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Investing in rural people

President's report

Proposed loan and grant to the Republic of Uzbekistan for the Dairy Value Chains Development Programme

Note to Executive Board representatives

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Contents

Abbreviations and acronyms

FPPC	Forum for Public/Private Collaboration
DVCDP	Dairy Value Chains Development Programme
M&E	monitoring and evaluation
MAWR	Ministry of Agriculture and Water Resources
MCC	milk collection centre
PFI	participating financial institution
PMO	programme management office
RRA	Rural Restructuring Agency
WIS	Welfare Improvement Strategy

Map of the programme area

Republic of Uzbekistan

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.

IFAD *Map compiled by IFAD* | 05-08-2015

Republic of Uzbekistan

Dairy Value Chains Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Republic of Uzbekistan
Executing agency:	IFAD
Total programme cost:	US$38.7 million
Amount of IFAD loan:	SDR 17 million (equivalent to approximately US$23.9 million)
Amount of IFAD grant:	SDR 0.5 million (equivalent to approximately US$0.7 million)
Terms of IFAD loan:	Blend: Maturity period of 25 years, including a grace period of 5 years, with interest at a fixed rate of 1.25 per cent plus a service charge of 0.75 per cent per annum
Cofinanciers:	Participating financial institutions
Amount of cofinancing	US$5.6 million
Contribution of borrower:	US$2.5 million
Contribution of beneficiaries:	US$6.0 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Uzbekistan for the Dairy Value Chains Development Programme, as contained in paragraph 48.

Proposed loan and grant to the Republic of Uzbekistan for the Dairy Value Chains Development Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. The Republic of Uzbekistan is a land-locked, lower middle-income country (GNI per capita US$1,880 [2013]). A large share of its total population of 30.7 million (2014) lives in rural communities (some 60 per cent) and is engaged in agriculture-related activities. Agriculture provides some 25 per cent of the country's employment, and its share of GDP is estimated at 17.6 per cent (2014). Whereas Uzbekistan is largely self-sufficient in terms of food production and food trade balance, it relies on imports of certain food products, and the state controls wheat production, to ensure food security, and cotton as a foreign exchange earner. Cotton and grains are the main crops in Uzbekistan, while horticultural products, fruits, vegetables and livestock are important income sources for rural families (livestock constitutes some 40 per cent of gross agricultural output).

2. Uzbekistan's Human Development Index rank of 0.661 (2013) places it in the 116th position (i.e. medium human development). Average life expectancy in the country increased to 69 years in 2012, approximating the level of developed countries (World Health Organization). Child and maternal mortality rates have decreased correspondingly. About 16 per cent of Uzbekistan's total population is characterized as poor, based on the government poverty line. Seventy-five per cent of the country's poor live in disadvantaged rural communities and regions. This poverty is associated with the low productivity of agriculture and the high level of informality of rural labour markets. Lack of access to productive assets, infrastructure, energy, land and water, and technical and financial services are among the causes of limited productivity and poverty, which disproportionally affect rural women and young people.

3. The Government of Uzbekistan's main economic growth and poverty reduction goals are outlined in the Welfare Improvement Strategy 2013-2015 (WIS-II). The strategy seeks to: increase efficiency of the agriculture sector; reduce levels of poverty, nationwide and among rural populations; and expand cooperation with international development institutions. Specific objectives for rural development include: (i) deepening of structural reforms within the agrarian sector and diversification of agricultural production; (ii) accelerating the sector's modernization; and (iii) promoting development of the food industry, while increasing processing levels of local agricultural raw materials. Financial support to small and medium-sized businesses, including dehkan farmers (small, family producers), is among the priorities of banking-sector development.

4. The IFAD country programme will: (i) support farmers in moving towards an improved and sustainable agricultural/livestock production that takes advantage of existing and emerging markets to increase employment, the asset base and production incomes; (ii) seek to minimize smallholder production risks through technology transfer, support to key elements of profitable agriculture/livestock

value chains and establishment of appropriate, accessible asset-building finance. It will focus on sectors and geographical areas in which dehkan farms predominate.

