Competitive Grants;

   c) PFI contribution USD 0.84 million to cover Debt Financing; and

   d) Beneficiaries’ self-financing contribution USD 1.4 million to cover the Beneficiary Contributions.

The IFAD/co-financier Loan would re-finance selected commercial banks’ medium to long-term lending to agro-firms, identified as eligible for project support, for investments in eligible processing, storage, and other services relevant to horticultural producers.

46. The intended beneficiaries are agro-firms with a suitable strategic positioning in horticultural value chains, providing services to farmers with development impacts in the form of employment creation and access to marketing, and identified as eligible for project support with commercially viable and bankable business proposal, adequate collateral, satisfactory rates of return, and repayment capacity as demonstrated in realistic business plans, which in view of the expected considerable loan amounts will initially be established with the assistance of about two person-months of external expertise provided by the project’s planned technical assistance to agro-firms.

47. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar, depending on the preference of the ultimate beneficiary, who in the case of choosing the USD option will carry the foreign exchange risk.

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18 See also Annex 4.
48. Maximum financing in the form of Debt Financing and Competitive Grants will be USD 600 000 equivalent per borrower, reflecting the requirements for investments as demonstrated in realistic business plans together with the recognised institutional and organisational status of the agro-firm.

49. Average financing sizes are estimated at USD 400 000 equivalent, and maximum duration of loans to be refinanced is proposed at six years with a maximum grace period of one year.

50. With respect to the on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollar, for which the final borrower, i.e. the agro-firm, will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

51. **Sub-component 2.2.** The financing available for Sub-component 2.2 is estimated to amount to USD 9 575 000, and derives from the following sources:
   a) IFAD/co-finançier Loan USD 4 596 000 to cover the Debt Financing;
   b) IFAD/co-finançier Loan USD 1 915 000 to cover the Competitive Grants;
   c) PFI contribution USD 1 149 000 to cover Debt Financing; and
   d) Beneficiaries’ self-financing contribution USD 1 915 000 to cover the Beneficiary Contributions.

52. The IFAD/co-finançier’s Loan would re-finance commercial banks’ lending to investments in the operation of eligible horticultural activities among small farmers, operating between 2 and 6 ha, and small market services entities (storage, processing, packaging, distributing etc.).

53. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar. The maximum financing in the form of Debt Financing and Matching Grants will be USD 100 000 equivalent per borrower.

54. Average financing sizes are estimated at USD 40 000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be four years, with a grace period of up to one year.

55. With respect to on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollars, the final borrower will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

56. **Sub-component 2.3.** The financing available for Sub-component 2.3 is estimated to amount to USD 5 million, and derives from the following sources:
   a) IFAD/co-finançier Loan USD 2.4 million to cover the Debt Financing;
   b) IFAD/co-finançier Loan USD 1 million to cover the Competitive Grants;
   c) PFI contribution USD 600 000 to cover Debt Financing; and
   d) Beneficiaries’ self-financing contribution USD 1 million to cover the Beneficiary Contributions.
57. The IFAD/co-financier’s Loan would re-finance commercial banks’ lending to investments in eligible horticulture-related activities, with emphasis on very small production units of less than 2 ha, including dekhan farmers, and micro market services entities.

58. in the form of Debt Financing and Competitive Grants will be USD 20 000 equivalent per borrower.

59. Average financing sizes are estimated at USD 10 000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be three years, with a grace period of up to six months.

60. With respect to on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollars, the final borrower will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to US$ 6-months LIBOR.

61. **Component 3 Improved Irrigation Network.** The Improved Irrigation Network (IIN) component would finance investments in public (for common use) irrigation and drainage infrastructure that complements support to beneficiaries under the Support to Horticultural Production and Marketing (SHPM) component so that they are more likely to achieve the full economic potential of their commercial engagement in fruit, nut, and vegetable production.

62. The main types of infrastructure that would be eligible for support under the IIN component would include on-farm irrigation (tertiary) and drainage networks including ancillary structures such as division and regulating structures, intakes and outlets, water measurement devices, bridges, pumping stations etc. However proposals for improvement of sections or structures on inter-farm (secondary) systems could also be considered subject to meeting the eligibility and selection criteria described in Annex 5.

63. The finance available to the IIN component is currently anticipated at about USD 5.4 million including a beneficiary contribution of USD 0.83 million. A preliminary estimation shows that with this available funding the IIN component could assist in on-farm and inter-farm irrigation and drainage systems improvement for an estimated area of about 1 000 ha. The cost of each IIN investment would range between US$ 50 000 and USD 300 000, including the beneficiary contribution of at least 20% of investment cost and VAT of 20% to be contributed by the Government. Comparatively larger scale projects would be supported in individual cases where either other donors or private business would source additional financing.

64. There would be no pre-defined allocation for different types of irrigation/drainage investments, nor would the number of benefiting communities pre-determined. Investments under the component would be demand-driven but would need to meet a number of eligibility criteria for consideration for project support. For pre-qualification, applications would have to comply with three compulsory criteria: (i) direct linkage with the horticulture activities selected for support under the SHPM component, authenticated through the respective producers and processors; (ii) commitment by the proponents to

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19 See also Annex 4.

20 In Uzbekistan the terms ‘on-farm’ and ‘inter-farm’ refer respectively to tertiary and secondary irrigation and drainage systems: hence these systems remain in the public (common use) domain since they reach only to the edge of private farms. Tertiary (‘on-farm’) systems are the responsibility of Water Users’ Associations (WUAs) while secondary (‘inter-farm’) systems are under the authority of the State organisation ‘Administration of Irrigation Systems’ (AIS). See also Annex 5.
invest from their own resources a minimum of 20% in cash of the total cost of the investment; and (iii) proposal of a feasible and sustainable procedure for operation and maintenance of the proposed facility, endorsed by the responsible institution (Water Users Association (WUA) or Administration of Irrigation Systems (AIS) in the case of investments in inter-farm systems). The endorsement would be subsequently formalized in a letter stating the commitment to transfer the assets to the institution’s balance sheet and to make yearly provisions for maintenance. Any proposal which did not satisfy these criteria would be rejected.

65. General performance of WUAs has been weak, due to overall low capacity in management and operational skills. The service fee established by WUAs mainly consists of limited operational expenses and almost no activities are planned for maintenance works, which does not reflect the minimum required funding for sustainable operation. Furthermore, even with this extremely low level of fee the payment rate is not exceeding 45-50%. Considerable efforts to improve the administrative, operational and managerial capacities of WUAs are being made under ongoing donor programs, which include training, re-organization of WUA along hydrographic boundaries, and information campaigns, which has significantly improved the WUA’s operational skills and financial conditions.

66. Proposals accepted for consideration for project support would be competitively ranked on the basis of five further criteria: (i) number of individuals assisted per USD 1,000 of investment (the more individuals assisted the higher the ranking); (ii) contribution by applicants (the larger the contribution the higher the ranking); (iii) Operation and Maintenance (O&M) capacity and experience (the greater the O&M capacity and experience of the WUA or AIS the higher the ranking); (iv) number of economically active who would directly benefit from the investment (the greater the number the higher the ranking); and (v) expected improvements to water and soil management (no improvement, limited improvements, or substantial improvements). These IIN ranking criteria would ensure that funds are allocated in accordance with the goal of improving livelihoods and economic growth in less advantaged rural communities.

67. Environment. All HSP activities will be compliant with IFAD Guidelines on Environmental Assessment and Government of Uzbekistan environmental legislation, i.e. environmental assessment of all the investment proposals would have to be undertaken/approved by the State Environmental Expertise (Glavgosecoexpertiza) of the State Committee on Natural Protection. The preparation of or the review and approval (or rejection) of developments on environmental grounds, is regulated by Decree of the Cabinet of Ministers No. 491 (31.12.2001): “On approval of the Regulation of the State Environmental Expertise”. RI.

68. Objectively verifiable environmental status indicators (OVIs) will be developed during project start-up as part of HSP’s Management Information and M&E systems and will minimise the likelihood of negative environmental project impact and provide early warning of any environmental risks, allowing prompt remedial action. With regard to support to horticultural modernisation, the project focuses on the introduction of improved and environmentally sound technologies and practices linked to international sanitary, phyto-sanitary and food safety standards. With regard to project support to small-scale irrigation and drainage, the small scale and rehabilitative nature of the interventions are not expected to have significant negative or irreversible environmental impacts. The main foreseeable environmental concerns are the ones associated with the management and disposal of excavated materials and construction debris that would be addressed by works contractors and overseen by the Regional Office’s Civil Engineer and contracted Site Supervisors.

69. In line with IFAD Guidelines on Environmental Assessment, the project has been classified as Category B since few, if any, negative environmental impacts are expected to result from the project and investments in inter- and on-farm irrigation and drainage
D. Lessons Learned and Adherence to IFAD Policies

70. Since the HSP would be the first project to be financed by IFAD in Uzbekistan, the following lessons have been derived from other donors operating in the country, notably the WB, the ADB and UNDP: (i) positive development outcomes in support of basic human needs and improved living standards can be achieved within the prevailing policy environment of Uzbekistan. The WIS should guide overall investment directions, which should also be clearly developed according to the demands of the Government; (ii) interventions are likely to be more successful in the areas where common ground and understanding of development paths exists between the donor and Government authorities. During the design process, it is important to ensure consensus on and full understanding of all activities among all parties including stakeholders at the grassroots level; (iii) the use of pilots, demonstrating and communicating viable investments are important; (iv) stand-alone Technical Assistance projects are not effective tools for change but should be clearly linked to investment programmes; and (v) there is a need to tackle limited capacity for project implementation and identify appropriate structures with a proven track record to take the lead. Further details are provided in Annex 3.

71. With respect to adherence to IFAD policies, project design takes into consideration and complies with their provisions relative to: (i) targeting policy; (ii) gender sensitive design; (iii) rural finance; (iv) environment; and (v) good governance. See also Annex 12 for details of compliance on targeting, gender, rural finance and environment and also Chapter III, Section D below for more on governance.

III. PROJECT IMPLEMENTATION

A. Approach

72. The HSP seeks to improve the assets and incomes of small-scale horticulture producers (those producing off no more than 6 ha with special provisions for those producing of less than 2 ha, including dekhan farmers) and horticulture-related market service providers and the rural unemployed by modernising horticultural production in terms of technical and managerial efficiency and effectiveness gains at key points of the horticulture value chain, namely: (i) support to importation, propagation and onward distribution/sale of modern varieties and rootstock; (ii) support to agrofirms and other entities active in the horticultural value chain as input suppliers, technical advisors, contractors of small horticulture farmers and/or providers to them of post-harvesting services such as storage, processing and marketing; and (iii) technical and financial support to primary producers and small-scale market services entities. Project support would be delivered in the context of a management approach that is targeted, demand-driven and participatory.

B. Organizational Framework

73. **Overall HSP Management.** The proposed organisational structure of the HSP is shown in Appendix 1 to Annex 5.

74. It is proposed that overall management oversight would rest with a Project Steering Committee (PSC). The Minister of Agriculture and Water Resources (MAWR) would be the *ex officio* Chairperson of the PSC. Other members would include representatives of: the Ministry of Finance (MOF); the Ministry of Economy/Ministry of Foreign Economic Relations, Investments and Trade; the Central Bank of Uzbekistan (CBU); the Women's Committee under the Deputy Prime Minister for Social Protection of the Family, Maternity and Childhood; the General Director of MAWR's Rural Restructuring Agency (RRA); representatives of the local government of the project area region of
Surkhandarya; and representatives from other project stakeholders, including Government agencies, organisations (public and private) as may be deemed appropriate. The PSC membership may be amended depending on project requirements, with the prior approval of IFAD. The HSP Project Director (see below) would act as Secretary to the PSC. The PSC would meet every six months to: (i) at alternate meetings, review and approve the project’s Annual Work Plans and Budgets (AWPBs) including related procurement plans; (ii) establish and provide oversight for a Tender Committee related to the project’s Improved Irrigation Network component; (iii) at alternate meetings to review qualified proposals for project support under Component 3, Improved Irrigation Network, submitted by the project’s Regional Office via the Project Director; (iv) review progress and other monitoring and evaluation reports; and (v) advise and initiate action on matters arising relative to ensuring the efficient and effective implementation of the project in line with the provisions, terms and conditions of the Project Financing Agreement.

75. MAWR will be the implementing agency for the project. Day-to-day oversight of the project’s management will rest with a Project Management Unit (PMU) embedded in the MAWR/Rural Restructuring Agency (RRA) and accountable to the General Director of the RRA, who in turn would be accountable to the Minister of Agriculture and Water Resources. The RRA has a good track record with such implementation arrangements with respect to projects financed by the World Bank (WB) and the Asian Development Bank (ADB).

76. The RRA/ HSP PMU would be headed by a Project Director and comprise in addition: a Chief Accountant; a Procurement Officer; a Horticultural Production and Marketing Coordinator; a Rural Finance Programme Coordinator; a Monitoring and Evaluation Officer; an Assistant Monitoring and Evaluation Officer/Gender Focal Point; an Administrative Assistant/Translator; a Lawyer; and a Driver.

77. The key functions of the PMU would be: (i) project planning; (ii) financial administration, including budgeting, procurement, accounting and disbursement; (iii) monitoring and evaluation; and (iv) providing, as appropriate, implementational support to the project’s proposed Regional Office, implementing partners such as the Shreder Institute and Participating Financial Institutions (see below), project-supported Agrofirms and other entities active in the horticultural value chain and ultimately to the project’s primary target groups of small-scale horticulture producers and horticulture-related market services providers.

78. A project Regional Office will be opened in Surkhandarya as from Project Year (PY) 1. The Regional Office would comprise: a Manager; an Accountant/Office Manager; a Horticultural Production and Marketing Officer; a Rural Finance Programme Officer; a Civil Engineer; and a Driver. The Regional Office will be responsible for day-to-day implementation in the field of all aspects of the project, with the exception of financial administration and procurement, which will be managed entirely by the relevant personnel of the RRA/HSP PMU at central level.

79. **Implementation of Component 1: Support to Horticultural Production and Marketing.** Sub-component 1.1: Upgrading of Nurseries. The sub-component involves the importing of modern varieties and rootstock mother plants to set up demonstration orchards and for propagation. The plants would be formally purchased by the Government through the Shreder Institute. A Central Nursery, with support from the Shreder Institute, would manage demonstration orchards and propagation activities in the nursery, as well as sales to interested parties. With appropriate technical support from the Shreder Institute and the Central Nursery, Project-supported Agrofirms and other entities active in the horticultural value chain would maintain regional nurseries and manage propagation activities in them, as well as onward sales to interested parties.

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21 See also Annex 5.
80. **Implementation of Sub-components 1.2 and 1.3: Modernisation of Agrofirms and other such entities, and Modernisation of Horticultural Production (Small-scale Production and Market Services Enterprises).** Financing of modernisation under both sub-components would be achieved through the establishment and operation of three refinancing facilities under the Rural Finance component (Component 2) of the project as described below. The resulting horticulture-related investments made available to project beneficiaries would be complemented under sub-components 1.2 and 1.3 with appropriate training and technical assistance for agro-firms, small-scale farmers and market services providers, as already described in Annex 4.

81. Access to project financing under the three facilities would be provided on a competitive basis. Proposals would be ranked within each group of investments using the following procedure: (a) four criteria would be applied. These are: the expected profitability of the investment, using the IRR as the indicator; the number of employment positions created (per USD 1,000 of investment of project funds); the number of farmers gaining access to markets or services as a result of the investment (per USD 1,000 of investment of project funds); and, the relative amount of owners contribution to the investment; (b) each potential investor would have the proposal ranked according to the value of these criteria. Thus, the proposal with the highest IRR would receive a score of 100, with those with lower values receiving proportionately lower scores. Similarly, the proposal with the highest employment creation per USD 1,000 of project investment would receive a score of 100, with those with lower values receiving proportionately lower scores. The same procedure would be used for the evaluation of the two other criteria; (c) the scores for each proposal would be aggregated, and then ranked in accordance with this aggregate; and (d) Proposals for the three different categories of investments, i.e. (i) Agrofirms and other entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities, would be each assessed and financed separately.

82. Each year, the project would allocate a pre-determined amount of funds for each of the three refinancing facilities and call for eligible, horticulture-related proposals by: (i) Agrofirms and other entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities. The funds would be allocated in order of aggregate scores for each category of investment. For example, if an amount of USD 2.5 million were to be allocated for Agrofirms and other entities active in the horticultural value chain in Year 2, then this would be drawn down during that year, with the first ranked entity receiving first priority, followed by those with compliant proposals in order of ranking until the fund was exhausted. The same procedure would apply for the other smaller types of investments. Prior to the call for proposals, there would be substantial efforts made by the project to sensitise potential investors to the opportunities and requirements of the funding support.

83. **The Assessment and Ranking of Investment Proposals** would be a three step process:

(i) **Step one**, to be the responsibility of the Regional Office, would involve an initial assessment of compliance with Project eligibility criteria and verification of the legal status of the applicants;

(ii) **Step two**, for detailed financial and technical assessment and ranking of investment proposals would lie with the Horticultural Production and Marketing Coordinator in the Central PMU, with assistance from the Rural Finance Programme Coordinator and the Project Director; and

(iii) **Step three**, those proposals accepted by the Central PMU would then be passed on to the participating banks, which would assess the proposals using their own criteria.
84. Overall responsibility for implementation arrangements and managing of funds for International TA and training would be vested with the RRA/HSP PMU through its Regional Office in Surkhandarya.

85. **Management of the Agrofirms** and other entities active in the horticultural value chain will be critically important for their success and the success of the component. The calibre of the entity’s Director and key staff are essential for success of its operations. The Directors of the entities selected for Project support will be evaluated against the requirements for performance indicated in their business plans and applications for finance. The evaluation of Directors of entities would be a key responsibility of the PMU Support to Horticultural Production and Marketing Coordinator, with support from the Project Director.

86. **Implementation of Component 2: Rural Finance.** As with the rest of the project, the Ministry of Agriculture and Water Resources (MAWR) would have overall responsibility for implementation of the HSP Rural Finance component with day to day responsibility resting with MAWR’s Rural Restructuring Agency (RRA), within which the HSP Project Management Unit (HSP PMU) would be embedded. Lead responsibility for the component’s implementation day to day management would rest with the RRA/HSP PMU’s Rural Finance Programme Coordinator, based with the rest of the PMU in Tashkent. At field-level, lead responsibility for the component would rest with a Rural Finance Project Officer as a member of staff of the project’s Regional Office to be established in Surkhandarya. The Officer, accountable to the Coordinator would be: the contact person for PFIs in the project area; perform a temporary check of applications for refinancing, i.e. Debt Financing/Competitive Grants applications under the component’s three refinancing facilities; and thereafter refer applications to the PMU Rural Finance Programme Coordinator for review and approval. Draft terms of reference (TORs) for the Rural Finance Programme Coordinator and the Rural Finance Programme Officer are provided in Appendix 2.

87. **Due Diligence.** Due diligence of potential and interested PFIs, i.e. commercial banks, will be carried out by an international bank assessment consultant in collaboration with RRA/HSP PMU (budgeted under HSP/PMU). The PFIs will be responsible for identification of prospective sub-borrowers, have full autonomy in sub-project approval and determination of lending terms, such as repayment and grace periods as justified by realistic business plans, and bear the lending risk. Agreements with Government in relation to on-lending rates to PFIs, foreign currency risk and related matters will be under the authority of Ministry of Finance.

88. **Subordinate Documents.** Implementation arrangements for the component will be stipulated in a number of subordinate documents. The project budget makes provision for technical assistance in the drafting of these documents (budgeted under the HSP PMU). The documents will be subject to ‘no objection’ by IFAD and are expected to include:

- **A Subsidiary Loan Agreement (SLA):** To be signed between GoU, represented by Ministry of Finance, the MAWR/RRA HSP PMU, and PFIs describing the terms, conditions and procedures for PFIs participation on the project; and

- **Investment Guidelines:** (forming an integral part of the Subsidiary Loan Agreement), and containing:
  - Stipulation of eligibility criteria for PFIs and end-borrowers.

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22 A draft TOR for the due diligence consultant is provided in Appendix 2 of this annex.
- Stipulation of eligibility of loan purposes.
- General description of refinancing activities.
- Principal conditions for refinancing, approval, disbursement, repayment etc.
- Principal procedures for refinancing, approval, disbursement, repayment etc.
- PFI accounting and audit requirements.
- Monitoring and Reporting.

89. **PFI Eligibility Criteria.** Interested PFIs, i.e. commercial banks represented in the project areas, will be selected on the basis of a set of PFI eligibility criteria to be developed jointly by CBU and MAWR/RRA HSP PMU and to be approved by the Government and IFAD. These eligibility criteria will include compliance with all relevant laws, regulations and prudential norms; good governance and management practices; maintenance of a healthy financial status; and sound banking policies and procedures. Furthermore, the eligibility criteria will include the presence of relevant experience in satisfactorily performing the activities related to the implementation of the HSP and of staff with the required capacities and capabilities. The PFIs selected on the basis of such eligibility criteria, detailed in the Investment Guidelines, will sign the Subsidiary Loan Agreement (SLA) together with the Ministry of Finance and MAWR/RRA HSP PMU.

90. **Interest Rates.** It is expected that the following arrangements will be applied in setting interest rates for loans refinanced under the project. Project-sourced refinancing funds, allocated between PFIs as agreed between them and the Ministry of Finance and MAWR/RRA HSP PMU, will be made available to PFIs for a period of initially up to 20 years with a grace period of up to five years, as described and specified in SLAs.

91. Commercial banks intending to participate in the project will be invited to bid on the margins, to cover overheads and credit risk, they intend to add to a “reference rate”, i.e. the rate of interest at which refinancing funds will be available to PFIs from Ministry of Finance. For loans in foreign exchange, the “reference rate” is proposed at US$ 6-months LIBOR. For loans in Uzbek Sum it appears that the Ministry of Finance has provisionally decided that the “reference rate” should be set at CBU’s refinancing rate, presently 12% but expected to be reduced to 11% p.a. in 2012. On the basis of the bids received, RRA HSP PMU will calculate the average margin, which will become the interest mark-up for all participating commercial banks. RRA HSP PMU will have the option to reject one of the bids received if such a bid is significantly higher than the average margin in order to avoid that the final average margin may be unduly affected if such a bid was included.

92. **PFI Failure to Disburse.** If a PFI is unable to disburse the refinancing funds available under the HSP Rural Finance component to eligible clients for eligible purposes, the MAWR/RRA HSP PMU as approved by Ministry of Finance shall be entitled to reallocate such funds to other interested and eligible PFIs, which are able to make use of and disburse the funds. Furthermore, the MAWR/RRA HSP PMU shall be entitled to exclude a commercial bank from participation in the project in any case where it has acted against and in conflict with the conditions and procedures stipulated in the Subsidiary Loan Agreement and the Investment Guidelines.

93. **Sub-borrower Eligibility Criteria.** Detailed eligibility criteria for sub-borrowers, terms and conditions for borrowing under the rural finance component, and on-lending to sub-borrowers will be specified in the Subsidiary Loan Agreement to be signed between the Ministry of Finance, the MAWR/RRA HSP PMU and each PFI – and subject to ‘no objection’ from IFAD. The set of guidelines to be established will form an integral

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23 To be negotiated and agreed with the Ministry of Finance.
part of SLAs and adherence to these eligibility criteria will be monitored throughout project implementation.

94. **Sub-Borrower Loan Approval.** Loan applications under the three project-supported refinancing facilities will be evaluated by the credit committees of the respective PFIs (commercial banks). If approved by them, the application will be forwarded to the Rural Finance Programme Officer in the project’s Regional Office accompanied by all required details for approval for refinancing. Subject to the Officer’s review, applications will be sent on to the Rural Finance Programme Coordinator in the RRA HSP PMU for final review and approval. It is to be noted that applications for refinancing of loans exceeding USD 250 000 will require a ‘no objection’ from IFAD. After approval by RRA and, for applications exceeding USD 250 000 also by IFAD, the required refinancing may be executed and released by the respective commercial bank.

95. **Implementation of Component 3: Improved Irrigation Network.** The implementation of the Improved Irrigation Network (IIN) component would be managed by the RRA/HSP PMU and the Project’s Regional Office to be established in Surkhandarya region. The key relevant staff would be the Procurement Officer at central level in Tashkent and the Civil Engineer in the project’s Regional Office. Their tasks would include: (a) in Tashkent: (i) to review, finalize and submit recommendations for irrigation/drainage investment proposals with required supporting documents for PSC and IFAD approval; (ii) to conduct procurement of design services and civil works and submit evaluation reports to the project Evaluation Committee for approval and to IFAD for review and written no-objection; and (iii) to monitor and coordinate implementation of the IIN component by the Regional Office; and (b) in the Regional Office: (i) to publicize the availability of the irrigation and drainage support component in the project area, its application format and arrangements, selection procedures and implementation modality; (ii) to assist interested applicants in application preparation and submission; (iii) to undertake technical review of investment proposals; (iv) based on the technical review, evaluate and rank applications in accordance with the guidelines and mechanisms summarised here and set out more fully in the Draft Project Implementation Manual provided in Annex 13 Contents of the Project Life File; (v) submit recommendations for irrigation/drainage investments with required supporting documents for RRA/HSP PMU review; (vi) to develop engineering designs’ Terms of References for selected investment proposals; (vii) to assist RRA/HSP PMU in evaluation of IIN component-related bids; (viii) to review and approve engineering designs provided by consultants (design companies); and (ix) to monitor and carry out supervision of the implementation by contractors of all civil works financed wholly or partially under the IIN component.

96. **Selection Procedures.** IIN implementation would be based on a set of criteria that would ensure that the Project resources reach the intended target groups and would start with information and awareness campaigns. Thereafter, applications for IIN support under the project would go through a two-step selection process of: (i) screening, pre-qualification and initial ranking; and (ii) qualification. The criteria and scoring to be applied for the first step have already been described in Annex 4 and would be applied to proposals by the project Regional Office.

97. After the pre-qualification stage, a team of the Regional Office relevant staff would review the actual situation in the field conditions. Verification would be carried out on the state of irrigation and/or drainage infrastructure, linkage with selected horticultural activities eligible for SHPM support, potential for enhancing a particular market linkage, feasibility of proposed works, maintenance arrangements and other relevant items. The link between the proposed investment and the expected benefits would be researched and confirmed. Proposals which remained compliant with the criteria after this review would then be approved for financing in the subsequent year, subject to availability of budgeted finance. The now qualified proposals would be sent by the Regional Office to the Project Director in Tashkent for further review and endorsement by the Project
Steering Committee (PSC) and thereafter the PSC’s final selection would be sent for review and approval by IFAD.

98. **Procurement and Execution of Works.** Lead responsibility for IIN-related procurement would rest with the RRA/HSP PMU Procurement Officer and be subject to the procedures, terms and conditions set out in Annex 8. As such, it is expected that HSP/IIN procurement would be carried out in accordance with current IFAD Procurement Guidelines and Sample Bidding Documents for procurement of civil works and services developed by RRA under World Bank and Asian Development Bank (ADB) funded projects for which the agency has had lead implementation responsibility.

99. Bidding documents would be prepared and bids announced by the RRA/HSP PMU Procurement Officer. When applicable, for cost effectiveness and in order to attract qualified contractors, the optimal lots would be defined and shown in the Procurement Plan included in the Annual Work Plan and Budget.

100. **Supervision of Civil Works.** Supervision of civil works would be carried out by contracting licensed individual daily Site Supervisors under the direct guidance of the project’s Regional Office’s Civil Engineer. These supervisors (draft TOR in Appendix 2 of Annex 5) would fill a daily activity report recording quantity and quality of works and materials used. The Regional Office’s Civil Engineer would retain the role of Project Manager as stated in the General Conditions of Contract and in this capacity would regularly visit sites during implementation of construction works and be responsible for checking the quantities and assuring the quality of implemented works.

101. The Civil Engineer and on-site supervisor would verify each bill of completed quantities, the cumulative bill of quantities, and requests for interim payment, as well as completion certificates prepared by Contractors. The Civil Engineers would ensure that all engineering design requirements and construction supervision procedures (testing, material certification, laboratory checking etc.) as per the requirements of construction norms and standards of Uzbekistan are fulfilled by Contractors. Representatives of relevant operation and maintenance institutions (WUAs/AIS) would be members of the acceptance committee issuing the Certificate of Final Completion on the works.

102. **Management of Targeting.** The Project Steering Committee (PSC) would have overall responsibility for ensuring that the project’s targeting criteria are adhered to. All professional members of the Rural Restructuring Agency/HSP Project Management Unit (RRA/HSP PMU) and the project’s Regional Office would have day-to-day responsibility for such adherence. Lead responsibility for adherence would rest with the RRA/HSP PMU’s Monitoring and Evaluation Officer, who would sensitise other project management to the importance of targeting, monitor that targeting criteria are being applied and, if necessary, propose and pursue remedial action.

103. The RRA/HSP PMU’s Assistant Monitoring and Evaluation Officer – Gender Focal Point/Coordinator would, as part of his/her overall responsibility for assuring adherence to project targeting criteria have lead responsibility for achieving the proposed target quota of 30% of direct beneficiaries of project-supported training, loans and employment among the primary target groups (small-scale horticultural producers and market services entities and the rural unemployed) being women. In this respect it is anticipated that the Assistant M&E Officer would work closely with: the Women’s Committee representative on the PSC; the Deputy Hokims for women’s affairs at project-participating regional and district hokimiyats; mahalla committee members responsible for women’s affairs in the project area; and, as appropriate, the Association of Business Women of Uzbekistan (BWA), the Association of Farmers (AF) and Mehr (the Association of Women’s Non-governmental Organizations of Uzbekistan).

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24 See also Chapter III, Section D below on ‘Financial Management, Procurement and Governance’.
C. Planning, M&E and Knowledge Generation

104. Start-Up and Planning. Project Start-up Activities will include: (i) finalisation of Terms of Reference for key staff including the RRA/HSP PMU and required Technical Assistance; (ii) recruitment, as necessary, of key staff and TA financed by IFAD; (iii) an initial Horticulture Value Chain Analysis and if possible the Strategic Marketing Study, led by the RRA/HSP PMU Horticultural Production and Marketing Coordinator supported by the Senior Technical Advisor and, if necessary, national Technical Assistance; (iv) conducting a gender sensitive, livelihoods-oriented Baseline Survey and also a Rural Women’s Development Needs Assessment led by the RRA/HSP PMU Assistant M&E Officer supported by international and national TA, 25 plus making arrangements for subsequent repeater surveys, Participatory Rapid Rural Appraisals (PRAs) and Participatory Impact Monitoring (PIM) with particular attention on targeting, gender and socio-economic improvement issues; (v) a call for expressions of interest in becoming HSP PFIs; (vi) due diligence of candidate PFIs considered as otherwise eligible; (vii) development of an Annual Work Plan and Budget (AWPB) for the Project’s first-year activities; (viii) finalisation of a Procurement Plan for the first eighteen months of Project implementation; (ix) an initial deposit in the Project’s Designated Account by IFAD of up to USD 2 million; (x) establishment of the Project M&E system; (xi) finalisation of the Project Implementation Manual (PIM) including manuals for components 1, 2 and 3; and (x) holding the Project Start-up Workshop.

105. If possible, the initial Horticulture Value Chain Analysis and the Strategic Marketing Study would be carried out in time for its findings to be fed into the content of the Project Start-up Workshop. Among those invited to attend would be staff of the RRA/HSP PMU and Regional Office and representatives of key potential stakeholders and participants in the HSP including among others: women and men small-scale horticulture producers and market services providers representative of the project’s target group; members of horticulture-related agrofirms and any other processors and traders; candidate PFIs; business development services providers; the Shreder Institute and any other suppliers and dealers related to horticulture input supply; relevant farmers organisations; relevant Government representatives; socio-economic profilers (e.g. the State Committee of the Republic of Uzbekistan on Statistics and the Centre for Economic Research (CER)); local government and community-based organisations reflecting the Project’s intended target groups, in particular rural women’s organisations; representatives of other projects concerned with rural poverty reduction and development; and representatives of other relevant development assistance donors, e.g. the World Bank, the United Nations Development Programme (UNDP), the Asian Development Bank (ADB) and German bilateral assistance (GIZ). Key outputs from the workshop would include guidance on: (i) project component content and implementing modalities; (ii) refinement and finalisation of the Project Implementation Manual (PIM); (iii) refinement and finalisation of the Project’s targeting criteria and M&E indicators; (iv) finalisation of an Annual Work Plan and Budget (AWPB) for HSP’s first-year activities; and (v) finalisation of an eighteen-month Procurement Plan. Outputs related to implementing modalities and associated results and impact would feed into the design of the project’s Management Information System (MIS) and M&E system.

106. AWPBs and corresponding Procurement Plans would be the HSP’s principal planning instruments. These would be subject to IFAD no objection.

107. Monitoring and Evaluation. The Project’s Logical Framework would form the basis for the overall results-based monitoring and evaluation (M&E) system and comprise performance monitoring and impact assessment. The HSP PMU Monitoring and Evaluation Officer would have lead responsibility for all internal M&E of the project.

25 M&E-related TA to be financed from IFAD’s operational resources.
108. Performance monitoring will concentrate on the financial and physical outputs and the outcomes of Project activities and be based upon quarterly, semi-annual and annual **progress reports**. The RRA/HSP PMU would submit progress reports in English to Government (MAWR and MOF via the PSC) and IFAD.

109. **Impact assessment** will be a function of concurrent Participatory Impact Monitoring (PIM) and evaluation based on quantitative repeater surveys combined with interviews to capture qualitative aspects.

110. Provision has been made from IFAD operational resources for appropriate international and/or national TA to assist the RRA/HSP PMU, principally the M&E Monitoring and Evaluation Officer and the Assistant M&E Monitoring and Evaluation Officer-Gender Focal Point/Coordinator, with both the initial design of the progress reporting and participatory impact assessment and evaluation systems and follow-up M&E.

111. An initial set of **indicators** have been provided in the project’s Logical Framework, presented at the front of the Main Report section of the Project Final Design Report. These initial indicators will be refined and finalised as an output of the project Start-up Workshop. Indicators will include IFAD Results and Impact Management System (RIMS) 1st and 2nd level indicators. In line with RIMS, two anchor indicators are identified for assessing the impact of the Project: household asset ownership and child malnutrition. Data sources for these two main indicators will probably include: (i) the State Committee on Statistics; (ii) the Centre for Economic Research; (ii) the Ministry of Health; and (iii) the Project M&E database.

112. The refined and finalised indicators arising from the project Start-up Workshop would shape the project’s **Baseline Survey**. The objective of the baseline survey will be to establish benchmarks for time-series comparisons between Project beneficiaries and non-beneficiary ‘control’ populations. The HSP M&E Officer would thereafter carry out repeater surveys, including PRAs and PIM. Survey data would be mutually supplemented as appropriate through regular exchange with Government’s State Committee on Statistics, World Bank-supported Living Standards Measurement Surveys (LSMS) as available and the HSP RRA/HSP PMU itself.

113. All M&E data will be disaggregated by sex and assessed relative to the project’s targeting and gender checklists (see Annex 12).

114. **A Mid-Term Review (MTR)** would be carried out towards the end of the Project’s third year. The Review would cover, among other things: (i) physical and financial progress as measured against Project Annual Work Plans and Budgets (AWPBs); (ii) performance and financial management of PFIs and non-financial implementing partners, e.g. agrofirms and infrastructure contractors; and (iii) an assessment of the efficacy of technical assistance, training programmes and project-supported rural finance and of their delivery of project benefits to the project’s target group of small-scale horticulture producers and market services providers, horticulture-related agrofirms and the rural unemployed. In addition, it is expected that the Review would look at institutional and policy changes arising from Project activities, with regard to: public-private partnership in the horticulture sector; the roles and responsibilities of agrofirms; the provision of rural finance; the socio-economic status of less advantaged rural women and men; and environmental impact. Review findings on implementation progress and institutional and policy change would inform decision-making, as appropriate, on adjustments to the content, financing and targeting of the Project’s components. The findings and recommendations of the MTR would feed into any subsequent scaling up analysis, in particular with reference to the extension of the project to Kashkadarya region under a separate Phase II initiative but also with respect to further expansion of project modalities in support of modernisation of Uzbekistan’s horticulture sector.

115. Progress reports, concurrent participatory impact monitoring and evaluation, Participatory (Rapid) Rural Appraisals (PRAs) and the findings of ad hoc special studies
116. Data sources for the annual performance reports will include: project baseline survey; quarterly physical and financial progress reports for each component; PFI records and project-related reports including agrofirm and other borrowers’ business plans; the RRA/HSP PMU’s M&E and Assistant M&E Officers’ qualitative interviews and case studies with small-scale primary producers and market services providers, agrofirms and new employees; and reports by the RRA/HSP PMU’s Horticultural Production and Marketing Coordinator, Rural Finance Programme Coordinator, Procurement Officer and Regional Office Civil Engineer on challenges and project facilitation strategies for their respective component implementation responsibilities.

117. Annual Project Performance Reports would feed into Annual Stakeholder Review and Planning Workshops. Feedback from each Annual Stakeholder Review and Planning Workshop will be factored into the project AWPB for the succeeding year, thus closing a circle of participatory, demand-driven planning and implementation.

118. During the final year of Project implementation, as part of the preparation of the IFAD-required Project Completion Report/Impact Assessment (PCR/IA), the M&E data collected over the Project implementation period will be used as part of a thorough assessment of Project achievements, in terms particularly of changes in the livelihoods of beneficiaries that relate to the implemented Project activities, and the sharing of lessons learned and development experience. The Project completion process will include stakeholder workshop(s) to give project stakeholders the opportunity to: (i) evaluate the performance of the Project; (ii) to promote accountability; and (iii) to identify factors and responsibilities to increase the likelihood of sustainability, together with key success factors and shortcomings.

119. In addition to the M&E arrangements described above, project external monitoring will comprise: IFAD supervision, including operational reviews of the project, covering a random sample of project activities, be carried out in Project Years (PYs) 2 and 4 by independent auditors and under Terms of Reference acceptable to IFAD and also risk-based financial management supervisions, initially after every six months for the first two years of project implementation and thereafter at appropriate levels based on the Fund’s assessment of risk (see Annex 7 for further details); ad hoc thematic/diagnostic studies; yearly audits; and a self-assessment Project Completion Evaluation conducted by the RRA/HSP PMU in cooperation with IFAD.

120. Learning and Knowledge Management. The HSP is centred on modernisation of Uzbekistan’s horticulture sector in a manner that particularly improves the welfare of small-scale producers and market services entities and the rural unemployed by supporting key links in the horticulture value chain, specifically: the introduction of improved plant materials/varieties under the auspices of the Shreder Institute; the modernisation in terms of efficiency and effectiveness gains in the technical and managerial competence of agrofirms and other entities active in the horticultural value chain; similarly defined modernisation of small-scale production and market services provision; and the development of contract farming.

121. To assure capture of experience gained (learning), comprehensive provision has been made for M&E of project activities and for a participatory approach to the operation of the project’s proposed Management Information System (MIS).

122. With regard to knowledge management, the RRA/HSP PMU would be responsible for jointly developing a Communication Strategy for the project and thereafter documenting the technical content (outputs) of project activities and the institutional arrangements for their delivery. Provision has been made under the project’s budget for: Information Campaign Workshops and associated media production; the development, printing and dissemination of training materials for horticultural modernisation; and setting up a project web page. Towards the end of the project RRA/HSP PMU staff, beneficiary
representatives and representatives of PFIs and non-financial implementing partners (e.g. the Shreder Institute and project-supported agrofirms) would review the incremental documentation with the objective of up-dating and expanding formalised technical extension media and producing an associated Management Handbook for Horticulture Modernisation. These would be made available in ‘hard’ and electronic formats and disseminated among project stakeholders and fed into the publication systems of organisations with an interest in the development of modern horticulture.

D. Financial Management, Procurement and Governance

123. The RRA/HSP PMU Chief Accountant, in close collaboration with the RRA/HSP PMU Procurement Officer, would be responsible for overall project financial management. The RRA General Director would have oversight responsibility for the project’s financial management and for ensuring compliance with established procedures to guard against breach of these procedures.

124. Accounts. The RRA on behalf of the Borrower would open and maintain a Designated Account in USD in a commercial bank acceptable to IFAD. The RRA/HSP PMU Project Director would be authorised to operate this Account in order to make disbursements. Once the Designated Account has been opened and upon the Borrower’s request, the Fund shall make one (or more) withdrawal(s) of up to USD 2.0 million in the aggregate (equivalent to the requirements for the first six months of implementation, the Authorised Allocation). Thereafter, payments into the Designated Account would be made on the basis of Annual Work Plans and Budgets for the Project, acceptable to IFAD. The RRA/HSP PMU would also open three accounts in Uzbekistan Som (UZS) in one or more commercial banks acceptable to IFAD. These three accounts would be: (i) a Project Operating Account to allow the RRA/HSP PMU to make disbursements in UZS as allowed by the project Financing Agreement; (ii) a Counterpart Account to receive contributions to the project from Government and beneficiaries of the project’s Improved Irrigation Network component; and (iii) a Rural Finance Reflow account as the basis for a revolving fund under the Rural Finance component. Monies arising from direct purchase by beneficiaries of improved plants from the RRA without recourse to financing under the Project’s Rural Finance component would also be paid into this account.

125. Flow of Funds. A chart of the anticipated flow of funds under the project is provided in Appendix 1 to Annex 7.

126. Financial Statements. The RRA/HSP PMU Chief Accountant would prepare financial statements of the operations, resources and expenditures as required by IFAD’s General Conditions on Financial Statements in respect to each six-month period during each Fiscal Year and deliver such financial statements to the Fund within two months after the end of each such period.