B. Rationale and alignment with government priorities

5. The livestock sector plays an important role in the economy and society of Uzbekistan. Most production comes from the 4.7 million small dehkan farms, with the balance from private commercial and a limited number of cooperative (shirkat) farms. Dehkan farmers own about 95 per cent of cattle and 83 per cent of goats and sheep. They account for 95 per cent of the total production of meat, 96 per cent of milk and 89 per cent of wool. Livestock production contributes substantially to national food security and as an economic and nutritional safety net for rural households. It provides regular income and high-quality protein, especially for women and children.

6. Dehkan farms sustain the Uzbekistan dairy market (85 per cent of milk sales are from these small family producers); however, milk production in Uzbekistan operates well below its potential. Average cow milk yields within dehkan farms rarely exceed six litres per day, with lactation periods of just seven months.

7. Concerning the livestock subsector, principal constraints on dekhan farmers include: (i) the limited access to land; (ii) insufficient access to fresh and conserved forage, as well as unreliable quality; (iii) limited access to reliable animal health services; (iv) low genetic merit of much of the national herd; (v) inadequate sanitary conditions at farm and processor levels; (vi) restricted access to processors and thus markets; and (vii) lack of access to services, including technical advisory, finance and business development services. The development of efficient rural producers and processors and their linkage to existing and emerging markets are central to addressing these constraints.

8. Regional experience demonstrates that smallholder dairy farmers can become market-driven farmers when: (i) their access to land and finance improves; (ii) adequate training is provided; (iii) milk collection becomes organized; (iv) they establish linkages to local agroenterprises; and (v) financial incentives are provided to supply quality milk. Some dehkan farmers may even evolve into processors themselves, scaling up from cottage/household production through integration into dehkan groups, while building volumes of milk production (individual and aggregate) and improving their collective business management and negotiating skills.

9. Smallholder market access and financial inclusion require adequate incentives and policy-related support. Basic interventions that support organized dehkan and private smallholder farmers and their capacity to produce competitively for the market include: (i) development of organizational and "farming-as-a-business" skills; (ii) demand-driven technology development and demonstration; (iii) better-informed and more available input supply and support services, including veterinary and production services; and (iv) improved linkages along competitive value chains, improving margins and market share.

10. The use of larger-scale farms as the nucleus for service provision represents an entry point. Linking dehkan farmers to existing commercial farms can help them gain access to: quality feed; cold chains and machinery for animal feed and forage; knowledge (quality procedures); and basic inputs and services.

11. There is a clear need to improve the milk aggregation function within the dairy value chains in order to support dairy processing expansion. Partnering with agroprocessors is thus imperative, and should aim to set quality standards for raw milk, ensuring quality control and delivery mechanisms, and smooth the seasonality of supply. Accordingly, establishment of milk collection centres (MCC) will entail various positive externalities to value chain development, in general, but primarily and directly to the benefit of smallholder farmers living in the vicinity of

agroprocessing units. MCCs also constitute a suitable convergence point for diverse and complementary technical support, advisory interventions and input supply, including concentrated feed and forage.

12. In addressing these constraints, the programme is fully aligned with the WIS-II specific objectives for rural development, and with the overall government policy of deepening structural reforms within the agrarian sector and diversifying agricultural production.

II. Programme description

A. Programme area and target group

13. The programme's principal beneficiary groups consist of: (i) dehkan farmers; (ii) private farmers producing milk and forage; (iii) local entrepreneurs with small-to-medium dairy processing units; (iv) provincial dairy-sector input suppliers and service providers; (v) national scientific and academic institute staff; and (vi) the rural unemployed, for whom programme support is expected to create additional employment opportunities at farm and processing levels. Particular attention will be given to the participation of rural women and youth, individually and in groups, as milk producers and as processing and market entrepreneurs.