127. Internal Control and Internal Audit. According to a WB assessment, the RRA has a manual of financial procedures and internal control mechanisms to be followed with respect to projects for which the agency has overall implementation responsibility. As a public sector entity, internal audit of the RRA takes the form of regular inspections by the State’s Control and Revision Unit (CRU). These arrangements have been considered acceptable to the WB.

128. External Audit. The Borrower (i.e. the Government of the Republic of Uzbekistan), through the RRA, shall appoint independent auditors acceptable to IFAD, under terms of reference cleared by IFAD, and in line with the current IFAD Guidelines for Audit. The auditors would give a separate opinion on each project account with respect to the funding mechanism, the use of project resources, the adherence to procurement rules, and the accountability of project participants. The auditors would also provide a “Management Letter” addressing the adequacy of the accounting and internal control systems. The Borrower, through the RRA, would submit the above-mentioned certified items to IFAD not later than six months after the end of the fiscal year to which they
relate. The Borrower, through the RRA, shall submit to the Fund the reply to the management letter of the auditors within one (1) month of receipt thereof.

129. Procurement. Uzbekistan currently has no comprehensive public procurement law based on international models or practice. The country procurement system is accordingly assessed as non-consistent with the IFAD Procurement Guidelines adopted by the Executive Board of IFAD in September 2010. However, an assessment by the World Bank of the Rural Restructuring Agency (RRA), based on its performance under previous projects financed by the Bank and the Asian Development Bank, determined that the RRA has adequate procurement capacity in terms of qualified staff and established procedures to undertake procurement of goods and services on a competitive basis. An assessment of the RRA using the IFAD tool for Assessment of Agency Capacity to Implement Procurement was undertaken at final HSP design. It found RRA practices to be consistent with current IFAD Procurement Guidelines (see Annex 8). At the same time, it is anticipated that procurement of goods and services financed by the IFAD Loan and Grant for the HSP will be required to be in accordance with relevant provisions of Section III and the Annex of IFAD’s Project Procurement Guidelines (2010) and IFAD’s Procurement Handbook (2010) and shall be carried out by the RRA. The General Director of RRA shall be delegated the authority to initiate procurement and to sign contracts. Further details are provided in Annex 8.

130. Governance. HSP design incorporates a number of measures to assure good governance as indicated by democratic accountability, transparency of financial management, gender equitability and mechanisms for complaints and remedies. These include: (i) the terms and conditions of Subsidiary Loan Agreements with PFIs; (ii) consistent stakeholder representation in the project’s planning, monitoring, evaluation and impact assessment cycle, affording mechanisms for complaints and remedies; (iii) quotas for women beneficiaries; (iv) application of guidelines and procedures for procurement consistent with current IFAD Procurement Guidelines; (v) application of initially low procurement thresholds; (vi) intensive direct supervision by IFAD including risk-based financial management supervision and Operational Reviews (see Section E below); and (vii) provision for regular external audit.

E. Supervision

131. The HSP will be supervised directly by IFAD. IFAD supervision would include risk-based financial management supervisions, initially after every six months for the first two years of project implementation and thereafter at appropriate levels based on the Fund’s assessment of risk and also Operational Reviews covering a random sample of project activities, be carried out in Project Years (PYS) 2 and 4 by independent auditors and under Terms of Reference acceptable to IFAD. Details are provided in Annex 7.

F. Risk Identification and Mitigation

132. The main risks at this stage relate to potential lack of incentives for the various actors, farmers and companies, planned to participate in the HSP. Lack of incentives could be related to the pricing of products especially for exports. Mitigating measures include a careful analysis of opportunities and constraints, involvement and endorsement of all stakeholders involved in Project design, and a thorough institutional, technical and financial analysis. See also Annex 3 for an account of what the World Bank considers to be on-going contextual risks to development initiatives in Uzbekistan.
IV. PROJECT COSTS, FINANCING, BENEFITS AND SUSTAINABILITY

A. Project Costs

133. The total investment and incremental recurrent Project costs, including physical and price contingencies, are estimated at about USD 31.7 million (UZS 54.9 billion). Physical and price contingencies make up about 1% of the total Project costs due to the fact that investments associated with the horticulture investments, rural finance and small-scale irrigation infrastructure together make up more than 85% of the total Project costs. The foreign exchange component is estimated at USD 16.9 million or about 53% of the total Project costs. Taxes and duties make up approximately USD 1.34 million. Funds allocated to the Project Management are about 7% of the total Project costs. Project costs by component are shown in Table 1 below.

Table 1: Project Costs by Component

<table>
<thead>
<tr>
<th>Component</th>
<th>Local (UZS Million)</th>
<th>Foreign (UZS Million)</th>
<th>Total (UZS Million)</th>
<th>Foreign Exchange (UZS Million)</th>
<th>% Foreign Base Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Support for Horticultural Production and Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Upgrading of Nurseries</td>
<td>1080.4</td>
<td>993.7</td>
<td>2074.0</td>
<td>635.6</td>
<td>36%</td>
</tr>
<tr>
<td>2. Modernisation of Agro-firms</td>
<td>311.1</td>
<td>1133.6</td>
<td>1547.1</td>
<td>224.2</td>
<td>14%</td>
</tr>
<tr>
<td>3. Modernisation of Horticultural Production</td>
<td>241.7</td>
<td>74.5</td>
<td>316.2</td>
<td>142.2</td>
<td>7%</td>
</tr>
<tr>
<td>Subtotal Support for Horticultural Production and Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Rural Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Rural Infrastructure: Improved Irrigation Network</td>
<td>1703.2</td>
<td>2201.7</td>
<td>3904.9</td>
<td>1091.9</td>
<td>35%</td>
</tr>
<tr>
<td>D. Project Management</td>
<td>13239.9</td>
<td>24738.6</td>
<td>38078.5</td>
<td>7787.7</td>
<td>21%</td>
</tr>
<tr>
<td>Total BASELINE COSTS</td>
<td>24690.3</td>
<td>28615.5</td>
<td>53309.3</td>
<td>14525.6</td>
<td>47%</td>
</tr>
<tr>
<td>Physical Contingencies</td>
<td>63.5</td>
<td>12.1</td>
<td>75.6</td>
<td>17.4</td>
<td>4%</td>
</tr>
<tr>
<td>Price Contingencies</td>
<td>156.8</td>
<td>347.5</td>
<td>504.3</td>
<td>208.4</td>
<td>11%</td>
</tr>
<tr>
<td>Total PROJECT COSTS</td>
<td>25915.9</td>
<td>28975.1</td>
<td>54891.0</td>
<td>16474.7</td>
<td>53%</td>
</tr>
</tbody>
</table>

B. Project Financing

134. The period of HSP implementation is expected to be for the six years 2012 to 2017 inclusive. An IFAD loan, USD 9.6 million (33% of the total Project costs), would finance: 38% of the Support for Horticultural Production and Marketing component (USD 0.91 million), 31% of the Rural Finance component (USD 6.7 million), 29% of the Rural Infrastructure Improved Irrigation Network component (USD 1.6 million), and 76% of the Project Management (USD 1.75 million). A Co-financier loan from the IFAD administered Spanish Trust Fund of about USD 11.4 million (35.9% of the total Project Costs) would be used to co-finance the Rural Finance (USD 7.92 million) and Rural Infrastructure (USD 2.08 million) components. The Government contribution is estimated at USD 1.545 million (5%) and includes contributions from its budget primarily to cover the staff insurance and foregone taxes and duties (see below). Participating Financial Institutions (PFIs) would provide around USD 2.59 million (8% of the total Project Costs) for the Rural Finance component. Approximately USD 5.1 million (16.3%) would be provided by the beneficiaries as contributions to the financing of horticultural and small-scale infrastructure investments. The technical assistance envisaged under the Project would be financed by an IFAD Grant of about USD 1 million, or 3% of the total Project Costs.

135. The Government contribution would be in the form of foregone taxes and duties (VAT, customs duties and other taxes) on all Project inputs that involve funding from the IFAD Loan or any other external source of funding associated with the IFAD loan. In addition, the Government is expected to contribute from its budget about US$ 0.20 million to cover the staff insurance. The estimate of taxes and duties was
based on the rates in effect prevailing at the time of the design. In conformity with the principle that no taxes or duties would be financed out of the proceeds of the IFAD Loan/Grant, any future changes in the rates and/or structures of taxes and duties would have to apply to the Project.

136. Tables 2 and 3 below provide summaries by Project components and expenditure accounts of the proposed financing arrangement.

Table 2: Financing Plan by Components (USD '000)

<table>
<thead>
<tr>
<th>A. Support for Horticultural Production and Marketing</th>
<th>IFAD Loan</th>
<th>Co-financer</th>
<th>GOI Taxes</th>
<th>GOI</th>
<th>PTI</th>
<th>IFAD Grant</th>
<th>Shroder Institute</th>
<th>Beneficiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upgrading of Nurseries</td>
<td>495.6</td>
<td>38.2</td>
<td>-</td>
<td>105.4</td>
<td>14.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,271.3</td>
</tr>
<tr>
<td>2. Modernisation of Agro-firms</td>
<td>262.4</td>
<td>35.8</td>
<td>-</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>936.6</td>
</tr>
<tr>
<td>3. Irrigation of Horticultural Production</td>
<td>150.3</td>
<td>74.6</td>
<td>-</td>
<td>9.1</td>
<td>4.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>201.1</td>
</tr>
<tr>
<td>Subtotal Support for Horticultural Production and Marketing</td>
<td>911.3</td>
<td>77.4</td>
<td>-</td>
<td>197.4</td>
<td>8.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,409.0</td>
</tr>
<tr>
<td>B. Rural Finance</td>
<td>5,385.7</td>
<td>25.8</td>
<td>9,282.3</td>
<td>43.8</td>
<td>-0.0</td>
<td>-</td>
<td>-</td>
<td>2,569.2</td>
<td>12.0</td>
</tr>
<tr>
<td>C. Rural Infrastructure: Improved Irrigation Network</td>
<td>1,505.3</td>
<td>29.3</td>
<td>2,589.3</td>
<td>38.5</td>
<td>900.2</td>
<td>16.7</td>
<td>-</td>
<td>-</td>
<td>4,315.0</td>
</tr>
<tr>
<td>D. Project Management</td>
<td>1,755.5</td>
<td>76.3</td>
<td>-</td>
<td>241.3</td>
<td>10.5</td>
<td>208.1</td>
<td>9.0</td>
<td>-</td>
<td>2,295.3</td>
</tr>
<tr>
<td>Total PROJECT COSTS</td>
<td>9,834.5</td>
<td>38.4</td>
<td>11,385.6</td>
<td>35.9</td>
<td>1,306.9</td>
<td>4.2</td>
<td>226.1</td>
<td>0.7</td>
<td>2,569.2</td>
</tr>
</tbody>
</table>


A full set of detailed and summary cost tables can be found in Annex 13, Contents of the Project Life File.

C. Summary Benefits and Economic Analysis

The Project is expected to lead to increased income of farmers and rural entrepreneurs. Benefits would derive from: (i) the profitable connection of smallholder producers to the horticultural value chain through assurance of uniform quality control in the establishment and husbandry of modern orchards using highly productive varieties; (ii) improved irrigation and drainage infrastructure; (iii) reduced post-harvest losses due to improved market infrastructure; (iv) enhanced access to finance; and (v) incremental tax revenues as a result of increased volume of taxable production.

Quantifiable Benefits. Benefits of the project to its primary target group of small-scale horticulturalists and horticulture-related market services providers would be training and finance. Under the project’s Support to Horticultural Production and Marketing component, it is expected that around 3,200 beneficiary households would be reached under this component. The Improved Irrigation Network component is estimated to reach directly about 8,000 households, or about 47,200 beneficiaries (assuming that there would be on average 1.6 beneficiary households per USD 1,000 investment).

Unquantifiable Benefits. The foreseen investments in the horticultural value chain are expected to lead to an increase in volume of backwards linkages to primary target group of the HSP, small-scale producers and market services providers and the rural unemployed, in terms of employment generation and increased demand for raw material. In addition, as demand for the fruit and vegetable investments increases, it would stimulate the private sector in developing the related services. Given the demand-driven and contractual nature of the project, particularly under the SHPM component, it is not possible to estimate realistically a figure for employment generation.

Improved access to finance and improved irrigation/drainage is expected to boost economic activities including trade and employment. However, principal increases in incomes would depend on farmers/rural entrepreneurs’ adopting better farm management practices thereby improving their market access, supporting marketing linkages, and generally creating a favourable economic environment that encourages farmers/rural entrepreneurs to produce more competitive products.
142. For the purposes of **financial and economic analysis**, twelve illustrative models were prepared to demonstrate likely activities to be supported under the Project, these being: three production models (apricot, apple and tomato); a Central Nursery model (improved rootstock/plant materials production); three farm models (2 ha stone fruit orchard, 2 ha pome fruit orchard and 0.4 ha vegetable greenhouse); two small producer models (0.7 ha stone fruit orchard, 0.4 ha pome fruit orchard); two Agrofirm models (5 ha nursery plus 10 ha orchard modernisation, and contract farming, processing and marketing of horticultural products); and one Improved Irrigation Network Model (rehabilitation of an irrigation scheme for 80 ha apples and 50 ha apricots). The respective Internal Rates of Return for these models were: Production Models – 51%, 52% and 78%; Central Nursery – 227%; Farm Models – 93%, 105% and 306%; Small Producer Models – 73% and 82%; Agrofirm Models – 29% and 14%; and Infrastructure Model – 32%. All IRRs were greater than the applied opportunity cost of capital of 12%.

143. **Economic Analysis.** An economic analysis was undertaken to calculate the overall benefits of the Programme using the illustrative models described above based on economic prices. The period of analysis was 20 years to account for the phasing and gestation period of the proposed interventions. The scenario presented in the economic analysis is conservative and an indicative demonstration potential profitability based on current conditions.

144. **Benefit Stream.** The incremental quantifiable benefit stream comprises of two main elements: (i) Support to Horticultural Production and Marketing (SHPM); and (ii) improved irrigation network. In calculating the overall benefits under SHPM, the following considerations were taken into account: (a) an 70% success rate was applied to the models, i.e. it was assumed that only 70% of the investments would achieve the estimated returns; (b) allowing the illustrative examples as a reasonable assumption of the investments likely to be implemented, USD 0.72 as an average indicator for the incremental annual net benefits per USD 1 of investments was used. The incremental net benefits were calculated by multiplying this indicator by the amount of estimated investments, but considering the gradual increase of such benefits over the period of six years. For the Improved Irrigation Network model an 80% success rate was applied and USD 0.41 as an average indicator for the incremental annual net benefits per USD 1 of investments was used. No financing flows were undertaken in the calculations as they represent transfer payments (grants, credits, contributions and taxes).

145. **Cost Stream.** The incremental economic costs have been calculated by the removal of price contingencies and taxes/duties. The total economic cost of the Project amounts to about USD 30.1 million.

146. **Summary.** Given the above benefit and cost streams, the base case internal rate of return (IRR) is estimated at 22%. The base case net present value of the project’s net benefit stream, discounted at 12%, is USD 21.8 million.

147. **Sensitivity Analysis.** Economic returns were tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the IRR is equally sensitive to changes in costs and in benefits. In absolute terms, these changes do not have a significant impact on the IRR, and the economic viability is not threatened by either a 20% decline in benefits or by a 20% increase in costs. A fall in total Project benefits by 20% and an increase in total Project costs by the same proportion would reduce the base IRR to about 14%. The switching values shows that the Project would be economically viable even if benefits decreased by 40% and investment costs increased by 93%. A one-year delay in project benefits reduces the IRR to 19%. With a two-year delay in project benefits, the IRR falls to approximately 17%.

D. **Sustainability**

148. The project is directed to piloting the technical and institutional modernisation of Uzbekistan’s horticulture in a manner that specifically benefits small-scale, less socio-
economically advantaged private producers and market services providers and the rural unemployed. Modernisation is expected to lead to: production and productivity gains across an increased range of horticultural products; an extended period of harvesting; efficiency gains in input supply and marketing; and the establishment of an affordable, ongoing cycle of investment. Consequently, the sector would become more likely as a result of project support to be competitive in domestic and export markets and a vehicle for economic growth, particularly among the aforementioned socio-economically disadvantaged people. Financial and economic analysis indicates the sustainability of project benefits. Apart from repayment of any loan finance, implications for Government’s budget are limited in terms of its contribution to project costs and there are no requirements for post-project funding by Government in that scaling up and replication would be, subject to Government policy, feasible and attractive for the private sector.
ANNEXES
ANNEX 1

COUNTRY AND RURAL CONTEXT BACKGROUND

I. COUNTRY AND RURAL DEVELOPMENT CONTEXT

1. Of the 15 independent states that emerged from the break-up of the Soviet Union in 1991, the Republic of Uzbekistan is the third largest in terms of population (28 million people in 2010) and the fourth largest in land area (447,400 sq. km.). Strategically located in Central Asia, Uzbekistan continues to play an important role in the region connecting economic and political interests of the United States (US) and the European Union (EU) on one side, and Russia and China on the other.

2. Following independence, the Government embarked on gradual and cautious State-led development approach in which features of an open market economy have been and continue to be introduced in a step by step manner. This is manifested in minimizing public debt, tight monetary policy and State-controlled wheat production for food security. This gradualist model is based on the assumption that it is necessary to build up the domestic economy before competing in the global market place. Also, the approach has the objective of maintaining social and political stability among a heterogeneous population. The result has been a less severe social and economic transition for the population than in other former Soviet countries. It has also meant that Uzbekistan has been relatively shielded from the impact of the global financial crisis. However, it has also meant that the country is still to achieve its full economic potential.

3. Uzbekistan experienced a relatively modest decline in Gross Domestic Product (GDP) of around 20% in the first five years of independence compared to an average fall of around 40% for other former Soviet countries. From 2004 onwards annual growth rates have averaged more than 7%, fuelled by the gradual liberalisation, current account convertibility and a favourable external environment for its main export commodities of cotton, gold, oil and gas. The growth rate for the first half of 2010 was about 8%. The composition of GDP has been subject to changes over the last decade with industry’s share increasing from around 14% in 2000 to 24% today and the service sector from around 37% in 2000 to 40% today. Agriculture’s share of GDP has decreased from 30% in 2000 to 15.7% in 2010. Despite this fall, agriculture remains important. Around 49% of the population lives in rural communities and 25% of the national workforce is directly employed in the sector. Moreover, agriculture has a direct impact and relationship with all important sectors of the economy providing for 90% of domestic demand for agricultural products and 70% of domestic trade. With a GNI per capita of USD 1,100 in 2009 Uzbekistan is classified as an upper low-income country.

4. The economic growth of the past ten years has been supported by stable and careful macroeconomic management, promotion of sectoral investments identified by the Government and, as noted, favourable terms of trade for the main export items. Also, remittances from Russia and Kazakhstan are boosting the economy, being an estimated contribution of 7% of GDP for the last few years. In 2009 these inflows are estimated to have fallen by some 30% due to slower growth in neighbouring countries. However, growth rates seem to have had a modest impact on improvement of living standards. In view of this, the Government in cooperation with the World Bank (WB), the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP), formulated a Welfare Improvement Strategy (WIS) for the period 2008-2010. The overall objective of the WIS is to improve the living standards of all segments of the population based on robust and inclusive economic growth and a fair distribution of income as well further development and improvement in the quality of services in education, health and other socially significant sectors. While the preparation of a new welfare improvement strategy is reported to be under discussion and other reports are also shortly expected, e.g. UNDP’s 2010 National Human Development Report for
Uzbekistan, the WIS 2008-2010 continues to be the key development strategy document.

5. With regard to strategic context, there is no IFAD Results-based Country Strategic Opportunities Paper for Uzbekistan and the Horticulture Support Project (HSP) is the first proposed financing by the Fund for the country.

6. As noted, the WIS 2008-2010 is the Government’s principal poverty-reducing, agricultural and rural development strategy. For HSP design purposes, the key development objectives of the WIS in relation to the improved welfare of the less advantaged rural population relate to: (i) gradual reorientation of export policies raw materials to products with high value added; (ii) continued economic liberalisation, in particular focussing on strengthening private property and protecting ownership rights; (iii) financial sector development; (iv) establishment of innovation institutions for encouraging innovations both in large and small businesses and creating mechanisms of commercially capitalizing research along with programmes of technology transfer; and (v) comprehensive area-based development, which envisages that economic growth should cover all regions of the country and mitigate the existing differences in the level of economic development and welfare. For HSP purposes, the important sector-specific policies of the WIS relate to: (a) agriculture; (b) rural finance; and (c) environment, water supply and improved sanitation.

7. With regard to agricultural development the WIS states that medium to long term restructuring of the sector will focus on: gradually improving crop selection in favour of cash crops with higher yields; using newly bred varieties of plants and animals, agro-technologies and agricultural practices in order to enhance the yield of crops and productivity of livestock farming; substantially increasing capital investment into irrigation water supply and implementing water efficient technologies; and improving economic relations between all actors in the agricultural sector. The WIS gives thirteen main objectives of agricultural policy in the medium to long term: (i) completion of the transition process to private farmers, strengthening the institution of long term lease rights to encourage farmers to effectively use and make long term capital investment in improving the quality of the leased land; (ii) facilitating the increase in land plots allocated to dekhan26 farms through land development, utilising unused land as well as the existing resources of dekhan farms; (iii) increasing capital investment, including government funding and foreign loans with Government guarantees, to support and rehabilitate the system of irrigation and drainage as well as the modernisation of pumping systems; (iv) improving the system and increasing the efficiency of water resource management. Increasing government investment into economic security projects, primarily into land improvement and providing for the rural population’s access to clean water and sanitation; (v) gradual transition away from growing cotton and imposing state procurement in low yield lands that do not generate returns and in its place growing more productive crops; (vi) introduction of new forms of relations and the settlement of accounts between the state and farmers regarding government procurement of cotton and wheat; (vii) creation of new forms of cooperation between farmers for storing and processing fruits and vegetables, meat and dairy products. Using tax incentives to be granted to Agro-firms of farmers associations for the processing of their agricultural produce; (viii) substantial improvement of the terms of trade for agricultural producers through better access to the essential material and technical resources (seeds, fertilisers, high-breed livestock, veterinary services, etc.) and

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26 Dekhan farms are allocations by Government of land up to 0.35 hectare (ha) on irrigated lands, 0.5 ha on non-irrigated lands and 1 ha on land classified as desert for private operation. Some sources say that possession of dekhan farms is only for lifetime while others say that such lands are inheritable. Dekhan farms are said by the State Statistics Committee to account for more than 90% of Uzbekistan’s horticultural production and they play an important part in food security and welfare improvement of less advantaged rural households. See Annex 2 for further details.
agricultural equipment as well as the system of storage, delivery, sale, and processing of their products at market prices; (ix) improvement of the system of private farmers’ access to credit resources and the financial services market; (x) State support in breeding new high yield crops and high-breed animals, fighting domestic livestock diseases, as well as the introduction of new agricultural technologies; (xi) improving taxation in order to strengthen the role of the land tax in enhancing land quality and yield; (xii) Government support to various forms of training for farmers to improve their professional, technical, and management knowledge. Appropriate farmer training will be arranged at vocational colleges specialised in agriculture, economics, and technical disciplines. Furthermore, training will be provided with the technical assistance of donors; and (xiii) the instruments for implementing the water resource management policy, of prime importance for the agricultural sector, in the long-run will include: (i) development and implementation of a national programme for the introduction of system for measuring irrigation water; (ii) gradual transition to a system of charging some of the cost of water usage in agriculture to encourage the efficient use of water and the accumulation of financial resources for the operational and investment expenses of irrigation and pumping systems; (iii) development and implementation of programmes for the sustainable supply of irrigation water to the country’s regions, including a list of the most important investment projects; and (iv) improving the performance of Water Users Associations that will become the basic grassroots unit in the system of efficient water resource management.27

8. With regard to rural finance, the WIS anticipates that, in the context of commitments to continued economic liberalisation, focused on strengthening private property and protecting ownership rights, there will be a need for: (i) a greater capitalisation of banks and increasing their resource base for issuing loans; (ii) involving both banks and non-banking financial institutions in the process of microfinance; (iii) enhancing the trust of people and businesses in the banking system by relieving the lack of capitalisation of banks and increasing their resource base for issuing loans; (iv) promoting the unhindered access of businesses and individuals to their current accounts; and (v) the complete unification of cash and non-cash circulation. Thus, banks as well as microfinance institutions shall be allocated a key intermediary role in the achievement of the envisaged high rates of economic growth and a more equal distribution among all segments of the population shall take place by encouraging savings and creating effective mechanisms for their transformation into investment.

9. With regard to environment, water supply and improved sanitation, the WIS notes that amongst the major environmental challenges that Uzbekistan faces are the pollution of soil, air, and water resources, reduced flora and fauna, and the lack of adequate management of waste and also that reducing poverty and improving public health are directly related to improving access to safe water and sanitation. According to the WIS, such access remains relatively low in rural areas and small towns. On average, 6% of urban residents and 21% of rural population do not have access to safe drinking water. Municipal sewers are accessible only for 38% of the urban population and 3-5% of the rural population.

10. Among multilateral development donors in Uzbekistan the strategies of the Asian Development Bank (ADB), the United Nations Development Programme (UNDP) in relation the current United Nations Development Assistance Framework (UNDAF) and the World Bank (WB) are likely to be of relevance to HSP design.

11. The Asian Development Bank’s (ADB) operations in Uzbekistan are guided by its long-term strategic framework, 2008–2020. For 2011–2013, support for the

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27 Welfare Improvement Strategy of Uzbekistan: Chapter 5 Economic Policies for Implementing the Goals and Priorities of the WIS in Individual Areas and Sectors of the Economy, Section 5.1 Agriculture.
development of infrastructure with a regional orientation, water and municipal services, and expansion of the private sector's access to financial resources will remain the focus of ADB's operations. The new country partnership strategy, scheduled for 2012, will reflect priorities arising from the strong economic performance of Uzbekistan, especially the further acceleration of economic diversification through private sector mobilization. Support for infrastructure development to attract the private sector and optimize their investments will be a priority. This will be complemented by continued direct private sector support through enhanced access to small and micro finance, coupled with continued support for sectoral modernization and institutional strengthening.

12. The United Nations Development Assistance Framework (UNDAF) 2010-2015 has four priority areas: (i) Economic Well-Being, with particular attention to vulnerable groups; (ii) Social Services, emphasizing increased access to and use of quality services; (iii) environment, encompassing integration of the principles of sustainable development into national policies and programmes; and (iv) governance, focused on enhanced effectiveness, inclusiveness and accountability at central and local levels alike. A crosscutting issue that underpins the interventions in all priority areas is the explicit focus on vulnerable groups. Other crosscutting issues include gender, young people, human rights; the development of enhanced legal frameworks; data strengthening; conservation of national heritage; environment and climate. Capacity development, anchored by human rights norms and values and the principles of gender mainstreaming and inclusiveness defines and shapes the UNDAF approach to development action. Increased involvement of civil society with regard to policymaking processes is also regarded as important and advocacy with regard to the MDGs is also to be addressed under all UNDAF Outcomes. UNDP assistance focuses on economic and democratic reforms and fostering the participation of civil society in three thematic areas: economic governance, good governance, and energy and environment.

13. The World Bank Country Assistance Strategy (CAS) for the period Financial Years (FYs) 2008 to 2011 has four ‘pillars’: (i) enabling environment for shared growth; (ii) Increasing income opportunities in rural areas; (iii) strengthening human development and social protection through better service delivery; and (iv) Environmental management, disaster risk management and global goods provision. Pillar 1 covers: (a) Macro-economic stability and poverty monitoring; (b) Governance as related in particular to issues such as public finance management, data transparency, and international governance indicators; (c) Public Financial Management, supported by joint ADB/Bank/IMF technical assistance and the ADB-financed Treasury Modernization Project includes dialogue with the Central Bank of Uzbekistan on bank privatization, mortgage market development, and financing for small and medium enterprises. In addition, the International Finance Corporation (IFC) has helped define a regulatory framework for leasing including extensive training and consulting for potential lessors; and (d) Business environment improvement. Pillar 2 centres on the Rural Enterprise Support Project – Phase II (RESP II), a USD 75 million project begun in 2008 and due to end in 2015. Aside from management its three components are Rural Finance, Irrigation and Drainage, and Rural Training and Business Advisory Services. Financial and institutional support is being provided to 105 Water User Associations (WUAs). Pillar 3 provides various kinds of support to water, sanitation, health and education. Pillar 4 is concerned with: (a) improving energy efficiency; (b) reducing greenhouse gas emissions; and (c) Environmental Management, Disaster Risk Management (DRM) and Global Goods Provision.
## Appendix 1: COUNTRY DATA

### Uzbekistan

<table>
<thead>
<tr>
<th>Land area (km² thousand) 2009 1/</th>
<th>425</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population (million) 2009 1/</td>
<td>27.77</td>
</tr>
<tr>
<td>Population density (people per km²) 2009 1/</td>
<td>65</td>
</tr>
<tr>
<td>Local currency</td>
<td>Uzbekistan Sum (UZS)</td>
</tr>
</tbody>
</table>

### Social Indicators

<table>
<thead>
<tr>
<th>Population growth (annual %) 2009 1/</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude birth rate (per thousand people) 2009 1/</td>
<td>22</td>
</tr>
<tr>
<td>Crude death rate (per thousand people) 2009 1/</td>
<td>5</td>
</tr>
<tr>
<td>Infant mortality rate (per thousand live births) 2009 1/</td>
<td>32</td>
</tr>
<tr>
<td>Life expectancy at birth (years) 2009 1/</td>
<td>68</td>
</tr>
<tr>
<td>Total labour force (million) 2009 1/</td>
<td>12.68</td>
</tr>
<tr>
<td>Female labour force as % of total 2009 1/</td>
<td>46</td>
</tr>
</tbody>
</table>

### Education

<table>
<thead>
<tr>
<th>School enrolment, primary (% gross) 2009 1/</th>
<th>112</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult illiteracy rate (% age 15 and above) 2009 1/</td>
<td>1</td>
</tr>
</tbody>
</table>

### Nutrition

<table>
<thead>
<tr>
<th>Daily calorie supply per capita</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malnutrition prevalence, height for age (% of children under 5) 2006 1/</td>
<td>20</td>
</tr>
<tr>
<td>Malnutrition prevalence, weight for age (% of children under 5) 2006 1/</td>
<td>4</td>
</tr>
</tbody>
</table>

### Health

<table>
<thead>
<tr>
<th>Health expenditure, total (as % of GDP) 2009 1/</th>
<th>5.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians (per thousand people) 2008 1/</td>
<td>n/a</td>
</tr>
<tr>
<td>Population using improved water sources (%) 2008 1/</td>
<td>87</td>
</tr>
<tr>
<td>Population using adequate sanitation facilities (%) 2008 1/</td>
<td>100</td>
</tr>
</tbody>
</table>

### Agriculture and Food

| Food imports (% of merchandise imports) 2009 1/ | n/a |
| Food production index (1999-01=100) 2009 1/ | 155 |
| Cereal yield (kg per ha) 2009 1/ | 4 578 |
| Fertilizer consumption (kilograms per ha of arable land) 2008 1/ | n/a |
| Arable land as % of land area 2008 1/ | 10 |
| Forest area as % of total land area 2006 1/ | 7.8 |
| Agricultural irrigated land as % of total agric. land 2008 1/ | n/a |

### Economic Indicators

<table>
<thead>
<tr>
<th>GNI per capita (US$) 2009 1/</th>
<th>1 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita growth (annual %) 2008 1/</td>
<td>7</td>
</tr>
<tr>
<td>Inflation, consumer prices (annual %) 2009 1/</td>
<td>n/a</td>
</tr>
</tbody>
</table>

### Economic Indicators

<table>
<thead>
<tr>
<th>GDP (US$ million) 2009 1/</th>
<th>32 104</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectoral distribution of GDP 2009 1/</td>
<td></td>
</tr>
<tr>
<td>% agriculture</td>
<td>20</td>
</tr>
<tr>
<td>% industry</td>
<td>33</td>
</tr>
<tr>
<td>% manufacturing</td>
<td>13</td>
</tr>
<tr>
<td>% services</td>
<td>47</td>
</tr>
<tr>
<td>Consumption 2009 1/</td>
<td></td>
</tr>
<tr>
<td>General government final consumption expenditure (as % of GDP)</td>
<td>18</td>
</tr>
<tr>
<td>Household final consumption expenditure, etc. (as % of GDP)</td>
<td>56</td>
</tr>
<tr>
<td>Gross domestic savings (as % of GDP)</td>
<td>26</td>
</tr>
</tbody>
</table>

### Balance of Payments (US$ million)

<table>
<thead>
<tr>
<th>Merchandise exports 2009 1/</th>
<th>10 735</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise imports 2009 1/</td>
<td>9 023</td>
</tr>
<tr>
<td>Balance of merchandise trade</td>
<td>1 712</td>
</tr>
<tr>
<td>Current account balances (US$ million) before official transfers 2009 1/</td>
<td>n/a</td>
</tr>
<tr>
<td>after official transfers 2009 1/</td>
<td>n/a</td>
</tr>
<tr>
<td>Foreign direct investment, net 2009 1/</td>
<td>n/a</td>
</tr>
</tbody>
</table>

### Government Finance

<table>
<thead>
<tr>
<th>Cash surplus/deficit (as % of GDP) 2009 1/</th>
<th>n/a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expense (% of GDP) a/ 2009 1/</td>
<td>n/a</td>
</tr>
<tr>
<td>Present value of external debt (as % of GNI) 2009 1/</td>
<td>12</td>
</tr>
<tr>
<td>Total debt service (% of GNI) 2009 1/</td>
<td>2</td>
</tr>
<tr>
<td>Lending interest rate (%) 2009 1/</td>
<td>n/a</td>
</tr>
<tr>
<td>Deposit interest rate (%) 2009 1/</td>
<td>13</td>
</tr>
</tbody>
</table>

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a/ Indicator replaces "Total expenditure" used previously.

1/ World Bank, *World Development Indicators* database CD ROM 2011-2012
ANNEX 2

POVERTY, GENDER AND TARGETING

I. Poverty

1. **Overall Poverty Trends.** The main data sources on the less advantaged in Uzbekistan derive from a Household Budget Survey (HBS) conducted by the World Bank in 2001. This 2001 HBS used a food consumption ‘poverty line’ of 2,100 calories per adult equivalent per day. On the basis of the sample, 27.5% of Uzbekistan’s population (6.8 million people) fell below the line. A subsequent 2005 World Bank Living Standards Assessment revised the 2001 proportion below the line upwards to 31.5%.

2. Poverty trends for the period 2000-2007, defined as the percentage of national, urban and rural populations subsisting on less than 2,100 calories per day, are shown in Table 1 below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Poverty (%)</th>
<th>Urban Poverty (%)</th>
<th>Rural Poverty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>31.5</td>
<td>26.5</td>
<td>33.6</td>
</tr>
<tr>
<td>2002</td>
<td>27.2</td>
<td>21.8</td>
<td>29.4</td>
</tr>
<tr>
<td>2003</td>
<td>26.1</td>
<td>22.0</td>
<td>28.7</td>
</tr>
<tr>
<td>2004</td>
<td>25.8</td>
<td>18.8</td>
<td>30.3</td>
</tr>
<tr>
<td>2005</td>
<td>24.9</td>
<td>18.3</td>
<td>30.0</td>
</tr>
<tr>
<td>2006</td>
<td>23.6</td>
<td>17.9</td>
<td>28.8</td>
</tr>
<tr>
<td>2007</td>
<td>17.6</td>
<td>17.6</td>
<td>27.1</td>
</tr>
</tbody>
</table>

3. As may be seen from Table 1, the percentage incidence of rural poverty has remained consistently higher than that of urban poverty and the rate of decline in the proportion of the less advantaged rural population has been substantially less than that of the less advantaged population in urban areas. It might also be noted that in 2007, out of a total estimated population of 27.07 million, 17.37 million were classed as rural (64.2%) and 9.7 million as urban (35.8%). This would mean that of a total number of 6.4 million less advantaged people in 2007, 1.7 million were urban and 4.7 million were rural. As such, rural areas accounted in 2007 for 73.4% of all less advantaged people in Uzbekistan. Nevertheless the decline in the incidence of less advantaged people represents a notable achievement and in line with Government projections and the overall poverty incidence for 2009-10 is estimated at 18%.

4. **Rural Poverty Correlates.** Key factors in rural poverty include: (i) family composition and dependency ratios; (ii) levels of education; (iii) employment; (iv) access to social services; and (v) access to land. Gender-related issues are discussed in the next section of this Annex. Families with more than 2-3 *dependents*, especially if they are children, are more likely to be poor and it is not uncommon for traditional rural households to have 5 or more children. Families where the head of household had only basic or secondary level *education* rather than higher education are more likely to be socio-economically disadvantaged. Families with no *employment* other than their own subsistence farming of household plots are more likely to be poor. For example, according to the 2005 Family Budget Survey (FBS) data, overall 33.7% of...

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28 See also Annex 1 Poverty, Gender and Targeting.
29 The State Statistics Committee has since 2000 regularly carried out a Family Budget Survey (FBS) which covers about 10,000 households. In addition to this, the Government of Uzbekistan, with the support of the EU, UNDP, and ADB, has conducted a series of cross-sectional surveys on households’ living standards (i) within the framework of the formulation of the Strategy for improving Living Standards (SILS) which involved research in the Jizzakh oblast, and (ii) within the framework of the project on the Enhancement of Living Standards (ELS) in the Republic of Karakalpakstan and the regions of Namangan and Fergana. Recently one further survey has been conducted as part of the UNDP project on comprehensive area development within the Kashkadarya region. (WIS, paragraph 228).
31 CER calculations based on data of the State Statistics Committee of the Republic of Uzbekistan.
family heads were employed in agriculture whereas for poor households the total was 48.7% and only 29.6% heads of non-poor families were employed in agriculture. However, employment is of itself no guarantee against the risk of poverty since there is a prevalence of low-income, unskilled or semi-skilled jobs in rural areas and by normative measures of productivity there is considerable underemployment. In remote rural areas the relative lack of access to anything more than basic social services (education, health, water and sanitation) means families are more likely to be at risk as a result of limited knowledge and skills and vulnerability to disease.

5. A very important factor is access to land. According to the Centre for Economic Research (CER) the rural population is growing more rapidly than the urban population and is projected as reaching 22.2 million by 2025. At the same time there is already a shortage of arable land in Uzbekistan and there is a premium on irrigated land due to the country’s prevalent agro-climatic conditions. During the last 25 years irrigated land per inhabitant has declined from 0.22 to 0.12 hectares. A long history of extensive irrigation has contributed to growing problems of salinization and water shortages and these difficulties are anticipated as possibly becoming worse due to climate change (see Main Report, Annex 12, Section D for an Environmental and Social Research Note (ESRN)). The less advantaged in rural areas are likely to be at risk of being squeezed between lack of adequately remunerative employment opportunities and lack of adequate land for in-kind subsistence. Moreover, the centrality of land in poverty-reduction is strengthened further by the fact that: (i) while many families owned livestock or poultry, such assets are usually meagre; (ii) less advantaged households face a perennial shortage of fertilizers, chemical pesticides or seeds; and (iii) income from micro-enterprises, usually from selling agricultural products or handicrafts is low and erratic for most households. One major consequence of this combination of constraints is internal and international labour migration.

6. Migration and Remittances. Limited income-generating opportunities provide an impetus for rural people to migrate. Indeed, a survey in Karakalpakstan and Namangan found that on average one in ten rural households had at least one migrant and income remitted to these households with a migrant was 5-10 times higher than any other category of their household income. Uzbekistan is characterized by significant internal (rural to urban) migration and also international migration, notably to Russia and to a lesser extent Kazakhstan. Figures are difficult to determine although a 2009 study estimated that at that time there were some 2.5-3.0 million Uzbek international migrants and that the value of their annual remittances from Russia, as calculated by that country’s Central Bank, was about USD 3 billion. The CER, by comparison, calculates that remittances in 2008 reached a high of 13.3% of GDP, falling to 8.6% of GDP in the first half of 2009 as a result of the global recession.

7. Social Transfers. Social transfers make an important contribution to welfare improvement among the less advantaged rural population. Uzbekistan maintains two main social assistance benefits mechanisms: child allowances and low-income family benefits. Some 6% of all State expenditures go to needy families through the mahalla system of social assistance. Mahallas are local self-government organisations elected by adult franchise (18 years and over) by urban and rural communities of anything between 150 and 1 500 families. Their committees have responsibility for supporting their local communities in improving living conditions, organizing ceremonial events, maintaining public order, housing stock, finances and overseeing issues concerning women, youth and veterans. Although legally ‘non-governmental’ they identify needy households for eligibility for social transfers and these transfers are paid by Government through them

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32 CER op.cit.
33 CER op.cit.
34 Andrea Riester, German Technical Cooperation (GTZ): Background Paper for an ADB Conference in Hanoi 2009 on implications of the global recession.
to end-recipients. Uzbekistan’s Welfare Improvement Strategy 2008-2010 (WIS) states that: ‘Uzbekistan’s unique system of targeting social security through mahallas is, despite some shortcomings, more efficient compared with other systems. The FBS survey data (2005) shows that the majority of households in the poorer quintiles receive allowances and the major part of allowances are paid to the lowest quintiles (i.e. allowances are being distributed progressively), although some outflows of funds into highest quintiles also occurs."35

8. **Food Security and Nutrition.** Government has taken a three-track approach to food security and nutrition: (i) defining wheat as a ‘strategic crop’ subject to State procurement targets and prices; (ii) opening up access to land through the allocation of small private household plots and dekhan farms; and (iii) special nutrition programmes for the general population, mothers and young children. Cropland under wheat expanded by 227% between 1991 and 2009, from 488 000 ha to over 1.6 million ha, thereby significantly increasing the wheat harvest from 610 000 t in 1991 to over 6.5 million t in 2009.36 Household plots and dekhan farms have become major, indeed dominant sources of subsistence and marketed horticultural crops. In order to ensure a regular all year round domestically produced supply of fruits and vegetables, the Government is helping agricultural communities to set up greenhouses with low-cost heating systems. As a result, in 2010 entrepreneurs, larger private farmers (up to 150 ha) and dekhan farmers set up 522 greenhouses covering 290 ha.