14. Based on social, demographic and economic criteria (i.e. livestock population and yield, existence of emerging processing facilities, geographical location, high demand for financial services, entrepreneurial potential among IFAD target groups, etc.) – in addition to the social and economic priorities set by the Government – the programme's intervention area will focus on Jizzakh and Kashkadarya Provinces. It will begin in the three rayons (districts) in each province that have been nominated for livestock and horticulture production diversification from wheat and cotton, together with the two rayons surrounding the provincial capitals of Jizzakh and Karshi respectively, but will subsequently cover the whole of each province. Although women largely drive the dairy sector in Uzbekistan, they tend to be invisible, and their participation in the value chains is limited, largely as a result of traditional gender roles. They are currently most active as intermediaries (milking, cattle husbandry, milk supply, dairy resellers and market vendors) and microprocessors. They have less opportunity to access necessary resources, such as capacity-building initiatives, financial support, modern technologies and equipment. The Dairy Value Chains Development Programme (DVCDP)'s gender strategy aims to enhance women's participation in and roles along the dairy value chains by increasing their access to credit and empowering them, both technically and entrepreneurially, as owners and managers of farms and processing units. The strategy is not only to support women in production, but also to move them further up the value chains by engaging them in processing, management, marketing and ownership. The DVCDP will also support women's empowerment at the household level by improving intrahousehold gender relations through a transformation in household dynamics.

B. Programme development objective

15. The goal of the programme is to improve the livelihood of rural women and men in Uzbekistan. Its development objective is to increase the productivity, competitiveness and market access of domestic dairy products.

C. Components/outcomes

16. The programme will be implemented through two components:

(a) Component 1: Dairy value chain capacity and innovation built. Three subcomponents are envisaged: (i) dairy value chain stakeholder capacity built by delivering tailored technical and business management training to dehkan farmers (particularly women livestock owners and managers), private commercial farmers, rural input supply and service providers, and dairy agroprocessors; (ii) technology innovation tested, supporting the development of innovative, demand-driven milk production and processing and food safety technologies through participatory, on-farm/factory applied research and technology demonstration – delivered by national academic/research institutions, private companies or NGOs; and (iii) the Forum for Public/Private Collaboration (FPPC) sustainably operational, which involves establishment of an iterative process of consultation and permanent learning and partnership through provincial forums. It will involve men and women stakeholders in all relevant private and public actors engaged in the dairy sector in each targeted oblast. Due to the pilot nature of this subcomponent – that is, developing and testing innovative approaches to public/private cooperation and mutual learning – it will be financed entirely by the IFAD grant.

(b) Component 2: Dairy production and processing development financed. The component will enable participating financial institutions (PFI) to increase their investment in profitable dairy value chains in the programme area under the following subcomponents: (i) dairy value chain strategic investment plans prepared; and (ii) dairy value chain investment fund profitably disbursed.

III. Programme implementation

A. Approach

17. The DVCDP seeks to improve the assets and incomes of dairy value chain stakeholders, including dehkan and private farmers, dairy processing enterprises, input suppliers and service providers, and the rural unemployed. It will modernize dairy production in terms of gains in technical and managerial efficiency and effectiveness at key points of the dairy value chains: (i) capacity development of value chain stakeholders, especially women; (ii) innovative technology testing and development; (iii) creation of sustainable dairy value chain stakeholder forums; and (iv) technical and financial support to primary producers and small-scale market services and input supply entities. Programme support will be delivered in the context of a management approach that is targeted, demand-driven and participatory.

B. Organizational framework

18. The Ministry of Agriculture and Water Resources (MAWR) will be the programme implementing agency. Day-to-day oversight of programme management will rest with a programme management office (PMO), operating under the auspices of the MAWR Rural Restructuring Agency (RRA), a state entity that has extensive experience implementing the projects of other international development and financial institutions, and which is also responsible for implementation of and operational support to the IFAD-financed Horticulture Support Project (HSP). Provincial implementation teams will be established in both Kashkadarya and Jizzakh from project year 1 (PY1). Under similar arrangements to those of the HSP, overall management oversight will rest with a programme steering committee (PSC) consisting of representatives of key ministries, regional authorities and other relevant stakeholder organizations.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. The programme’s logical framework constitutes the basis for the overall results-based monitoring and evaluation (M&E) system, which comprises performance monitoring and impact assessment. The PMO M&E officer will be responsible.