9. With regard to nutrition, special Government programmes have provided adequate nutrition to young children and babies that were particularly susceptible to insufficient or unbalanced food rations. As a result Uzbekistan has witnessed a decline in child mortality and significant improvement of anthropometric indicators.37 A number of Government social programmes have been developed for the eradication of anaemia and vitamin A and iron deficiency. In particular, 50% of flour is fortified with iron and folic acid, bringing about a 50% reduction in the incidence of anaemia. Salt iodization in Uzbekistan is required by the national Law on the Control of Iodine Deficiency Disorders and by 2006 iodization covered more than half of Uzbek households. At the same time, food safety remains a priority concern. Hygiene and food safety conditions including water sanitation are difficult to control since food products are mostly supplied from multiple sources by private farmers, dekhan farms and semi-formal public catering outlets. Presently state control of food safety and quality is often not sufficiently effective with regard to vegetable, meat and milk products sold at dekhan markets.

10. Geographic Distribution of the Less Advantage. The Republic of Uzbekistan is divided into 12 regions (viloyat), the autonomous Republic of Karakalpakstan and the independent city of Tashkent (shahari). According to State Statistics Committee data, the distribution by these areas of the percentage of the population which fell below the 2 100 calories per day poverty line in 2005 was, in order of ascending percentage: Tashkent City 6.7%; Fergana 15.8%; Tashkent Region 20.4%; Bukhara 20.8%; Andijan 23.1%; Samarkand 23.9%; Navoi 26.3%; Dzhizak 29.6%; Khorezm 31%; Syrdarya 32.6%; Namangan 33.4%; Surkhandarya 34.6%; Kashkadarya 41%; and the Republic of Karakalpakstan 44%.

35 WIS: paragraph 293.
37 The United Nations Statistics Division reports that the percentage of children less than 5 years old considered moderately or severely underweight declined from nearly 19% in 1996 to 5.1% in 2006 and for the severely underweight declined from 5% in 1996 to 0.8% in 2006. According to UNICEF’s Multiple Indicators Cluster Survey, stunting among children 3 years of age and younger was 31.2% in 1996, and subsequently declined to 21.2% in 2002 and 14.6% in 2006. The risks of poor nutrition tend to be greater in rural areas. According to the latest (2006) World Health Organisation (WHO) data for Under-5s, rural areas give percentage figures below the median of 1.5 at -3 SD and 4.3 at -2 SD for weight/age and 7.6 at -3 SD and 19.8 at -2 SD for height/age. The figures for urban areas are 1.1 at -3 SD and 4.7 at -2 SD for weight/age and 7.4 at -3 SD and 19.0 at -2 SD for height/age.
II. Gender

11. Uzbekistan had an estimated population of 28.33 million in 2010, of which women constitute almost 50% (13.98 million). The gender profile in Uzbekistan is influenced by three dominant factors: the Soviet inheritance, the social and economic challenges of the transition period, and the traditional Uzbek values and cultural traditions. It seems that with recent efforts to reassert a national identity, more restrictions on women and girls are being imposed by families, manifested, for example, in a drop in women in higher education, an increase in early marriage (17 years being the minimum age by law), and increased pressure on young wives, denying women the right to divorce, and restricting women's role in public life.

12. UNDP's 2010 Human Development Report (HDR) gives Uzbekistan a Human Development Index (HDI) value of 0.617, up from 0.588 in 2005, and a ranking of 102 out of 169 countries. The 2010 HDR gives Uzbekistan no rank or value with respect to the recently introduced Gender Inequality Index measure. However, it notes: (i) the 2008 Maternal Mortality Ratio (number of maternal deaths per 100,000 live births) was 24; (ii) 2008 female representation in Parliament was 16.4%; (iii) the 2008 labour force participation was 61.7% for women and 73.7% for men; and (iv) antenatal coverage of at least one visit was 99% in 2008. UNDP's National Human Development Report 2007-2008 gives Uzbekistan a Gender Empowerment Measure (GEM) value of 0.500 for 2005.

13. Other main gender differences are in life expectancy, where men have a lower value than women (66.7 years compared to 72.4 for women); and per capita income, where women have a lower value than men (the gender gap score is 0.691). Literacy rates and school enrolment indicators are roughly equal. In the period 2000-2008 the ratio of girls to boys at these levels of education has been around 0.95. However, in higher education male students still markedly outnumber female students. The share of female students increased between 2000 and 2008, though very slowly. The ratio of women to men in higher education by the end of that period was 0.68. The lower enrolment rate of girls in higher education is determined by cultural (early marriage) and partly economic factors. Nevertheless literacy rates even for rural women are still high and social protection benefits are provided equally to women and men.

14. Women and Employment. Despite the significant changes that have occurred in the economy of independent Uzbekistan, the employment structure in terms of gender relations has not undergone any significant changes. The share of women employed in the economy is less than 44% and the share of women employed by the informal sector is increasing. The trend is for women to be increasingly employed in low-paid sectors such as health (in which women are 78.4% of all employees) and education (69.3%). In 2008 women's wages were lower than men's by 37%.

15. While women constitute 52.6% of the population employed in agriculture, it is striking that of 235,000 leasehold (private) farms registered by January 2008 only 17,000 or 7.2% of them were led by women. For the most part rural women in

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38 The World Bank, World Development Indicators database CD ROM 2010-2011 gives a 2008 population of 27.31 million.
39 According to a 2010 Gender Assessment by USAID, the term "gender" is not well understood by the general population or many policymakers. "Gender" can have negative connotations, including being associated with an extreme type of Western feminism, anti-men, and anti-family values, which are understood as against Uzbek national values. The term "women's rights" is generally more accepted by the Government than "gender."
40 Gender Assessment USAID/Central Asian Republics March 2010.
41 An updated version of the 2010 HDR HDI rankings, which includes the addition of Cuba, Occupied Palestinian Territory and Palau pushes Uzbekistan to 105th place out of 172 countries ranked. The Uzbekistan HDI value remains unchanged.
42 www.weforum.org/pdf/gendergap/ggg08_uzbekistan.pdf
agriculture are unpaid family labour or low-paid agricultural labour, often working on a seasonal basis. At present, it is often the case that rural women have the main responsibility for production from household plots and *dekhan* farms.

16. The entrepreneurial activities of rural women, whether it is heading their own agricultural enterprises or focused on micro and small-scale non-farm enterprises, cross border trade, subcontracting work at home or street trading is severely constrained by **limited access to credit and property**. A significant barrier to developing female-headed farming and non-farming enterprises has been the inability of the women to provide collateral against credit applications. According to information the State Statistical Department (2009), 85% of micro-credits go to men and only 15% to women. Even in the southern regions, including the proposed HSP project area of Surkhandarya, where micro-credit development programmes have been successfully implemented, women’s share of micro-credits did not exceed 26%. Agriculture has historically represented a small proportion of the lending portfolios of both banks and Credit Unions, at 4% for the former (see Annex 4) and 15% for the latter as of 2009. However, privatization under the land reform programme appears to have increased credit demand in the sector.

17. **Gender and Internal Migration.** Women account for a considerable part of temporary labour migrants. In 2008 women accounted for 23.2% of internal labour migration. The average age of female migrants was 34. Only 16% of female migrants did not have non-adult children and 11.5% did not have dependents. Remuneration of female respondents’ labour was on average 25% less than that of men, regardless of what sector they worked in. Women are still the most vulnerable group of labour migrants due to their lower qualifications and existing gender stereotypes. The CER considers that in the period 2008-2010 the lack of agricultural and non-agricultural employment opportunities in rural areas is driving an increasing number of women to seek temporary, informal employment in the cities and, indeed, increasing numbers of *emigrants* are women. Thus, there is both a need and an opportunity to work with rural women to develop their entrepreneurial capacity and assist them in starting/expanding income-generating projects, which have proved critical not only to feeding families but also to supplementing family income through sales of the surplus produce. 

18. **Women and Social Services.** The economic challenges of the transition period have resulted in less access to health and other social services, particularly in rural areas. It is generally the case that constraints on social services tend to impact more on women than men, increasing their risks and responsibilities with respect to maternity, childcare and other domestic responsibilities while not reducing their obligations to contribute to meeting household subsistence and income requirements.

III. **Targeting**

19. **Targeting Rationale.** Under the WIS’s key development objectives, Government is committed to (i) continued economic liberalization; and (ii) comprehensive area-based development which envisages that economic growth should mitigate the existing differences in the level of economic development and welfare. On the basis of the socio-economic data above there are strong indications that modernization of a privatized horticulture sector can offer sustainable economic growth combined with significant welfare improvement. Horticultural produce for domestic markets is already dominated by small-scale household plot/*dekhan* farm production, contributing importantly to increasing the incomes of less advantaged households. Modernisation of current systems of horticultural production in terms of support to up-dated planting varieties/rootstock, producer knowledge and skills, technologies and appropriate financial products can

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reasonably be expected to lead to productivity and quality gains which will increase access to both domestic and export markets, improve food security and safety and augment producers’ incomes. Greater productivity and market access offer opportunities for further entrants into production, especially if efficiency gains in land and water use ease the growing natural resource base constraints that have been mentioned.

20. **HSP Target Group.** The primary project target group would be small-scale, private sector, actual or potential horticulture producers, including dekhan farmers, operating 6 ha or less. The project’s secondary target group would be agrofirms and other entities active in the horticultural value chain, which will be assisted to efficiently and effectively support the primary target group with: (a) technical advice; (b) material (as opposed to financial) input supply including modern varieties/rootstock, agro-chemicals, machinery and equipment; (c) processing and packaging; and (d) marketing. The project’s tertiary target group will be the rural unemployed for whom project support is expected to create greater employment opportunities at the farm and processing levels of the horticulture value chain.

21. **Geographic Targeting.** On the basis of currently available data, the southern regions of Surkhandarya and Kashkadarya have the highest percentages of less advantaged people in the whole of Uzbekistan with the sole exception of the Republic of Karakalpakstan. Consequently, it is proposed that the project area would be districts in Surkhandarya with a comparative advantage and potential for modern horticulture. Candidate districts would appear to be: Denau, Sarasia, Uzun, Oltinsay and Sherabad. Subject to performance the project may be subsequently scaled up as a separate Phase II initiative, at present most likely in the adjacent region of Kashkadarya.

22. **Targeting of Project Benefits to the Less Advantaged.** Benefits of the project to its primary target group of small-scale horticulturists and horticulture-related market services providers would be training and finance. Under the project’s Support to Horticultural Production and Marketing component, it is expected that around 390 direct and 2800 indirect beneficiary households would be reached under this component assuming around 0.4-2 ha of orchards per direct beneficiary household and 260 indirect beneficiary households trained annually during six years of Project implementation. The Improved Irrigation Network component is estimated to reach directly about 8000 households, or about 47 200 beneficiaries (assuming that there would be on average 1.6 beneficiary households per USD 1 000 investment).

23. The foreseen investments in the horticultural value chain are expected to lead to an increase in volume of backwards linkages to primary target group of the HSP, small-scale producers and market services providers and the rural unemployed, in terms of employment generation and increased demand for raw material. In addition, as demand for the fruit and vegetable investments increases, it would stimulate the private sector in developing the related services. Given the demand-driven and contractual nature of the project, particularly under the SHPM component, it is not possible to estimate realistically a figure for employment generation.

24. Training content would be determined by its relevance to smaller rather than larger scale horticulturists. Loans would be self-targeting in terms of their size and purpose and project targeting criteria would be written into the Subsidiary Loan Agreements (SLAs) which Participating Financial Institutions (PFIs) would be obliged to sign with the project.

25. Loans would allow the primary target group to access supplementary non-project technical advice and material inputs including modern varieties/rootstock, agro-chemicals, machinery and equipment. A key source of these inputs would be the project’s secondary target group of agrofirms and other entities active in the horticultural value chain, which are to be modernized with project support. As with PFIs,
the project-supported agro-firms would be expected, as a condition of project support, to agree to the project’s targeting criteria and consequently demonstrate that they are fully engaged with the primary target group with respect to the provision to them of services including technical advice, material input supply, processing, packaging, marketing, and the development of contract farming.

26. **Infrastructure** to be financed under the project’s Improved Irrigation Network (IIN) component is required to be in the public (common use) domain and targeting is expected to be achieved by the requirement of it having a complementary link with activities supported under the Support to Horticultural Production and Marketing component and compliance with the preferential ranking criterion of the numbers of individuals assisted per USD 1 000 of investment. In other words IIN investments under the project will need to demonstrate that they are benefitting large numbers of people related to horticulture: a condition that favours small-scale labour-intensive production rather than large scale, mechanised production.

27. **Gender-based Targeting.** In compliance with IFAD guidelines HSP design includes provisions to make sure project interventions are accessible to and benefit less advantaged rural women. It is proposed that a minimum target quota of 30% women be applied to primary group members trained with project support and also to those receiving project-sourced loans.

28. **Management of Targeting.** The Project Steering Committee (PSC) would have overall responsibility for ensuring that the project’s targeting criteria are adhered to. All professional members of the Project Management Unit/Rural Restructuring Agency (RRA/HSP PMU) and the project’s Regional Office would have day-to-day responsibility for such adherence. Lead responsibility for adherence would rest with the RRA/HSP PMU’s two Monitoring and Evaluation Officers, with the Assistant M&E Officer having specific responsibilities to act as a Gender Focal Point/Coordinator. The two M&E Officers would sensitise other project management to the importance of targeting, monitor that targeting criteria are being applied and, if necessary, propose and pursue remedial action.

29. The RRA/HSP PMU’s Assistant Monitoring and Evaluation Officer – Gender Focal Point/Coordinator would, as part of his/her overall lead responsibility for assuring adherence to project targeting criteria also have lead responsibility for achieving the proposed target quota of 30% of direct beneficiaries of project-supported training and loans among the primary target group being women. In this respect it is anticipated that the Officer would work closely with: the Women’s Committee representative on the PSC; the Deputy Hokims (Governors) for women’s affairs at project-participating regional and district hokimiyats (administrations); mahalla committee members responsible for women’s affairs in the project area; and, as appropriate, the Association of Businesswomen of Uzbekistan, (BWA), the Association of Farmers (AF) and Mehr (the Association of Women’s Non-governmental Organizations of Uzbekistan).
1. Since the HSP would be the first project to be financed by IFAD in Uzbekistan there are neither any Fund-specific performance data nor lesson to be drawn upon. It is necessary therefore to rely upon the experience of other donors, perhaps particularly multi-laterals, while acknowledging that their own priorities and modalities may not entirely be congruent with those of IFAD.

2. The HSP Draft Strategy and Concept Note remarks that during a series of consultations with the main donors operating in Uzbekistan, the first IFAD mission to the country at the end of 2010 learned the following key lessons:

   a) Positive development outcomes in support of basic human needs and improved living standards can be achieved within the prevailing policy environment of Uzbekistan. The WIS should guide overall investment directions, which should also be clearly developed according to the demands of the Government;

   b) Interventions are likely to be more successful in the areas where common ground and understanding of development paths exists between the donor and Government authorities. During the design process, it is important to ensure consensus on and full understanding of all activities among all parties including stakeholders at the grassroots level;

   c) The use of pilots, demonstrating and communicating viable investments is important;

   d) Stand-alone Technical Assistance projects are not effective tools for change but should be clearly linked to investment programmes; and

   e) There is a need to tackle limited capacity for project implementation and identify appropriate structures with a proven track record to take the lead.

3. In addition, lessons from various donors with regard to their support to the development of the financial sector in Uzbekistan include:

   (i) Loans should be flexible, reflecting borrowers’ needs and repayments following borrowers’ cash flow as demonstrated by business plans, with transparent and expeditious application and processing procedures;

   (ii) Restrictions on geographic coverage to a limited number of bank branches or to specific districts can have a negative impact on disbursement of funds;

   (iii) Monitoring of loans by implementing agencies in collaboration with PFIs rather than relying solely on monitoring by PFI staff would assist in preventing the deterioration of loan portfolio quality;

   (iv) Better loan quality is achieved where a PFI establishes a specific lending unit or function in respect of credit lines provided by IFIs by providing loan officer staff with responsibility for appraisal, approval and supervision. In this context: (a) separation of the loan appraisal and approval function

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45 For example, ADB, the World Bank, UNDP, IFAC, EBRD, KfW, USAID/WOCCU and SDC.
from loan supervision leads to a lack of accountability and risk of moral hazard; (b) where approval decisions are taken at higher levels within the PFI lending authority structure, staff approving loans should also be held accountable, not only the credit officer originating the loan; and (c) staff remuneration systems should be implemented to encourage and reward performance related to the quality and performance of individual credit officers’ loan portfolios;

(v) Capacity building in PFIs should not only focus on head office credit staff but also on branch level staff, especially where branch staff is charged with the responsibility of loan supervision and recovery;

(vi) In appraising borrowers’ business plans, bank credit staff must not only pay attention to projected sales and market opportunities but also to input markets and projected raw material availability, which is often overlooked. The ease of obtaining necessary raw materials is often overestimated, and their prices underestimated. Similarly, difficulties in obtaining timely delivery and installation of equipment purchased through the loans need to be more thoroughly assessed; and

(vii) In the opinion of some potential PFIs contacted, the charges imposed by Ministry of Finance are on the high side, and their procedures are considered complicated and bureaucratic.

4. Finally, the World Bank’s Country Assistance Strategy (CAS) Progress Report (PR) for Financial Years (FY) 2008-2011 notes not so much lessons as the confirmation of the ongoing relevance of four areas of risk identified in the original CAS: (i) fiduciary risk; (ii) Development Effectiveness Risks; (iii) Exogenous Risks; and (iv) Natural Disaster risks.

The CAS states that there are: ‘(i) fiduciary risks (which) are rated as high due to weak Public Finance Management (PFM) capacity and accountability mechanisms, and lack of transparency particularly in procurement. To mitigate this risk, the WBG will assure that adequate resources are allocated to fiduciary supervision of projects and project implementation arrangements will seek to strengthen procurement procedures. In addition, financial management arrangements for new projects would build on the lessons of existing practices, but would be cautious in any move to make use of country systems, and focus rather on the improvement of transparency and accountability at a sectoral and project level; (ii) development effectiveness. To ensure the development effectiveness of the proposed program, all projects are assessed through a results framework and by beneficiary monitoring. The WBG will closely monitor the CAS implementation, and in case of adverse developments, will reassess the level and focus of its engagement; and (iii) exogenous risks. These include possible regional tensions over water and energy, reduction in regional growth rates or reductions in flows of remittances or commodity prices, all of which could directly or indirectly affect internal political stability, and security. Managing exogenous risks will require close cooperation with the Government to encourage Uzbekistan’s continued international engagement and integration. The above risks, if they materialize, may hinder the country’s ability to fully utilize its IDA allocation. Uzbekistan also faces natural disaster risk. The current CAS recognizes lessons from past engagement and builds clear linkages to the Disaster Risk Management (DRM) agenda.’

ANNEX 4

DETAILED PROJECT DESCRIPTION

1. The HSP would have three components, besides project management, these being: (i) Support to Horticultural Production and Marketing; (ii) Rural Finance; and (iii) Improved Irrigation Network. Components 1, 2 and 3 are described in this Annex and project management is described in the following Annex 5.

2. **Component 1: Support to Horticultural Production and Marketing.** The Support to Horticultural Production and Marketing component will comprise three sub-components:

3. **Sub-component 1.1: Upgrading of Nurseries.** A Central Nursery receiving support under the project would propagate modern varieties and rootstock, which would allow the Central Nursery to: (i) provide Agrofirms and other interested parties with mother plants for propagation; and (ii) provide beneficiaries with ready, grafted seedlings for orchard establishment. In addition, the Central Nursery would be responsible for handling the shipment of plants to be on-sold to farmers for direct orchard establishment under sub-component 1.3 (see below).

4. The Central Nursery would be located at one of the existing Shreder Institute facilities in Surkhandarya region, which already possess much of the equipment and infrastructure required. Support to the Central Nursery would comprise the financing of: (i) office equipment; (ii) nursery equipment; (iii) tissue laboratory equipment; (iv) importing of modern variety and rootstock mother plants to set up demonstration orchards to be managed by the Central Nursery; (v) importing of modern variety and rootstock mother plants for propagation by the Central Nursery; (vi) international Technical Assistance (Senior Technical Advisor) to assist the Central Nursery in modernising its propagating activities; (vii) necessary vehicles; and (viii) operation and maintenance by the Shreder Institute of the Central Nursery and the tissue laboratory.

5. The plant materials to be imported would consist of highly productive new varieties not yet listed in the Government’s ‘Official Catalogue of Authorized Planting Materials of Uzbekistan’ that could include apples, apricots, peaches, cherries, plum, almond (late blooming varieties), pistachio and minor crops such as olives, lemons and mandarins, for which there is known demand. The selection of varieties would be done with due regard to: (i) the findings and recommendations of a Project-financed ‘Strategic Marketing Study’ to be undertaken at project start-up and which would determine the character and opportunities of domestic and international markets relative to Uzbekistan’s current and potential horticultural products; (ii) possibilities of Agrofirms and other competent entities to act effectively in the value chain, e.g. necessity to create sufficient economies of scale in uniform produce for each selected crop/variety; and (iii) the need to have a drawn out harvesting season, thus alleviating the pressure on post harvesting bottlenecks such as limited availability of cold storage, and congested markets during high season. A special permit from the Cabinet of Ministers would be required for importing of the plants so as to avoid the trial periods that may take up till 10 years before license for commercial use is granted.

6. **Sub-component 1.2: Modernisation of Agrofirms and other entities active in the horticultural value chain.** Central in the support to the horticultural sector is a functioning post harvesting segment in the value chain, the need for which is particularly accentuated by the tendency of Uzbek markets to be flooded during high harvesting season, leading to dumping prices and wastage levels as high as 30%. To this end, the sub-component would support 10-15 Agrofirms or other entities active in the horticultural value chain, selected using a competitive and objective methodology (see Annex 5) by providing access to appropriate financing products for capital investment
through the Rural Finance component and also providing technical assistance to improve their managerial and technical competence. Agrofirms or other such entities engaged in export marketing would either already have or be enabled to install equipment and building structures necessary to meet appropriate international standards. These facilities could include a pack house, a pre-cooling unit, cold storage facility for fruit, and processing facilities for drying, sorting, juicing and vacuum packing.

7. The principal functions of the Project-supported Agrofirms and other entities relative to the horticulture value chain would be to provide markets for primary producers’ inputs and produce through: (i) purchasing produce from farmers for sale as fresh or stored produce on domestic and export markets as well as for processing through engagement in systematic contract farming and supply arrangements; (ii) guiding and supporting the application of improved technology by primary producers in an effort to achieve uniform quality control and production standards to strengthen the competitiveness of Uzbek horticultural produce on the Russian and other export markets; and (iii) establishing and maintaining nurseries of improved cultivars to supply farmers with readily grafted saplings for orchard establishment and improvement.

8. In the above framework, key service functions of Agrofirms and other entities active in the horticultural value chain would be: (a) nurseries for the commercial multiplication of basic plant materials (rootstocks and varieties) under a centralised control system, with oversight being provided by the Shreder Institute. The nurseries would consist of a Central Nursery, mother trees for root stock multiplication, and mother trees for multiplication of selected varieties. The size of the nursery and its production capacity would be determined more in detail in connection with the investment in the Agrofirm or other such entity; and (b) post-harvest aggregation, product traceability, storage, processing, packaging as well as marketing for international and domestic sales. It would be advisable to link smaller producers with Agrofirms and other such entities through formal contract farming and supply arrangements. Such arrangements would enable small farmers to receive support in orchard establishment, orchard management, field post-harvest handling and produce traceability, embedded within the contract relationship.

9. In order to assist Agrofirms and other market entities to better assess the costs, revenues and overall potential of markets for horticultural produce, the project would provide support for a study on the comparative benefits of Export and Local markets. This would be undertaken as soon as practicable after project commencement. The study would select the six most important horticultural commodities produced in the project area in terms of current revenues, and conduct the following analyses:

- The likely costs from farm to market for local sales;
- The likely costs from farm to market for export sales;
- The revenues for local and export sales;
- The costs of regulatory compliance for export sales;
- The costs of efficient transport for export sales; and
- The physical and financial risks of export versus local sales.

10. An analysis of these factors would better inform Agrofirms of the nature of export sales, the risks, and the true financial benefits.

11. Sub-component 1.3: Modernisation of Horticultural Production. This sub-component would contribute to modernisation of horticultural production through supporting small-scale farmers, including dekhan farmers, who have previous farming experience but limited access to land and limited financial means to invest in their activities.

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48 See Annex 11 draft PIM for details on Contract Farming and Supply Arrangements.
productive assets. The Project would also provide support to other small non-farming commercial value chain businesses which would be integral to the success of the value chain. The Project would provide these groups with financing for: (a) establishment of orchards and vegetable fields with high yielding new varieties; (b) introduction of modern production technologies such as drip irrigation, plastic tunnels and other modern techniques, machinery and equipment; and (c) non-farm value chain facilities such as small cold storage facilities, specialised transport (e.g. refrigerated), and farm services (small nurseries, plant protection services).

12. Finance would be provided in the form of loans and competitive grants issued under the project’s Rural Finance sub-components 2.2 and 2.3 described below.

13. **Training.** It is essential to provide farmers and proprietors/managers of small related businesses with appropriate training and training materials in (i) business planning in view of heavy investments required e.g. for the establishing of orchards; and (ii) orchard and horticulture field management and growing techniques.

14. The training on business planning would enable the participants to develop the business plans necessary for applying for loans, conceptualize revenues, costs, profits and risks over a long planning period. The training in business planning and orchard and horticulture field management and growing techniques would be open to all farmers in the Project Area, and would be very important for farmers who intend/have applied for finance under the Rural Finance component. Training would be provided with support from Agrofirms and other entities active in the horticultural value chain where this capacity exists, especially within contract farming/supply arrangements. Alternatively, the Project would, if necessary, contract local experts to provide such training. Provision of training to various project stakeholders would be managed by the Horticulture Value Chain Development Coordinator and/or the Rural Finance Programme Coordinator as appropriate to the type of training.

15. **Component 2: Rural Finance.** The rural finance component will comprise three sub-components that provide financing for the investments described under the project’s sub-components 1.2 and 1.3 above. Each investment would consist of:

   a) Debt Financing, in the form of loans from commercial banks, up to a maximum of 60% of the total new investment cost;

   b) Competitive Grant, which would be an advance paid by the Project to the beneficiary to assist with them making investments in the horticultural value chains supported by the Project. Co-financing would be a maximum of 20% of the total new investment cost.

   c) Beneficiary Contribution, which would be a minimum of at least 20% of the total new investment cost.

16. The total financing made available under the Project for the Competitive Grants would amount to a maximum of approximately USD 4.3 million. Such Competitive Grants would constitute an essential element in creating investments that introduce new technologies and support modernization of the horticultural sector in the Project Area. After full disbursement of the total financing available for Competitive Grants, investments would be financed by Debt Financing up to a maximum of 80% of the total new investment cost, the rest being covered by the Beneficiary Contribution.

17. **Sub-component 2.1.** The financing available for Sub-component 2.1 is estimated to amount to USD 7 million, and derives from the following sources:

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49 See also Annex 4.
a) IFAD/co-financier Loan USD 3.36 million to cover the Debt Financing;

b) IFAD/co-financier Loan USD 1.4 million to cover the Competitive Grants;

c) PFI contribution USD 0.84 million to cover Debt Financing; and

d) Beneficiaries’ self-financing contribution USD 1.4 million to cover the Beneficiary Contributions.

The IFAD/co-financier Loan would re-finance selected commercial banks’ medium to long-term lending to agro-firms, identified as eligible for project support, for investments in eligible processing, storage, and other services relevant to horticultural producers.

18. The intended beneficiaries are agro-firms with a suitable strategic positioning in horticultural value chains, providing services to farmers with development impacts in the form of employment creation and access to marketing, and identified as eligible for project support with commercially viable and bankable business proposal, adequate collateral, satisfactory rates of return, and repayment capacity as demonstrated in realistic business plans, which in view of the expected considerable loan amounts will initially be established with the assistance of about two person-months of external expertise provided by the project’s planned technical assistance to agro-firms.

19. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar, depending on the preference of the ultimate beneficiary, who in the case of choosing the USD option will carry the foreign exchange risk.

20. Maximum financing in the form of Debt Financing and Competitive Grants will be USD 600 000 equivalent per borrower, reflecting the requirements for investments as demonstrated in realistic business plans together with the recognised institutional and organisational status of the agro-firm.

21. Average financing sizes are estimated at USD 400 000 equivalent, and maximum duration of loans to be refinanced is proposed at six years with a maximum grace period of one year.

22. With respect to the on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollar, for which the final borrower, i.e. the agro-firm, will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

23. Sub-component 2.2. The financing available for Sub-component 2.2 is estimated to amount to USD 9 575 000, and derives from the following sources:

   a) IFAD/co-financier Loan USD 4 596 000 to cover the Debt Financing;

   b) IFAD/co-financier Loan USD 1 915 000 to cover the Competitive Grants;

   c) PFI contribution USD 1 149 000 to cover Debt Financing; and

   d) Beneficiaries’ self-financing contribution USD 1 915 000 to cover the Beneficiary Contributions.

24. The IFAD/co-financier’s Loan would re-finance commercial banks’ lending to investments in the operation of eligible horticultural activities among small farmers,
operating between 2 and 6 ha, and small market services entities (storage, processing, packaging, distributing etc.).

25. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar. The maximum financing in the form of Debt Financing and Competitive Grants will be USD 100 000 equivalent per borrower.

26. Average financing sizes are estimated at USD 40 000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be four years, with a grace period of up to one year.

27. With respect to on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollars, the final borrower will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

28. **Sub-component 2.3.** The financing available for Sub-component 2.3 is estimated to amount to USD 5 million, and derives from the following sources:

   a) IFAD/co-financier Loan USD 2.4 million to cover the Debt Financing;
   
   b) IFAD/co-financier Loan USD 1 million to cover the Competitive Grants;
   
   c) PFI contribution USD 600 000 to cover Debt Financing; and
   
   d) Beneficiaries’ self-financing contribution USD 1 million to cover the Beneficiary Contributions.

29. The IFAD/co-financier’s Loan would re-finance commercial banks’ lending to investments in eligible horticulture-related activities, with emphasis on very small production units of less than 2 ha, including dekhan farmers, and micro market services entities.

30. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar. The maximum financing in the form of Debt Financing and Competitive Grants will be USD 20 000 equivalent per borrower.

31. Average financing sizes are estimated at USD 10 000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be three years, with a grace period of up to six months.

32. **Component 3: Improved Irrigation Network.** The Improved Irrigation Network (IIN) component would finance investments in public (for common use) irrigation and drainage infrastructure that complements support to beneficiaries under the Support to Horticultural Production and Marketing (SHPM) component so that they are more likely to achieve the full economic potential of their commercial engagement in fruit, nut and vegetable production.

33. The main types of infrastructure that would be eligible for support under the IIN component would include on-farm irrigation and drainage networks (tertiary) including ancillary structures such as division and regulating structures, intakes and outlets, water measurement devices, bridges, pumping stations etc. However proposals for improvement of sections or structures on inter-farm (secondary) systems could also be considered subject to meeting the eligibility and selection criteria described below. Though the available funds for investments are limited, they would contribute to soil and
water conservation by decreasing the amount of irrigation water and hence stabilise the ground water level and improvement of soil conditions.

34. The finance available to the IIN component is currently anticipated at about USD 5.4 million including a beneficiary contribution of USD 0.83 million.

35. A preliminary estimation shows that with this available funding the IIN component could assist in on-farm and inter-farm irrigation and drainage systems improvement for an estimated area of about 1 000 ha.

36. The cost of each IIN investment would range between USD 50 000 and USD 300 000, including the beneficiary contribution of at least 20% of investment cost and VAT of 20% to be contributed by the Government. Comparatively larger scale projects would be supported in individual cases where either other donors or private business would source additional financing.

37. There would be no pre-defined allocation for different types of irrigation/drainage investments, nor would the number of benefiting communities pre-determined. Investments under the component would be demand-driven but would need to meet a number of eligibility criteria for consideration for project support. For pre-qualification, applications would have to comply with three compulsory criteria: (i) direct linkage with the horticulture activities selected for support under the SHPM component, authenticated through the respective producers and processors; (ii) commitment by the proponents to invest from their own resources a minimum of 20% in cash of the total cost of the investment; and (iii) proposal of a feasible and sustainable procedure for operation and maintenance of the proposed facility, endorsed by the responsible institution (Water Users Association (WUA) or Administration of Irrigation Systems (AIS) in the case of investments in inter-farm systems). The endorsement would be subsequently formalized in a letter stating the commitment to transfer the assets to the institution’s balance sheet and to make yearly provisions for maintenance. Any proposal which did not satisfy these criteria would be rejected.

38. Proposals accepted for consideration for project support would be competitively ranked on the basis of five further criteria: (i) number of individuals assisted per USD 1,000 of investment (the more individuals assisted the higher the ranking); (ii) contribution by applicants (the larger the contribution the higher the ranking); (iii) Operation and Maintenance (O&M) capacity and experience (the greater the O&M capacity and experience of the WUA or AIS the higher the ranking); (iv) number of economically active who would directly benefit from the investment (the greater the number the higher the ranking); and (v) expected improvements to water and soil management (no improvement, limited improvements, or substantial improvements). These IIN ranking criteria would ensure that funds are allocated in accordance with the goal of improving livelihoods and economic growth in less advantaged rural communities.

39. **Environmental Guidelines.** Given the small scale and rehabilitative nature of the interventions proposed for support under the IIN component, no significant negative or irreversible environmental impacts are expected from the IIN investment. The main foreseeable environmental concerns are the ones associated with the management and disposal of excavated materials and construction debris that would be addressed by works contractors and overseen by supervisors and the HSP Regional office’s Civil Engineer. However, all approved proposals/designs that are to be implemented through the IIN would be required to meet the requirements of the environmental legislation of the Republic of Uzbekistan, i.e. Environmental Assessment of all the investment.

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50 More details are provided in the Environmental and Social Review Note.
proposals have to be undertaken/approved by the State Environmental Expertise (Glavgosecoexpertiza) of the State Committee on Natural Protection. The preparation of or the review and approval (or rejection) of developments on environmental grounds, is regulated by the Decree of the Cabinet of Ministers No. 491 (31.12.2001): “On approval of the Regulation of the State Environmental Expertise”. Submission of required documents for Environmental Assessment as per the existing legislation will be under the responsibility of the RRA/HSP PMU. Environmental Assessments are to be considered as part of the Project-required engineering design documents and therefore they would be financed from the Project budget. IIN investments would also have to conform to current IFAD Guidelines on Environmental Assessment. A full Environmental and Social Review Note (ESRN) is provided in Section D of Annex 12 Compliance with IFAD Policies.

40. **Approval of IIN Investment Proposals.** After approval by the PSC a request for review and no-objection for selected proposals for each year would be sent to IFAD prior to final decision for investments in improved irrigation/drainage.
ANNEX 5

INSTITUTIONAL ASPECTS AND IMPLEMENTATION ARRANGEMENTS

1. **Overall HSP Management.** The proposed organisational structure of the HSP is shown in Appendix 1 to this Annex.

2. It is proposed that overall management oversight would rest with a Project Steering Committee (PSC). The Minister of Agriculture and Water Resources (MAWR) would be the *ex officio* Chairperson of the PSC. Other members would include representatives of: the Ministry of Finance (MOF); the Ministry of Economy/Ministry of Foreign Economic Relations, Investments and Trade; the Central Bank of Uzbekistan (CBU); the Women’s Committee under the Deputy Prime Minister for Social Protection of the Family, Maternity and Childhood; the General Director of MAWR’s Rural Restructuring Agency (RRA); representatives of the local government of the project area region of Surkhandarya; and representatives from other project stakeholders, including Government agencies, organisations (public and private) as may be deemed appropriate. The PSC membership may be amended depending on project requirements, with the prior approval of IFAD. The HSP Project Director (see below) would act as Secretary to the PSC. The PSC would meet every six months to: (i) at alternate meetings, review and approve the project’s Annual Work Plans and Budgets (AWPBs) including related procurement plans; (ii) establish and provide oversight for a Tender Committee related to the project’s Improved Irrigation Network component; (iii) at alternate meetings to review qualified proposals for project support under Component 3, Improved Irrigation Network, submitted by the project’s Regional Office via the Project Director; (iv) review progress and other monitoring and evaluation reports; and (v) advise and initiate action on matters arising relative to ensuring the efficient and effective implementation of the project in line with the provisions, terms and conditions of the Project Financing Agreement.

3. MAWR will be the implementing agency for the project. Day-to-day oversight of the project’s management will rest with a Project Management Unit (PMU) embedded in the MAWR/Rural Restructuring Agency (RRA) and accountable to the General Director of the RRA, who in turn would be accountable to the Minister of Agriculture and Water Resources. The RRA has a good track record with such implementation arrangements with respect to projects financed by the World Bank (WB) and the Asian Development Bank (ADB).

4. The RRA/HSP PMU would be headed by a Project Director and comprise in addition: a Chief Accountant; a Procurement Officer; a Horticultural Production and Marketing Coordinator; a Rural Finance Programme Coordinator; a Monitoring and Evaluation Officer; an Assistant Monitoring and Evaluation Officer/Gender Focal Point; an Administrative Assistant/Translator; a Lawyer; and a Driver.

5. The key functions of the PMU would be: (i) project planning; (ii) financial administration, including budgeting, procurement, accounting and disbursement; (iii) monitoring and evaluation; and (iv) providing, as appropriate, implementational support to the project’s proposed Regional Office, implementing partners such as the Shreder Institute and Participating Financial Institutions (see below), project-supported Agrofirms and other entities active in the horticultural value chain and ultimately to the project’s primary target groups of small-scale horticulture producers and horticulture-related market services providers.

6. A project Regional Office will be opened in Surkhandarya as from Project Year (PY) 1. The Regional Office would comprise: a Manager; an Accountant/Office Manager; a Horticultural Production and Marketing Officer; a Rural Finance Programme Officer; a
Civil Engineer; and a Driver. The Regional Office will be responsible for day-to-day implementation in the field of all aspects of the project, with the exception of financial administration and procurement, which will be managed entirely by the relevant personnel of the RRA/HSP PMU at central level.

Implementation of Component 1: Support to Horticultural Production and Marketing

7. **Sub-component 1.1: Upgrading of Nurseries.** The sub-component involves the importing of modern varieties and rootstock mother plants to set up demonstration orchards and for propagation. The plants would be formally purchased by the Government through the Shreder Institute. A Central Nursery, with support from the Shreder Institute, would manage demonstration orchards and propagation activities in the nursery, as well as sales to interested parties. With appropriate technical support from the Shreder Institute and the Central Nursery, Project-supported Agrofirms and other entities active in the horticultural value chain would maintain regional nurseries and manage propagation activities in them, as well as onward sales to interested parties.

8. **Sub-components 1.2 and 1.3: Modernisation of Agrofirms and other entities active in the horticultural value chain, and Modernisation of Horticultural Production (Small-scale Production and Market Services Enterprises).** Financing of modernisation under both sub-components would be achieved through the establishment and operation of three refinancing facilities under the Rural Finance component (Component 2) of the project as described below. The resulting horticulture-related investments made available to project beneficiaries would be complemented under sub-components 1.2 and 1.3 with appropriate training and technical assistance for agro-firms, small-scale farmers and market services providers, as described in Annex 4.

9. Access to project financing under the three facilities would be provided on a competitive basis. Proposals would be ranked within each group of investments using the following procedure:

   a) Four criteria would be applied. These are: the expected profitability of the investment, using the IRR as the indicator; the number of employment positions created (per USD 1,000 of investment of project funds); the number of farmers gaining access to markets or services as a result of the investment (per USD 1,000 of investment of project funds); and, the relative amount of owners contribution to the investment.

   b) Each potential investor would have the proposal ranked according to the value of these criteria. Thus, the proposal with the highest IRR would receive a score of 100, with those with lower values receiving proportionately lower scores. Similarly, the proposal with the highest employment creation per USD 1,000 of project investment would receive a score of 100, with those with lower values receiving proportionately lower scores. The same procedure would be used for the evaluation of the two other criteria.

   c) The scores for each proposal would be aggregated, and then ranked in accordance with this aggregate.

   d) Proposals for the three different categories of investments, i.e. (i) Agrofirms and other entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities, would be each assessed and financed separately.

10. Each year, the project would allocate a pre-determined amount of funds for each of the three refinancing facilities and call for eligible, horticulture-related proposals by:
(i) Agrofirms and other entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities. The funds would be allocated in order of aggregate scores for each category of investment. For example, if an amount of USD 2.5 million were to be allocated for Agrofirms and other such entities in Year 2, then this would be drawn down during that year, with the first-ranked Agrofirm or other such entity receiving first priority, followed by those with compliant proposals in order of ranking until the fund was exhausted. The same procedure would apply for the other smaller types of investments. Prior to the call for proposals, there would be substantial efforts made by the project to sensitize potential investors to the opportunities and requirements of the funding support.