20. Performance monitoring will concentrate on financial and physical outputs and on the outcomes of programme activities. The PMO will submit semi-annual and annual

progress reports in English to the Government (MAWR and the Ministry of Finance via the PSC) and to IFAD.

21. 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.

22. Provision has been made for appropriate international and/or national technical assistance to the PMO – principally the M&E officer and the gender equality and social inclusion officer – with initial design of the progress reporting and participatory impact assessment and evaluation systems and follow-up M&E.

23. A set of indicators, including IFAD's Results and Impact Management System (RIMS), has been provided in the logical framework (appendix II). Two anchor indicators will help assess impact: 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; (iii) the Ministry of Health; and (iv) the programme's M&E database.

24. The indicators will shape the programme's baseline survey. The objective of the baseline survey will be to establish benchmarks for time-series comparisons between programme beneficiaries and non-beneficiary "control'' populations. The M&E officer will subsequently carry out repeat surveys. Survey data will be mutually supplemented as appropriate through regular exchange with the State Committee on Statistics and with World Bank-supported Living Standards Measurement Surveys. All M&E data will be disaggregated by sex and assessed relative to programme targeting and gender checklists.

25. Progress reports, concurrent participatory impact M&E, participatory, rapid rural appraisals and the findings of ad hoc special studies will be compiled by the PMO M&E officer into annual programme performance reports. Data sources for the annual performance reports will include: the programme baseline survey; semi-annual physical and financial progress reports for each component; PFI records and programme-related reports, including borrowers' ''business plans''; the M&E officer's qualitative interviews with and case studies of targeted beneficiaries; and reports by PMO staff and technical advisors on challenges and programme facilitation strategies for their respective component implementation responsibilities. Annual performance reports will feed into annual stakeholder review and planning workshops. Feedback from these will be factored into the programme's annual workplan and budget for the succeeding year, thus closing a circle of participatory, demand-driven planning and implementation.

26. With regard to knowledge management, the PMO will be responsible for developing a communication strategy and subsequently documenting the outcomes of programme activities. Provision has been made in the budget for: media production; development, printing and dissemination of training materials for dairy modernization; and creation of a programme website. Towards the end of the programme, PMO staff, beneficiary representatives and representatives of PFIs and non-financial implementing partners (e.g. institutes and universities) will review the incremental documentation with the aim of updating and expanding formalized technical extension media and producing a management handbook on milk production and processing. This will be made available in print and electronic formats, disseminated among programme stakeholders and fed into the publication systems of organizations, with a view towards development of the dairy industry.

D. Financial management, procurement and governance

27. An assessment of financial management capacity and risk has been completed in accordance with the guidelines of IFAD's Controller's and Financial Services Division. Overall, financial management risk is rated high. The latest Transparency International rating of 1.7 for the country implies a high inherent risk of corruption.

Public administration tends to be centralized. Analytical reports by donor partners indicate that economic management and governance are characterized by relatively low transparency, and limited voice and participation of citizens. These are some of the impediments to strengthened public accountability and may increase the risk of rent seeking and corruption.

28. A key strength of the Public Financial Management reform programme is the recently deployed Treasury Single Account for processing all government financial transactions. Significant weaknesses are, however, reported in public procurement practices and national audit and oversight arrangements.

29. Seventy per cent of programme proceeds will support the rural finance investments. Finance will be channelled to targeted beneficiaries through commercial banks and PFIs. Thus PFIs are key programme parties and have a significant role, in a challenging fiduciary environment, in ensuring that funds reach the intended beneficiaries and in obtaining assurance on the end-use of funds. Fiduciary risks may arise related to the financial sustainability of these PFIs, due to internal or external factors: fraud; misdirected credit funds to ineligible sub-borrowers under the DVCDP; or inappropriate use of credit funds by sub-borrowers.