11. **The Assessment and Ranking of Investment Proposals** would be a three-step process:

   (i) **Step one**, to be the responsibility of the Regional Office, would involve an initial assessment of compliance with Project eligibility criteria and verification of the legal status of the applicants;

   (ii) **Step two**, for detailed financial and technical assessment and ranking of investment proposals would lie with the Horticultural Production and Marketing Coordinator in the Central PMU, with assistance from the Rural Finance Programme Coordinator and the Project Director; and

   (iii) **Step three**, those proposals accepted by the Central PMU would then be passed on to the participating banks, which would assess the proposals using their own criteria.

12. Overall responsibility for implementation arrangements and managing of funds for International TA and training would be vested with the RRA/HSP PMU through its Regional Office in Surkhandarya.

13. **Management of the Agrofirms** and other entities active in the horticultural value chain will be critically important for their success and the success of the component. The calibre of the entity’s Director and key staff are essential for success of its operations. The Directors of the entities selected for Project support will be evaluated against the requirements for performance indicated in their business plans and applications for finance. The evaluation of Directors of Agrofirms and other entities active in the horticultural value chain would be a key responsibility of the PMU Horticulture Value Chain Development Coordinator, with support from the Project Director.

**Implementation of Component 2: Rural Finance**

14. **Component Implementation Responsibility.** As with the rest of the project, the Ministry of Agriculture and Water Resources (MAWR) would have overall responsibility for implementation of the HSP Rural Finance component with day to day responsibility resting with MAWR’s Rural Restructuring Agency (RRA), within which the HSP Project Management Unit (HSP PMU) would be embedded. Lead responsibility for the component’s implementation day to day management would rest with the RRA/HSP PMU’s Rural Finance Programme Coordinator, based with the rest of the PMU in Tashkent. At field-level, lead responsibility for the component would rest with a Rural Finance Project Officer as a member of staff of the project’s Regional Office to be established in Surkhandarya. The Officer, accountable to the Coordinator would be: the contact person for PFIIs in the project area; perform a temporary check of applications for refinancing, i.e. loan/contributory co-financing applications under the component’s three refinancing facilities; and thereafter refer applications to the PMU Rural Finance Coordinator for review and approval. Draft terms of reference (TORs) for the Rural Finance Programme Coordinator and the Rural Finance Programme Officer are provided in Appendix 2 to this Annex.
15. **Due Diligence.** Due diligence of potential and interested PFIs, i.e. commercial banks, will be carried out by an international bank assessment consultant in collaboration with RRA/HSP PMU (budgeted under HSP/PMU). The PFIs will be responsible for identification of prospective sub-borrowers, have full autonomy in sub-project approval and determination of lending terms, such as repayment and grace periods as justified by realistic business plans, and bear the lending risk. Agreements with Government in relation to on-lending rates to PFIs, foreign currency risk and related matters will be under the authority of Ministry of Finance.51

16. **Subordinate Documents.** Implementation arrangements for the component will be stipulated in a number of subordinate documents. The project budget makes provision for technical assistance in the drafting of these documents (budgeted under HSP PMU). The documents will be subject to ‘no objection’ by IFAD and are expected to include:

- **A Subsidiary Loan Agreement (SLA):** To be signed between GoU, represented by Ministry of Finance, the MAWR/RRA HSP PMU, and PFIs describing the terms, conditions and procedures for PFIs participation on the project; and

- **Investment Guidelines:** (forming an integral part of the Subsidiary Loan Agreement), and containing:
  - Stipulation of eligibility criteria for PFIs and end-borrowers.
  - Stipulation of eligibility of loan purposes.
  - General description of refinancing activities.
  - Principal conditions for refinancing, approval, disbursement, repayment etc.
  - Principal procedures for refinancing, approval, disbursement, repayment etc.
  - PFI accounting and audit requirements.
  - Monitoring and Reporting.

17. **PFI Eligibility Criteria.** Interested PFIs, i.e. commercial banks represented in the project areas, will be selected on the basis of a set of PFI eligibility criteria to be developed jointly by CBU and MAWR/RRA HSP PMU and to be approved by the Government and IFAD. These eligibility criteria will include compliance with all relevant laws, regulations and prudential norms; good governance and management practices; maintenance of a healthy financial status; and sound banking policies and procedures. Furthermore, the eligibility criteria will include the presence of relevant experience in satisfactorily performing the activities related to the implementation of the HSP and of staff with the required capacities and capabilities. The PFIs selected on the basis of such eligibility criteria, detailed in the Investment Guidelines, will sign the Subsidiary Loan Agreement (SLA) together with the Ministry of Finance and MAWR/RRA HSP PMU.

18. **Interest Rates.** It is expected that the following arrangements will be applied in setting interest rates for loans refinanced under the project. Project-sourced refinancing funds, allocated between PFIs as agreed between them and the Ministry of Finance and MAWR/RRA HSP PMU, will be made available to PFIs for a period of initially up to 20 years with a grace period of up to 5 years, as described and specified in SLAs.

19. Commercial banks intending to participate in the project will be invited to bid on the margins, to cover overheads and credit risk, they intend to add to a “reference rate”, i.e. the rate of interest at which refinancing funds will be available to PFIs from Ministry of Finance. For loans in foreign exchange, the “reference rate” is proposed at USD 6-

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51 A draft TOR for the due diligence consultant is provided in Appendix 2 of this Annex.
months LIBOR.\textsuperscript{52} For loans in Uzbek Sum it appears that the Ministry of Finance has provisionally decided that the “reference rate” should be set at CBU’s refinancing rate, presently 12\% but expected to be reduced to 11\% p.a. in 2012. On the basis of the bids received, RRA HSP PMU will calculate the average margin, which will become the interest mark-up for all participating commercial banks. RRA HSP PMU will have the option to reject one of the bids received if such a bid is significantly higher than the average margin in order to avoid that the final average margin may be unduly affected if such a bid was included.

20. \textbf{PFI Failure to Disburse.} If a PFI is unable to disburse the refinancing funds available under the HSP Rural Finance component to eligible clients for eligible purposes, the MAWR/RRA HSP PMU as approved by Ministry of Finance shall be entitled to reallocate such funds to other interested and eligible PFIs, which are able to make use of and disburse the funds. Furthermore, the MAWR/RRA HSP PMU shall be entitled to exclude a commercial bank from participation in the project in any case where it has acted against and in conflict with the conditions and procedures stipulated in the Subsidiary Loan Agreement and the Investment Guidelines.

21. \textbf{Sub-borrower Eligibility Criteria.} Detailed eligibility criteria for sub-borrowers, terms and conditions for borrowing under the rural finance component, and on-lending to sub-borrowers will be specified in the Subsidiary Loan Agreement to be signed between the Ministry of Finance, the MAWR/RRA HSP PMU and each PFI – and subject to ‘no objection’ from IFAD. The set of guidelines to be established will form an integral part of SLAs and adherence to these eligibility criteria will be monitored throughout project implementation.

22. \textbf{Sub-Borrower Loan Approval.} Loan applications under the three project-supported refinancing facilities will be evaluated by the credit committees of the respective PFIs (commercial banks). If approved by them, the application will be forwarded to the Rural Finance Programme Officer in the project’s Regional Office accompanied by all required details for approval for refinancing. Subject to the Officer’s review, applications will be sent on to the Rural Finance Programme Coordinator in the RRA HSP PMU for final review and approval. It is to be noted that applications for refinancing of loans exceeding USD 250 000 will require a ‘no objection’ from IFAD. After approval by RRA and, for applications exceeding USD 250 000 also by IFAD, the required refinancing may be executed and released by the respective commercial bank.

\textbf{Implementation of Component 3: Improved Irrigation Network}

23. The implementation of the Improved Irrigation Network (IIN) component would be managed by the RRA/HSP PMU and the Project’s Regional Office to be established in Surkhandarya region. The key relevant staff would be the Procurement Officer at central level in Tashkent and the Civil Engineer in the project’s Regional Office. Their tasks would include: (a) in Tashkent: (i) to review, finalize and submit recommendations for irrigation/drainage investment proposals with required supporting documents for PSC and IFAD approval; (ii) to conduct procurement of design services and civil works and submit evaluation reports to the project Tender Committee for approval and to IFAD for review and written no-objection; and (iii) to monitor and coordinate implementation of the IIN component by the Regional Office; and (b) in the Regional Office: (i) to publicize the availability of the irrigation and drainage support component in the project area, its application format and arrangements, selection procedures and implementation modality; (ii) to assist interested applicants in application preparation and submission; (iii) to undertake technical review of investment proposals; (iv) based on the technical review, evaluate and rank applications in accordance with the guidelines and

\textsuperscript{52} To be negotiated and agreed with the Ministry of Finance.
mechanisms summarised here and set out more fully in the Draft Project Implementation Manual provided in Annex 13 Contents of the Project Life File; (v) submit recommendations for irrigation/drainage investments with required supporting documents for RRA/HSP PMU review; (vi) to develop engineering designs’ Terms of References for selected investment proposals; (vii) to assist RRA/HSP PMU in evaluation of IIN component-related bids; (viii) to review and approve engineering designs provided by consultants (design companies); and (ix) to monitor and carry out supervision of the implementation by contractors of all civil works financed wholly or partially under the IIN component.

24. **Selection Procedures.** IIN implementation would be based on a set of criteria that would ensure that the Project resources reach the intended target groups and would start with information and awareness campaigns undertaken by the Regional Office staff through Workshops organized within two months after identification/selection of horticulture-related activities eligible for project support and would include hokimyat and village authorities, rural entrepreneurs, agro-firms, small farmers, and WUA and AIS authorities. Thereafter, applications for IIN support would go through a two-step selection process of: (i) screening, pre-qualification and initial ranking; and (ii) qualification. The criteria and scoring to be applied for the first step have already been described above and would be applied to proposals by the project Regional Office.

25. After the pre-qualification stage, a team of the Regional Office relevant staff would review the actual situation in the field conditions. Verification would be carried out on the state of irrigation and/or drainage infrastructure, linkage with selected horticultural activities eligible for SHPM support, potential for enhancing a particular market linkage, feasibility of proposed works, maintenance arrangements and other relevant items. The link between the proposed investment, the expected benefits and the commercial justification would be researched and confirmed. Proposals which remained compliant with the criteria after this review would then be approved for financing in the subsequent year, subject to availability of budgeted finance. The now qualified proposals would be sent by the Regional Office to the Project Director in Tashkent for further review and endorsement by the Project Steering Committee (PSC) and thereafter the PSC’s final selection would be sent for review and approval by IFAD.

26. **Procurement and Execution of Works.** Lead responsibility for IIN-related procurement would rest with the RRA/HSP PMU Procurement Officer and be subject to the procedures, terms and conditions set out in Annex 8 below. As such, it is expected that procurement would be carried out in accordance with current IFAD Procurement Guidelines and Sample Bidding Documents for procurement of civil works and services developed by RRA under World Bank and Asian Development Bank (ADB) funded projects for which the agency has had executive responsibility, as described in Annex 8.

27. **Supervision of Civil Works.** Supervision of civil works would be carried out by contracting licensed individual daily supervisors under the direct guidance of the Regional Office’s Civil Engineer. These on-site daily supervisors (draft TOR in Appendix 2 of this Annex) would fill a daily activity report recording quantity and quality of works and materials used. The Regional Office’s Civil Engineer would retain the role of Project Manager as stated in the General Conditions of Contract and in this capacity would regularly visit sites during implementation of construction works and be responsible for checking the quantities and assuring the quality of implemented works.

28. The Civil Engineer and on-site daily supervisor would verify each bill of completed quantities, the cumulative bill of quantities, and requests for interim payment, as well as completion certificates prepared by Contractors. The Civil Engineer would ensure that all engineering design requirements and construction supervision procedures (testing, material certification, laboratory checking etc.) as per the requirements of construction norms and standards of Uzbekistan are fulfilled by Contractors. Representatives of
relevant operation and maintenance institutions (WUA’s/AIS) would be members of the acceptance committee issuing the Certificate of Final Completion on the works.
Appendix 2: DRAFT TERMS OF REFERENCE OF KEY PROJECT STAFF

Project Management Unit – Central (RRA/HSP PMU) Level

PROJECT DIRECTOR

The Project Director heading the Rural Restructuring Agency/Horticultural Support Project/Project Management Unit (RRA/HSP PMU) based in Tashkent has the overall responsibility for ensuring the effective management of the Project and achievement of Project objectives. She/he will have overall responsibility for the management of Project resources, including finances, personnel, vehicles, equipment and information and his/her major responsibilities are to:

- Provide direct supervision of all the staff at the RRA/HSP PMU and HSP Regional Office and provide leadership to them for implementation of the Project;
- Ensure that the meetings of the Project Steering Committee (PSC) are held regularly and provide all facilitation and support in this regard;
- Hold regular monthly meetings with all key staff and implementing partners to discuss Project planning, implementation and progress;
- Ensure the timely preparation and collation of the annual work plans and the preparation of the annual budgets based on the work plans and ensure that these are submitted to IFAD and Government as stipulated in the Project Financing Agreement;
- Ensure the proper implementation of the work plans at the central and regional levels and ensure that staff is properly facilitated in the implementation of Project activities;
- Maintain the focus on the less socio-economically advantaged, vulnerable and women within the Project area and ensure that they are able to actively participate in Project decision-making and implementation. S/He will ensure that special strategies are developed to ensure their inclusion in Project activities. S/He will ensure that at least 30% of the Project beneficiaries are women;
- Ensure proper operation of the Designated Account and ensure the flow of funds as stipulated in the Project Financing Agreement and Project Implementation Manual. S/He will ensure the timely submission of the withdrawal applications to IFAD and ensure the timely audit of all Project accounts;
- Ensure that the procurements of all major items are made using the procedures specified in the Project Financing Agreement and the Project implementation Manual;
- Ensure that, as necessary and appropriate, Memoranda of Understanding (MoUs), Partnership Agreements (PAs) with key Government agencies, regional agencies, NGOs and other specialised institutions are in place for ensuring the efficient implementation of Project activities;
- Ensure that a Management Information System (MIS) is established which provides data on progress, outputs and impact evaluation including responding to the information needs of the Project Logical Framework and the IFAD Results and Impact Management System (RIMS). S/He will ensure that all key indicators are disaggregated by gender;
- Ensure that the consolidated progress reports are prepared on a timely basis and submitted to all concerned agencies including IFAD. S/He will ensure that the special issues and constraints that affect the less socio-economically advantaged, vulnerable and women are highlighted in project reports;
• Ensure that contracts are executed with qualified agencies for the timely conducting of the baseline, mid-term and Final Impact surveys;

• Promote linkages with other programmes and projects that would help to achieve Project objectives and maintain contacts with the different implementing agencies, donor projects, and central level institutions and ensure that they are well informed about the Project progress, best practices and areas where there are opportunities for linkages and sharing; and

• Ensure that IFAD supervision missions are facilitated and provided with logistic support.
CHIEF ACCOUNTANT

Role and Location: The Chief Accountant would be a member of the Project Management Unit (PMU) of the Horticultural Support Project (HSP). The HSP PMU would be located in Tashkent as part of the Rural Restructuring Agency (RRA) implementing the HSP under the auspices of the Ministry of Agriculture and Water Resources (MAWR), which is the lead implementing agency for the HSP.

Responsible to: The Chief Accountant will be directly responsible to the HSP Project Director.

Job Description: During the start-up phase of the HSP the Chief Accountant will take lead responsibility for supporting the HSP Project Director in developing the HSP’s Financial Management Manual and associated procedures.

The Chief Accountant’s daily duties and responsibilities will include:

- Keeping the books of accounts;
- Accounting and postings;
- Maintaining all HSP-related bank accounts;
- Preparing financial statements as required;
- Assisting yearly audits of the HSP;
- Monitoring all HSP investments;
- Supporting the Project Director in developing, operating and up-dating the HSP’s Management Information System; and
- Assisting in the preparation of the following, as related to financial management:
  - Annual financial reports;
  - HSP Annual Work Plans and Budgets (AWPBs); and
  - Assistance with other matters related to financial management inputs.

Qualifications and Experience

The Chief Accountant should have a degree in Accounting, Finance, Economics, or Business Administration. A postgraduate CPA certificate would be an added advantage. The candidate should have at least 5 years practical experience with audit/advisory firms, financial institutions, private firms, or in similar relevant positions.
PROCUREMENT OFFICER

Responsible to: Project Director

Qualifications and Experience

A higher degree or an equivalent qualification in Law or equivalent with sound knowledge of the procurement procedures applicable under the legislation of the Republic of Uzbekistan and foreign donors’ funded projects. A minimum of five years working experience, of which 2 with projects for infrastructure rehabilitation, proven ability to work in a multi-disciplinary team. Familiarity with relevant legislation and procedures of the Republic of Uzbekistan. Fluent English, both spoken and written. Computer literate. The selected candidate will have a pragmatic, creative and energetic approach to problem solving and decision-making and the capacity to operate effectively with contractors.

Job Description

Under the direct supervision of the RRA General Director the Procurement Officer would be responsible for procurement of goods, works and services in the framework of the HSP. Within this overall role, the following tasks would be the specific responsibility of the RRA/HSP PMU Procurement Officer.

- Prepare the annual Procurement Plans in accordance with the Annual Work Plans and Budgets;
- Draft the public announcement for each tender;
- Prepare Bidding Documents for each contract in accordance with the approved Standard Bidding Documents;
- Coordinate bid opening, evaluation and preparation of required documentation such as minutes of bid opening ceremony, written proposals and recommendations for contract award;
- Participate in Bid Opening and Evaluation Committee meetings and prepare the minutes;
- Prepare and submit bid evaluation reports and recommendations for contract award to the Tender Committee for review and approval.
- Prepare and submit to IFAD all required information for prior review and no-objection for contracts award as per the Financing Agreement requirements.
- After agreement with IFAD for contract award initiate the contract signing procedure;
- Coordinate all procurement procedures within RRA regarding the HSP implementation; and
- As a member of the RRA Management Team, provide reports and information on infrastructure investment operations as necessary to the RRA General Director and contribute to progress reports.
HORTICULTURAL PRODUCTION AND MARKETING COORDINATOR

Background
The RRA/Project Management Unit (PMU) Horticultural Production and Marketing Coordinator will coordinate and support the value chain development-related operations in the RRA/HSP PMU, particularly linked to the operations of component 1 of the HSP. During the start-up of the HSP, the PMU Horticultural Production and Marketing Coordinator would be responsible for: (i) overall coordination of the activities of component 1 of the HSP; (ii) supporting with Technical Assistance the pre-identification of development sites for orchards; (iii) preparing Terms of Reference (TOR) for the preparation of the fully fledged business plan for the Agrofirms and other entities active in the horticultural value chain; and (iv) further developing the TOR for senior and junior staff of the Agrofirms and other entities active in the horticultural value chain. He will also provide technical support to all other Value Chain entities supported by the Project in horticultural production, processing and marketing.

Duties and Responsibilities
The duties and responsibilities of the PMU Horticultural Production and Marketing Coordinator will include:

- In collaboration with the respective institutions participating in the HSP, preparing relevant TORs for consultants to develop market studies in potential export destination countries.
- In collaboration with relevant institutions, preparing participation in international trade fairs.
- In collaboration with relevant institutions, preparing for visiting trade delegations.
- In collaboration with relevant institutions, organising trial shipments of horticultural produce to potential markets.
- Coordinating the development of a national branding package for Uzbekistan’s horticultural sector.
- Assuring that the Project’s gender-related concerns are addressed, gender-related targets are met and gender issues are mainstreamed into Project operations in collaboration with the RRA/HSP PMU Assistant Monitoring and Evaluation Officer/ Gender Focal Point/Coordinator.
- Monitoring the value chain activities of the HSP.
- Coordinating the promotion of clustering of orchards to allow Agrofirms and other entities active in the horticultural value chain to enter into forward contracting with farmers developing their own orchards.
- Encouraging financial institutions to develop appropriate financial products for the orchard sub-sector.
- Preparing inputs as required for the RRA/HSP monitoring and impact evaluation system.
- Assisting the RRA/HSP Project Director as required.

Qualifications
The candidate should have a university degree in economics, marketing, agro-economics or other relevant field. The candidate has to have a strong commercial orientation and the capacity to motivate the actors in the value chain. Previous experience in a similar position would be an added advantage.
HSP RURAL FINANCE PROGRAMME COORDINATOR

Position: HSP Rural Finance Programme Coordinator
Location: RRA, Tashkent
Reporting to: HSP Project Director, RRA

The Rural Restructuring Agency (RRA) is requesting the services of a Rural Finance Programme Coordinator to co-ordinate the activities of the Rural Finance Component of the IFAD-financed Horticultural Support Project (HSP), providing refinancing funds to commercial banks for on-lending to (i) selected agro-firms; (ii) horticultural farmers and small scale market services entities; and (iii) for small-scale investments in modern on-farm technology with emphasis on very small production units, including dekhan farmers and micro market services entities. The overall duties of the Rural Finance Programme Coordinator will be to assist the HSP Project Director in all aspects of the Rural Finance Component of the project, and to assist, supervise and co-ordinate the activities of the Regional Office Rural Finance Programme Officer.

The suitable candidate will have the following background and experience:

Educational Background:
- Diploma in Economics, combined with Diploma in Banking.

Experience:
- Minimum 10 years working experience in the financial sector.
- Minimum 3 years practical working experience with economics and financial analysis.
- Computer literacy and proficiency (word processing, spread sheets and data bases).
- Strong verbal and written communication skills.
- Ability to work efficiently under pressure and to meet deadlines.
- Well-organised and well oriented to details.

Duties and Responsibilities include, but are not limited to:
- Participation in establishing eligibility criteria for participating financial institutions (PFIs) and end-borrowers in accordance with project design.
- Setting-up and maintaining data-bases for PFIs and end-borrowers in accordance with project design.
- Supervising and co-ordinating the activities of the Regional Office Rural Finance Programme Officer.
- Creating and maintaining customer files and documents on the basis of information received from the Regional Office Rural Finance Programme Officer.
- Carrying out evaluation and approval procedures on the basis of information received from the Regional Office Rural Finance Programme Officer.
- Managing portfolio reporting activities with PFIs on the basis of information received from the Regional Office Rural Finance Programme Officer.
- Preparing periodic reports in accordance with project procedures on the basis of information received from the Regional Office Rural Finance Programme Office.
- Following up on delinquency management in co-ordination with PFIs and on the basis of information received from the Regional Office Rural Finance Programme Officer.
RRA/HSP PMU MONITORING & EVALUATION OFFICER

Terms of Employment: Two years (6-month probation); renewable for a further two-year periods or one further four-year period.

Responsible to: Project Director

Qualifications and Experience:
A higher degree in economics, agriculture or related social sciences or closely related discipline; including experience of poverty-reducing, integrated rural development, especially its targeting, integration and gender aspects. Experience of rural finance would be highly desirable. Fluent written and spoken English and Uzbek and computer literacy is a requirement. The selected candidate would be expected to have a creative and pragmatic approach to problem-solving and the ability to think in terms of socio-economic and administrative systems.

Job Description:
The Monitoring and Evaluation Officer will have the lead responsibility for designing and operating the Rural Restructuring Agency/Horticultural Support Project – Project Management Unit’s (RRA/HSP PMU) Management Information and Monitoring and Evaluation Systems and building up and maintaining the data base necessary for the RRA/HSP PMU to do its work efficiently and effectively. The principal duties of the post will be to:

- Ensure that the monitoring and evaluation of the project is carried out in accordance with the Project’s guidelines and procedures;
- Organise a transparent progress monitoring and reporting system with adequate indicators to allow the Project staff to effectively monitor the progress, performance and impact of the components no later than six months after loan effectiveness;
- Draw up terms of reference for the HSP Baseline Survey;
- Design and conduct the HSP Baseline with the assistance of national Technical Assistance as considered needed;
- Design a Rural Women’s Development Needs Assessment with the assistance of national Technical Assistance as considered needed;
- Conduct, process and write up the HSP’s Rural Women’s Development Needs Assessment, drawing on the ‘Ad hoc Studies’ budget provided under Project costing;
- Contribute to the Project Start-up Workshop in Project Year 1 (PY1) with respect to Project-related gender issues and Monitoring and Evaluation (M&E);
- Organise Project annual review and planning workshops. Specifically the Project’s Annual Performance Reports will be discussed in detail and their content subject to review. Valuable lessons and successful cases collected in the Annual Performance Reports will be brought forward and disseminated and to the extent possible replicated within the Project. Indicators that do not add any value will be dropped. In this way M&E data will be employed as a management tool;
- Define the need for specific studies, design them and supervise their execution;
- Conduct poverty assessment interviews based on developed questionnaires with the beneficiaries of the HSP (annual repeater data);
• Ensure the receipt and review of periodic monitoring reports received from implementing agencies (e.g. the Shreder Institute, Project-supported Agrofirms, and Participating Financial Institutions) and prepare overall progress reports;

• Prepare an Annual Performance Report for all project activities for the consideration of the RRA/HSP PMU, PFIis, the Project Steering Committee (PSC) and IFAD;

• Assist as required external monitoring, review and evaluation missions visiting the HSP;

• Document and collect information on lessons learned, including case studies and special research;

• Record and report physical progress of M&E indicators against AWPBs;

• Report to IFAD annually on the IFAD Results and Impact Management System (RIMS) indicators; and

• Liaise with other RRA/HSP PMU staff in the interpretation of their respective annual reports.
Terms of Employment: Two years (6 months’ probation); renewable for a further two-year periods or one further four-year period.

Responsible to: Project Monitoring and Evaluation Officer

Qualifications and Experience:
A higher degree in economics, agriculture or related social sciences or closely related discipline; including experience of poverty-reducing, integrated rural development, especially its targeting, integration and gender aspects. Fluent written and spoken English and Uzbek and computer literacy is a requirement. The selected candidate would be expected to have a creative and pragmatic approach to problem-solving and the ability to think in terms of socio-economic systems.

Job Description:
The Assistant Monitoring and Evaluation Officer & Gender Focal Point/Coordinator will assist the Horticultural Support Project’s (HSP) Monitoring and Evaluation Officer in the following responsibilities:

- Ensuring that the monitoring and evaluation of the project is carried out in accordance with the Project’s guidelines and procedures;
- Organising a transparent progress monitoring and reporting system with adequate indicators to allow the Project staff to effectively monitor the progress, performance and impact of the components no later than six months after loan effectiveness;
- Designing and conducting the HSP Baseline with the assistance of national Technical Assistance as considered needed;
- Designing a Rural Women’s Development Needs Assessment with the assistance of national Technical Assistance as considered needed;
- Conducting, processing and writing up the HSP’s Rural Women’s Development Needs Assessment, drawing on the ‘Ad hoc Studies’ budget provided under Project costing;
- Contributing to the Project Start-up Workshop in Project Year 1 (PY1) with respect to Project-related gender issues and Monitoring and Evaluation (M&E);
- Organising Project annual review and planning workshops. Specifically the Project’s Annual Performance Reports will be discussed in detail and their content subject to review. Valuable lessons and successful cases collected in the Annual Performance Reports will be brought forward and disseminated and to the extent possible replicated within the Project. Indicators that do not add any value will be dropped. In this way M&E data will be employed as a management tool;
- Defining the need for specific studies, design them and supervise their execution;
- Conducting poverty assessment interviews based on developed questionnaires with the beneficiaries of the HSP (annual repeater data);
- Ensuring the receipt and review of periodic monitoring reports received from implementing agencies (e.g. the Shreder Institute, Project-supported Agrofirms, and Participating Financial Institutions) and prepare overall progress reports;
- Preparing an Annual Performance Report for all project activities for the consideration of the RRA/HSP PMU, PFIs, the Project Steering Committee (PSC) and IFAD;
• Assisting as required external monitoring, review and evaluation missions visiting the HSP;
• Documenting and collecting information on lessons learned, including case studies and special research;
• Recording and reporting physical progress of M&E indicators against Annual Work Plans and Budgets (AWPBs);
• Reporting to IFAD annually on the IFAD Results and Impact Management System (RIMS) indicators; and
• Liaising with other RRA/HSP PMU staff in the interpretation of their respective annual reports.

With regard to specific Gender Focal Point/Coordinator and Targeting responsibilities, the Assistant Project Monitoring and Evaluation Officer would take the lead, under the supervision of the Project Monitoring and Evaluation Officer, in:

• Ensuring a gender sensitive, livelihoods-oriented Baseline Survey and contributing to the design, carrying out and writing up of a Rural Women's Development Needs Assessment;
• Conducting gender sensitisation training for project staff;
• Assuring that women targeted under the Project are in receipt of adequate awareness raising, explanations of project objectives and training;
• Analysing HSP activities starting from a gender disaggregated needs assessment;
• Designing and implementing an HSP gender mainstreaming plan that integrates gender equality perspectives into the Project operations;
• Identifying specific issues that require additional Project intervention in the area of gender mainstreaming;
• Establishing contacts with Government organizations and/or NGOs working on gender issues and empowerment of women in the rural areas, in particular the Women's Committee under the Chair of the Deputy Prime Minister for Social Protection of the Family, Maternity and Childhood; and
• Organizing discussion groups, round tables, seminars and workshops for rural women.
Component 2: Rural Finance

REGIONAL OFFICE: RURAL FINANCE PROGRAMME OFFICER

Position:       HSP Regional Office Rural Finance Programme Officer
Location:      RRA, Regional Office, Termez
Reporting to:  HSP Rural Finance Programme Coordinator, RRA, Tashkent

The Rural Restructuring Agency (RRA) is requesting the services of a Regional Office Rural Finance Programme Officer to co-operate with participating financial institutions (PFIs) in implementing the activities of the Rural Finance Component of the IFAD-financed Horticultural Support Project (HSP), providing refinancing funds to commercial banks for on-lending to (i) selected agro-firms; (ii) horticultural farmers and small scale market services entities; and (iii) for small-scale investments in modern on-farm technology with emphasis on very small production units, including dekhan farmers and micro market services entities. The overall duties of the Regional Office Rural Finance Programme Officer will be to assist the HSP Rural Finance Programme Coordinator in all aspects of implementation of the Rural Finance Component of the project.

The suitable candidate will have the following background and experience:

**Educational Background:**
- Diploma in Economics, combined with Diploma in Banking.

**Experience:**
- Minimum 5 years working experience in the financial sector;
- Minimum 3 years practical working experience with economics and financial analysis;
- Computer literacy and proficiency (word processing, spreadsheets and data bases);
- Strong verbal and written communication skills;
- Ability to work efficiently under pressure and to meet deadlines; and
- Well-organised and well oriented to details.

**Duties and Responsibilities include, but are not limited to:**
- Setting-up and maintaining data-bases for PFIs and end-borrowers in accordance with project design and as directed by the HSP Rural Finance Programme Coordinator;
- Screening and supervising the fulfilment of criteria for PFIs and end-borrowers in accordance with project design and as directed by the HSP Rural Finance Programme Coordinator;
- Carrying out provisional evaluations and approval procedures of applications for re-financing of eligible activities in accordance with project design;
- Creating and maintaining customer files and documents received from PFIs;
- Supervising, maintaining files of, and relaying portfolio reporting activities of PFIs to the HSP Rural Finance Programme Coordinator;
• Preparing periodic reports in accordance with project procedures on the basis of information received from PFIs, and relaying these to the HSP Rural Finance Programme Coordinator;

• Following up on delinquency management in co-ordination with PFIs and relaying this in periodic reports to the HSP Rural Finance Programme Coordinator;

• Guide and co-operate with PFIs with regard to their participation in the programme; and

• Disseminate information about the HSP Rural Finance Programme to relevant target groups and interested parties.
Component 3: Improved Irrigation Network

REGIONAL OFFICE CIVIL ENGINEER

Responsible to: HSP Project Director

Qualifications and Experience

1. A higher degree or an equivalent qualification in Civil Engineering with sound knowledge of contemporary issues in the irrigation and drainage infrastructure of Uzbekistan in particular. A minimum of five years working experience with projects for irrigation rehabilitation including design and construction supervision with proven ability to work in a multi-disciplinary team and with rural people. Familiarity with engineering design requirements and construction supervision procedures of the Republic of Uzbekistan, as well as with the procurement procedures applicable under foreign donors’ funded projects. Fluent English, both spoken and written is preferable. Computer literate. The selected candidate will have a pragmatic, creative and energetic approach to problem solving and decision-making and the capacity to operate effectively with contractors and village populations.

Job Description

2. Under the direct supervision of the Rural Restructuring Agency/Horticultural Support Project (RRA/HSP) Director, the Civil Engineer would be responsible for overall guidance and management of the irrigation improvement investment related activities under the HSP/Improved Irrigation Network (IIN) component in accordance with RRA Regulations and approved procedures for supervision of design and civil works. The Civil Engineer would be responsible for supervising and guiding activities of daily Site Supervisors (contracted and paid by RRA/HSP Project Management Unit (PMU)) that due regard is given to the quality and quantity of works to be implemented throughout HSP-financed operations in the framework of the HSP/IIN. Within this overall role, the following tasks would be the specific responsibility of the Regional Office Civil Engineer.

- In cooperation with other relevant Regional Office staff to participate in information Workshops and sensitize rural communities about the component, its objectives and eligibility criteria, and application and selection procedures.
- Review and assess proposals for irrigation/drainage rehabilitation or new works with regard to their technical feasibility and preliminary cost estimation.
- Assess whether the proposed civil works are required or whether other, more appropriate structures may be more suitable.
- Review proposed works in relation to other possible alternatives.
- Evaluate and rank IIN-related investment proposals as per the relevant HSP selection criteria and procedures for the component.
- Develop design TORs for the selected proposals.
- Review detailed engineering design solutions in terms of technical soundness, quality and identified scope and volumes of works.
- Participate in the HSP Bid Opening and Evaluation Committee in evaluation of bids for civil works implementation.
- Participate and contribute in discussions and decision making with applicants, design companies and other interested parties during the construction stage.
- Supervise the implementation of civil works wholly or partially finance under the HSP and coordinate the activities of site supervisors in accordance with HSP procedures and standard formats.
• As a member of the RRA/HSP Management Team, provide reports and information on IIN investment operations as necessary to the RRA/HSP Management and contribute to progress reports.
SITE SUPERVISOR

Terms of Employment: ____________________ (Specify the duration from the commencement of the relevant Civil Works Contract)

Responsible to: RRA/HSP Regional Office Civil Engineer

Supervision of Civil Works: ______________________________ (Title of Infrastructure)

Contract No: _____________________________________ (Civil Works Contract No.)

In ______________________________ (Specify the district and village)

Qualifications and Experience

1. A higher degree or an equivalent qualification in Civil Engineering with sound knowledge of construction standards and norms of Uzbekistan. A minimum of five years working experience with projects for irrigation rehabilitation including construction supervision with proven ability to work in a multi-disciplinary team and with rural people. Familiarity with engineering design requirements and construction supervision procedures of Uzbekistan. The selected candidate will have a pragmatic, creative and energetic approach to problem solving and decision-making and the capacity to operate effectively with contractors and village populations.

Job Description

2. This assignment places the site supervisor under the direct supervision of the RRA/HSP Regional Office Civil Engineer and in cooperation with applicants to organize and conduct daily supervision of the civil works undertaken under the HSP/IIN in the framework of the aforementioned contract. The site supervisor would be responsible for conducting overall supervision of quality and quantity of works implemented as per the approved standard procedures described in the Project Implementation Manual and the relevant legislation of the Republic of Uzbekistan. Within this overall role, the following tasks would be the specific responsibility of the site supervisor.

- Check and verify the quality and availability of certificates, as well as consistency with the design requirements for the construction materials and equipment accumulated in the construction site.
- Measure all parameters of underground (invisible) works, test them and prepare the “as-built” drawings before the back-fill.
- Ensure that the welding and concrete works are checked by laboratories on a random basis as per the requirement of the construction standards and norms of Uzbekistan.
- Prepare a monthly bill of completed quantities and also a bill of cumulative quantities.
- Approve requests for payments for interim completed works prepared by contractors.
- Approve certificates for substantial and final completion of works according to the design requirements.
- Ensure that the works are implemented in accordance with the work plan and timetable agreed between the RRA/HSP management and the Contractor.
- Instruct Contractors on works to be corrected or completed.
• Prepare Variation Orders and Balances of Quantities for the amendment proposals approved by the Design Company and the RRA/HSP Regional Office Civil Engineer.

• Verify and approve Variation Orders and Balances of Quantities proposed and prepared by the Contractor.

• Hold and fill a daily activity report as per the requirements of the HSP construction supervision procedure.

During the whole construction period the site supervisor will have the obligation to be at the construction site and ensure in cooperation with applicants that works are implemented in accordance with the requirements of bidding documents, design, sound engineering practice and norms and standards of the Republic of Uzbekistan.
TECHNICAL ASSISTANCE: TERMS OF REFERENCE

SENIOR TECHNICAL ADVISOR (International)

Duties and Responsibilities

A Senior Technical Advisor (STA) will be appointed by the Project. His role will be to provide technical support and mentoring in as required on a part-time basis to Agrofirms and other entities active in the horticultural value chain and their staff receiving project support. While engaged with an Agrofirm or other such entity, the STA would report directly to its Director.

The STA, with support from the PMU technical management team, will support the Directors and other key staff of Agrofirms and other entities active in the horticultural value chain in developing the procedures and systems needed to make them operational and effective in relation to: (i) contract farming; (ii) nursery development; (iii) pack house, cold handling facilities, processing and marketing in local and international centres.

The STA’s duties and responsibilities will include:

- Providing leadership and managing the technical affairs of the entity by using his/her strong technical qualifications and knowledge and understanding of the business and markets of the horticultural sector.
- Assisting the Director in designing the Business Plan for the entity.
- Providing oversight and guidance for the implementation of all technical aspects of the entity operations, including:
  - The training of contract farmers.
  - The training of private nurseries.
  - The training of non-contract farmers.
  - Ensuring that applicable certificates are valid.
- Gathering and preparing technical information regarding the most modern international horticultural techniques, including latest developments in terms of varieties and rootstock, and ensuring this information is passed on to entities.
- Conducting regular seminars/training/workshops for all technical personnel to ensure that they are current with the most recent international developments in all aspects of orchard related issues.
- Preparing technical reports as may be required pertinent to the tasks undertaken.
- Assuring that the Project’s gender-related concerns are addressed, gender-related targets are met and gender issues are mainstreamed into Project operations in collaboration with the PMU’s Gender Focal Point/Coordinator.

Qualifications

The senior Technical Advisor should have a university/collage degree in relevant subjects related to the establishment and management of entities. He/she should have at least 10 years of senior level experience in the management and practical running of horticultural enterprises/orchards of the entities’ type. He/she should have also hands-on experience in nursery operations as well as a good understanding of the international horticultural markets, with experience from the CIS markets as a special advantage.
Draft Terms of Reference for Technical Assistance to assist with Due Diligence Evaluations of Commercial Banks applying to participate in refinancing activities of the Horticultural Support Project (HSP).

Title: Banking Specialist (International)

Duration: 3 weeks

Duty Station: Tashkent, Uzbekistan – with visit to Surkhandarya region.

Reporting to: IFAD, Rome

Working Language: Fluency in English. Good knowledge of Russian required.

Qualifications and Experience:

1. The Consultant should have a recognised degree in banking, with a minimum of 15 years working experience in commercial banks, of which a minimum of 5 years in managerial positions and with proven experience in analyses of accounts and balance sheets. The qualifications and experience of the Consultant shall have to be endorsed and approved by IFAD.

Activities:

2. In collaboration with the Ministry of Agriculture and Water Resources and the Rural Restructuring Agency acting as the project's management unit; in close communication with relevant authorities of Ministry of Finance and the Central Bank of Uzbekistan; and in close cooperation with commercial banks applying for participation in the HSP, the Consultant will:

   (i) Define eligibility criteria concerned with: (i) interest and willingness; (ii) capacities and capabilities; and (iii) financial soundness of commercial banks applying for participation in the refinancing activities of the HSP on the stipulated conditions.

   (ii) Using the ability criteria, assess and confirm the interest and willingness of applying commercial banks’ to attend to the chosen target groups and participate in the refinancing activities of the HSP on the stipulated conditions.

   (iii) Using the ability criteria, assess and confirm the capacities and capabilities of applying commercial banks’ management and staff, in head office as well as in regional branches, to attend to the chosen target groups and perform satisfactorily in the HSP.

   (iv) Using the eligibility criteria, perform an analysis of the latest three years accounts and balance sheets to assess and confirm the financial soundness of applying commercial banks.
Draft Terms of Reference for Technical Assistance
to assist with the
drafting of Agreements and Subordinate Documents
related to the implementation of the Horticultural Support Project (HSP).

Title: Banking Specialist (International)
Duration: 3 weeks
Duty Station: Tashkent, Uzbekistan
Reporting to: IFAD, Rome
Working Language: Fluency in English.
Good knowledge of Russian is an advantage.

Qualifications and Experience:

1. The Consultant should have a recognised degree in banking, with a minimum of 10 years working experience in commercial banks and, furthermore, have proven experience in the setting up of agreements and guidelines for the implementation donor financed projects implemented through commercial banks. The qualifications and experience of the Consultant shall have to be endorsed and approved by IFAD.

Activities:

2. In collaboration with the Ministry of Agriculture and Water Resources (MAWR) and the Rural Restructuring Agency (RRA) acting as the project’s management unit; in close communication with relevant authorities of Ministry of Finance and the Central Bank of Uzbekistan; and in close cooperation with commercial banks applying for participation (PFIs) in the HSP, the Consultant will assist with the design and formulation of Agreements and subordinate documents, all to be finally approved by IFAD, expected to include among others:

   (i) Subsidiary Loan Agreement – to be signed between the Government of Uzbekistan, represented by the Ministry of Finance, the MAWR/RRA, and the PFIs, describing the terms, conditions and procedures for the PFIs’ participation in the project.