30. Specific measures to mitigate fiduciary risks include customized reporting and monitoring of funds disbursed through PFIs, the financial health of PFIs, and the use and reflows of funds advanced to them for onlending. Additionally, risk-based internal audits will be regularly reviewed under internal control systems, and annual external audits will be arranged in compliance with the IFAD Guidelines on Project Audits.

E. Supervision

31. A supervision plan covering the period until the mid-term review will be agreed at programme start-up. The DVCDP will be supervised directly by IFAD. Supervision will include risk-based financial management supervision and operational reviews covering a random sample of programme activities, be carried out in PY2 and PY4 by independent auditors under terms of reference acceptable to IFAD.

IV. Programme costs, financing and benefits

A. Programme costs

32. Total investment and incremental recurrent programme costs, including physical and price contingencies, as detailed in table 1, are estimated at US$38.7 million. Physical and price contingencies make up about 1 per cent of total programme costs. The foreign exchange component is estimated at US$21 million or about 56 per cent of total costs. Taxes and duties amount to about US$0.2 million (0.6 per cent). Funds allocated to programme management represent about 7 per cent of total costs.

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

	IFAD grant		*IFAD loan*		*Government*		*PFI*		*Beneficiaries*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
A. Dairy value chain capacity and innovation built												
1. Dairy value chain stakeholder capacity built	-	-	3 423.6	96.2	0.0	-	133.7	3.8	-	-	3 557.3	9.2
2. Technology innovation tested	-	-	3 600.0	100.0	0.0	-	-	-	-	-	3 600.0	9.3
3. FPPC sustainably operational	699.3	98.3	-	-	11.8	1.7	-	-	-	-	711.1	1.8
Subtotal dairy value chain capacity and innovation built	**699.3**	**8.9**	**7 023.6**	**89.3**	**11.8**	**0.2**	**133.7**	**1.7**	**-**	**-**	**7 868.4**	**20.3**
B. Dairy production and processing development financed												
1. Dairy value chain strategic investment plans prepared	-	-	733.7	100.0	0.0	-	-	-	-	-	733.7	1.9
2. Dairy value chain investment fund profitably disbursed	-	-	15 720.0	57.8	-	-	5 440.0	20.0	6 040.0	22.2	27 200.0	70.3
Subtotal dairy production and processing development financed	**-**	**-**	**16 453.7**	**58.9**	**0.0**	**-**	**5 440.0**	**19.5**	**6 040.0**	**21.6**	**27 933.7**	**72.2**
C. Programme management	-	-	423.0	14.6	2 471.6	85.4	-	-	-	-	2 894.6	7.5
Total	**699.3**	**1.8**	**23 900.3**	**61.8**	**2 483.4**	**6.4**	**5 573.7**	**14.4**	**6 040.0**	**15.6**	**38 696.7**	**100.0**

B. Programme financing

33. An IFAD loan of US$23.9 million (61.8 per cent of total programme costs) will finance 89 per cent of the ''Dairy value chain capacity and innovation built'' outcome (US$7.02 million), 58 per cent of the ''Dairy production and processing development financed'' outcome (US$15.72 million), and 14.6 per cent of the ''Programme management'' outcome (US$0.42 million). An IFAD grant of US$0.7 million will cover the full cost of the FPPC.

34. Beneficiaries will contribute approximately US$6.04 million (15.6 per cent) as cofinancing of the rural finance investments (a 20 per cent contribution at least). PFIs will contribute approximately US$5.57 million of these investments (20 per cent contribution).

35. The Government's contribution will cover all taxes and duties on all programme inputs that involve funding from the IFAD loan and grant (US$0.21 million). In addition, the Government is expected to contribute about US$2.47 million from its budget to cover PMO salary and operating costs.