   (ii) Investment Guidelines, forming an integral part of the Subsidiary Loan Agreement, and expected to contain:

       - stipulation of eligibility criteria for PFIs and end-borrowers;
       - stipulation of eligibility of loan purposes;
       - general description of refinancing activities;
       - conditions for refinancing, approval, disbursement, repayment etc.;
       - procedures for refinancing, approval, disbursement, repayment etc.;
       - PFI accounting and reporting requirements; and
       - Monitoring and reporting.
### Appendix 3: CAPACITY BUILDING PLAN

<table>
<thead>
<tr>
<th>Recipients</th>
<th>Component 1: Support to Horticultural Production and Marketing</th>
<th>Component 2: Rural Finance</th>
<th>Project Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-component 1.1: Up-grading of Nurseries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horticulture Production and Marketing Stakeholders including: RRA/HSP PMU; managerial and technical staff of project-supported agrofirms and other entities active in the horticultural value chain; nursery and orchard developers; and contract and non-contract farmers.</td>
<td>Provision of USD 187,000 (IFAD Grant) for an internationally recruited Senior Technical Adviser (STA – draft TOR in Annex 5, Appendix 2) to provide comprehensive support to up-grading technical knowledge and skills in horticultural production on the basis of 4 months input in each of PYs 1, 2 and 3.</td>
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<td></td>
</tr>
<tr>
<td><strong>Sub-component 1.2 Modernisation of Agrofirms and other entities active in the horticultural value chain</strong></td>
<td><strong>Sub-component 1.2 Modernisation of Agrofirms and other entities active in the horticultural value chain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project-supported Agrofirms and other entities active in the horticultural value chain, farmers, Government officials, and private nursery developers.</td>
<td>a) Provision of USD 147,000 (IFAD Grant) for an internationally recruited Business Advisor to help project-supported Agrofirms in Surkhandarya to prepare Business Plans in PYs 1, 2, 3 and 4.</td>
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<tr>
<td></td>
<td>(b) Provision of USD 149,000 (IFAD Grant) for Horticultural Strategic Marketing Studies and Value Chain Analyses by TA in PYs 1 and 2.</td>
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<tr>
<td></td>
<td>(c) Provision of USD 157,000 (IFAD Loan) for staff of project-supported Agrofirms and other entities active in the horticultural value chain, farmers and Government officials to attend Trade Fairs and undertake Study Tours in each of PYs 2, 3, 4 and 5.</td>
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<td></td>
<td>(d) Provision of USD 63,000 (IFAD Loan) for local training of private nursery developers for 10 person-weeks in each of PYs 1, 2, 3 and 4.</td>
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<td></td>
<td>(e) Provision of USD 42,000 (IFAD Loan) for technical training abroad on improved orchard husbandry for staff of project-supported Agrofirms and other entities active in the horticultural value chain, for 3 weeks in each of PYs 1, 2, 3 and 4.</td>
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<td></td>
</tr>
</tbody>
</table>
### Appendix 3: CAPACITY BUILDING PLAN (cont’d)

<table>
<thead>
<tr>
<th>Recipients</th>
<th>Component 1: Support to Horticultural Production and Marketing</th>
<th>Component 2: Rural Finance</th>
<th>Project Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horticulture value chain stakeholders with an emphasis on primary producers among the HSP target group.</td>
<td><em>Sub-component 1.3: Modernisation of Horticultural Production</em> (a) Provision of USD 42,000 (IFAD Grant) for TA to develop training materials, in each of PYs 1, 2, 3 and 4, on modern horticultural production for stakeholders in the horticultural value chain. (b) Provision of USD 105,000 (IFAD Loan) for training of horticultural farmers in modern techniques. Training would consist of seminars and field days for about 800 farmers in PY1 and thereafter 400 farmers in each of PYs 2-6. (c) Provision of US$ 54,000 (IFAD Loan) to cover the costs of printing and distributing training materials on modern horticultural production to horticulture farmers throughout the project period.</td>
<td></td>
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</tr>
<tr>
<td>RRA/HSP PMU</td>
<td></td>
<td>Provision of USD 15,000 (IFAD Grant) for International TA to assist due diligence of PFIs and drafting of subordinate documents under the Rural Finance component, Subsidiary Loan Agreements, and Investment Guidelines. International/National TA for MIS and M&amp;E systems development including Participatory Impact Monitoring, Participatory Rapid Appraisals, Information Technology and gender issues.</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 6

PLANNING, MONITORING AND EVALUATION AND LEARNING AND KNOWLEDGE MANAGEMENT

I. START-UP AND PLANNING

1. **Project Start-up Activities** will include: (i) finalisation of Terms of Reference for key staff including the RRA/HSP PMU, the Project Regional Office and required Technical Assistance; (ii) recruitment, as necessary, of key staff and TA financed by IFAD; (iii) an initial Horticulture Value Chain Analysis and if possible the Strategic Marketing Study, led by the RRA/HSP PMU Horticultural Production and Marketing Coordinator supported by the Senior Technical Advisor and, if necessary, national Technical Assistance; (iv) conducting a gender sensitive, livelihoods-oriented Baseline Survey and also a Rural Women’s Development Needs Assessment led by the RRA/HSP PMU Assistant M&E Officer supported by national TA, plus making arrangements for subsequent repeater surveys, Participatory Rapid Rural Appraisals (PRAs) and Participatory Impact Monitoring (PIM) with particular attention on targeting, gender and socio-economic improvement issues; (v) a call for expressions of interest in becoming HSP PFIs; (vi) due diligence of candidate PFIs considered as otherwise eligible; (vii) development of an Annual Work Plan and Budget (AWPB) for the Project’s first-year activities; (viii) finalisation of a Procurement Plan for the first eighteen months of Project implementation; (ix) an initial deposit in the Project’s Designated Account by IFAD of up to US$ 2 million; (x) establishment of the Project M&E system; (xi) finalisation of the Project Implementation Manual (PIM) including manuals for components 1, 2 and 3; and (x) holding the Project Start-up Workshop.

2. If possible, the initial Horticulture Value Chain Analysis and the Strategic Marketing Study would be carried out in time for its findings to be fed into the content of the **Project Start-up Workshop**. Among those invited to attend would be staff of the RRA/HSP PMU and Regional Office and representatives of key potential stakeholders and participants in the HSP including among others: women and men small-scale horticulture producers and market services providers representative of the project’s target group; members of horticulture-related agrofirms and any other processors and traders; candidate PFIs; business development services providers; the Shreder Institute and any other suppliers and dealers related to horticulture input supply; relevant farmers organisations; relevant Government representatives; socio-economic profilers (e.g. the State Committee of the Republic of Uzbekistan on Statistics and the Centre for Economic Research (CER)); local government and community-based organisations reflecting the Project’s intended target groups, in particular rural women’s organisations; representatives of other projects concerned with rural poverty reduction and development; and representatives of other relevant development assistance donors, e.g. the World Bank, the United Nations Development Programme (UNDP), the Asian Development Bank (ADB) and German bilateral assistance (GIZ). Key outputs from the workshop would include guidance on: (i) Project component content and implementing modalities; (ii) refinement and finalisation of the Project Implementation Manual (PIM); (iii) refinement and finalisation of the Project’s targeting criteria and M&E indicators; (iv) finalisation of an Annual Work Plan and Budget (AWPB) for HSP’s first-year activities; and (v) finalisation of an eighteen-month Procurement Plan. Outputs related to implementing modalities and associated results and impact would feed in to the design of the project’s Management Information System (MIS) and M&E system.

3. **AWPBs and corresponding Procurement Plans** would be the HSP’s principal planning instruments. These would be subject to IFAD no objection.
II. Monitoring and Evaluation

4. The Project’s Logical Framework would form the basis for the overall results-based monitoring and evaluation (M&E) system and comprise performance monitoring and impact assessment. The HSP PMU Monitoring and Evaluation Officer would have lead responsibility for all internal M&E of the project.

5. Performance monitoring will concentrate on the financial and physical outputs and the outcomes of Project activities and be based upon quarterly, semi-annual and annual progress reports. The RRA/HSP PMU would submit progress reports in English to Government (MAWR and M0F via the PSC) and IFAD.

6. Impact assessment will be a function of concurrent Participatory Impact Monitoring (PIM) and evaluation based on quantitative repeater surveys combined with interviews to capture qualitative aspects.

7. Provision has been made for appropriate international and/or national TA to assist the RRA/HSP PMU, principally the M&E Monitoring and Evaluation Officer and the Assistant M&E Monitoring and Evaluation Officer-Gender Focal Point/Coordinator, with both the initial design of the progress reporting and participatory impact assessment and evaluation systems and follow-up M&E.

8. An initial set of indicators have been provided in the project’s Logical Framework, presented at the front of the Main Report section of the Project Final Design Report. These initial indicators will be refined and finalised as an output of the project Start-up Workshop. Indicators will include IFAD Results and Impact Management System (RIMS) 1st and 2nd level indicators. In line with RIMS, two anchor indicators are identified for assessing the impact of the Project: household asset ownership and child malnutrition. Data sources for these two main indicators will probably include: (i) the State Committee on Statistics; (ii) the Centre for Economic Research; the Ministry of Health; and (iii) the Project M&E database.

9. The refined and finalised indicators arising from the project Start-up Workshop would shape the project’s Baseline Survey. The objective of the baseline survey will be to establish benchmarks for time-series comparisons between Project beneficiaries and non-beneficiary ‘control’ populations. The HSP M&E Officer would thereafter carry out repeater surveys, including PRAs and PIM. Survey data would be mutually supplemented as appropriate through regular exchange with Government’s State Committee on Statistics, World Bank-supported Living Standards Measurement Surveys (LSMS) as available and the HSP RRA/HSP PMU itself.

10. All M&E data will be disaggregated by sex and assessed relative to the project’s targeting and gender checklists (see Annex 12).

11. A Mid-Term Review would be carried out towards the end of the Project’s third year. The Review would cover, among other things: (i) physical and financial progress as measured against Project Annual Work Plans and Budgets (AWPBs); (ii) performance and financial management of PFIs and non-financial implementing partners, e.g. agrofirms and infrastructure contractors; and (iii) an assessment of the efficacy of technical assistance, training programmes and project-supported rural finance and of their delivery of project benefits to the project’s target groups of small-scale horticulture producers and market services providers, horticulture-related agrofirms and the rural unemployed. In addition, it is expected that the Review would look at institutional and policy changes arising from Project activities, with regard to: public-private partnership in the horticulture sector; the roles and responsibilities of agrofirms; the provision of rural finance; the socio-economic status of less advantaged rural women and men; and environmental impact. Review findings on implementation progress and institutional and
policy change would inform decision-making, as appropriate, on adjustments to the content, financing and targeting of the Project’s components. The findings and recommendations of the MTR would feed into any subsequent scaling up analysis, in particular with reference to the extension of the project to Kashkadarya region under a separate Phase II initiative but also with respect to further expansion of project modalities in support of modernisation of Uzbekistan’s horticulture sector.

12. Progress reports, concurrent participatory impact monitoring and evaluation, Participatory (Rapid) Rural Appraisals (PRAs) and the findings of ad hoc special studies would be compiled by the PMU M&E Officer into **Annual Project Performance Reports**.

13. Data sources for the annual performance reports will include: project baseline survey; quarterly physical and financial progress reports for each component; PFI records and project-related reports including agrofirm and other borrowers’ business plans; the M&E and Assistant M&E Officers’ qualitative interviews and case studies with small-scale primary producers and market services providers, agrofirms and new employees; and reports by the RRA/HSP PMU’s Horticultural Production and Marketing Coordinator, Rural Finance Programme Coordinator, Procurement Officer and Regional Office Civil Engineer on challenges and project facilitation strategies for their respective component implementation responsibilities.

14. **Annual Project Performance Reports** would feed into **Annual Stakeholder Review and Planning Workshops**.

15. Feedback from each Annual Stakeholder Review and Planning Workshop will be factored into the project AWPB for the succeeding year, thus closing a circle of participatory, demand-driven planning and implementation.

16. During the final year of Project implementation, as part of the preparation of the IFAD-required **Project Completion Report/Impact Assessment (PCR/IA)**, the M&E data collected over the Project implementation period will be used as part of a thorough assessment of Project achievements, in terms particularly of changes in the livelihoods of beneficiaries that relate to the implemented Project activities, and the sharing of lessons learned and development experience. The Project completion process will include stakeholder workshop(s) to give project stakeholders the opportunity to: (i) evaluate the performance of the Project; (ii) to promote accountability; and (iii) to identify factors and responsibilities to increase the likelihood of sustainability, together with key success factors and shortcomings.

17. In addition to the M&E arrangements described above, project **external monitoring** will comprise: IFAD supervision, including operational reviews of the project, covering a random sample of project activities, be carried out in Project Years (PYs) 2 and 4 by independent auditors and under Terms of Reference acceptable to IFAD and also risk-based financial management supervisions, initially after every six months for the first two years of project implementation and thereafter at appropriate levels based on the Fund’s assessment of risk (see Annex 7 for further details); ad hoc thematic/diagnostic studies; yearly audits; and a self-assessment Project Completion Evaluation conducted by the RRA/HSP PMU in cooperation with IFAD.

### III. Learning and Knowledge Management

18. The HSP is centred on modernisation of Uzbekistan’s horticulture sector in a manner that particularly improves the welfare of small-scale primary producers and market services providers and the rural unemployed by supporting key links in the horticulture value chain, specifically: the introduction of improved plant materials/varieties through the Shreder Institute; the modernisation in terms of
efficiency and effectiveness gains in the technical and managerial competence of agrofirms and other entities active in the horticultural value chain; and similarly defined modernisation of small-scale production and market services provision; and the development of contract farming.

19. To assure capture of experience gained (learning), comprehensive provision has been made for M&E of project activities and for a participatory approach to the operation of the project’s proposed Management Information System (MIS).

20. With regard to knowledge management, the RRA/HSP PMU would be responsible for jointly developing a Communication Strategy for the project and thereafter documenting the technical content (outputs) of project activities and the institutional arrangements for their delivery. Provision has been made under the project’s budget for: Information Campaign Workshops and associated media production; the development, printing and dissemination of training materials for horticultural modernisation; and setting up a project web page. Towards the end of the project RRA/HSP PMU staff, beneficiary representatives and representatives of PFIs and non-financial implementing partners (e.g. the Shreder Institute and project-supported agrofirms) would review the incremental documentation with the objective of up-dating and expanding formalised technical extension media and producing an associated Management Handbook for Horticulture Modernisation. These would be made available in ‘hard’ and electronic formats and disseminated among project stakeholders and fed into the publication systems of organisations with an interest in the development of modern horticulture.
1. **Assessment of Local Financial Administration.** Since the HSP would be the first project to be financed by IFAD in Uzbekistan it is necessary to rely to some extent on the experience of other development donors with regard to assessing local capabilities to administer the project’s finances. The World Bank (WB) has offered the following assessment in its Project Appraisal Document (PAD) for the Rural Enterprise Support Project Phase II.

2. Based on the experience of implementation by the Rural Restructuring Agency (RRA) of two earlier WB-funded projects, the assessment considered: (i) that the RRA had a full complement of financial management staff, consisting of a chief accountant and a financial/disbursement expert; and (ii) the RRA had in relation to the two earlier projects been in full compliance with all the financial management requirements of the WB. The assessment’s conclusion was that the RRA financial management system is capable of recording all transactions and balances and generates regular financial statements that are submitted on time. In addition, financial management supervision by the WB and audit reports showed no significant weaknesses in accounting and internal control systems.

3. At the same time the assessment expresses the following reservations with regard to local financial administration: (i) Participating Financial Institutions (PFIs) may have limited capacity for financial management and lending operations, especially to the rural sector; (ii) capacity of the accounting profession in the country in both public and private sectors is rather low and there is no critical mass of professionally qualified accountants with knowledge of internationally recognised accounting and auditing standards; and (iii) while external audits can be carried out by the Chamber of Accounts, this agency has capacity constraints.

4. Against this background the following proposals are made for HSP financial management.

5. **Accounting Staff.** The RRA/HSP PMU Chief Accountant, in close collaboration with the RRA/HSP PMU Procurement Officer, would be responsible for overall project financial management, including: oversight of the Accountants/Officers Managers in the project’s Regional Office; maintenance of the books and accounts for the project as a whole; preparation and dissemination of financial statements, including interim un-audited financial reports; and timely audits of the project’s financial statements. The RRA General Director would have oversight responsibility for the project’s financial management and for ensuring compliance with established procedures to guard against breach of these procedures.

6. **Accounts.** The Ministry of Finance (MOF) would open and maintain a **Designated Account** in USD in a commercial bank acceptable to IFAD. The RRA/HSP PMU Project Director would be authorised by MOF to operate this Account in order to make disbursements in USD as allowed by the terms and conditions of the project Loan Agreement. The Designated Account would receive IFAD loan funds in advance and be utilised to finance the IFAD share of Project expenditures.

7. Once the Designated Account has been opened and upon the Borrower’s request, the Fund shall make one (or more) withdrawal(s) of up to USD 2.0 million in the aggregate (equivalent to the requirements for the first six months of implementation, 53

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the Authorised Allocation) from the Loan Account on behalf of the Borrower and deposit such amount into the Designated Account. The Fund shall replenish the Designated Account from time to time upon request, in such minimum amounts as the Fund may specify by notice to the Borrower.

8. The RRA/HSP PMU would also open three accounts in Uzbekistan Som (UZS) in one or more commercial banks acceptable to IFAD. These three accounts would be: (i) a Project Operating Account in order to allow the RRA/HSP PMU to make disbursements in UZS as allowed by the terms and conditions of the project Loan Agreement; (ii) a Counterpart Account to receive contributions to the project from Government and beneficiaries of the project’s Improved Irrigation Network component; and (iii) a Rural Finance Reflow account as the basis for a revolving fund under the Rural Finance component. Monies arising from direct purchase by beneficiaries of improved plants from the RRA without recourse to financing under the Project’s Rural Finance component would also be paid into this account (see Annex 5).

9. **Flow of Funds.** A chart of the anticipated flow of funds under the project is provided in Appendix 1 to this Annex.

10. **Financial Statements.** The RRA/HSP PMU Chief Accountant would prepare financial statements of the operations, resources and expenditures related to the Project as required by IFAD’s General Conditions on Financial Statements in respect to each six-month period during each Fiscal Year and deliver such financial statements to the Fund within two months after the end of each such period.

11. **Internal Control and Internal Audit.** According to the WB assessment, the RRA has a manual of financial procedures and internal control mechanisms to be followed with respect to projects for which the agency has overall implementation responsibility. The manual has a specific focus on ensuring completeness of accounting transactions, reliability of accounting data, safeguarding of project assets, including cash, proper monitoring of contracts, proper authorisation and documentation of all project expenditures, and full accountability of project funds. As a public sector entity, internal audit of the RRA takes the form of regular inspections by the State’s Control and Revision Unit (CRU). As noted, these arrangements have been considered acceptable to the WB.

12. **External Audit.** For the HSP it is proposed that The Borrower (i.e. the Government of the Republic of Uzbekistan), through the RRA, shall appoint independent auditors acceptable to IFAD, under terms of reference cleared by IFAD, and in line with the current IFAD Guidelines for Audits. The costs associated with the independent auditors would be financed from the proceeds of the IFAD Loan under the “Recurrent Costs” category of expenditures. The contract for the audit would be awarded during the first year of project implementation and thereafter, extended from year to year with the same independent auditor, subject to satisfactory performance and IFAD clearance.

13. The Borrower, through the RRA, would use the IFAD Guidelines for Project Audits in preparation of audit contracts and Terms of Reference (TORs). The auditors would give a separate opinion on each project account with respect to the funding mechanism, the use of project resources, the adherence to procurement rules, and the accountability of project participants. The auditors would also provide a “Management Letter” addressing the adequacy of the accounting and internal control systems. The Borrower, through the RRA, would submit the above-mentioned certified items to IFAD not later than six months after the end of the fiscal year to which they relate. The Borrower, through the RRA, shall submit to the Fund the reply to the management letter of the auditors within one (1) month of receipt thereof.

14. **Operational Reviews.** To provide additional assurance of the proper use of project funds, it is proposed: (i) that PFIs undergo due diligence and meet HSP-specific
eligibility criteria that are both acceptable to IFAD; and (ii) that operational reviews of the project, covering a random sample of project activities, be carried out in Project Years (PYs) 2 and 4 by independent auditors and under Terms of Reference acceptable to IFAD. IFAD would meet the cost of due diligence and operational reviews as part of its implementation support to the project.

15. **Supervision.** As part of its implementation support missions to the project IFAD would carry out risk-based financial management supervisions, initially after every six months for the first two years of project implementation and thereafter at appropriate levels based on the Fund’s assessment of risk. These supervisions will pay particular attention to: (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) review of interim un-audited financial reports; (iv) review of internal and external audit reports, including financial statements and remedial actions recommended in the external auditors’ Management Letters; and (v) disbursement management and financial flows, including flow of funds from the project to end-beneficiaries under the Rural Finance component. Financial management supervision missions would particularly address any breaches of financial management procedures agreed with IFAD and/or in contravention to the Fund’s relevant Guidelines.
Appendix 1: FLOW OF FUNDS CHART

1. IFAD
   And Co-financier Loan Account(s)

2. Ministry of Finance
   Designated Account(s) (USD)

3. RRA/HSP PMU
   Project Director and Project Financial Staff (USD Disbursements)

4. Project UZS Accounts
   - 1. UZS Disbursements
   - 2. Counterpart Funds
   - 3. Rural Finance Reflows

5. Shredder Institute

6. PFIs

7. Beneficiaries

8. Government

9. Infrastructure Contractors

10. Project Recurrent Costs and Procurement
Appendix 2: DRAFT TERMS OF REFERENCE FOR AUDITORS

HORTICULTURAL SUPPORT PROJECT

TERMS OF REFERENCE (TOR)

FOR

THE AUDIT OF IFAD AND NON-IFAD FUNDED PROGRAMMES/PROJECTS

BACKGROUND

In accordance with relevant loan/financing agreements between the GOU and IFAD, the audit of the Horticultural Support Project (HSP) has to be carried out by an independent Auditor. Loan and other relevant financing agreements and Appraisal reports of the Project are the main reference documents for the Audit. In case of contradiction between the Project Financing Agreement and the National Laws, the provisions of the former prevail. The sources of funds subject to audit under this TOR are: (a) IFAD-Loan No.____-UZ; (b) IFAD Grant No.____-UZ; (c) co-financing (SPECIFY); (d) respective GOU funds; and (e) beneficiary contributions and respective counterpart financing.

OBJECTIVE

The objective of the audit of the Project Financial Statements (PFS) of the Horticultural Support Project (HSP) is to enable the auditor to express a professional opinion on the financial position of the HSP at the end of each relevant reporting period and of the funds received and expenditures incurred as reported in the PFS, including an opinion on the statements of expenditure (SOE) and Special Accounts (SAs)/Designated Accounts (DAs). The financial reporting periods and relevant sources of funds subject of the audit are detailed below:

a) From (date, month year) to (date, month year) with respect to HSP including the following sources of funds: (a) IFAD- Loan No.____-UZ; (b) IFAD Grant No.____-UZ; (c) co-financing (SPECIFY); (d) respective GOU funds; and (e) beneficiary contributions and respective counterpart financing.

HSP will prepare three (3) separate set of financial statements which will be submitted to the auditor for review and testing activities. Auditors will be required to issue three (3) separate sets of opinions covering PFS, SOEs procedure and SAs/DAs

The information, both financial and non-financial, which is subject to verification by the auditor, is all information which makes it possible to verify that the expenditures claimed by the Project Management Unit (PMU) in Financial Statements have occurred, and are accurate and eligible.

The Project’s accounting system (books and records), and the HSP’s Financial Management Manual provide the basis for the preparation of the PFS, and have been maintained to ensure correct exposure of all financial transactions of the Project.

SCOPE

The audit will be carried out in accordance with International Standards of Auditing, as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor’s Report on Special Purpose Audit Engagements) and to relevant IFAD guidelines. The audit will include such tests and reviews, as the auditor consider necessary under the circumstances. In conducting the audit, special attention should be paid to the following:
(a) All external funds have been used in accordance with the conditions stipulated in the financing agreements, with due attention to economy and efficiency, and solely for the purposes for which the financing was provided. The relevant financing agreements are: (a) IFAD Loan No.____-UZ; (b) IFAD Grant No.____-UZ; and (c) co-financing (SPECIFY).

(b) Counterpart funds for HSP have been provided by GOU and used in accordance with national or organizational financial regulations, with due attention to economy and efficiency, and solely for the purposes for which they were provided.

(c) Goods, consultancy and other services, and civil works financed out of Project funds have been procured in accordance with the relevant loan/financing agreements and/or Government regulations.

(d) All necessary supporting documents, records, and accounts have been kept in respect of all Project ventures, including expenditures reported via SOEs or SAs. Clear linkages should exist between the books of account and reports presented to IFAD and co-financier (SPECIFY).

(e) Whether the PFS are drawn up in conformity with internationally accepted accounting standards (IFRS or IPSAS) and give a true and fair view of the financial status of the Project at the end of each of the above listed reporting period and of the resources and expenditures for the periods ended on these dates.

(f) The SAs/DAs have been used in accordance with the provisions of the relevant loan/financing agreements.

In conducting the audit, the auditor shall carry out a physical verification of any significant assets purchased and confirm their existence and use for project purposes.

The Auditor will test the financial transactions against documentary or other evidence necessary to satisfy the auditor as to the authenticity and correctness of the transactions, their complete and proper citing in the books of accounts, financial performance and status.

**Project Financial Statement**

The PFS will include the following:

- Yearly and cumulative statements of sources and application of funds, which should disclose separately, and with respect to the relevant financing agreements, IFAD’s funds, counterpart funds (Government), other donor funds and beneficiaries’ funds;
- Balance sheet, which should disclose bank and cash balances (that should agree with the statement of sources and application of funds);
- Yearly and cumulative SOEs by withdrawal application and category of expenditures;
- Reconciliation of the SAs/DAs;
- Cumulative status of funds by category;
- A statement of comparison between actual expenditures and budget estimates;
- Notes accompanying the Financial Statements; and
- Consolidated financial statements, where the Project consists of more than one entity.
Reconciliation between the amounts shown as received by the Project and those shown as being disbursed under each relevant Loan and financing agreement by IFAD and/or other financiers (SPECIFY AS APPLICABLE) should be attached as an annex to the PFS. As part of the reconciliation, the auditor will indicate the procedure used for the disbursement – SAS’s funds, letters of credit, special commitments, reimbursement or direct payment – and indicate whether the expenditure is fully documented or uses the SOE format.

**Statements of Expenditures**

In addition to the audit of PFS, the auditor is required to audit all SOEs used as the basis for the submission of withdrawal applications. The auditor should apply such tests and controls, as the auditor considers relevant and necessary under the circumstances. SOE expenditures should be carefully reviewed to ascertain the eligibility under the relevant loan and financing agreements, donors’ Letters to the Borrower and with reference to the Project’s appraisal report for guidance when necessary. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, the auditor should separately note these. Annexed to the PFS should be a schedule listing individual SOE withdrawal applications by specific reference number and amount. The total withdrawals under the SOE procedure should be part of the overall reconciliation of IFAD and/or other financiers’ disbursements described above.

The auditor should pay particular attention as to whether:

(a) the SOEs have been prepared in accordance with the provisions of the relevant loan/financing agreements;
(b) expenditures have been made wholly and necessarily for the realization of the Project’s objectives;
(c) information and explanation necessary for the purpose of the audit have been obtained;
(d) supporting records and documents necessary for the purpose of the audit have been retained; and
(e) the SOEs can be relied upon to support the related withdrawal applications.

**Special Accounts**

In conjunction with the audit of the PFS, the auditor is also required to audit the activities of the SA/DA associated with the programmes, including the Authorized Allocation or Initial Deposit. The auditor must form an opinion as to the degree of compliance with IFAD procedures and the balance of the SA/DA at year end. The audit should examine:

(a) Deposits and replenishments received from IFAD and/or other financiers;
(b) Payments substantiated by withdrawal applications;
(c) Interest that may accrue on the outstanding balances; and
(d) The year-end balances, and the use of correct exchange rates to convert local currency expenditures to USD.

As part of the opinion on the PFS, the audit report will include an opinion on SOEs and SASs, indicating the extent to which these procedures can be relied upon as a basis for loan disbursements under the Project.

**Audit Reports**

The auditors will issue the following audit report and opinion on the HSP Financial Statements (refer to the “Project Financial Statements” paragraph above for a definition
of the statements included therein): an Audit Report for the period from (date, month year) to (date, month year) with respect to HSP including the following sources of funds: (a) IFAD Loan No.____-UZ; (b) IFAD Grant No.____-UZ; (c) co-financing (SPECIFY); (d) respective GOU funds; and (e) beneficiary contributions.

In addition, the auditor will prepare a “management letter”, in which the auditor will:

(a) Give comments and observations on the accounting records, systems, procedures and internal controls that were examined during the course of the audit;
(b) Identify specific deficiencies and areas of weakness in systems and controls and make recommendation for improvement;
(c) Communicate any significant matters that have come to attention during the audit which might have a material impact on the implementation of the Project;
(d) Report on the lack of compliance of each financial covenant in the relevant loan/financing agreements;
(e) Bring to the borrower’s attention any other matters that the auditors consider pertinent;
(f) A specific set of comments on activities under the Project’s Rural Finance component in relation to the accounting records, systems and controls that were examined during the course of the audit, achievement of the planned results of the project; and
(g) Follow up on the remedial actions taken by HSP in response to previous audit findings and recommendations and report on the progress or otherwise.

The External Auditor should, apart from expressing an opinion on the financial condition of the programmes, express an opinion on whether:

(a) The proceeds of respective financiers’ loan/grant have been utilized only for the Project in accordance with the respective Loan/Grant Agreements;
(b) The financial information contains data as being necessary for inclusion on the Financial Statement;
(c) The financial information complies with relevant regulations and statutory requirements; and
(d) Procurement actions, which have not been subject to IFAD, and/or other financiers’ prior review, are in compliance with relevant financiers’ requirements.

The deadline for the submission to HSP of the audit report, including the management letter, is:

• No later than 30 May 20____.

HSP should then promptly forward copies of the audited project financial statements (including audit opinion) and the management letter to IFAD and other relevant financiers.

General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of HSP. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

HSP will co-operate fully with the auditor and will make available to the auditor whatever records, documentation and other information is requested by the auditor in connection
with the audit. The auditor should be given access to all legal documents, correspondence, and any other information associated with the programmes and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the Bank and of amounts disbursed under IFAD and other relevant financiers.

IFAD Guidelines on Project Audits (for Borrowers' Use) dated 8 September 2003 outline IFAD’s policy and procedures relating to the audit of IFAD-funded projects. The IFAD Guidelines on Project Audits are an integral part of these Terms of References and are to be followed for the Audit of IFAD funded projects, programmes and activities.

The auditor should understand that working papers under HSP can be subject to the review by authorized HSP’s financiers’ staff, including IFAD.
ANNEX 8
PROCUREMENT

A. Summary of Procurement Assessment

1. IFAD is signatory to the Paris Declaration to increase alignment of aid with partner countries’ “priorities, systems and procedures and helping to strengthen their capacities”. Therefore, as part of the overall design for the HSP, IFAD assessed the public procurement systems and procuring institutions available in Uzbekistan for purposes of identifying an entity that would handle procurement under the HSP.

2. Reference is made to the pre-existing World Bank’s Country Procurement Assessment Report (CPAR) of 2003, an in-depth review of the capacities of the public procurement systems, as well as the World Bank’s Country Integrated Fiduciary Assessment (CIFA) of 25 October 2010, which includes an updated assessment of the public procurement system. Such reports form an adequate basis for purposes of assessing compliance of country systems with IFAD’s procurement guidelines. Further, the IFAD HSP Final Design Mission undertook, using IFAD’s assessment tool for procurement review, an assessment of the Rural Restructuring Agency (RRA), which is the implementing institution under the Ministry of Agriculture and Water Resources (MAWR) handling procurement for the Asian Development Bank (ADB) and the World Bank (WB).

3. As identified in the CPAR and confirmed in the CIFA, there are challenges in the framework of the public country procurement systems. Findings include absence of an unified legislative framework; inefficient and non-transparent procurement practices; the absence of a single institution with oversight or regulatory authority over public procurement; an underdeveloped system and weak capacity for handling procurement complaints; the absence of independent scrutiny of procurement contracts; the lack of comprehensive anti-corruption measures; and the low level of skills and capacity of the staff handling public procurement transactions at every administrative level. Therefore, despite some recent developments to modernize and strengthen Uzbekistan’s public procurement system there are critical gaps in compatibility with IFAD’s applicable Procurement Guidelines and procedures. However, the capacity of the RRA to conduct procurement was found to be in compliance with IFAD procurement regulations and procedures.

B. Rural Restructuring Agency

4. The RRA is a state enterprise under the MAWR, and is implementing procurement processes for ADB and WB projects in Uzbekistan. In this context, the RRA’s TORs require that the RRA carry out the complete procurement process starting from the request for expressions of interest and short-listing (in the case of consultant services), to preparation of bidding/requests for proposal documents, inviting and receiving bids/proposals, evaluation of bids/proposals, notification of contract awards, and preparing the contract for signature, including obtaining the relevant donor’s no objections where required.

5. The RRA employs standard ADB and WB procurement procedures and documentation, which are in compliance with IFAD procurement regulations and procedures. The IFAD assessment revealed a satisfactory competency among interviewed staff to deal with high value procurement assignments, fully satisfactory for purposes of IFAD procurement purposes. Overall, the RRA’s capacity to conduct procurement was found to be in compliance with IFAD procurement regulations and procedures.
6. The RRA is subject to national law, with certain exemptions and privileges as stipulated in the Financing Agreements with donors. So as to render donor procurement guidelines applicable in lieu of the default national public procurement legislation, the Financing Agreement should identify explicitly the guidelines to be applied for procurement under the relevant project. National legislation remains an applicable framework which in some respects does impose stricter criteria for procurement procedures than required by the otherwise applicable guidelines. By way of example, local regulations require at least three bidders for a bid to proceed.

C. Arrangements for Procurement under the Project

General

7. Based on the above, in the context of Uzbekistan, the RRA is identified as the only available choice as an entity with pre-existing capacity to implement procurement processes in compliance with IFAD applicable procurement regulations and procedures. Thus, the RRA would have the main responsibility for procurement under the HSP, in line with arrangements and TORs as currently applicable for the ADB and WB. Procurement of works and services would be carried out in accordance with applicable IFAD Procurement Guidelines and Sample Bidding documents for procurement of civil works and services developed by RRA under the on-going WB and ADB projects.

8. The mode of operation of RRA is to assign a Procurement Officer to each of its projects. Required qualifications for the Procurement Officer include typically a bachelor’s degree and working experience in a relevant field. Thus, a new Procurement Officer would be recruited and specifically assigned for the HSP and provided with appropriate training from IFAD to develop the requisite capacity. Tentatively, in the initial Project phase, support could be given by RRA staff from other projects.

9. As per current practice under ADB and WB procurement, an Evaluation Committee for the evaluation of each procurement would be appointed ad hoc, and composed of persons qualified in terms of relevant expertise, seniority and experience, depending on the type, value and complexity of the procurement. The number of members of the Evaluation Committee would depend on the value and complexity of the procurement requirement, but would in all cases be a minimum of three. A member of the Evaluation Committee must always declare when he or she has a conflict of interest in the procurement which may impact on impartiality in the evaluation process.

Procurement Methods and Thresholds

10. For each contract to be financed from IFAD proceeds, the types of procurement methods, the need for pre or post-qualification, estimated cost, prior review requirements and time-frame would be identified in the Procurement Plan, as exemplified in the draft initial 18-month procurement plan attached as Appendix 1 to this annex, and subsequently as submitted annually for each fiscal year period by the Borrower and approved by IFAD in the course of Project implementation. While specific thresholds for procurement financed under the Project will be stipulated in IFAD’s Letter to the Borrower, the general recommendation is the following:

11. Works estimated to cost more than USD 500 000 equivalent may be procured through International Competitive Bidding (ICB) using the World Bank’s applicable Standard Bidding Documents (SBDs). Works estimated between USD 25 000 and USD 500 000 may be procured through National Competitive Bidding (NCB), while works estimated below USD 25 000 may be procured through National Shopping (NS). Direct contracting will have to be approved by IFAD in advance for those cases which justify its use.
12. Goods estimated to cost more than USD 100,000 equivalent per contract may be procured through ICB using the World Bank’s applicable SBDs. Goods estimated to cost less than USD 100,000 equivalent per contract may be procured through NCB. Goods estimated to cost less than USD 20,000 equivalent per contract may be procured through NS.

13. Consultancy services generally estimated to cost more than USD 50,000 for firms and USD 20,000 for individuals will be on the basis of Quality and Cost Based Selection (QCBS). However, the specific nature of the assignment will finally determine the method of procurement to be followed.

14. Activities under the Support to Horticultural Production and Marketing component (SHPM) include debt financing and competitive grants for investments in the horticultural sector. To create suitable arrangements for Project investments by Project beneficiaries, Procurement with Community Participation (PCP) as a method permitted for the procurement of goods and civil works under this component will be allowed under the SHPM. Development of the modalities of PCP implementation will be commenced at start-up in cooperation with relevant stakeholders and implemented by mid-term.
## Appendix 1: EIGHTEEN-MONTH PROCUREMENT PLAN

### Component A: Support for Agricultural Production and Marketing

#### A.1 Upgrading of Nurseries

<table>
<thead>
<tr>
<th>Bid Ref.</th>
<th>Description</th>
<th>Financier</th>
<th>IFAD Loan/Grant Category</th>
<th>Proposed number of packages</th>
<th>Total allocated amount, USD</th>
<th>Allocated amount for 18 months, USD</th>
<th>Procurement selection method</th>
<th>Prior review</th>
<th>Start date</th>
<th>Bid Opening Date</th>
<th>End date</th>
<th>Additional remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Office equipment and goods /a</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>multi</td>
<td>50 600</td>
<td>50 600</td>
<td>Shop</td>
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<td>Jan-12</td>
<td>Feb-12</td>
<td>Apr-12</td>
<td></td>
</tr>
<tr>
<td>A2</td>
<td>Nursery equipment and tools /b</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>multi</td>
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<td>182 300</td>
<td>Shop</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Feb-12</td>
<td>Apr-12</td>
<td></td>
</tr>
<tr>
<td>A3</td>
<td>Tissue lab equipment and tools /c</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>multi</td>
<td>101 300</td>
<td>101 300</td>
<td>Shop</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Feb-12</td>
<td>Apr-12</td>
<td></td>
</tr>
<tr>
<td>A4</td>
<td>Imported plants (seedlings)</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>multi</td>
<td>151 900</td>
<td>151 900</td>
<td>DC/NCB</td>
<td>Yes</td>
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<td>Apr-12</td>
<td>Jun-13</td>
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</tr>
<tr>
<td>A5</td>
<td>Imported mother plants and varieties</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
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<td>50 600</td>
<td>DC/NCB</td>
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<td>Apr-12</td>
<td>Jun-13</td>
<td></td>
</tr>
<tr>
<td>A6</td>
<td>Vehicles 4WD</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>1</td>
<td>70 900</td>
<td>70 900</td>
<td>NCB</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Mar-12</td>
<td>Jun-12</td>
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<tr>
<td>A7</td>
<td>Senior Technical Adviser</td>
<td>IFAD Grant</td>
<td>TA&amp;Training</td>
<td>1</td>
<td>186 850</td>
<td>91 950</td>
<td>Consulting services</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
<td>QBS/IC</td>
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<tr>
<td>A8</td>
<td>Nursery / Tissue Lab O&amp;M</td>
<td>Shreder Institute</td>
<td>annual budget</td>
<td>476 900</td>
<td>82 000</td>
<td>NFB</td>
<td>Jan-12</td>
<td>Jun-13</td>
<td>Non IFAD Financing</td>
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**Subtotal A.1:** 1 271 350

#### A.2 Modernisation of Agro-firms

<table>
<thead>
<tr>
<th>Bid Ref.</th>
<th>Description</th>
<th>Financier</th>
<th>IFAD Loan/Grant Category</th>
<th>Proposed number of packages</th>
<th>Total allocated amount, USD</th>
<th>Allocated amount for 18 months, USD</th>
<th>Procurement selection method</th>
<th>Prior review</th>
<th>Start date</th>
<th>Bid Opening Date</th>
<th>End date</th>
<th>Additional remark</th>
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<tr>
<td>A9</td>
<td>Trade Fairs and Study Tours</td>
<td>IFAD Loan</td>
<td>TA&amp;Training</td>
<td>multi</td>
<td>157 300</td>
<td>18 950</td>
<td>Shop</td>
<td>Yes</td>
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<td>Apr-12</td>
<td>Jun-13</td>
<td></td>
</tr>
<tr>
<td>A10</td>
<td>AF Business Plan Preparation</td>
<td>IFAD Grant</td>
<td>TA&amp;Training</td>
<td>1</td>
<td>147 200</td>
<td>53 550</td>
<td>Consulting services</td>
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<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
<td>QCBS/CQ</td>
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<td>A11</td>
<td>Senior Business Adviser /d</td>
<td>IFAD Grant</td>
<td>TA&amp;Training</td>
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<td>362 000</td>
<td>137 800</td>
<td>Consulting services</td>
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<td>Apr-12</td>
<td>Jun-13</td>
<td>QBS/IC</td>
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<td>A12</td>
<td>Strategic Marketing Study</td>
<td>IFAD Grant</td>
<td>TA&amp;Training</td>
<td>1 or 2</td>
<td>148 600</td>
<td>111 000</td>
<td>Consulting services</td>
<td>Yes</td>
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<td>Jun-13</td>
<td>National and International TA; QCBS</td>
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<td>A13</td>
<td>Nursery Training</td>
<td>IFAD Loan</td>
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<td>multi</td>
<td>63 100</td>
<td>23 000</td>
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<td>Jun-13</td>
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<td>A14</td>
<td>Agro-firms Technical Training</td>
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<td>TA&amp;Training</td>
<td>multi</td>
<td>42 050</td>
<td>15 300</td>
<td>Shop</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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**Subtotal A.2:** 920 250

#### A.3 Modernisation of Horticultural Production

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<tr>
<th>Bid Ref.</th>
<th>Description</th>
<th>Financier</th>
<th>IFAD Loan/Grant Category</th>
<th>Proposed number of packages</th>
<th>Total allocated amount, USD</th>
<th>Allocated amount for 18 months, USD</th>
<th>Procurement selection method</th>
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<th>Start date</th>
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<td>A15</td>
<td>Development of Training Materials</td>
<td>IFAD Grant</td>
<td>TA&amp;Training</td>
<td>multi</td>
<td>42 000</td>
<td>15 300</td>
<td>Consulting services</td>
<td>Yes</td>
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<td>Apr-12</td>
<td>Jun-13</td>
<td>National TA; CQ/IC</td>
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<td>A16</td>
<td>Farmers' training</td>
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<td>TA&amp;Training</td>
<td>multi</td>
<td>104 700</td>
<td>35 650</td>
<td>Shop</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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<td>A17</td>
<td>Training Materials /e</td>
<td>IFAD Loan</td>
<td>Equip&amp;Goods</td>
<td>1</td>
<td>54 300</td>
<td>12 900</td>
<td>Shop</td>
<td>Jan-12</td>
<td>Apr-12</td>
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**Subtotal A.3:** 201 000

**Total Component A:** 2 392 600
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<th>Bid Opening Date</th>
<th>End date</th>
<th>Additional remark</th>
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<tr>
<td>B1</td>
<td>Investment capital for agrofirms or other such entities</td>
<td>IFAD/CoF Loan/ PFI</td>
<td>Credit Line</td>
<td>multi</td>
<td>4 200 000</td>
<td>1 470 000</td>
<td>FIN INT</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>end project</td>
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<td>B2</td>
<td>Contributory grant for agrofirms or other such entities</td>
<td>IFAD Loan</td>
<td>Grants</td>
<td>N/A</td>
<td>1 400 000</td>
<td>490 000</td>
<td>CPP</td>
<td>Yes</td>
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<td>Apr-12</td>
<td>Jun-13</td>
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<td>B3</td>
<td>Beneficiary Contribution</td>
<td>BEN</td>
<td>N/A</td>
<td>1 400 000</td>
<td>490 000</td>
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<td>Investment capital for farmers</td>
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<td>Credit Line</td>
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<td>2 154 375</td>
<td>FIN INT</td>
<td>Yes</td>
<td>Jan-12</td>
<td>Apr-12</td>
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<td>B5</td>
<td>Contributory grant for farmers</td>
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<td>Grants</td>
<td>N/A</td>
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<td>718 125</td>
<td>CPP</td>
<td>Yes</td>
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<td>B6</td>
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Subtotal Contributory grant: 4 315 000 | 1 583 125
Subtotal Credit Line: 12 945 000 | 4 749 375
Subtotal Beneficiaries' contribution: 4 315 000 | 1 583 125

Total component B: 21 575 000 | 7 915 625

Component C- Improved Irrigation Network (Rural Infrastructure)

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Total component C: 5 400 000 | 280 000

Component D- Project Management

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**Project Management Regional Office**

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<td>5 400</td>
<td>Shop</td>
<td></td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
<td></td>
</tr>
<tr>
<td>D41</td>
<td>Office equipment O&amp;M</td>
<td>IFAD Loan</td>
<td>Recurrent</td>
<td>1</td>
<td>15 600</td>
<td>2 650</td>
<td>Shop</td>
<td></td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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</tr>
<tr>
<td>D42</td>
<td>Office Rent</td>
<td>IFAD Loan</td>
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<td>1</td>
<td>56 300</td>
<td>9 700</td>
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<td>Apr-12</td>
<td>Jun-13</td>
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<td>D43</td>
<td>Local travel</td>
<td>IFAD Loan</td>
<td>Recurrent</td>
<td>N/A</td>
<td>31 300</td>
<td>5 400</td>
<td>Shop</td>
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<td>Apr-12</td>
<td>Jun-13</td>
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<td>Banking Services</td>
<td>IFAD Loan</td>
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<td>2 650</td>
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<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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</tr>
<tr>
<td>Bid Ref.</td>
<td>Description</td>
<td>Financier</td>
<td>IFAD Loan/Grant Category</td>
<td>Proposed number of packages</td>
<td>Total allocated amount, USD</td>
<td>Allocated amount for 18 months, USD</td>
<td>Procurement selection method</td>
<td>Prior review</td>
<td>Start date</td>
<td>Bid Opening Date</td>
<td>End date</td>
<td>Additional remark</td>
</tr>
<tr>
<td>---------</td>
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<td>D45</td>
<td>Telecommunication</td>
<td>IFAD Loan</td>
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<td>18 800</td>
<td>3 250</td>
<td>Shop</td>
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<td>Apr-12</td>
<td>Jun-13</td>
<td></td>
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<tr>
<td>D46</td>
<td>Utilities/i</td>
<td>IFAD Loan</td>
<td>Recurrent</td>
<td>N/A</td>
<td>15 600</td>
<td>2 650</td>
<td>Shop</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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<tr>
<td>D47</td>
<td>Stationery</td>
<td>IFAD Loan</td>
<td>Recurrent</td>
<td>multi</td>
<td>15 600</td>
<td>2 650</td>
<td>Shop</td>
<td>Jan-12</td>
<td>Apr-12</td>
<td>Jun-13</td>
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<tr>
<td></td>
<td><strong>Subtotal component D Regional Office</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>533 100</strong></td>
<td><strong>133 650</strong></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td><strong>Total component D</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>2 312 100</strong></td>
<td><strong>572 550</strong></td>
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<tr>
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<td><strong>Total HSP</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>31 679 700</strong></td>
<td><strong>9 973 175</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(a\) Including computers, printers, copy machine, fax, furniture, software, etc.

\(b\) Including mulching machine, sprayer, rotary cultivator/cutter, pruning and grafting equipment, climate rooms, green house, workshop, weigh bridge, mobile

\(c\) Including autoclave (200lt), sterile table, climate room, jars, green house and minor tools.

\(d\) To provide management support to the participating agro-firms (on a grant basis)

\(e\) To cover printing and distribution costs of training materials for farmers

\(f\) Including computers, printers, copy machines, furniture, minor office equipment

\(g\) Including water, electricity, cleaning and office alarm system O&M

\(h\) Including copying services, media, web, representation etc.
ANNEX 9

PROJECT COSTS AND FINANCING

I. PROJECT COSTS

1. The total investment and incremental recurrent Project costs, including physical and price contingencies, are estimated at about USD 31.7 million (UZS 54.9 billion). Physical and price contingencies make up about 1% of the total Project costs due to the fact that investments associated with the horticulture investments, rural finance and small-scale irrigation infrastructure together make up more than 85% of the total Project costs. The foreign exchange component is estimated at USD 16.9 million or about 53% of the total Project costs. Taxes and duties make up approximately USD 1.34 million. Funds allocated to the Project Management are about 7% of the total Project costs. Project costs by component are shown in Table 1 below.

Table 1: Project Costs by Component

<table>
<thead>
<tr>
<th>Component</th>
<th>Local (UZS Million)</th>
<th>Foreign (US$'000)</th>
<th>% Foreign Exchange</th>
<th>% Total Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Support for Horticultural Production and Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Upgrading of Nurseries</td>
<td>1,080.4</td>
<td>993.7</td>
<td>2,074.0</td>
<td>635.5</td>
</tr>
<tr>
<td>2. Modernisation of Agro-firms</td>
<td>301.1</td>
<td>1,133.6</td>
<td>1,514.7</td>
<td>224.2</td>
</tr>
<tr>
<td>3. Modernisation of Horticultural Production</td>
<td>241.7</td>
<td>74.5</td>
<td>316.2</td>
<td>142.2</td>
</tr>
<tr>
<td>Subtotal Support for Horticultural Production and Marketing</td>
<td>1,523.2</td>
<td>1,137.8</td>
<td>2,661.0</td>
<td>911.9</td>
</tr>
<tr>
<td>B. Rural Finance</td>
<td>13,203.9</td>
<td>20,473.6</td>
<td>36,677.5</td>
<td>7,767.0</td>
</tr>
<tr>
<td>C. Rural Infrastructure: Improved Irrigation Network</td>
<td>6,300.0</td>
<td>2,550.0</td>
<td>9,150.0</td>
<td>3,900.0</td>
</tr>
<tr>
<td>D. Project Management</td>
<td>3,156.7</td>
<td>390.2</td>
<td>3,546.9</td>
<td>1,859.6</td>
</tr>
<tr>
<td>Total Direct Costs</td>
<td>24,993.8</td>
<td>28,615.9</td>
<td>53,309.3</td>
<td>14,525.8</td>
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<tr>
<td>Physical Contingencies</td>
<td>65.3</td>
<td>12.1</td>
<td>77.4</td>
<td>38.4</td>
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<tr>
<td>Price Contingencies</td>
<td>1,156.8</td>
<td>347.5</td>
<td>1,504.3</td>
<td>210.3</td>
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<tr>
<td>Total PROJECT COSTS</td>
<td>26,815.9</td>
<td>28,975.1</td>
<td>54,691.9</td>
<td>14,774.5</td>
</tr>
</tbody>
</table>

II. FINANCING

2. An IFAD loan, USD 9.6 million (33% of the total Project costs), would finance: 38% of the Support for Horticultural Production and Marketing component (USD 0.91 million), 31% of the Rural Finance component (USD 6.7 million), 29% of the Rural Infrastructure Improved Irrigation Network component (USD 1.6 million), and 76% of the Project Management (USD 1.75 million). A Co-financier loan from the IFAD administered Spanish Trust Fund of about USD 11.4 million (35.9% of the total Project Costs) would be used to co-finance the Rural Finance (USD 7.92 million) and Rural Infrastructure (USD 2.08 million) components. The Government contribution is estimated at USD 1.545 million (5%) and includes contributions from its budget primarily to cover the staff insurance and foregone taxes and duties (see below). Participating Financial Institutions (PFIs) would provide around USD 2.59 million (8% of the total Project Costs) for the Rural Finance component. Approximately USD 5.1 million (16.3%) would be provided by the beneficiaries as contributions to the financing of horticultural and small-scale infrastructure investments. The technical assistance envisaged under the Project would be financed by an IFAD Grant of about USD 1 million, or 3% of the total Project Costs.

3. The Government contribution would be in the form of foregone taxes and duties on all Project inputs that involve funding from the IFAD Loan or any other external source of funding associated with the IFAD loan. In addition, the Government is expected to contribute from its budget about USD 0.20 million to cover the staff insurance. The estimate of taxes and duties was based on the rates in effect prevailing
at the time of the project final design. In conformity with the principle that no taxes or duties would be financed out of the proceeds of the IFAD Loan/Grant, any future changes in the rates and/or structures of taxes and duties would have to apply to the Project.

4. Tables 2 and 3 below provide summaries by the Project components and expenditure accounts of the proposed financing arrangement.

Table 2: Financing Plan by Components (USD '000)

<table>
<thead>
<tr>
<th>Component</th>
<th>IFAD Loan</th>
<th>Co-finance</th>
<th>GOI Taxes</th>
<th>GOI</th>
<th>PIF</th>
<th>IFAD Grant</th>
<th>Shredder</th>
<th>Institute</th>
<th>Beneficiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Support for Horticultural Production and Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Upgrading of Nurseries</td>
<td>1066.0</td>
<td>20.2</td>
<td>-</td>
<td>106.4</td>
<td>14.8</td>
<td>-</td>
<td>106.4</td>
<td>14.8</td>
<td>987.4</td>
<td>31.3</td>
</tr>
<tr>
<td>2. Modernisation of Agro-Firms</td>
<td>262.4</td>
<td>52.0</td>
<td>-</td>
<td>8.6</td>
<td></td>
<td>-</td>
<td>262.4</td>
<td>52.0</td>
<td>912.4</td>
<td>27.0</td>
</tr>
<tr>
<td>3. Modernisation of Horticultural Production</td>
<td>155.0</td>
<td>30.9</td>
<td>-</td>
<td>9.1</td>
<td>4.5</td>
<td>-</td>
<td>155.0</td>
<td>30.9</td>
<td>71.4</td>
<td>20.9</td>
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<tr>
<td>Subtotal Support for Horticultural Production and Marketing</td>
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<td>285.1</td>
<td>-</td>
<td>205.5</td>
<td>29.3</td>
<td>-</td>
<td>1483.4</td>
<td>285.1</td>
<td>851.8</td>
<td>281.1</td>
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<td>B. Rural Finance</td>
<td>5385.7</td>
<td>107.2</td>
<td>9.2</td>
<td>2599.0</td>
<td>36.0</td>
<td>-</td>
<td>5385.7</td>
<td>107.2</td>
<td>2599.0</td>
<td>36.0</td>
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<td>C. Rural Infrastructure: Improved Irrigation Network</td>
<td>1693.3</td>
<td>33.8</td>
<td>36.6</td>
<td>903.2</td>
<td>12.7</td>
<td>-</td>
<td>1693.3</td>
<td>33.8</td>
<td>903.2</td>
<td>12.7</td>
</tr>
<tr>
<td>D. Project Management</td>
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<td>35.1</td>
<td>36.6</td>
<td>2064.1</td>
<td>30.0</td>
<td>-</td>
<td>1751.5</td>
<td>35.1</td>
<td>2064.1</td>
<td>30.0</td>
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<td>Total PROJECT COSTS</td>
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<td>171.3</td>
<td>161.4</td>
<td>5766.3</td>
<td>82.7</td>
<td>-</td>
<td>8411.9</td>
<td>171.3</td>
<td>5766.3</td>
<td>82.7</td>
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Table 3: Financing Plan by Expenditure Accounts (USD '000)

<table>
<thead>
<tr>
<th>Account</th>
<th>IFAD Loan</th>
<th>Co-finance</th>
<th>GOI Taxes</th>
<th>GOI</th>
<th>PIF</th>
<th>IFAD Grant</th>
<th>Shredder</th>
<th>Institute</th>
<th>Beneficiaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Investment Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Civil Works</td>
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<td>24.0</td>
<td>2082.3</td>
<td>41.7</td>
<td>335.5</td>
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<td>335.5</td>
<td>16.7</td>
<td>3333.3</td>
<td>16.7</td>
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<td>B. Engineering and Supervision</td>
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<td>-</td>
<td>33.3</td>
<td>1.7</td>
<td>-</td>
<td>333.3</td>
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<td>1533.3</td>
<td>30.6</td>
<td>3333.3</td>
<td>18.3</td>
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<td>D. Equipment and goods</td>
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<td>-</td>
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<td>10.5</td>
<td>-</td>
<td>119.0</td>
<td>2.4</td>
<td>22.7</td>
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<td>8.0</td>
<td>61.0</td>
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<tr>
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<tr>
<td>I. Credit Line for Agro-Firms</td>
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<td>330.0</td>
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<td>330.0</td>
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<td>J. Credit Line for Farmers</td>
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<td>10.8</td>
<td>321.5</td>
<td>6.0</td>
<td>-</td>
<td>574.5</td>
<td>11.5</td>
<td>321.5</td>
<td>6.0</td>
</tr>
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<td>K. Credit Line for Small Producers</td>
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<td>-</td>
<td>600.0</td>
<td>12.5</td>
<td>-</td>
<td>409.2</td>
<td>8.2</td>
<td>600.0</td>
<td>12.5</td>
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<tr>
<td>L. Credit Line for Contractors</td>
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<td>86.3</td>
<td>-</td>
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<td>86.3</td>
<td>-</td>
<td>4315.0</td>
<td>86.3</td>
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<td>86.3</td>
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<tr>
<td>M. Subtotal Credit Line</td>
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<td>5029.0</td>
<td>100.0</td>
<td>-</td>
<td>5029.0</td>
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<tr>
<td>N. Total Investment Costs</td>
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<td>-</td>
<td>8105.0</td>
<td>162.0</td>
<td>-</td>
<td>8105.0</td>
<td>162.0</td>
<td>8105.0</td>
<td>162.0</td>
</tr>
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<td>O. Recurrent Costs</td>
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<td>-</td>
<td>403.3</td>
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<td>-</td>
<td>624.5</td>
<td>12.5</td>
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<td>P. Capital Operation and Maintenance</td>
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<td>-</td>
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<td>0.4</td>
<td>-</td>
<td>103.0</td>
<td>2.1</td>
<td>103.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Q. Other Operating Costs</td>
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<td>-</td>
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<td>2.4</td>
</tr>
<tr>
<td>R. Subtotal Recurrent Costs</td>
<td>1034.9</td>
<td>20.7</td>
<td>-</td>
<td>1034.9</td>
<td>20.7</td>
<td>-</td>
<td>1034.9</td>
<td>20.7</td>
<td>1034.9</td>
<td>20.7</td>
</tr>
<tr>
<td>S. Total Recurrent Costs</td>
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<td>-</td>
<td>9534.9</td>
<td>191.2</td>
<td>-</td>
<td>9534.9</td>
<td>191.2</td>
<td>9534.9</td>
<td>191.2</td>
</tr>
<tr>
<td>Total PROJECT COSTS</td>
<td>9534.9</td>
<td>191.2</td>
<td>-</td>
<td>9534.9</td>
<td>191.2</td>
<td>-</td>
<td>9534.9</td>
<td>191.2</td>
<td>9534.9</td>
<td>191.2</td>
</tr>
</tbody>
</table>

5. Implications for Government Budget. Apart from repayment of any loan finance, implications for Government’s budget are limited in terms of its contribution to project costs and there are no requirements for post-project funding by the Government in that up-scaling and replication would be, subject to Government policy, feasible and attractive for the private sector.
ANNEX 10: ECONOMIC AND FINANCIAL ANALYSIS

I. PROJECT BENEFITS

1. The Project is expected to lead to increased income of farmers and rural entrepreneurs. Benefits would derive from: (i) the profitable connection of smallholder producers to the horticultural value chain through assurance of uniform quality control in the establishment and husbandry of modern orchards using highly productive varieties; (ii) improved irrigation and drainage infrastructure; (iii) reduced post-harvest losses due to improved market infrastructure; (iv) enhanced access to finance; and (v) incremental tax revenues as a result of increased volume of taxable production.

2. **Unquantifiable Benefits.** The foreseen investments in the horticultural value chain are expected to lead to an increase in volume of backwards linkages to primary target group of the HSP, small-scale producers and market services providers and the rural unemployed, in terms of employment generation and increased demand for raw material. In addition, as demand for the fruit and vegetable investments increases, it would stimulate the private sector in developing the related services.

3. Improved access to finance and improved irrigation/drainage is expected to boost economic activities including trade and employment. However, principal increases in incomes would depend on farmers/rural entrepreneurs’ adopting better farm management practices thereby improving their market access, supporting marketing linkages, and generally creating a favourable economic environment that encourages farmers/rural entrepreneurs to produce more competitive products.

II. FINANCIAL ANALYSIS

4. The following key assumptions were used to define the parameters of the financial analysis:

5. **Prices.** Prices of commodities/inputs reflect annual average and those actually paid/received by the farmer/entrepreneur. These were collected during the field visits and from FAOSTAT. Estimates for the infrastructure costs were based on those of similar types made under the RRA.

6. **Taxes.** On average, a land tax of UZS 42 000 per ha was applied. In line with the current Government policy, the enterprise model assumes a VAT tax rate of 20% on local sales.

7. **Internal Rate of Return.** An internal rate of return (IRR) of 12% is used in this analysis to assess the viability and robustness of investments. The selection criterion for the IRR is to accept all projects for which the IRR is above the opportunity cost of capital, i.e. 12%. Using the IRR as the measure, the models’ sensitivity to the changes in parameters can be assessed by varying the cost of investments, production costs and revenues.

8. **Models.** Three production models were prepared to serve as building blocks for the analysis: (i) apricot as a proxy representative of stone fruit; (ii) apple as a proxy representative of pome fruit; and (iii) tomato as a proxy representative of vegetables. These indicative models are based on the assumptions that farmers would be provided with a strong vertically-integrated contract farming arrangement ensuring financing and

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54 The IRR is a measure of the project’s worth that in this case compares the return on the investment with the best alternative use of the funds, i.e. the CBU’s refinancing rate.
technically sound development of modern orchards and fields resulting in high produce quality and quantities of fruit and vegetables demanded by the export market.

At full development (PY4), the models show incremental increases per hectare of US$ 21,000 for irrigated apricot, USD 48,000 for irrigated apple and USD 143,000 for irrigated tomato grown under greenhouse conditions. IRR and benefit/cost ratios for each commodity were respectively: Stone Fruit – 51% and 7.6; Pome Fruit – 52% and 12.6; and Vegetables – 78% and 5.4. These figures would seem to demonstrate the attractiveness of the new technology.

9. The point of departure for project benefits is the establishment, under the auspices and direction of the Shreder Institute, of a Central Nursery for the propagation of imported modern variety and rootstock mother plants, which would be used for onward sale to eventual project beneficiaries and to set up demonstration orchards. A Central Nursery model was therefore prepared as part of the project’s financial analysis. The investment would lead to a production of 1 million rootstocks from the second year of operation onward. The investment would lead to incremental net income derived from the sales of these rootstocks reaching to UZS 2.975 million (USD 1.75 million). The IRR on the stream of net benefits is 227%.

10. A key aspect of the profitable connection of small-scale producers to the horticultural value chain is assurance of uniform quality control in the establishment and husbandry of modern orchards using highly productive varieties. The Project would seek to achieve this through modernisation of Agrofirms and other such entities active in the horticultural value chain, which would contract small-scale producers on the basis of modernising their orchards in exchange for a part of their produce. In order to benefit the IFAD’s target group while retaining economic viability, each participating farm family would be eligible to modernise an orchard area which would be not less than 0.4 ha in total but not more than 2 ha. Based on the production models above, the following indicative farm and small producer models were prepared: (i) establishment of a stone fruit orchard (2 ha); (ii) establishment of a pome fruit orchard (2 ha); (iii) a vegetable greenhouse (0.4 ha); (iv) establishment of a stone fruit orchard (0.7 ha); and (v) establishment of a pome fruit orchard (0.4 ha).

11. The models show Net Present Values (NPVs) of between around UZS 65.5 million (USD 38,500) and UZS 477 million (USD 280,500) over a twenty-year period and IRRs of 73-306% after financing which are well above the opportunity cost (12%). The switching values show that these investments would be commercially viable even with high fluctuations in prices, yields and costs.

12. The function of the Agrofirms and other such entities active in the horticultural value chain to be modernised with project support would be to provide markets for primary producers’ inputs and produce, i.e. the Agrofirms and other such entities would: (i) purchase produce from farmers for sale of fresh produce on domestic and export markets as well as for processing; (ii) guide and support primary producers in an effort to achieve uniform quality control and production standards to strengthen the competitiveness of Uzbekistan horticultural produce on the Russian and also European markets; (iii) promote and market horticultural produce; and (iv) establish and maintain a nursery and supply farmers with readily grafted saplings for orchard establishment. To this end two representative Agrofirm models were prepared: (i) establishment of a nursery (5 ha) and modernisation of own orchards (10 ha); and (ii) contract farming and processing and marketing of horticultural products.

13. The first model shows that project-provided investment would lead to a sale of 80,000 saplings and 300 tons of stone and pome fruits at full development (year 7) or to an annual incremental net income of UZS 397 million (USD 233,000). The IRR on the
stream of net benefits before financing flows is 23%, which is above the 12% opportunity cost of capital. The IRR after financing flows is 29%.

14. For the second model, the total capital investment is about USD 438,000 for purchase of processing and storage equipment. The investment would lead to a sale of 4,300 tons of stone and pome fruits at full development (from the contracted farmers). This would reflect an annual incremental net income derived from the sales of these commodities reaching to UZS 534 million (USD 314,000) at full development (Y8). The IRR on the stream of net benefits before and after financing flows is 14%.

15. Sensitivity analysis was undertaken to assess the impact on the financial returns of changes, in: (i) output prices; (ii) expected yields; (iii) operating costs; and (iv) investment costs. It showed that the models are rather not sensitive to fluctuations in the parameters; however, it is more sensitive to changes in yield and price assumptions and production costs than to variations in investment. Also the analysis showed that a complex investment (in both supply of services and processing/marketing) in one Agrofirm would lead to significant incremental incomes. However, this would also reflect much higher investment costs, and therefore more risky.

16. Finally, an indicative model was relative to the HSP’s Component 3, Improved Irrigation Network, this model being: Rehabilitation of an Irrigation Scheme. This model illustrates the possible incremental benefits that would derive from the rehabilitation of an irrigation scheme for a community comprising 2,350 people or 400 households. The model assumes provision of irrigation water for the existing orchard consisting of 80 ha of apples and 50 ha of apricots. The anticipated main benefit would occur from an increase in fruit yields by about 20-25% that would lead to incremental benefits of around UZS 393,000 (USD 230) per household annually. The investment cost estimation is about UZS 425 million (USD 250,000). The annual operation and maintenance cost is UZS 21.5 million (USD 12,650, about 5% of investment cost).

17. The model records an NPV of UZS 584 million (USD 343,000) over a twenty-year period and an IRR of 32% which is well above the opportunity cost (12%). The switching values shows that this investment would be commercially viable even if benefits decreased by 53% and investment costs increased by 154%.

III. ECONOMIC ANALYSIS

NPV =USD 21.8 million; ERR =22%

18. An economic analysis was undertaken to calculate the overall benefits of the project using the illustrative models above based on economic prices. The period of analysis is 20 years to account for the phasing and gestation period of the proposed interventions. The scenario presented in the economic analysis is conservative and an indicative demonstration potential profitability based on current conditions.

19. Benefit Stream. The analysis attempts to identify quantifiable benefits that relate directly to the activities undertaken following implementation of the components, or that can be attributed to the Project’s implementation.

20. Price estimates for tradable commodities have been based on the World Bank’s Global Commodity Price Projections. All local costs were converted into their approximate economic values using a Standard Conversion Factor (SCF) of 0.9. All values are given in constant 2011 prices.
21. The incremental quantifiable benefit stream comprises of two main elements: (i) support to horticultural production and marketing (Component 1 SHPM); and (ii) improved irrigation networks (Component 3 IIN).

22. In calculating the overall benefits from the first element (SHPM), the following was taken into account: (i) a 70% success rate was applied to the models, i.e. it was assumed that only 70% of the investments would achieve the estimated returns; (ii) USD 0.72 as an average indicator for the incremental annual net benefits per USD 1 of investments was used. The incremental net benefits were calculated by multiplying this indicator by the amount of estimated investments, but considering the gradual increase of such benefits over the period of six years; and (iii) no financing flows have been undertaken in the calculations as they represent transfer payments (credits and taxes).

23. Given the contractually driven nature of the SHPM initiative, it would be difficult to calculate the number of beneficiaries reached. However, based on the Agrofirm models, it is estimated that about 390 direct and 2 800 indirect beneficiary households would be reached under this component assuming around 0.4-2 ha of orchards per direct beneficiary household and 260 indirect beneficiary households trained annually during six years of Project implementation.

24. In calculating the overall benefits from HSP’s support to Improved Irrigation Network, the following was taken into account: (a) allowing the illustrative example as a reasonable assumption of the investments likely to be implemented, an estimated average incremental annual net benefit per USD 1 of investments is used; (b) in particular, an average indicator for the incremental annual net benefits per USD 1 of investments equals to USD 0.41; (c) the incremental net benefits were calculated by multiplying this indicator by the amount of estimated investments, but considering the gradual increase of such benefits over the period of six years; (d) an 80% success rate was applied to the models, i.e. it was assumed that only 80% of the investments would achieve the estimated returns; (e) no financing flows have been undertaken in the calculations as they represent transfer payments (grants, contributions and taxes).

25. It is estimated that the irrigation/drainage investments would directly reach about 8 000 households, or about 47 200 beneficiaries (assuming that there would be on average 1.6 beneficiary households per USD 1 000 investment). The derivation of the benefits stream was based on the infrastructure model presented in the previous section, on the basis of economic prices.

26. Cost Stream. The incremental economic costs have been calculated by the removal of price contingencies and taxes/duties. The total economic cost of the Project amounts to about USD 30.1 million.

27. Summary. Given the above benefit and cost streams, the base case internal rate of return (IRR) is estimated at 22%. The base case net present value of the project’s net benefit stream, discounted at 12%, is USD 21.8 million.

28. Sensitivity Analysis. Economic returns were tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the IRR is equally sensitive to changes in costs and in benefits. In absolute terms, these changes do not have a significant impact on the IRR, and the economic viability is not threatened by either a 20% decline in benefits or by a 20% increase in costs. A fall in total Project benefits by 20% and an increase in total Project costs by the same proportion would reduce the base IRR to about 14%. The switching values shows that the Project would be economically viable even if benefits decreased by 40% and investment costs increased by 93%. A one-year delay in project benefits reduces the IRR to 19%. With a two-year delay in project benefits, the IRR falls to approximately 17%.
ANNEX 11

DRAFT PROJECT IMPLEMENTATION MANUAL

PART A: PLANNING

I. Introduction

1. This Project Implementation Manual (PIM) for HSP sets out the project strategy, operational activities, steps and procedures, and responsibilities of key stakeholders. PIM also includes a Monitoring and Evaluation (M&E) operational plan.

II. Project Framework

2. The HSP would comprise three components besides management these being: (i) Support to Horticultural Production and Marketing, (ii) Rural Finance and (iii) Improved Irrigation Network. The Support to Horticultural Production and Marketing component will comprise three sub-components: (i) Upgrading of a Central Nursery to import, test and propagate modern horticultural varieties/rootstocks and also the nurseries of Agrofirms and other interested parties to allow them to propagate on a commercial basis mother plants supplied by the Central Nursery; (ii) Modernisation of Agrofirms’ and other such entities’ capabilities with respect to input supply, technical advice to primary small-scale producers and post-harvesting services such as storage, processing and marketing, and the development of contract farming; and (iii) Modernisation of Horticultural Production through support to small-scale horticultural producers and market services providers to access affordable finance, technical assistance and training.

3. The Rural Finance component will comprise three sub-components, these being the establishment of refinancing facilities at three levels: (i) to allow selected commercial banks to provide medium to long term financing for Agro-firms, identified as eligible for project support, to invest in processing, storage, and other services relevant to horticultural producers; (ii) for the purpose of investments requiring access to medium and longer-term finance in activities related to horticultural activities; and (iii) for the purpose of providing financing for small-scale investments in modern on-farm technology, with emphasis on small production units.

4. The Improved Irrigation Network component would finance investments in irrigation and drainage systems that complement support to beneficiaries under the Support to Horticultural Production and Marketing component so that they are more likely to achieve the full economic potential of their commercial engagement in fruit, nut and vegetable production.

III. Implementing Parties Duties and Responsibilities

5. The implementing parties of HSP are: Government of Uzbekistan through MAWR, the RRA and the local PMU in the Project area. During implementation of the Project by MAWR and beneficiaries, IFAD will administer the loan, supervise the project and provide support in project implementation.

6. Supervision: The Project will be supervised directly by IFAD. IFAD supervision missions (a team of experts) will be undertaken at least once a year or more frequently.
if considered desirable.
PART B: IMPLEMENTATION GUIDELINES AND PROCEDURES

I. Implementation Arrangements

7. Overall management oversight would rest with a Project Steering Committee (PSC). The Minister of Agriculture and Water Resources (MAWR) would be the *ex officio* Chairperson of the PSC. Other members would include representatives of: the Ministry of Finance (MOF); the Ministry of Economy/Ministry of Foreign Economic Relations, Investments and Trade; the Central Bank of Uzbekistan (CBU); the Women’s Committee under the Deputy Prime Minister for Social Protection of the Family, Maternity and Childhood; the General Director of MAWR’s Rural Restructuring Agency (RRA); representatives of the local government of the project area region of Surkhandarya; and representatives from other project stakeholders, including Government agencies, organisations (public and private) as may be deemed appropriate. The PSC membership may be amended depending on project requirements, with the prior approval of IFAD. The HSP Project Director (see below) would act as Secretary to the PSC. The PSC would meet every six months to: (i) at alternate meetings, review and approve the project’s Annual Work Plans and Budgets (AWPBs) including related procurement plans; (ii) establish and provide oversight for a Tender Committee related to the project’s Improved Irrigation Network component; (iii) at alternate meetings to review qualified proposals for project support under Component 3, Improved Irrigation Network, submitted by the project’s Regional Office via the Project Director; (iv) review progress and other monitoring and evaluation reports; and (v) advise and initiate action on matters arising relative to ensuring the efficient and effective implementation of the project in line with the provisions, terms and conditions of the Project Financing Agreement.

8. MAWR will be the implementing agency for the project. Day-to-day oversight of the project’s management will rest with a Project Management Unit (PMU) embedded in the MAWR/Rural Restructuring Agency (RRA) and accountable to the General Director of the RRA, who in turn would be accountable to the Minister of Agriculture and Water Resources. The RRA has a good track record with such implementation arrangements with respect to projects financed by the World Bank (WB) and the Asian Development Bank (ADB).

9. The RRA/ HSP PMU would be headed by a Project Director and comprise in addition: a Chief Accountant; a Procurement Officer; a Horticultural Production and Marketing Coordinator; a Rural Finance Programme Coordinator; a Monitoring and Evaluation Officer; an Assistant Monitoring and Evaluation Officer/Gender Focal Point; an Administrative Assistant/Translator; a Lawyer; and a Driver.

10. The key functions of the PMU would be: (i) project planning; (ii) financial administration, including budgeting, procurement, accounting and disbursement; (iii) monitoring and evaluation; and (iv) providing, as appropriate, implementational support to the project’s proposed Regional Office, implementing partners such as the Shreder Institute and Participating Financial Institutions (see below), project-supported Agrofirms and other such entities active in the horticultural value chain and ultimately to the project’s primary target groups of small-scale horticulture producers and horticulture-related market services providers.

11. A project Regional Office will be opened in Surkhandarya as from Project Year (PY) 1. The Regional Office would comprise: a Manager; an Accountant/Office Manager; a Horticultural Production and Marketing Officer; a Rural Finance Programme Officer; a Civil Engineer; and a Driver. The Regional Office will be responsible for day-to-day implementation in the field of all aspects of the project, with the exception of financial
administration and procurement, which will be managed entirely by the relevant personnel of the RRA/HSP PMU at central level.

II.  Financing Project Expenditures

A.  Project Costs and Financing

12. The financing of HSP consist of an IFAD loan, USD 9.6 million (33\% of the total Project costs); a Co-finanier loan of about USD 11.4 million (35.9\% of the total Project Costs). The Government contribution is estimated at USD 1.545 million (5\%) and includes contributions from its budget primarily to cover the staff insurance and foregone taxes and duties. Participating Financial Institutions (PFIs) would provide around USD 2.59 million (8\% of the total Project Costs) for the Rural Finance component. Approximately USD 5.1 million (16.3\%) would be provided by the beneficiaries as contributions to the financing of horticultural and small-scale infrastructure investments. The technical assistance envisaged under the Project would be financed by an IFAD Grant of about USD 1 million, or 3\% of the total Project Costs.

13. As noted, part of Government’s contribution would be in the form of foregone taxes and duties on all Project inputs that involve funding from the IFAD loan. The estimate of taxes and duties has been based on the rates in effect at the time of the Final Project Design. In conformity with the principle that no taxes or duties would be financed out of the proceeds of the IFAD loan, any future changes in the rates and or structures of taxes and duties would apply, thus affecting the amount of foregone revenues.

14. Tables 1 and 2 below provide a summary by Project components and expenditure accounts of the proposed financing arrangements.
Table 1: Financing Plan by Components (USD ‘000)

<table>
<thead>
<tr>
<th>Component</th>
<th>IFAD Loan</th>
<th>Co-financer</th>
<th>GOI Grants</th>
<th>GOI Taxes</th>
<th>PPI</th>
<th>IFAD Grant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Support for Horticultural Production and Marketing</td>
<td>495.0</td>
<td>39.2</td>
<td>-</td>
<td>-</td>
<td>100.6</td>
<td>14.8</td>
<td>397.4</td>
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<tr>
<td>B. Rural Finance</td>
<td>262.4</td>
<td>30.9</td>
<td>-</td>
<td>-</td>
<td>0.0</td>
<td>674.2</td>
<td>72.0</td>
</tr>
<tr>
<td>C. Modernisation of Agro-Firms</td>
<td>156.0</td>
<td>74.6</td>
<td>-</td>
<td>9.1</td>
<td>45.6</td>
<td>20.9</td>
<td>-</td>
</tr>
<tr>
<td>Total Support for Horticultural Production and Marketing</td>
<td>910.7</td>
<td>77.8</td>
<td>-</td>
<td>157.4</td>
<td>8.2</td>
<td>2,500.0</td>
<td>12.0</td>
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Table 2: Financing Plan by Expenditure Accounts (USD ‘000)

<table>
<thead>
<tr>
<th>Account Type</th>
<th>IFAD Loan</th>
<th>Co-financer</th>
<th>GOI Grants</th>
<th>GOI Taxes</th>
<th>PPI</th>
<th>IFAD Grant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Investment Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Civil Works</td>
<td>1,200.0</td>
<td>25.6</td>
<td>2,683.5</td>
<td>41.7</td>
<td>835.5</td>
<td>16.7</td>
<td>-</td>
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<tr>
<td>B. Design and Supervision</td>
<td>333.3</td>
<td>83.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C. Subtotal Civil Works</td>
<td>1,533.3</td>
<td>339.9</td>
<td>2,683.5</td>
<td>41.7</td>
<td>835.5</td>
<td>16.7</td>
<td>-</td>
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<tr>
<td>D. Equipment and Goods</td>
<td>119.0</td>
<td>61.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>E. Agro. Equipment and Goods</td>
<td>405.0</td>
<td>83.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>F. Vehicles</td>
<td>144.3</td>
<td>70.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<td>G. Technical Assistance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>H. International Technical Assistance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>I. National Technical Assistance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>J. Subtotal Technical Assistance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>K. Beneficiary Contribution</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>L. Total Investment Costs</td>
<td>2,299.0</td>
<td>27.3</td>
<td>11,365.5</td>
<td>38.9</td>
<td>1,057.0</td>
<td>3.6</td>
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<td>M. Recurrent Costs</td>
<td>632.4</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>N. Operation and Maintenance</td>
<td>1,010.0</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>O. Other Operating Costs</td>
<td>413.7</td>
<td>61.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>P. Central Bankary Operation and Maintenance</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Q. Total Recurrent Costs</td>
<td>1,666.1</td>
<td>543.1</td>
<td>1,666.1</td>
<td>206.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Total PROJECT COSTS</td>
<td>4,965.1</td>
<td>340.3</td>
<td>13,031.6</td>
<td>39.9</td>
<td>1,057.0</td>
<td>3.6</td>
<td>-</td>
</tr>
</tbody>
</table>

B. Types of Accounts

15. The Ministry of Finance (MOF) would open and maintain a Designated Account in USD in a commercial bank acceptable to IFAD. The RRA/HSP PMU Project Director would be authorised by MOF to operate this Account in order to make disbursements in USD as allowed by the terms and conditions of the project Loan Agreement. The Designated Account would receive IFAD loan funds in advance and be utilised to finance the IFAD share of Project expenditures.

16. Once the Designated Account has been opened and upon the Borrower’s request, the Fund shall make one (or more) withdrawal(s) of up to USD 2.0 million in the aggregate (equivalent to the requirements for the first six months of implementation, the Authorised Allocation) from the Loan Account on behalf of the Borrower and deposit such amount into the Designated Account. The Fund shall replenish the Designated
Account from time to time upon request, in such minimum amounts as the Fund, may specify by notice to the Borrower.

17. The RRA/HSP PMU would also open three accounts in Uzbekistan Som (UZS) in one or more commercial banks acceptable to IFAD. These three accounts would be: (i) a Project Operating Account in order to allow the RRA/HSP PMU to make disbursements in UZS as allowed by the terms and conditions of the project Loan Agreement; (ii) a Counterpart Account to receive contributions to the project from Government and beneficiaries of the project’s Improved Irrigation Network component; and (iii) a Rural Finance Reflow account as the basis for a revolving fund under the Rural Finance component. Monies arising from direct purchase by beneficiaries of improved plants from the RRA without recourse to financing under the Project’s Rural Finance component would also be paid into this account (see Annex 5).
C. Flow of Funds

D. IFAD Disbursement Procedures

18. The IFAD Loan will be disbursed over 5 years. The Loan Closing Date is the 5th anniversary of the date when the project was declared effective. No disbursement from the loan can be made in respect of goods or services or other expenditures incurred after the project closing date.
19. It is important to remember that the IFAD loan cannot be used to pay for land purchase and custom duties or taxes.

20. Four standard disbursement procedures may be used for withdrawal of financing:

(i) **Procedure I**
Advance withdrawal (using imprest accounts or revolving funds with replenishment to a bank account(s) designated to receive financing resources in advance). This modality is used to advance and/or replenish funds to a bank account as designated by the borrower. The Fund may place a limit on the amount to be advanced and/or replenished. Relevant details on the modality – which is project specific – are agreed between the borrower and the Fund, and detailed in the LTB.