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

	IFAD grant		*IFAD loan*		*Government*		*PFI*		*Beneficiaries*		*Total*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs												
A. Equipment and goods	59.0	50.2	37.4	31.8	21.2	18.0	-	-	-	-	117.6	0.3
B. Vehicles	-	-	121.3	75.0	40.4	25.0	-	-	-	-	161.8	0.4
C. Technical assistance												
International technical assistance	-	-	386.3	100.0	-	-	-	-	-	-	386.3	1.0
National technical assistance	328.8	30.9	734.8	69.1	-	-	-	-	-	-	1 063.6	2.7
Subtotal technical assistance	328.8	22.7	1 121.1	77.3	-	-	-	-	-	-	1 449.9	3.7
D. Training	311.5	8.3	3 300.4	88.1	0.0	-	133.7	3.6	-	-	3 745.7	9.7
E. Demand-driven technology development	-	-	3 600.0	100.0	0.0	-	-	-	-	-	3 600.0	9.3
F. Dairy value chains financing												
1. Dekhan farmer finance	-	-	5 040.0	60.0	-	-	1 680.0	20.0	1 680.0	20.0	8 400.0	21.7
2. Private farmer finance	-	-	3 000.0	50.0	-	-	1 200.0	20.0	1 800.0	30.0	6 000.0	15.5
3. Service provider and input supplier finance	-	-	2 280.0	60.0	-	-	760.0	20.0	760.0	20.0	3 800.0	9.8
4. Dairy processor finance	-	-	5 400.0	60.0	-	-	1 800.0	20.0	1 800.0	20.0	9 000.0	23.3
Subtotal dairy value chains financing	-	-	15 720.0	57.8	-	-	5 440.0	20.0	6 040.0	22.2	27 200.0	70.3
Total investment costs	**699.3**	**1.9**	**23 900.3**	**65.9**	**61.6**	**0.2**	**5 573.7**	**15.4**	**6 040.0**	**16.7**	**36 274.9**	**93.7**
II. Recurrent costs												
A. Salaries	-	-	-	-	1 505.6	100.0	-	-	-	-	1 505.6	3.9
B. Operation and maintenance	-	-	-	-	297.6	100.0	-	-	-	-	297.6	0.8
C. Other operating costs	-	-	-	-	618.6	100.0	-	-	-	-	618.6	1.6
Subtotal recurrent costs	-	-	-	-	2 421.8	100.0	-	-	-	-	2 421.8	6.3
Total costs	**699.3**	**1.8**	**23 900.3**	**61.8**	**2 483.4**	**6.4**	**5 573.7**	**14.4**	**6 040.0**	**15.6**	**38 696.7**	**100.0**

C. Summary benefit and economic analysis

36. The programme is expected to reach approximately 12,000 households, with various complementary activities and investments. This includes an estimated 9,000 dehkan farms that will participate in the more than 30 programme supported MCCs, and in training and technical advice on animal health, feeding and welfare, and milk hygiene and handling, and who will be exposed to the DVCDP-disseminated technology innovations. This number of users/beneficiaries will be reached, in incremental groups, throughout the programme's investment cycle (PY6). It is a very cost-effective, on-demand, and affordable way to address the needs of smallholders.

37. The main results seen from the financial analysis include: (i) a significant increase in gross and net returns from each model when compared with the without-programme situation; and (ii) substantial cost-benefit ratios illustrating the financial worth of the investments. The net present values range from US$3,350 to US$307,254, while the internal rates of return range from 20 per cent to more than 92 per cent.

D. Sustainability

38. The estimated sustainability of the programme's results is based on: (i) capacity-building activities having an expected perennial impact on the formation of social and human capital among the identified target groups. This includes: farmer-group formation at the mahalla level (neighbourhood or local community); development of entrepreneurial capacities within the target groups; and the enhanced operational capacity of private veterinarians, other service providers, input suppliers and financial service providers. This human and social capital development represents a tangible outcome and impact of programme investments; (ii) the self-targeting, demand-driven nature of the intervention; and (iii) anticipated ongoing investment in viable agribusinesses and consolidated dairy value chains through the facilitation of financial access. Viable, competitive private enterprises created through the programme can be expected to succeed and expand.