(ii) **Procedure II**
Direct payment. This modality is used for eligible project expenditures to be paid directly by IFAD, generally for large contracts, to suppliers, contractors, consultants or third parties, as authorized by the borrower.

(iii) **Procedure III**
Special commitment. This modality is used for eligible project expenditures related to items imported by project implementing agencies under a letter of credit requiring the issuance of guarantees for reimbursement to negotiating banks by IFAD.

(iv) **Procedure IV**
Reimbursement. This is applicable when eligible project expenditures, reimbursable under the financing, have been prefinanced by the borrower. Such reimbursements are expected to be claimed no later than 90 calendar days from the date of payment by the borrower.

E. **Withdrawal Applications**

21. Replenishment of the DA from the loan account at IFAD will be by way of withdrawal applications, supported by appropriate documentation or certified statements of expenditure prepared by the RRA, endorsed by the Ministry of Finance and submitted to IFAD for approval and payment. Project credit funds intended for on-lending to project beneficiaries under the Rural Financial Services component will be made available by the appropriate government agency (Ministry of Finance) to financial institutions through Subsidiary Financing Agreements negotiated with the MOF on mutually acceptable terms and conditions acceptable to IFAD.

22. Currency of withdrawal: Except as the Fund and the borrower shall otherwise agree, withdrawals shall be made in the currencies in which the cost of goods, works and services have been paid or are payable. In the case of reimbursement claims, if the borrower used another currency to purchase the currency paid to the supplier, reimbursement may be requested in the currency amount of the payment, subject to submission of evidence of payment showing the currency amount and the currency and amount actually paid to the supplier.

23. The Fund may also agree to reimburse the borrower in another currency in situations where the borrower would otherwise have to convert the funds after receiving the payment. Requests for reimbursement are to be submitted to the Fund within
90 days of the borrower’s payment of such expense. A separate WA should be submitted for each currency being withdrawn.

F. Audit Procedures

24. RRA will consolidate the PA and DA along with Statements of Project Expenditures (SOEs) for each fiscal year (January 1 to December 31), no later than three months after the close of the fiscal year and make them ready for auditing. RRA will have all the aforesaid documents, records and accounts in accordance with appropriate auditing principles consistently applied by the auditors. The accounts are to be closed on the last day of the fiscal year and the annual audit is to be conducted within three months of the closing of the accounts.

25. Auditing will be undertaken in accordance with appropriate auditing principles and practices consistently applied by external auditors acceptable to IFAD. The contract for the audit would be awarded during the first year of project implementation and renewed annually subject to satisfactory performance.

26. The external auditors would submit certified audit copies to MAWR, which in turn submit them to IFAD not later than six months after the end of the fiscal year to which they relate. The audit report will contain a separate Management Letter that comment upon the integrity and efficiency of the Project fiduciary systems and the administration of SOE transactions.

27. The Financial Accounts and Audit reports will be presented to IFAD within six months of the end of the preceding financial year. The reply by the RRA to the management letter will be submitted to IFAD within one month of the receipt of the audited accounts.

28. MAWR/RRA shall enable IFAD to examine records and accounts reflecting all expenditures and procedures with respect to which withdrawals from the loan account were made and shall ensure that such records and accounts are included in the annual audit.

G. Financial Statements

29. The Borrower, through the RRA/PMU, will maintain separate accounts and records and prepare the financial statements of the operations, resources and expenditures related to the Project required by the General Conditions on Financial Statements in respect to each six month period during each fiscal year, and deliver such financial statements to IFAD within two months after the end of each such period.

H. Project Completion

30. MAWR will submit to the IFAD, the Project Completion Report/Impact Assessment (PCR/IA) no later than six months after the Project Completion Date. This report examines the implementation process and the final results of the project. It therefore serves to make a formal identification of both those aspects of the project that succeeded and those that failed. IFAD uses the project completion report, together with its own internal project evaluation process, to evaluate the success of its lending operations and applies the lessons learned to new lending activities. It should be noted that at a minimum, the PCR would address the following: (i) the costs and benefits of the Project; (ii) achievements of its objectives; (iii) the performance of MAWR/RRA/PMU; and (iv) lessons learned.

31. M&E data collected over the period of project implementation would be fed into an overall assessment of Project achievements, particular, in terms of changes in the
income and livelihood status of beneficiaries targeted by the respective components and in terms of sharing lessons learned and knowledge of development. The PCR/IA process would include stakeholder workshops to provide an opportunity for stakeholders themselves to evaluate Project performance, to promote accountability, to identify and elaborate upon factors that would increase the likelihood of sustainability and to lay out key successes and shortcomings.

32. If an assessment of country level impact is required then countrywide information from a variety of sources will have to be traced once at Project start and again at Project closure.

III. Annual Work Plan and Budgets (AWPBs)

33. The RRA would prepare draft AWPBs, for each Project year, to be submitted to the MAWR for review and approval. These draft AWPBs would be submitted to IFAD for comments and clearance, no later than 30 days before the beginning of the relevant Project year. If required the MAWR/RRA could propose adjustments in the AWPB during the relevant Project year, which would become effective after clearance by IFAD. Provision has been made in the Project costs for Annual Stakeholder Review and Planning Workshops at which Annual Performance Report findings and management implications would be discussed and fed into the AWPB preparation process.

IV. Detailed Description of Activities and Implementation Procedures by Components

34. This section includes the details of project activities, implementation processes and procedures, and beneficiary targeting by components/sub-components.

COMPONENT I: SMALLHOLDER AND NON-FARM INVESTMENT

A. Detailed Description of Activities

35. Component 1: Support to Horticultural Production and Marketing. The Support to Horticultural Production and Marketing (SHPM) component will comprise three sub-components:

36. Sub-component 1.1: Upgrading of nurseries. A Central Nursery receiving support under the project would propagate modern varieties and rootstock, which would allow the Central Nursery to: (i) provide Agrofirms and other interested parties with mother plants for propagation; and (ii) provide beneficiaries with ready-grafted seedlings for orchard establishment. In addition, the Central Nursery would be responsible for handling the shipment of plants to be on-sold to farmers for direct orchard establishment under sub-component 1.3 (see below).

37. The Central Nursery would be located at one of the existing Shreder Institute facilities in Surkhandarya region, which already possess much of the equipment and infrastructure required.

38. Support to the Central Nursery would comprise the financing of: (i) office equipment; (ii) nursery equipment; (iii) tissue laboratory equipment; (iv) importing of modern variety and rootstock mother plants to set up demonstration orchards to be managed by the Central Nursery; (v) importing of modern variety and rootstock mother

55 See also Annex 4 and Working Paper 2 in Annex 13 Contents of the Project Life File.
plants for propagation by the Central Nursery; (vi) International Technical Assistance to assist the Central Nursery in modernising its propagating activities; (vii) necessary vehicles; and (viii) operation and maintenance by the Shreder Institute of the Central Nursery and the tissue laboratory.

39. The plant materials to be imported would consist of highly productive new varieties not yet listed in the Government’s ‘Official Catalogue of Authorized Planting Materials of Uzbekistan’ that could include apples, apricots, peaches, cherries, plums, almond (late blooming varieties), pistachio and minor crops such as olives, lemons and mandarins, for which there is known demand. The selection of varieties would be done with due regard to: (i) the findings and recommendations of a Project-financed ‘Strategic Marketing Study’ to be undertaken at project start-up and which would determine the character and opportunities of domestic and international markets relative to Uzbekistan’s current and potential horticultural products; (ii) possibilities of Agrofirms and other competent entities to act effectively in the value chain, e.g. necessity to create sufficient economies of scale in uniform produce for each selected crop/variety; and (iii) the need to have a drawn out harvesting season, thus alleviating the pressure on post harvesting bottlenecks such as limited availability of cold storage, and congested markets during high season. A special resolution from the Cabinet of Ministers would be required for importing of the varieties and rootstocks so to avoid lasting trial periods before license for commercial use is granted.

40. **Sub-component 1.2:** Modernisation of Agrofirms and other such entities active in the horticultural value chain. Central in the support to the horticultural sector is a functioning post harvesting segment in the value chain, the need for which is particularly accentuated by the tendency of Uzbek markets to be flooded during high harvesting season, leading to dumping prices and wastage levels as high as 30%. To this end, the sub-component would support 10-15 Agrofirms and other such entities active in the horticultural value chain, selected using a competitive and objective methodology (see Annex 5) by providing access to appropriate financing products for capital investment through the Rural Finance component and also providing technical assistance to improve their managerial and technical competence. Agrofirms and other such entities active in the horticultural value chain engaged in export marketing would either already have or be enabled to install equipment and building structures necessary to meet appropriate international standards. These facilities could include a pack house, a pre-cooling unit, cold storage facility for fruit, and processing facilities for drying, sorting, juicing and vacuum packing.

41. The principal functions of the Project-supported Agrofirms and other such entities relative to the horticulture value chain would be to provide markets for primary producers’ inputs and produce through: (i) purchasing produce from farmers for sale as fresh or stored produce on domestic and export markets as well as for processing through engagement in systematic contract farming and supply arrangements; (ii) guiding and supporting the application of improved technology by primary producers in an effort to achieve uniform quality control and production standards to strengthen the competitiveness of Uzbek horticultural produce on the Russian and other export markets; and (iii) establishing and maintaining nurseries of improved cultivars to supply farmers with readily grafted saplings for orchard establishment and improvement.

42. In the above framework, key service functions of Agrofirms and other such entities active in the horticultural value chain would be: (a) nurseries for the commercial multiplication of basic plant materials (rootstocks and varieties) under a centralised control system, with oversight being provided by the Shreder Institute. The nurseries would consist of a Central Nursery, mother trees for root stock multiplication, and

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56 See Working Paper 2 Appendix 2 for details on Contract Farming and Supply Arrangements.
mother trees for multiplication of selected varieties. The size of the nursery and its production capacity would be determined more in detail in connection with the investment in the Agrofirm or other such entity; and (b) post-harvest aggregation, product traceability, storage, processing, packaging as well as marketing for international and domestic sales. It would be advisable to link smaller producers with Agrofirms and other such entities active in the horticultural value chain through formal contract farming and supply arrangements. Such arrangements would enable small farmers to receive support in orchard establishment, orchard management, field post-harvest handling and produce traceability, embedded within the contract relationship.

43. In order to assist Agrofirms and other market entities to better assess the costs, revenues and overall potential of markets for horticultural produce, the project would provide support for a Strategic Marketing Study. This would be undertaken as soon as practicable after project commencement. The study would select the six most important horticultural commodities produced in the project area in terms of current revenues, and conduct the following analyses: (i) the likely costs from farm to market for local sales; (ii) the likely costs from farm to market for export sales; (iii) the revenues for local and export sales; (iv) the costs of regulatory compliance for export sales; (v) the costs of efficient transport for export sales; and (vi) the physical and financial risks of export versus local sales.

44. An analysis of these factors would better inform Agrofirms and other such entities of the nature of export sales, the risks, and the true financial benefits.

45. Sub-component 1.3: Modernisation of Horticultural Production. This sub-component would contribute to modernisation of horticultural production through supporting small-scale farmers, including dekhan farmers, who have previous farming experience but limited access to land and limited financial means to invest in their productive assets. The Project would also provide support to other small non-farming commercial value chain businesses which would be integral to the success of the value chain. The Project would provide these groups with financing for: (a) establishment of orchards and vegetable fields with high yielding new varieties; (b) introduction of modern production technologies such as drip irrigation, plastic tunnels and other modern techniques, machinery and equipment; and (c) non-farm value chain facilities such as small cold storage facilities, specialised transport (e.g. refrigerated), and farm services (small nurseries, plant protection services).

46. Finance would be provided in the form of loans and competitive grants issued under the project’s Rural Finance sub-components 2.2 and 2.3 described below.

47. Training. It is essential to provide farmers and proprietors/managers of small related businesses with appropriate training and training materials in (i) business planning in view of heavy investments required e.g. for the establishing of orchards; and (ii) orchard and horticulture field management and growing techniques.

48. The training on business planning would enable the participants to develop the business plans necessary for applying for loans, conceptualize revenues, costs, profits and risks over a long planning period. The training in business planning and orchard and horticulture field management and growing techniques would be open to all farmers in the Project Area, and would be very important for farmers who intend/have applied for finance under the Rural Finance component. Training would be provided with support from Agrofirms and other such entities active in the horticultural value chain where this capacity exists, especially within contract farming/supply arrangements. Alternatively, the Project would, if necessary, contract local experts to provide such training. Provision of training to various project stakeholders would be managed by the Horticulture Value Chain Development Coordinator and/or the Rural Finance Programme Coordinator as appropriate to the type of training.
B. Implementation Arrangements for the Component

49. Implementation of Component 1: Support to Horticultural Production and Marketing. Sub-component 1.1: Upgrading of Nurseries. The sub-component involves the importing of modern varieties and rootstock mother plants to set up demonstration orchards and for propagation. The plants would be formally purchased by the Government through the Shreder Institute. A Central Nursery, with support from the Shreder Institute, would manage demonstration orchards and propagation activities in the nursery, as well as sales to interested parties. With appropriate technical support from the Shreder Institute and the Central Nursery, Project-supported Agrofirms and other such entities active in the horticultural value chain would maintain regional nurseries and manage propagation activities in them, as well as onward sales to interested parties.

50. Implementation of Sub-components 1.2 and 1.3: Modernisation of Agrofirms and other such entities active in the horticultural value chain, and Modernisation of Horticultural Production (Small-scale Production and Market Services Enterprises). Financing of modernisation under both sub-components would be achieved through the establishment and operation of three refinancing facilities under the Rural Finance component (Component 2) of the project as described below. The resulting horticulture-related investments made available to project beneficiaries would be complemented under sub-components 1.2 and 1.3 with appropriate training and technical assistance for agro-firms, small-scale farmers and market services providers, as already described in Annex 4.

51. Access to project financing under the three facilities would be provided on a competitive basis. Proposals would be ranked within each group of investments using the following procedure: (a) four criteria would be applied. These are: the expected profitability of the investment, using the IRR as the indicator; the number of employment positions created (per USD 1,000 of investment of project funds); the number of farmers gaining access to markets or services as a result of the investment (per USD 1,000 of investment of project funds); and, the relative amount of owners contribution to the investment; (b) each potential investor would have the proposal ranked according to the value of these criteria. Thus, the proposal with the highest IRR would receive a score of 100, with those with lower values receiving proportionately lower scores. Similarly, the proposal with the highest employment creation per USD 1,000 of project investment would receive a score of 100, with those with lower values receiving proportionately lower scores. The same procedure would be used for the evaluation of the two other criteria; (c) the scores for each proposal would be aggregated, and then ranked in accordance with this aggregate; and (d) Proposals for the three different categories of investments, i.e. (i) Agrofirms and other such entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities, would be each assessed and financed separately.

52. Each year, the project would allocate a pre-determined amount of funds for each of the three refinancing facilities and call for eligible, horticulture-related proposals by: (i) Agrofirms and other such entities active in the horticultural value chain; (ii) Small Farmers and Small Market Services Entities; and (iii) Very Small Farmers, including Dekhans, and Micro Market Services Entities. The funds would be allocated in order of aggregate scores for each category of investment. For example, if an amount of USD 2.5 million were to be allocated for Agrofirms and other such entities in Year 2, then this would be drawn down during that year, with the first ranked Agrofirm or other such

57 See also Annex 5 and Working Paper 2 (Horticulture) Value Chain Development in Annex 13 Contents of the Project Life File.
entity receiving first priority, followed by those with compliant proposals in order of ranking until the fund was exhausted. The same procedure would apply for the other smaller types of investments. Prior to the call for proposals, there would be substantial efforts made by
the project to sensitise potential investors to the opportunities and requirements of the funding support.

53. The Assessment and Ranking of Investment Proposals would be a three step process:

   (i) **Step one**, to be the responsibility of the Regional Office, would involve an initial assessment of compliance with Project eligibility criteria and verification of the legal status of the applicants;

   (ii) **Step two**, for detailed financial and technical assessment and ranking of investment proposals would lie with the Horticultural Production and Marketing Coordinator in the Central PMU, with assistance from the Rural Finance Programme Coordinator and the Project Director; and

   (iii) **Step three**, those proposals accepted by the Central PMU would then be passed on to the participating banks, which would assess the proposals using their own criteria.

54. Overall responsibility for implementation arrangements and managing of funds for International TA and training would be vested with the RRA/HSP PMU through its Regional Office in Surkhandarya.

**COMPONENT II: RURAL FINANCE**

A. **Detailed Description of Activities**

55. **Component 2: Rural Finance.** The rural finance component will comprise three sub-components that provide financing for the investments described under the Project’s sub-components 1.2 and 1.3 above. Each investment would be composed as follows:

   a) Debt Financing, in the form of loans from commercial banks, up to a maximum of 60% of the total new investment cost;

   b) Competitive Grant, which would be an contribution paid by the Project to the beneficiary to assist with them making investments in the horticultural value chains supported by the Project. The Competitive Grant would be up to a maximum of 20% of the total new investment cost.

   c) Beneficiary Contribution, which would be a minimum of at least 20% of the total new investment cost.

56. The total financing made available under the Project for the Competitive Grants would amount to a maximum of approximately USD 4.3 million. Such Competitive Grants would constitute an essential element in creating investments that introduce new technologies and support modernization of the horticultural sector in the Project Area. After full disbursement of the total financing available for Competitive Grants, investments would be financed by Debt Financing up to a maximum of 80% of the total new investment cost, the rest being covered by the Beneficiary Contribution.

57. **Sub-component 2.1.** The financing available for Sub-component 2.1 is estimated to amount to USD 7 million, and derives from the following sources:

   a) IFAD/co-financier Loan USD 3.36 million to cover the Debt Financing;

   b) IFAD/co-financier Loan USD 1.4 million to cover the Competitive Grants;

   c) PFI contribution USD 0.84 million to cover Debt Financing; and
d) Beneficiaries’ self-financing contribution USD 1.4 million to cover the Beneficiary Contributions.

58. The IFAD/co-financier Loan would re-finance selected commercial banks’ medium to long-term lending to agro-firms, identified as eligible for project support, for investments in eligible processing, storage, and other services relevant to horticultural producers.

59. The intended beneficiaries are agro-firms with a suitable strategic positioning in horticultural value chains, providing services to farmers with development impacts in the form of employment creation and access to marketing, and identified as eligible for project support with commercially viable and bankable business proposal, adequate collateral, satisfactory rates of return, and repayment capacity as demonstrated in realistic business plans, which in view of the expected considerable loan amounts will initially be established with the assistance of about two person-months of external expertise provided by the project’s planned technical assistance to agro-firms.

60. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar, depending on the preference of the ultimate beneficiary, who in the case of choosing the USD option will carry the foreign exchange risk.

61. Maximum financing in the form of Debt Financing and Competitive Grants will be USD 600 000 equivalent per borrower, reflecting the requirements for investments as demonstrated in realistic business plans together with the recognised institutional and organisational status of the agro-firm.

62. Average financing sizes are estimated at USD 400 000 equivalent, and maximum duration of loans to be refinanced is proposed at six years with a maximum grace period of one year.

63. With respect to the on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollar, for which the final borrower, i.e. the agro-firm, will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

64. **Sub-component 2.2.** The financing available for Sub-component 2.2 is estimated to amount to USD 9 575 000, and derives from the following sources:

   a) IFAD/co-financier Loan USD 4 596 000 to cover the Debt Financing;

   b) IFAD/co-financier Loan USD 1 915 000 to cover the Competitive Grants;

   c) PFI contribution USD 1 149 000 to cover Debt Financing; and

   d) Beneficiaries’ self-financing contribution USD 1 915 000 to cover the Beneficiary Contributions.

65. The IFAD/co-financier’s Loan would re-finance commercial banks’ lending to investments in the operation of eligible horticultural activities among small farmers, operating between 2 and 6 ha, and small market services entities (storage, processing, packaging, distributing etc.).

66. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar. The maximum financing in the form of Debt Financing and Competitive Grants will be USD 100 000 equivalent per borrower.
67. Average financing sizes are estimated at USD 40,000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be four years, with a grace period of up to one year.

68. With respect to on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollars, the final borrower will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to USD 6-months LIBOR.

69. **Sub-component 2.3.** The financing available for Sub-component 2.3 is estimated to amount to USD 5 million, and derives from the following sources:

   a) IFAD/co-financier Loan USD 2.4 million to cover the Debt Financing;
   
   b) IFAD/co-financier Loan USD 1 million to cover the Competitive Grants;
   
   c) PFI contribution USD 600,000 to cover Debt Financing; and
   
   d) Beneficiaries’ self-financing contribution USD 1 million to cover the Beneficiary Contributions.

70. The IFAD/co-financier’s Loan would re-finance commercial banks’ lending to investments in eligible horticulture-related activities, with emphasis on very small production units of less than 2 ha, including dekhan farmers, and micro market services entities.

71. The refinancing facility will be available to cover loans in two currencies, the Uzbek Sum and the US dollar. The maximum financing in the form of Debt Financing and Competitive Grants will be USD 20,000 equivalent per borrower.

72. Average financing sizes are estimated at USD 10,000 equivalent per borrower. Maximum duration of loans to be financed under the credit lines will be three years, with a grace period of up to six months.

73. With respect to on-lending interest rates, the following is proposed: (a) for loans denominated in Uzbek Sum, the cost of funds from the Government to PFIs is provisionally foreseen to be equivalent to the Refinancing Rate of the CBU (presently 12%). This will be the final rate, covering administrative expenses for the implementation of the component, and the potential currency exchange risk for the Government; and (b) for loans denominated in US dollars, the final borrower will cover the foreign exchange risk. Cost of funds from the Government to PFIs will be equivalent to US$ 6-months LIBOR.

**B. Implementation Arrangements for the Component**

74. **Implementation of Component 2:** Rural Finance. As with the rest of the project, the Ministry of Agriculture and Water Resources (MAWR) would have overall responsibility for implementation of the HSP Rural Finance component with day to day operations.

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58 See also Working Paper 3 Rural Finance in Annex 13 Contents of the Project Life File.
Due Diligence. Due diligence of potential and interested PFIs, i.e. commercial banks, will be carried out by an international bank assessment consultant in collaboration with RRA/HSP PMU (budgeted under HSP/PMU). The PFIs will be responsible for identification of prospective sub-borrowers, have full autonomy in sub-project approval and determination of lending terms, such as repayment and grace periods as justified by realistic business plans, and bear the lending risk. Agreements
with Government in relation to on-lending rates to PFIs, foreign currency risk and related matters will be under the authority of Ministry of Finance.\(^59\)

76. **Subordinate Documents.** Implementation arrangements for the component will be stipulated in a number of subordinate documents. The project budget makes provision for technical assistance in the drafting of these documents (budgeted under the HSP PMU). The documents will be subject to ‘no objection’ by IFAD and are expected to include:

- **A Subsidiary Loan Agreement (SLA):** To be signed between GoU, represented by Ministry of Finance, the MAWR/RRA HSP PMU, and PFIs describing the terms, conditions and procedures for PFIs participation on the project; and
- **Investment Guidelines:** (forming an integral part of the Subsidiary Loan Agreement), and containing:
  - Stipulation of eligibility criteria for PFIs and end-borrowers.
  - Stipulation of eligibility of loan purposes.
  - General description of refinancing activities.
  - Principal conditions for refinancing, approval, disbursement, repayment
  - Principal procedures for refinancing, approval, disbursement, repayment - PFI accounting and audit requirements.
  - Monitoring and Reporting.

77. **PFI Eligibility Criteria.** Interested PFIs, i.e. commercial banks represented in the project areas, will be selected on the basis of a set of PFI eligibility criteria to be developed jointly by CBU and MAWR/RRA HSP PMU and to be approved by the Government and IFAD. These eligibility criteria will include compliance with all relevant laws, regulations and prudential norms; good governance and management practices; maintenance of a healthy financial status; and sound banking policies and procedures. Furthermore, the eligibility criteria will include the presence of relevant experience in satisfactorily performing the activities related to the implementation of the HSP and of staff with the required capacities and capabilities. The PFIs selected on the basis of such eligibility criteria, detailed in the Investment Guidelines, will sign the Subsidiary Loan Agreement (SLA) together with the Ministry of Finance and MAWR/RRA HSP PMU.

78. **Interest Rates.** It is expected that the following arrangements will be applied in setting interest rates for loans refinanced under the project. Project-sourced refinancing funds, allocated between PFIs as agreed between them and the Ministry of Finance and MAWR/RRA HSP PMU, will be made available to PFIs for a period of initially up to 20 years with a grace period of up to five years, as described and specified in SLAs.

79. Commercial banks intending to participate in the project will be invited to bid on the margins, to cover overheads and credit risk, they intend to add to a “reference rate”, i.e. the rate of interest at which refinancing funds will be available to PFIs from Ministry of Finance. For loans in foreign exchange, the “reference rate” is proposed at USD 6-months LIBOR.\(^60\) For loans in Uzbek Sum it appears that the Ministry of Finance has provisionally decided that the “reference rate” should be set at CBU’s refinancing rate, presently 12% but expected to be reduced to 11% p.a. in 2012. On the basis of the bids received, RRA HSP PMU will calculate the average margin, which will become the interest mark-up for all participating commercial banks. RRA HSP PMU will have the option to reject one of the bids received if such a bid is significantly higher than the average margin in order to avoid that the final average margin may be unduly affected if such a

\(^{59}\) A draft TOR for the due diligence consultant is provided in Appendix 2 of this Annex.

\(^{60}\) To be negotiated and agreed with the Ministry of Finance.
80. **PFI Failure to Disburse.** If a PFI is unable to disburse the refinancing funds available under the HSP Rural Finance component to eligible clients for eligible purposes, the MAWR/RRA HSP PMU as approved by Ministry of Finance shall be entitled to reallocate such funds to other interested and eligible PFIs, which are able to make use of and disburse the funds. Furthermore, the MAWR/RRA HSP PMU shall be entitled to exclude a commercial bank from participation in the project in any case where it has acted against and in conflict with the conditions and procedures stipulated in the Subsidiary Loan Agreement and the Investment Guidelines.

81. **Sub-borrower Eligibility Criteria.** Detailed eligibility criteria for sub-borrowers, terms and conditions for borrowing under the rural finance component, and on-lending to sub-borrowers will be specified in the Subsidiary Loan Agreement to be signed between the Ministry of Finance, the MAWR/RRA HSP PMU and each PFI – and subject to ‘no objection’ from IFAD. The set of guidelines to be established will form an integral part of SLAs and adherence to these eligibility criteria will be monitored throughout project implementation.

82. **Sub-Borrower Loan Approval.** Loan applications under the three project-supported refinancing facilities will be evaluated by the credit committees of the respective PFIs (commercial banks). If approved by them, the application will be forwarded to the Rural Finance Programme Officer in the project’s Regional Office accompanied by all required details for approval for refinancing. Subject to the Officer’s review, applications will be sent on to the Rural Finance Programme Coordinator in the RRA HSP PMU for final review and approval. It is to be noted that applications for refinancing of loans exceeding USD 250 000 will require a ‘no objection’ from IFAD. After approval by RRA and, for applications exceeding USD 250 000 also by IFAD, the required refinancing may be executed and released by the respective commercial bank.

83. Basic outlines for contents of progress reports, and indicators for component monitoring and impact assessment are proposed to include the following:

**Outputs - on a quarterly/annual basis:**

No. and amount of IFAD-loans applied for/rejected/disbursed:
- By sub-component;
- By oblast/district; and
- By PFI.

Total capital repayments of IFAD-loans during the period:
- By sub-component;
- By oblast/district; and
- By PFI.
Total outstanding IFAD-portfolio:

- By sub-component;
- By oblast/district; and
- By PFI.

Total arrears situation of IFAD-loans:

- By sub-component;
- By oblast/district; and
- By PFI.

Gender distribution of IFAD-loans

- By sub-component
- By oblast/district
- By PFI

**Outcomes – on an annual basis:**

- Jobs created by IFAD loan funds

**Impact – at mid-term and at the end of project period (as compared to baseline information):**

- Improved profitability in agro-firms;
- Improved farm profitability; and
- Household asset ownership.

**COMPONENT III: IMPROVED IRRIGATION NETWORK**

**A. Detailed Description of Activities**

84. **Component 3 Improved Irrigation Network.** The Improved Irrigation Network (IIN) component would finance investments in public (for common use) irrigation and drainage infrastructure that complements support to beneficiaries under the Support to Horticultural Production and Marketing (SHPM) component so that they are more likely to achieve the full economic potential of their commercial engagement in fruit, nut and vegetable production.

85. The main types of infrastructure that would be eligible for support under the IIN component would include on-farm irrigation (tertiary) and drainage networks including ancillary structures such as division and regulating structures, intakes and outlets, water measurement devices, bridges, pumping stations etc. However proposals for improvement of sections or structures on inter-farm (secondary) systems could also be

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considered subject to meeting the eligibility and selection criteria described in Annex 5 and in Working Paper 4.

86. The finance available to the IIN component is currently anticipated at about USD 5.4 million including a beneficiary contribution of USD 0.83 million. A preliminary estimation shows that with this available funding the IIN component could assist in on-farm and inter-farm irrigation and drainage systems improvement for an estimated area of about 1 000 ha. The cost of each IIN investment would range between USD 50 000 and USD 300 000, including the beneficiary contribution of at least 20% of investment cost and VAT of 20% to be contributed by the Government. comparatively larger scale projects would be supported in individual cases where either other donors or private business would source additional financing.

87. There would be no pre-defined allocation for different types of irrigation/drainage investments, nor would the number of benefiting communities pre-determined. Investments under the component would be demand-driven but would need to meet a number of eligibility criteria for consideration for project support. For pre-qualification, applications would have to comply with three compulsory criteria: (i) direct linkage with the horticulture activities selected for support under the SHPM component, authenticated through the respective producers and processors; (ii) commitment by the proponents to invest from their own resources a minimum of 20% in cash of the total cost of the investment; and (iii) proposal of a feasible and sustainable procedure for operation and maintenance of the proposed facility, endorsed by the responsible institution (Water Users Association (WUA) or Administration of Irrigation Systems (AIS) in the case of investments in inter-farm systems). The endorsement would be subsequently formalized in a letter stating the commitment to transfer the assets to the institution’s balance sheet and to make yearly provisions for maintenance. Any proposal which did not satisfy these criteria would be rejected.

88. Proposals accepted for consideration for project support would be competitively ranked on the basis of five further criteria: (i) number of individuals assisted per USD 1 000 of investment (the more individuals assisted the higher the ranking); (ii) contribution by applicants (the larger the contribution the higher the ranking); (iii) Operation and Maintenance (O&M) capacity and experience (the greater the O&M capacity and experience of the WUA or AIS the higher the ranking); (iv) number of economically active who would directly benefit from the investment (the greater the number the higher the ranking); and (v) expected improvements to water and soil management (no improvement, limited improvements, or substantial improvements). These IIN ranking criteria would ensure that funds are allocated in accordance with the goal of improving livelihoods and economic growth in less advantaged rural communities.

89. Environment. All HSP activities will be compliant with IFAD Guidelines on Environmental Assessment and Government of Uzbekistan environmental legislation, i.e. environmental assessment of all the investment proposals would have to be undertaken/approved by the State Environmental Expertise (Glavgosecoexpertiza) of the State Committee on Natural Protection. The preparation of or the review and approval (or rejection) of developments on environmental grounds, is regulated by Decree of the Cabinet of Ministers No. 491 (31.12.2001): “On approval of the Regulation of the State Environmental Expertise”. RI.

90. Objectively verifiable environmental status indicators (OVIs) will be developed during project start-up as part of HSP’s Management Information and M&E systems and will minimise the likelihood of negative environmental project impact and provide early warning of any environmental risks, allowing prompt remedial action. With regard to support to horticultural modernisation, the project focuses on the introduction of improved and environmentally sound technologies and practices linked to international
sanitary, phyto-sanitary and food safety standards. With regard to project support to small-scale irrigation and drainage, the small scale and rehabilitative nature of the interventions are not expected to have significant negative or irreversible environmental impacts. The main foreseeable environmental concerns are the ones associated with the management and disposal of excavated materials and construction debris that would be addressed by works contractors and overseen by the Regional Office’s Civil Engineer and contracted Site Supervisors.

91. In line with IFAD Guidelines on Environmental Assessment, the project has been classified as Category B since few, if any, negative environmental impacts are expected to result from the project and investments in inter- and on-farm irrigation and drainage improvement will result in positive benefits. An Environmental and Social Review Note (ESRN) is provided in Section D of Annex 12.

B. Implementation Arrangements for the Component

92. Implementation of Component 3: Improved Irrigation Network. The implementation of the Improved Irrigation Network (IIN) component would be managed by the RRA/HSP PMU and the Project’s Regional Office to be established in Surkhandarya region. The key relevant staff would be the Procurement Officer at central level in Tashkent and the Civil Engineer in the project’s Regional Office. Their tasks would include: (a) in Tashkent: (i) to review, finalize and submit recommendations for irrigation/drainage investment proposals with required supporting documents for PSC and IFAD approval; (ii) to conduct procurement of design services and civil works and submit evaluation reports to the project Tender Committee for approval and to IFAD for review and written no-objection; and (iii) to monitor and coordinate implementation of the IIN component by the Regional Office; and (b) in the Regional Office: (i) to publicize the availability of the irrigation and drainage support component in the project area, its application format and arrangements, selection procedures and implementation modality; (ii) to assist interested applicants in application preparation and submission; (iii) to undertake technical review of investment proposals; (iv) based on the technical review, evaluate and rank applications in accordance with the guidelines and mechanisms summarised here and set out more fully in the Draft Project Implementation Manual provided in Annex 13 Contents of the Project Life File; (v) submit recommendations for irrigation/drainage investments with required supporting documents for RRA/HSP PMU review; (vi) to develop engineering designs’ Terms of References for selected investment proposals; (vii) to assist RRA/HSP PMU in evaluation of IIN component-related bids; (viii) to review and approve engineering designs provided by consultants (design companies); and (ix) to monitor and carry out supervision of the implementation by contractors of all civil works financed wholly or partially under the IIN component.

93. Selection Procedures. IIN implementation would be based on a set of criteria that would ensure that the Project resources reach the intended target groups and would start with information and awareness campaigns. Thereafter, applications for IIN support under the project would go through a two-step selection process of: (i) screening, pre-qualification and initial ranking; and (ii) qualification. The criteria and scoring to be applied for the first step have already been described in Annex 4 and would be applied to proposals by the project Regional Office.

94. After the pre-qualification stage, a team of the Regional Office relevant staff would review the actual situation in the field conditions. Verification would be carried out on the state of irrigation and/or drainage infrastructure, linkage with selected horticultural activities eligible for SHPM support, potential for enhancing a particular market linkage, feasibility of proposed works, maintenance arrangements and other relevant items. The link between the proposed investment and the expected benefits would be researched and confirmed. Proposals which remained compliant with the
criteria after this review would then be approved for financing in the subsequent year, subject to availability of budgeted finance. The now qualified proposals would be sent by the Regional Office to the Project Director in Tashkent for further review and endorsement by the Project Steering Committee (PSC) and thereafter the PSC’s final selection would be sent for review and approval by IFAD.

95. **Procurement and Execution of Works.** Lead responsibility for IIN-related procurement would rest with the RRA/HSP PMU Procurement Officer and be subject to the procedures, terms and conditions set out in Annex 8.62. As such, it is expected that HSP/IIN procurement would be carried out in accordance with current IFAD Procurement Guidelines and Sample Bidding Documents for procurement of civil works and services developed by RRA under World Bank and Asian Development Bank (ADB) funded projects for which the agency has had lead implementation responsibility.

96. Bidding documents would be prepared and bids announced by the RRA/HSP PMU Procurement Officer. When applicable, for cost effectiveness and in order to attract qualified contractors, the optimal lots would be defined and shown in the Procurement Plan included in the Annual Work Plan and Budget.

97. **Supervision of Civil Works.** Supervision of civil works would be carried out by contracting licensed individual daily Site Supervisors under the direct guidance of the project’s Regional Office’s Civil Engineer. These would fill a daily activity report recording quantity and quality of works and materials used. The Regional Office’s Civil Engineer would retain the role of Project Manager as stated in the General Conditions of Contract and in this capacity would regularly visit sites during implementation of construction works and be responsible for checking the quantities and assuring the quality of implemented works.

98. The Civil Engineer and on-site supervisor would verify each bill of completed quantities, the cumulative bill of quantities, and requests for interim payment, as well as completion certificates prepared by Contractors. The Civil Engineers would ensure that all engineering design requirements and construction supervision procedures (testing, material certification, laboratory checking etc.) as per the requirements of construction norms and standards of Uzbekistan are fulfilled by Contractors. Representatives of relevant operation and maintenance institutions (WUAs/AIS) would be members of the acceptance committee issuing the Certificate of Final Completion on the works.

99. **Management of Targeting.** The Project Steering Committee (PSC) would have overall responsibility for ensuring that the project’s targeting criteria are adhered to. All professional members of the Rural Restructuring Agency/HSP Project Management Unit (RRA/HSP PMU) and the project’s Regional Office would have day-to-day responsibility for such adherence. Lead responsibility for adherence would rest with the RRA/HSP PMU’s Monitoring and Evaluation Officer, who would sensitise other project management to the importance of targeting, monitor that targeting criteria are being applied and, if necessary, propose and pursue remedial action.

100. The RRA/HSP PMU’s Assistant Monitoring and Evaluation Officer – Gender Focal Point/Coordinator would, as part of his/her overall responsibility for assuring adherence to project targeting criteria have lead responsibility for achieving the proposed target quota of 30% of direct beneficiaries of project-supported training, loans and employment among the primary target groups (small-scale horticultural producers and market services entities and the rural unemployed) being women. In this respect it is anticipated that the Assistant M&E Officer would work closely with: the Women’s Committee representative on the PSC; the Deputy Hokims for women’s affairs at project-

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62 See also Chapter III, Section D below on ‘Financial Management, Procurement and Governance’.
participating regional and district hokimiyats; mahalla committee members responsible for women’s affairs in the project area; and, as appropriate, the Association of Business Women of Uzbekistan (BWA), the Association of Farmers (AF) and Mehr (the Association of Women’s Non-governmental Organizations of Uzbekistan).

101. **Selection of Investment Proposals.** The decision-making procedure to be followed for the investment selection is guided by the principles of transparency, demand-driven allocation, production efficiency, market linkage, and cost sharing. Component implementation would be based on a set of criteria that would ensure that the Project resources reach the intended target groups and would start with information and awareness campaigns. Information and awareness campaign would be undertaken by the field office staff through workshops organized within two months after the horticultural value chains selection, and would include hokimyat and village authorities, rural entrepreneurs, Agro-firms, small and medium-size farmers, WUA and AIS authorities. Estimated two information workshops would be conducted in the Project area province. The objective of these workshops would be to sensitize local authorities and potential beneficiaries about the component, its objectives and eligibility criteria, and application and selection procedure. The entire Operations Manual would be the main source of information and awareness about the IIN component during these workshops.

102. **Application.** Request for funding from the IIN component would come from local authorities (district or provincial hokimyats) based on thorough consultation with farmers’ interest groups, formal producers’ associations, village authorities, local entrepreneurs/businesses, WUAs and involved Agro-firms benefiting from the support under the SHPM component. The application would be done in writing and should consist of required information and data for field offices and RRA decision making. Deadline for the applications for the investments available for the subsequent year would the 1st October of current year. The application would be done in writing and should consist of the required information and data as per the format described in Appendix 1.

103. Feasibility studies and professional services to correctly formulate the proposals will be provided to applicants (if required) by the RRA field office staff. This would enable participation for all potential applicants requiring such investment, as well as allow for easy analysis by the RRA. Such support would only apply to the preparation of initial proposals, containing the required information for evaluation and ranking.

104. **Selection.** All applications would go through two step selection process of: (i) screening, pre-qualification and initial ranking; and (ii) qualification.

105. Proposals targeting to an individual businesses and limited possibilities for future multiplier would not be considered as eligible and would be refused without evaluation.

106. For screening and pre-qualification, applications would be required to be compliant with three compulsory criteria:

- Direct link with the horticultural value chains selected to be supported under the SHPM component authenticated through the respective producers and processors;
- The proposals have to show a commitment by the proponents to invest a minimum of 20% in cash of the total cost of the investment from their own resources; and
- Feasible and sustainable procedure for operation and maintenance of the proposed facility, endorsed by the responsible WUA or AIS in case of investments in inter-farm systems. The endorsement would be subsequently formalized in a
letter stating the commitment to transfer the assets to the institution’s balance sheet and to make yearly provisions for maintenance.

Any proposal which did not satisfy these criteria would be rejected.

107. **Technical Feasibility:** The technical feasibility study and estimation of required investment would be carried out by the RRA field office Civil Engineer.

108. **Direct link with the SHPM component:** The main conceptual principle in the decision-making for selection of eligible investment proposals is to achieve full economic potential of the beneficiary clusters identified and supported under the SHPM component. For that the RRA/PSC looks at the main following issues:

- How would the proposed investment in irrigation rehabilitation contribute in realization of the business plan of the applicant in the framework of selected value chain?

- How would the proposed investment in irrigation and the subsequent improvement of services contribute to increased income of the applicants? What happens if the funds for investment are not allocated?

109. **Equitability Criterion:** Equitability considerations would also be taken into account during the course of application analysis and eligibility assessment. The equitability criterion that would be considered when reviewing an investment request is that the number of households in an area affected per USD 1,000 investment should be as large as possible consistent with the commercial function of the investment.

110. **Equity Contributions:** To ensure sufficient commitment of applicants to the requested infrastructure a contribution in equity is required from them. The contribution would be in cash. The contributions in equity by the applicants would represent a minimum of 20% of the total estimated value of the investment.

111. **Complementarity and Synergy with other Rural Infrastructure Programmes:** To ensure coordination and complementarities between the plans for irrigation improvement of national, regional and local authorities, other donors, private companies and IIN investment, RRA/Field office should coordinate its activities with all relevant institutions to avoid duplication and determine how the proposed investment fit in with the planning of the relevant authority and local development plan. After receiving the application the RRA would formally contact with relevant institutions and agencies to ensure that the proposed infrastructure investment is not planned or considered by other investors or included in the list of infrastructure to be funded from the central budget.

**(ii) Qualification**

112. The qualification stage would consist of the following steps:

113. **Field Review by RRA Field Office:** After the pre-qualification stage, a team of the RRA/field office would review the actual situation in the field conditions. Verification would be carried out on the state of infrastructure, potential for enhancing a particular horticultural value chain, feasibility of proposed works, and other relevant items. The link between the proposed investment, the expected benefits and the commercial justification would be researched and confirmed. Proposals which remained compliant
with the criteria after this review would then be approved for financing under the IIN component.

114. **Operation and Maintenance:** The essential requirement for the sustainability and longevity of the irrigation investment is operation and maintenance responsibility. The applicants must present an agreement with the responsible local authority on the operation and maintenance of the proposed infrastructure, i.e. WUA for on-farm network and AIS for inter-farm facilities.

115. The agreement would have to entail that the responsible institution would revalue the rehabilitated infrastructure as a fixed asset on their balance sheet, as per the legislation of Uzbekistan, and would make required provision in its budget, and would take the responsibility for sound operation and maintenance of rehabilitated infrastructure (see Appendix 2 for template).

116. **Ranking:** Thereafter, all the screened and pre-qualified applications would be competitively ranked. Investments ranking would be based on the assessment of 5 relevant indicators and on the sum of the individual scores assigned to each indicator. The individual scores would be designed to prioritize investments with a larger number of beneficiaries for a given budget. A sample evaluation table including additional guiding principles for the prioritization of investments is attached as Appendix 2.

117. All pre-qualified IIN investment proposals, which are technically feasible and match the selection criteria would be ranked and passed to the following step. The main responsibility for carrying out ranking of investments would rest with the RRA, based on the data and calculations provided by applicants and verified by its field office.

118. **Environmental considerations:** Given the small scale and rehabilitative nature of the interventions, no significant negative or irreversible environmental impacts are expected from the IIN investment. The main foreseeable environmental concerns are the ones associated with the management and disposal of excavated materials and construction debris that would be addressed by works contractors and overseen by supervisors and field office’s Civil Engineers. However, all approved proposals/designs that are to be implemented through the IIN would be required to meet requirements of the environmental legislation of the Republic of Uzbekistan, i.e. Environmental Assessment of all the investment proposals have to be undertaken/approved by the State Environmental Expertise (Glavgosecoexpertiza) of the State Committee on Natural Protection. The preparation of or the review and approval (or rejection) of developments on environmental grounds, is regulated by Decree of the Cabinet of Ministers No. 491 (31.12.2001): “On approval of the Regulation of the State Environmental Expertise”. Submission of required documents for Environmental Assessment as per the existing legislation will be under the responsibility of the RRA. Environmental Assessment considered as part of engineering design documents, therefore they would be financed from the Project budget.

119. Proposals that remained compliant with the criteria after the qualification would be recommended for approval and financing to the PSC in the subsequent year, subject to availability of budgeted finance. Proposals which fitted the qualification criteria but not implemented because of the budget limit for certain year would remain in the qualification list for the subsequent year to compete with new proposals for investment or will replace the proposals which for any other reason (see further) would be refused for funding during the next implementation stages.

120. **Approval of Investment proposal:** After approval by the PSC a request for review and no-objection for selected proposals for each year would be sent to IFAD prior to final decision for investments in improved irrigation.
121. **Equity Contribution.** To ensure sufficient commitment and ownership of clients to the requested infrastructure a contribution in equity is required from them. Given the limited funds available for the IIN component and anticipated great number of applications, the contribution can be paid only in cash. The contribution in equity by the applicants would represent a minimum of 20% of the total estimated value of the investment.

122. Under IIN and other things being equal, applicants prepared to make a higher level of commitment would be given preference in the RRA/PSC review/assessment process. Higher levels of equity may be contributed jointly by ultimate end-users in formal partnerships with related Agro-firms.

123. Donors and public funding sources may not grant equity contribution on applicants’ behalf. However, co-financing would be permissible in the case of larger projects or as additions to the minimum commitments from primary applicants.

124. **Contribution Payment:** Payment of the equity contribution would be done in one main installment. After the approval of the investment proposal and prior to bid announcement for development of engineering design the applicants shall deposit 20% of estimated investment cost in a bank account opened by RRA for this purpose.

125. After the bid evaluation for civil works when the actual investment cost is known, in case if the paid contribution is less than 20% of investment cost, the applicant shall pay the residual amount to the same bank account opened by RRA. In cases when the initially paid amount would exceed the minimum requirement of 20% rate it will be considered as additional contribution and the actual rate as contribution will be fixed.

126. **Operation and Maintenance:** A formal agreement between beneficiaries, institution responsible for proposed infrastructure operation and maintenance (O&M)/owner (if different from applicant) and RRA stating the clear identification of rights and responsibilities of each party including contribution payment deadline and O&M responsibilities would be signed prior to start of procurement procedure for design services (see Appendix 3). Applicants failed to fulfill the obligations under this Agreement would be refused for proposals funding and would be replaced with the next highest ranked proposals from the approved list of proposals.

V. **Procurement**

127. The Rural Restructuring Agency (RRA) would have main responsibility for procurement under the HSP. The RRA is a state enterprise under the MAWR. The RRA’s TORs require that the RRA carry out the complete procurement process starting from the request for expressions of interest and short-listing (in the case of consultant services), to preparation of bidding/requests for proposal documents, inviting and receiving bids/proposals, evaluation of bids/proposals, notification of contract awards, and preparing the contract for signature, including obtaining the relevant donor’s no objections where required.

128. Procurement of works and services would be carried out in accordance with applicable IFAD Procurement Guidelines and Sample Bidding documents for procurement of civil works and services developed by RRA under the on-going WB and ADB projects.

129. An Evaluation Committee for the evaluation of each procurement would be appointed ad hoc, and composed of persons qualified in terms of relevant expertise, seniority and experience, depending on the type, value and complexity of the procurement. The number of members of the Evaluation Committee would depend on the value and complexity of the procurement requirement, but would in all cases be a minimum of three. A member of the Evaluation Committee must always declare when he
or she has a conflict of interest in the procurement which may impact on impartiality in the evaluation process.

130. For each contract to be financed from IFAD proceeds, the types of procurement methods, the need for pre or post-qualification, estimated cost, prior review requirements and time-frame would be identified in the Procurement Plan, as exemplified in the draft initial 18-month procurement plan attached as Appendix 1 to this annex, and subsequently as submitted annually for each fiscal year period by the Borrower and approved by IFAD in the course of Project implementation. While specific thresholds for procurement financed under the Project will be stipulated in IFAD’s Letter to the Borrower, the general recommendation is the following:

131. Works estimated to cost more than USD 500 000 equivalent may be procured through International Competitive Bidding (ICB) using the World Bank’s applicable Standard Bidding Documents (SBDs). Works estimated between USD 25 000 and USD 500 000 may be procured through National Competitive Bidding (NCB), while works estimated below USD 25 000 may be procured through National Shopping (NS). Direct contracting will have to be approved by IFAD in advance for those cases which justify its use.

132. Goods estimated to cost more than USD 100 000 equivalent per contract may be procured through ICB using the World Bank’s applicable SBDs. Goods estimated to cost less than USD 100 000 equivalent per contract may be procured through NCB. Goods estimated to cost less than USD 20,000 equivalent per contract may be procured through NS.

133. Consultancy services generally estimated to cost more than USD 50 000 for firms and USD 20 000 for individuals will be on the basis of Quality and Cost Based Selection (QCBS). However, the specific nature of the assignment will finally determine the method of procurement to be followed.
PART C: REPORTING, MONITORING, SUPERVISION and EVALUATION

I. Introduction

134. As part of its responsibility for implementing the project, the MAWR/RRA is required to report periodically on project progress in order to satisfy IFAD that the project is being carried out properly and is likely to achieve the objectives of the loan. Two types of reporting are required: i) Semi-annual Progress Reports, and ii) Annual Performance Reports. These reports will be in English with Turkish translations if and when required by MAWR/RRA. The PMU will maintain a website where all project related reports are disclosed for interested readers.

II. Progress Reporting

135. The purposes of the Progress Reports are: i) to provide essential information on the physical and financial progress of Project activities, and ii) regular assessment of Project impact. Such reports would be prepared semi-annually and annually.

136. Semi-annual Progress Reports: Twice a year (every six months), the RRA will submit a progress report to MAWR and IFAD, no later than three months after the end of each six-month period during the project implementation period. The exact dates for submission of the progress reports will be announced during the Project Start-up Workshop. The RRA will develop quarterly financial and physical progress reporting formats for service providers and such conditions will be incorporated into the contracts to be engaged with these service providers. Based on these reports prepared by service providers, RRA will issue a consolidated report on all service providers and include these in the Semi-annual Reports.

137. Annual Progress Report: One of the semi-annual reports will be the Annual Performance Report that will have broader coverage and sent to IFAD. It will contain summarized information on all aspects of the Project implementation. The report will allow supervision missions and evaluators to be fully informed of Project activities, achievements and constraints.

138. It should be noted that these reports should address the following at a minimum:

- quantitative and qualitative progress made in implementing and achieving project objectives, including detailed financial and procurement data as well as staffing; sustainability of the investments;
- effect of interventions on rural environment;
- problems encountered during the reporting period;
- gender mainstreaming and bottlenecks experienced;
- steps/actions taken or proposed to mitigate or solve these problems;
- the status of problems that have been raised in IFAD Supervision reports; and
- the proposed program of activities and the progress expected during the following reporting period.

III. Monitoring and Evaluation

139. The M&E system is a key management tool for the Project and its primary purpose will be to provide data and feedback that improves the effectiveness, efficiency, sustainability, relevance and impact of the Project activities. The key functions of the M&E system are to ensure that the Project:
is being implemented according to plan;
objectives are being achieved;
has the intended impact on the beneficiaries;
is relevant to the needs of, and prioritized by, the beneficiaries; and
can identify at an early stage the necessary corrections needed to keep progress on track.

140. This section only outlines the preliminary arrangements for the results-based monitoring and evaluation (M&E) system approach and system for HSP that would comprise performance monitoring and impact evaluation. Setting up and managing a monitoring system for project activities and preparing documentation that will be used in Project evaluation will be the primary responsibility of the Monitoring and Evaluation Specialist that will be hired for the RRA.

141. Although the M&E system will follow the Logical Framework (Annex 11) designed for the Project and comprise performance monitoring and impact evaluation, it will not be a static tool. If needed, it will be adjusted during the life of the Project as circumstances change. During implementation, therefore, further assistance will be necessary to ensure that: (i) the M&E continues to fit management needs; and (ii) that feedback follows both the internal changes in the direction of Project activities and the external circumstances that might influence the Project.

142. The M&E system will enable IFAD, MAWR/RRA and the stakeholders to monitor Project’s internal performance. This will focus on financial and physical outputs and outcomes of Project activities. Performance indicators, detailed in the Logical Framework will be monitored annually for outcomes and quarterly for outputs and include IFAD Results and Impact Management System (RIMS) 1st and 2nd level indicators. Results of the performance monitoring would be compiled by the PMU Monitoring and Evaluation Specialist into Annual Performance Reports. All M&E data will be disaggregated by gender.
1. Efforts by agricultural Agrofirms to develop contract farming have been observed in some parts of the project area. However, these are based on personal knowledge and are thus inherently limited in size, outreach and scope of activities. Furthermore, most of them are inherently unstable, as they do not incorporate measures to build and maintain confidence between the parties. It is proposed that the HSP would provide support to change this in a way which would make such arrangements more accessible to large numbers of small-scale farmers and Dekhans.

2. Procedures for engagement between an Agrofirm/market entity and farmers in a contract farming system need to be based on principles of Transparency, Trust and Effective Enforcement, together with in-built Financing. To enable this, it is usually desirable that participating farmers form themselves into one or more special purpose organisations/farmer based organisations, for the purpose of facilitating engagement with the company/market entity.

3. The main elements in the application of the principles would be:

   a) **Transparency.** The Agrofirm/marketing entity would need to ensure that all of the information pertaining to financial and technical dealings with farmers would be transparently available. The policy on company mark-ups and pricing for services and inputs would be negotiated and agreed prior to any agreement. The costs would be overtly disclosed by the company to organisations of farmers participating in a scheme, and directly to the farmers themselves. This process would be maintained through an “open book system” whereby the company would specifically enable farmers to have full knowledge of the derivation of prices and charges pertaining to farmer's transactions. Various technological innovations, including the use of mobile telephony and the internet would be applied so that participating farmers and their organisations would be able to access individual financial and technical information on their accounts and status with the company. Pricing formulas for produce would be based on verifiable base indicators, and all details within the price derivation process would similarly be disclosed. It is not advisable to set final prices in advance, as this would provide either party to the agreement to engage in unethical behaviour. For some crops and commodities which are produced over an extended period, it would be prudent to establish price pools using a form of warehouse receipts process, whereby farmers would be paid a substantial initial amount on delivery to a secure company warehouse/storage facility, with the balance payable from a blend of actual prices received for the produce.

   b) **Trust.** Various other devices would be used to engender trust between the parties. Firstly, a contract would be negotiated between the each Agrofirm/market entity and participating farmers, on some cases with farmers organisations providing negotiation on behalf of their members. This would be varied from time to time to suit circumstances, but only with the full knowledge and participation of the farmers and their organisations. Secondly, an Independent Audit of procedures would be carried out periodically by a competent and reputable organisation. This would be done annually at the commencement of the agreement, but could be done less frequently once trust is evidently established. This would be used to provide a guarantee that stated procedures and calculations were accurate, and that the procedures themselves were robust and fair to all parties. Thirdly, the system would use the authority of the farmer's organisations and their leaders to ensure appropriate communication and discipline. Fourthly, companies would
endeavour to use trusted and well-educated local people within its system of engagement with farmers and provision of services to them.

c) **Enforcement.** There would need to be agreed methods of enforcement to avoid delinquent behaviour by either party. For the most part, enforcement of farmer behaviour would be through a form of group responsibility, managed by farmer’s organisations. While there would be a legally binding agreement between the parties, resorting to the formal legal system for redress would be too slow and inconvenient, as matters would require rapid resolution so as not to disrupt agricultural operations. For example, the farmers’ organisation for each participating group of farmers would be responsible for ensuring compliance within their group for technical matters such as timely and assured crop delivery and crop quality management. Failure of one or more of the group to undertake agreed actions would need to be covered by the group as a whole. Similarly, the farmer’s organisation would be responsible for the financial compliance of farmers under its control, and would be obliged to make good any shortfalls. The behaviour of each Agrofirm or other such entity would also need to be governed by the possibility of sanctions. If a farmer or farmer’s organisation believed that a company had not discharged its obligations, they would be able to seek redress through direct engagement with the company. If intermediation at this level did not succeed, then the matter could be referred to an independent arbitrator (honest broker). The arbitrator would need to be a competent yet “disinterested” organisation such as a legal arbitration practice or a reputable NGO. The identity of the arbitrator would need to be agreed jointly between each company and the participating farmers’ organisations, and its decisions would be binding on both parties. The arbitrator would be able to invoke sanctions on a company if a case against it were proven. The severity of the sanctions would be pre-determined by negotiation between the parties.

d) **Financing.** The system would have in-built financing, usually from a bank, within a “Tri-Partite Agreement”. Such a system would operate as follows:

   (i) The Farmers and the Agrofirm/marketing entity would negotiate a contract, which would include specification of improved procedures requiring specific inputs, as well as pricing and standards parameters;

   (ii) The Farmers and the Agrofirm/marketing entity would jointly approach a bank with which they already have a relationship, seeking partial or complete financing for the required inputs; and

   (iii) They bank would become a party to the agreement, with its role being to provide the agreed finance in a timely way to the farmers, and to manage repayments. The Agrofirm/marketing entity would pay the Farmers only through their account with the bank, and it would deduct repayments from this on an agreed schedule. While the bank may require some collateral or guarantee initially, it is expected that it would ease this requirement after it becomes confident of the robustness of the system. In the interim period, it would hold the contract as collateral.

e) This arrangement would greatly enhance the stability of the contracting system. Farmers would set great value on the provision of seasonal finance, and would be much less likely to break the terms of the agreement due to this incentive. Similarly, the Agrofirm/marketing entity would not be faced by the need to manage credit, as this would be done professionally by the bank. Finally, it is likely that the bank would be in favour of such an arrangement, as it would provide a new market for their liquid short-term deposits.
4. As implied above, in most cases, it would be prudent to encourage farmers to organise into formally recognised groups or Farm Based Organisations (FBOs). These need not be complex in structure; they would be simply a means to enable good communication and contractual engagement, that is, they would be a single purpose entity. As such, they would be formed by farmers in the common purpose of dealing with a particular Agrofirm/marketing entity, and this would facilitate the engagement. An Agrofirm/marketing entity may engage with one or several FBOs, as dictated by circumstances. An example of the generic type of contract which would be used for contracting between Agrofirms/marketing entity and FBOs is attached.

5. The arrangement can be enhanced through application of various technological and business innovations. An innovation which is proposed for adoption would be the “Farmers Business Book”. This would be initially introduced in a format similar to that of a savings bank passbook, recording all transactions and balances, as well as the farmer’s identity, location and production details. This format also lends itself to an electronic format, which could be developed once the basic passbook format is in use. Over time, the Business Book would become an important record of the productivity and credit-worthiness of the farmer. An example of the template for the Farmers Business Book is attached.

6. In order to implement this type of arrangement, the HSP would provide the following support:
   - Development of a contract farming “template” incorporating the elements presented above in the Uzbek legal, social and production context. This would be a task undertaken by a local service provider with international technical support if required;
   - Included in the development of the template would be widespread industry and stakeholder consultation, with public presentations and discussions;
   - Provision of “training and mentoring” services to assist with the implementation of the system in collaboration with Agrofirms/similar entities actually participating in HSP supported activities. It is recommended that initially two Agrofirms/similar entities within prominent value chains be chosen for this type of support, to be provided by a local service provider. This support would be expanded subsequently, and it is expected that ultimately, about 15-20 such contract farming development and support initiatives would be supported, within all the potentially viable value chains;
   - Development and application of technological innovations, especially with respect to means of using mobile telephony and internet to mobile services as a means of providing participants with accurate and timely price and contract information; and
   - Conduct of annual reviews of the application of the systems in genuine commercial use, with analysis and feedback provided through public information and dissemination processes.
## Appendix 2: SAMPLE EVALUATION TABLE FOR INFRASTRUCTURE

<table>
<thead>
<tr>
<th>Value</th>
<th>Referee Points</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1-Number of individuals assisted per US$ 1,000 of investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Between 1 and 5 people</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Between 5 and 10 people</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>More than 10 people</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td><strong>2- Contribution by applicants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20% of investment cost</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>More than 20% of investment cost</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>More than 30% of investment cost</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td><strong>3- O&amp;M capacity and experience of WUA/AIS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Good</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Excellent</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td><strong>4- Number of economically active who would directly benefit from the investment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Between 2 and 10</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>More than 10</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td><strong>5- Expected improvements to water and soil management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No improvement</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Limited Improvements</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Substantial Improvements</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL (max 100)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## I. TARGETING

<table>
<thead>
<tr>
<th>Issues</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the main <strong>target group</strong> – those expected to benefit most – correspond to IFAD's target group as defined by the Targeting Policy (the extremely poor and food insecure)?</td>
<td>Yes. See Annex 2 on Poverty, Gender and Targeting.</td>
</tr>
<tr>
<td>2. Have <strong>target sub-groups</strong> been identified and described according to their existing socio-economic characteristics, assets and livelihoods – with due attention to gender issues?</td>
<td>Socio-economic characteristics of the project’s primary target group are described and gender-related development constraints and opportunities are described.</td>
</tr>
<tr>
<td>3. Is evidence provided of <strong>interest in and likely uptake of the proposed activities</strong> by the identified target sub-groups?</td>
<td>Yes. Dekhan farming has become a major, poverty-reducing force and there is widespread interest in it among less advantaged rural people.</td>
</tr>
<tr>
<td>4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy?</td>
<td></td>
</tr>
<tr>
<td>4.1) Geographic Targeting</td>
<td>Geographic poverty data has been provided. The project will cover the region with the third highest poverty incidence in the country and may, subject to performance, be subsequently scaled up as a separate Phase II initiative to cover the region with the second highest poverty incidence in the country.</td>
</tr>
<tr>
<td>4.2) Enabling Measures</td>
<td>The enabling measures have been described in annex 5 and Annex 5, Appendix 3 and will include training and loans to the project’s primary target group of small-scale horticulturalists and their representation at HSP Annual Stakeholder and Review Workshops.</td>
</tr>
<tr>
<td>4.3) Empowerment and Capacity Building</td>
<td>See 4.1 above.</td>
</tr>
<tr>
<td>4.4) Direct Targeting</td>
<td>Training and loans will be targeted directly. 30% quota for women among direct beneficiaries. The targeting rationale is provided in Annex 2.</td>
</tr>
<tr>
<td>4.5) Attention to Procedural Issues</td>
<td></td>
</tr>
<tr>
<td>5) Monitoring Targeting Performance</td>
<td>The Monitoring and Evaluation Specialist will also be directly responsible for the targeting and gender objectives of the HSP. The M&amp;E design of the HSP will not only monitor performance but provide analytical insights into the factors that enable small-scale horticulturalists to move to increasingly profitable and sustainable modern livelihood production.</td>
</tr>
</tbody>
</table>
### II. GENDER

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Partial</th>
<th>Issues and Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project document contains poverty and gender analysis data.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Based on the above, the project articulates a gender strategy that aims to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>The project has mainstreamed gender and provided for capacity building activities targeted at women that will enable them to consolidate control over key assets.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>The project will support their capacity to operate and manage agricultural production but the promotion of women's involvement in community affairs is not an explicitly designed outcome of the project.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>The project’s contribution to improved domestic water supply and sanitation is expected to ease women’s workloads.</td>
</tr>
<tr>
<td>3. The project identifies operational measures to ensure gender- equitable participation in, and benefit from, planned activities, and in particular:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>A 30% target quota has been set for women as direct beneficiaries under all components.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>Women will be represented at Annual Review and Stakeholder Workshops and on the Project Steering Committee.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>The actions in the gender strategy are reflected in the cost tables.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>Gender is included in the TOR for all the project management officers and the RRA/HSP PMU Assistant M&amp;E Officer will also be the project's gender focal point/coordinator with lead responsibility for gender mainstreaming and assuring gender targets are met.</td>
</tr>
<tr>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>The selection process for Associates and service providers will put experience with gender issues as a key selection criterion. See on Women's Organisations in Annex 2 and Annex 5.</td>
</tr>
<tr>
<td>4. The project log frame and suggested monitoring system specify sex-disaggregated performance and impact indicators.</td>
<td>✓</td>
<td></td>
<td></td>
<td>Yes this is indicated separately.</td>
</tr>
<tr>
<td>5. The project provides opportunities for policy dialogue on issues related to gender equality and empowerment of women.</td>
<td>✓</td>
<td></td>
<td></td>
<td>Representative of the Women’s Committee on the Project Steering Committee will enable policy dialogue on gender equality and empowerment of women at Deputy Prime Ministerial level.</td>
</tr>
</tbody>
</table>
III. RURAL FINANCE

A. Introduction

1. IFAD’s Rural Finance Policy provides guidance as to whether a rural finance component would be appropriate in an IFAD-financed project and also as to what considerations such a rural finance component should be based on. The preparation of the rural finance component of the HSP has been guided by significant parts of the Rural Finance Policy as can be seen from the below.

B. Compliance Aspects

2. Objectives and target group. The objective of HSP's rural finance component is to provide affordable refinancing/credit facilities at key points of the horticulture value chain, i.e. agrofirms and other entities active in the horticultural value chain and small-scale producers, with particular emphasis on the latter. The financial products are directed to allowing recipients access to improved material inputs (plants, agro-chemicals, equipment) and hence improved production/productivity and competitive access markets with consequent increases in assets and incomes.

3. Development impact. HSP’s rural finance focus will be solely on the provision of loan for investments. Investment financing has a better development impact than other types of financing and it is expected that the development impact on small-scale producers will be considerable.

4. Financial literacy. Eligibility for receipt of financial products under the HSP will be dependent upon the presentation of by applicants of acceptable business plans. This requirement plus specific project support to the development of such business plans is expected to raise financial literacy among agrofirms, other similar entities and small-scale primary producers.

5. Monitoring. The rural finance component includes the establishment of a monitoring system which shall be able to monitor, in detail, the performance of each and every loan which has been provided, and also the development impact, in terms of job creation and increase in borrowers’ assets and incomes, thus determining whether project results are in line with its targets. Draft indicators for the monitoring of the project’s rural finance component are to be found in the draft PIM Annex 11 under the section on Rural Finance.

6. Profitability and skills requirement. The HSP includes the financing of agrofirms other similar entities and small-scale horticulturalists’ on-farm investments. It is a pre-condition that the investment is profitable and that it is able to generate a cash-flow which shall make it possible to repay the loan. It is furthermore a condition that beneficiaries have the capability to manage the investment. These conditions are there to guard against beneficiaries making investments they are unable to handle and which might put them in a worse economic situation than before.

7. Technical and business development support. With the linked technical and business development services provided under the project, one of the aims is to decrease the number of applications which would otherwise have been rejected by the PFI. Such a decrease would probably be due to improved technical and/or business skills and better prepared business proposals. This complementary support is designed to have positive impact on the productivity and production of small-scale producers and their access to markets and, consequently, on their income generation and accumulation of assets without necessarily entailing a demand for financing, which is not always the solution for production increases.
8. **Lines of credit/refinancing.** HSP specifically provides lines of credit/refinancing facilities to potential Participating Financial Institutions (PFIs) to enable them to extend longer-term financial products to HSP beneficiaries as needed for activities such as orchard development.

9. **Interest rates.** It is considered that the setting of interest rates under the component by linking reference to the Central Bank of Uzbekistan’s refinancing rate with a bidding process is an approach likely to achieve lower interest rates without market distortion.

**IV. ENVIRONMENTAL AND SOCIAL REVIEW NOTE (ESRN)**

**A. Description Of Project And Components**

10. About 90% of horticultural production in the Republic of Uzbekistan is produced by smallholders. The Government has recently introduced a series of major initiatives to increase horticultural production and productivity, including: technology changes in terms of plant varieties and equipment; institutional changes such as the use of ‘Agro-firms’ to provide inputs and processing and marketing services; and financial facilitation in the form of specialised credits. Nevertheless, horticulturalists, especially smaller-scale producers, continue to face a number of constraints in terms of: (i) low productivity due to lack of appropriate technology and planting materials, and difficult access to knowledge on new orchard technologies; (ii) absence of appropriate financing instruments; and (iii) marketing issues related to processing infrastructure bottlenecks, transportation of horticultural products from remote regions and access to export markets. To make further progress in the economic development of rural areas and their people, there is a need to target more directly, where there are possibilities of improved and sustained profitability, small-scale primary horticulture producers and horticulture-related service providers with modern knowledge, skills, materials and equipment, complemented by enhanced provision of irrigation and drainage.

11. The goal of the Horticultural Support Project (HSP) is therefore to contribute to the further economic welfare of rural people in Uzbekistan. The project’s development objective is to achieve its goal through a comprehensive programme of support to the country’s horticulture sub-sector, initially on a pilot basis.

12. The HSP has four components: (i) Support to Horticultural Production and Marketing; (ii) Rural Finance; (iii) Improved Irrigation Network; and (iv) Project Management. The two major components of relevance to environmental impact are: (i) Support to Horticultural Production and Marketing; and (ii) Improved Irrigation Network.

13. The Support to Horticultural Production and Marketing component will comprise three sub-components: (i) Upgrading of nurseries; (ii) Modernisation of Agro-firms; and (iii) Modernisation of horticultural production.

14. The Rural Finance component will comprise three sub-components: (i) a refinancing facility for lending to Agro-firms; (ii) a refinancing facility for commercial banks’ lending to investments in and operation of eligible horticultural activities among small farmers (operating 2 to 6 ha) and small market services entities (storage, processing, packaging, distribution, etc.); and (iii) A refinancing facility for commercial banks’ lending to horticulture-related investments with emphasis on very small

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63 An electronic version of this ESRN can be found in Annex 13 Contents of the Project Life File.
production units (less than 2 ha), including *dekhan* farmers, and complementary micro market services providers.

15. The Improved Irrigation Network component will focus on investment in public irrigation and drainage improvement such as inter-farm (secondary) and on-farm (tertiary) networks including ancillary structures and pumping stations to support the achievement of the full economic potential of the beneficiary clusters identified and supported under the Support to Horticultural Production and Marketing component.

16. The HSP will be implemented over a period of six years, anticipated as 2012 to 2018, and cover five districts of Denau, Sarasia, Uzun, Oltinsay and Sherabad in the province (*obl ast*) of Surkhandarya. These districts have a comparative advantage in horticulture.

**B. Major Site Characteristics**

17. **Surkhandarya province.** Surkhandarya is the most southern province of Uzbekistan, having borders with Tajikistan, Afghanistan, Turkmenistan and Kashkadarya province of Uzbekistan. It has an area of about 20 100 km$^2$, divided into 14 districts, and a population of about 1.9 million, of whom 80% are rural.

18. The total agricultural land in Surkhandarya is about 1.76 million ha of which 0.33 million ha are irrigated (including 70% pumped irrigation) and 0.86 million ha are pastures. Soil formation is desert type with meadow-desert and meadow-grey-brown semi-hydro-morphic subtypes. Soils are subject to different levels of salinization of a sulphate-chloride type. In terms of soil fertility, 65% of the agricultural area has good to very good quality and less than 10% has poor quality. The climate is extreme continental with summer air temperatures ranging from +28 to 30°C with daytime temperature of +42-43°C (absolute maximum +47°C). January temperatures are around +2 to +3 °C (absolute maximum -27°C). Average precipitation is 360 mm/year (no rainfall during summer) and evaporation equals 1 500-1 650 mm/year. Durable frost-free period (230-240 days) and high amount of cumulative effective (above 10°C) temperatures (4 500-5 000°C/year) allow growing of many heat-loving crops. However, cultivation is constrained by high moisture deficit, hence the need for irrigation.

19. Crop production is based primarily on cotton and cereals (0.12 and 0.098 million ha respectively), supplemented with horticulture (12 453 ha of orchards and 60 000 to 70 000 ha of vegetables mainly as a second crop) and viticulture (14 362 ha).

20. The water sources in the Surkhandarya province are the rivers Surkhandarya, Dashnabad, Karatag, Tupolang, Sangardak, Khojaipag, Amudarya and Sherabaddaryan. Source of runoff is mainly melting snows and glaciers. As the temporal distribution is uneven, during March-July period 75%, runoff is regulated in four reservoirs with a usable capacity of 0.9 km$^3$.

21. **Project Area Poverty.** On the basis of currently available data, the province of Surkhandarya has a percentage of less advantaged people at 34.6%, the third highest in the whole of Uzbekistan after the Republic of Karakalpakstan and Kashkadarya province.

22. **Beneficiaries.** Under the project’s Support to Horticultural Production and Marketing component, it is expected that around 390 small and medium-scale horticulturalists would be directly assisted to establish modern orchards and provision has been made to train 260 such horticulturalists in each Project Year. Training would be in the form of seminars and field days and cover: (i) business planning in view of the substantial investments required, e.g. for the establishing of orchards; and (ii) orchard and horticulture field management and growing techniques. Under the Rural Finance component, provision has been made for three credit lines specifically directed to the
primary target group. In the first cycle of lending it is expected that 17-18 Agro-firms would benefit from the refinancing facility for lending to Agro-firms, while the number of loans from the refinancing facilities for commercial banks’ lending to eligible horticultural activities and investments in modern on-farm technologies would be 478 and 500 respectively. The Rural Infrastructure component is estimated to reach directly about 2,000 households. A target quote of 30% women has been set for direct beneficiaries.

C. Issues in Natural Resource Management

23. The key environmental issues in the project area are related to irrigation. Soil salinization worsened after independence from the Soviet Union because of lack of adequate maintenance, resulting in the deterioration or operational failure of many on-farm irrigation and drainage systems. Current investment in operations and maintenance is estimated to be 40-50% of the minimum required level. Low farmer profitability limits on-farm investment, while insufficient government budgets hamper inter-farm investment and are generally expended only on sustaining operations.

24. However, irrigation is vital under the prevailing arid climatic conditions and non-irrigated areas remain, for the most part, desert. High abstraction from the Amudarya and Syrdarya, combined with low irrigation efficiency and poor drainage, have virtually eliminated environmental flows to the river deltas and Aral Sea, resulting in: the reduction of the natural wetland system; the drying up of the Amudarya delta and Aral Sea; a rise in mineralization of the irrigation water; and increasing water logging and soil salinization leading to reduced crop yields. Agricultural and related processing activities can also indirectly result in number of other negative environmental impacts such as ground and surface water pollution, water use inefficiency, soil erosion, soil fertility losses, land contamination (chemicals including agricultural and industrial wastes), and environmental hazards and general health safety (food contamination and exposure to pollutions).

25. In the nearest future the irrigation sector is likely to be affected by climate change in a number of ways. The annual volume of water resources in Uzbekistan is predicted to vary from the natural range with +3 to -2 to -7%, with a larger share of rain in the overall precipitation. This, in combination with a reduction of glacier areas, will lead to an increase in seasonal variation of river discharges and the probability of floods. Overall irrigation water demand is predicted to increase due to higher temperatures, causing increased water stress and droughts and stronger salinization of agricultural lands. This jeopardizes the seasonal availability of adequate water for agricultural purposes in the future, particularly in parts of Uzbekistan, such as the project area, where water resources are already under stress from growing water demands and inefficiencies in water use.

D. Potential Social and Environmental Impacts and Risks

26. No specific detrimental issues in natural resources management are associated with the proposed HSP. The activities to be financed would be demand-driven, and mainly small-scale and rehabilitative in nature. Two main types of project investment are anticipated, these being: horticultural, and irrigation and drainage network and facilities improvement. The necessary environmental assessments will be built into the project’s formal operational procedures governing investment decision-making, thus ensuring that project interventions conform to the principles of sustainable management of natural resources in each individual case. Individual interventions are expected to have insignificant negative environmental impacts in any one location. In fact it expected that project-supported on the whole provide environmental benefits. At the same time, cumulative environmental impact can only be assessed during project implementation, once the nature, location and composition of interventions are known.
27. With regard to activities under the Support to Horticultural Production and Marketing component, any import of new plant material has to be in accordance with Uzbekistan national legislation and international obligations on plant protection and plant genetic resources. International food safety and export standards and certification procedures will be applied assuring current recognised good practice in the use of agro-chemicals and in processing and packing procedures.

28. No major shift in designated land use is envisaged. Any irrigation and drainage works would be associated with the improvement and modernization of schemes on already-agricultural land and would therefore not involve a spatial expansion of farming. Consequently, it is not anticipated that any project-supported investment would involve the opening up of new areas or major infrastructure works.

29. It is envisaged that most the irrigation and drainage investments would have in-built environmental enhancement features. For example, the majority of investments undertaken at the farm level to improve productivity would tend to enhance management of natural resources and minimize environmental hazards, for example by improving on-farm irrigation systems increased water use efficiency is expected, thus reducing water logging and salinization.

30. Necessary environmental legislation in Uzbekistan exists, specifying activities required to be carried out during project implementation. The State Committee on Nature Protection (Goskompriroda) is the primary environmental regulatory agency. It reports directly to the Oliy Majlis (Parliament), and is responsible, at central, provincial and district levels, for coordinating the environmental and natural resources actions of other national government bodies. Goskompriroda is responsible for environmental and natural systems protection. It oversees the national system of protected areas, can initiate liability/damage actions, and administers an Environmental Fund which receives pollution fees and penalties, and supports pollution mitigation measures. Goskompriroda also issues permits for pollution discharge emissions and may prohibit projects and construction works that do not comply with legislation. Fees are collected at the district/provincial level for the use of resources, for licences to discharge polluting material, and for waste disposal.


32. Most of the aspects of management, use and protection of natural resources are regulated by Decrees of the Cabinet of Ministers, such as: (i) “On approval of the Regulation of the State Environmental Expertise” (No 491, 31.12.2001); (ii) “On approval of Provision on the State Environment Monitoring” (No 49, 3.04.2002); (iii) “On rendering status of the specially protected natural territories of the republican importance to the fresh water aquifer formation zones” (No. 302, 26.08.2002); (iv) “On improvement of the Hydro-Meteorological Service” (No. 183, 14.04.2004); and (v) “On approval of the Provision for procedures for the cadastral division and formation of cadastral numbers for land plots, buildings and structures” (No. 492, 31.12.2001).

33. Relevant nature protection normative documents issued by government include: (i) “Procedure for elaboration and execution of draft standards on maximum permissible
emission of contaminants discharged to water bodies including drainage water” (RD 118.0027719.5-91); (ii) “Procedure for granting permission for special water use” (RD 118.0027714.6-92); (iii) “Instruction for determining of damage caused to the national economy by underground water contamination” (RD 118.0027714.47-95); (iv) “Temporary recommendation on control of underground water protection of the Republic of Uzbekistan”, State Nature Committee and Uzbekgidrogeologiya of the Republic of Uzbekistan, Tashkent, 1991; and (v) “Procedure for elaboration and principal requirements of recommendations to use waste water for crop irrigation” (RD 118.0027714.41-94).

34. All investments that would be implemented through the HSP would be obliged to meet national legal and regulatory requirements. All approved proposals/designs to be implemented through the HSP/IIN would be required to meet requirements of the environmental legislation of Uzbekistan and provided with an Environmental Assessment from the relevant institution depending on the nature and volume of investment. In addition, HSP investments would need to comply with IFAD Guides on Environmental Assessment.

35. With specific reference to investments under the HSP, the main potential environmental issue faced by the Project is associated with the management and disposal of construction material off-cuts and debris and any excavation materials during infrastructure renovation/rehabilitation. In these investments, the relevant environmental guidelines would be applied throughout the investment decision-making process. RRA would be responsible to ensure that all necessary environmental mitigation measures are built into infrastructure designs and ensure their implementation during supervision of civil works by its Civil Engineers from the field offices.

E. Environmental Category

36. In line with IFAD Guidelines on Environmental Assessment, the project has been classified as Category B, following IFAD’s Quality Enhancement (QE) review of the HSP initial design document. Few, if any, negative environmental impacts are expected to result from the project. Investments in improved irrigation and drainage network and structures will only result in positive benefits. The project is expected to reduce pressure on natural resources through the introduction of more environmentally sound natural resource management practices and the diversification of livelihoods. These developments will also enhance the resilience of rural households to climate change and reduce their vulnerability to extreme weather events.

F. Further Information Required

37. No further information is required.

G. Recommended Features of Project Design and Implementation

38. In undertaking agriculture production activities, possible environmental issues could be linked to the use of pesticides and fertilizers, and as noted, measures have been incorporated into the design to mitigate these.

39. Given the small scale and rehabilitative nature of the interventions, no significant negative or irreversible environmental impacts are expected from the IIN investment. The main foreseeable environmental concerns are the ones associated with the management and disposal of excavated materials and construction debris that would be addressed by works contractors and overseen by supervisors and field offices’ Civil Engineers. However, all approved proposals/designs that are to be implemented through the IIN would be required to meet requirements of the environmental legislation of the Republic of Uzbekistan, i.e. Environmental Assessment of all the investment proposals have to be undertaken/approved by the State Environmental Expertise
(Glavgosecoexpertiza) of the State Committee on Natural Protection. The preparation of or the review and approval (or rejection) of developments on environmental grounds, is regulated by Decree of the Cabinet of Ministers No. 491 (31.12.2001): “On approval of the Regulation of the State Environmental Expertise”.

### H. Monitoring Aspects

40. The Rural Restructuring Agency (RRA) would be responsible for undertaking Environmental Assessment of the proposed investments as part of the detailed engineering designs, and for ensuring that the requirements of the environmental legislation of the Republic of Uzbekistan and IFAD Guidelines on Environmental Assessment are adhered to in order to avoid negative impacts, and, when and if necessary, introduce appropriate mitigation measures.

41. In the course of its supervision missions IFAD would regularly review the relevant Environmental Assessment documents and implementation of recommended measures for randomly selected investment projects.

### I. Record of Consultations

42. A list of people and organisations consulted in the course of the project’s Detailed and Final Design Mission is provided in Annex 13 Contents of the Project Life File.
ANNEX 13

CONTENTS OF THE PROJECT LIFE FILE

A. HSP Concept Note.

B. Country Programme Management Team Minutes.

C. Operations and Strategy Committee (OSC) Issues Paper.

D. Detailed and Final Design Missions’ Aide Memoires and Lists of Persons and Organisations Met, English and Russian Versions.

E. Working Papers:
   1. Poverty, Gender and Targeting;
   2. Support to Horticultural Production and Marketing;
   3. Rural Finance;
   4. Improved Irrigation Network on Poverty;
   5. Project Costs and Financing; and

F. Environmental and Social Research Note (ESRN).