E. Risk identification and mitigation

39. A main programme implementation risk relates to a potential lack of incentives for the various value chain actors and beneficiaries to participate in programme activities. Mitigating measures include an in-depth, participatory analysis of production/business opportunities, inputs, other constraints and actual financial risks, based on bankable business plans. Mitigation also involves a widespread informational campaign on the programme's objectives and scope, as well as initial support to farmer group formation at the mahalla level. Regarding macro and institutional constraints, these will be addressed during formulation of the programme of work and through early establishment of the FPPC.

V. Corporate considerations

A. Compliance with IFAD policies

40. The expected outcomes of the DVCDP are fully in line with the overarching goal of the IFAD Strategic Framework 2011-2015, as well as with IFAD policies on targeting, gender mainstreaming, rural finance and climate change, and will be achieved incorporating full awareness of the new social, environmental and climate assessment procedures. The programme is based on key training, technical assistance, educational and technological development and dissemination activities and investments. It will promote a gender-sensitive and enabling implementation environment through its farming and processing promotion components. IFAD's targeting requirements are addressed by enabling rural women, women heads of household, the rural unemployed and young people to participate in programme activities.

41. The programme is classified as a Category B operation. This rating is the result of the few identified negative environmental impacts expected from its field activities. Investments in improved forage production, climate smart agriculture/livestock production and green agribusiness and finance are expected to result in positive outcomes. The programme seeks to reduce pressure on natural resources by introducing more environmentally sound natural resource management practices and by diversifying livelihoods. These developments will also enhance the resilience of rural households to climate change and reduce their vulnerability to extreme weather events.

B. Alignment and harmonization

42. Seeking to avoid duplication of efforts and foster complementarities, while taking advantage of livestock and business-related best practices and technological innovation, the overall intervention strategy will be based on: (i) partnership building with the country's private, commercial sector and with local research and development institutions and universities, particularly for expanding technical assistance services and market channels; (ii) harmonization with other donors and operators such as the Food and Agriculture Organization of the United Nations, Asian Development Bank, United Nations Development Programme, World Bank, and German Agency for International Cooperation; and (iii) overall adherence to the principles of the Paris Declaration on Aid Effectiveness. In practice, harmonization and sectoral coordination will be provided in the context of the proposed FPPC to promote national dialogue on public/private partnership. The programme complies with the key elements of WIS-II.

C. Innovations and scaling up

43. The proposed DVCDP espouses a pilot and field demonstration action research approach as part of its potentially scalable interventions (i.e. during programme implementation and afterwards). The experiences derived from the implementation experience/lessons learned under the programme will facilitate scaling up/replication of operations in other parts of Uzbekistan, such as the adjacent region of Surkhandarya. There is also a major potential for scaling up and synergies in relation to subsequent donor programmes.

D. Policy engagement

44. The programme focuses on opportunities to improve the livelihoods of rural populations. In this context, consolidation of an enabling environment for private-sector development is among the key elements of IFAD's discussions with the Government and with principal development partners at the country level. In terms of policy, this implies: gradual reorientation of export policies from raw materials to products with high value added for the benefit of smallholder producers; continued economic liberalization, focusing on strengthening private property and protecting ownership rights; agriculture and climate change adaptation; and rural financial-sector development. The operational approach to achieving an impact on policy change is to lead by example through the investment projects that the Fund supports.

VI. Legal instruments and authority

45. A programme financing agreement between the Republic of Uzbekistan and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.

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

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

VII. Recommendation

48. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on blend terms to the Republic of Uzbekistan in an amount equivalent to seventeen million special drawing rights (SDR 17,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Uzbekistan in an amount equivalent to five hundred thousand special drawing rights (SDR 500,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

(To be tabled at the session)

Logical framework

Narrative Summary	Key Performance Indicators[1]	Means of Verification[2]	Assumptions (A) / Risks (R)
Goal:			
To improve the livelihood of rural people (women and men) in Uzbekistan.	▪ 12,000 rural households (approximately 60,000 individuals) in the Programme area increase their index of household assets ownership by 30% (disaggregated by gender, farm household and youth categories)[3]. ▪ At least 10% reduction in the prevalence of child malnutrition, as compared to baseline[1]. ▪ Number of households receiving Programme services. ▪ Number of people receiving Programme services.	▪ RIMS baseline and impact surveys ▪ Mid-term review ▪ Implementation completion report	
Programme Development Objective:			
Productivity, competitiveness, commercial farmer linkages and market access of smallholder dairy farms increased	▪ The value of milk sold by dehkan and private commercial farms in Programme districts increased by 40%; ▪ 2.000 decent jobs created (40% women) through dairy-related farm work/ processing-unit expansion and new rural enterprises; ▪ 75% of DVCDP-invested agro-enterprises operating profitably[4] two years post investment. (30 % invested by women[5]) ▪ 6,000 tonne CO2 mitigation mpact over 10 years (based on EX-ACT analysis)	▪ Programme baseline study, mid-term review and implementation completion report ▪ Specialised (qualitative/ quantitative) thematic studies, and household income surveys as agreed at programme supervisions. ▪ Progress in achievement of CO^2 mitigation impact calculated at mid-term and completion (EX-ACT analysis)	▪ Government policies/ and rural economic reforms supporting dehkan farmers, private sector development and the livestock sector are implemented (A) ▪ Overall political stability, and a conducive macro-economic framework (A) ▪ Regional free trade agreements place pressure on domestic milk price (R) ▪ Epidemic disease situation in the country remains stable (A)

[1] Baseline values will be established by the baseline survey to be conducted at programme start-up
[2] Provision of means of verification will be the responsibility of the Programme Management Unit through its M&E Section
[3] Results and impact management system-RIMS anchor indicator
[4] IRR > 12%
[5] Women-headed households and enterprise owners, women involved in key enterprise management decision-making and small processing units run by women

Narrative Summary	Key Performance Indicators[1]	Means of Verification[2]	Assumptions (A) / Risks (R)
OUTCOME 1: Dairy Value Chain Capacity and Innovation Built Capacity for sustainable, efficient milk production, processing and marketing established.	▪ At least 25% increase in average milk yield from a base of 2.0 tonnes/cow/annum at programme inception to 2.5 tonnes/cow/annum by PY6; ▪ FPPC self-managed and financed under leadership of national and regional farmer and business NGOs and associations.	▪ Programme baseline study, mid-term review and implementation completion report; ▪ Programme's M&E records and reports ▪ Government's national, regional and local production data ▪ Targeted field studies and surveys as agreed at programme supervisions	▪ Lack of incentives on the part of the various value chain actors to participate in the Programme's activities and financing (R) ▪ Effective / timely availability of specialised technical assistance (A) ▪ Producer-Processor contractual obligations not fully observed (R)
OUTCOME 2: Dairy Production and Processing Development Financed Productivity and efficiency along targeted, smallholder-inclusive dairy value chains profitably increased	▪ Portfolio at risk below 10%[6]; ▪ At least 30 profitable[4] milk collection centres (MCCs) operational; ▪ 50 per cent increase in milk sales to commercial processors in programme area.	▪ Programme baseline study, mid-term review and implementation completion report ▪ Commercial Bank records ▪ Central Bank supervision reports ▪ Programme M&E records ▪ Targeted field studies and surveys as agreed at programme supervisions	▪ Banking/ financial market norms and regulatory framework, conducive to expanded rural financial outreach and inclusion (A) ▪ Political interference in the selection of Financial Service Providers (FSPs) (R)

[6] RIMS 1st level indicator