



Report and Recommendation of the President to the Board of Directors

Project Number: 52110-001
September 2019

Proposed Loan Republic of Uzbekistan: Livestock Value Chain Development Project

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CURRENCY EQUIVALENTS

(as of 5 August 2019)

Currency unit	–	sum (SUM)
SUM1.00	=	\$0.0001156
\$1.00	=	SUM8,648.1

ABBREVIATIONS

ADB	–	Asian Development Bank
AIFSA	–	Agency for Implementation of Projects in the Field of Agro-industry and Food Security
CBU	–	Central Bank of Uzbekistan
ESMS	–	environmental and social management system
GDP	–	gross domestic product
PAM	–	project administration manual
PFI	–	participating financial institution
US	–	United States

NOTES

In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52110-001	
Project Name	Livestock Value Chain Development Project	Department /Division	CWRD/CWER
Country Borrower	Uzbekistan Government of Uzbekistan	Executing Agency	Agency for Implementation of Projects in the Field of Agro-Industry and Food Security (AIFSA)
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=52110-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=52110-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Small and medium enterprise finance and leasing		100.00
Agriculture, natural resources and rural development	Livestock		50.00
		Total	150.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		CO ₂ reduction (tons per annum)	9,400
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Medium
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
✓ Promoting rural development and food security		Adaptation (\$ million)	45.00
✓ Strengthening governance and institutional capacity		Mitigation (\$ million)	6.25
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 2.4		Effective gender mainstreaming (EGM)	✓
SDG 5.5		Poverty Targeting	
SDG 9.3		General Intervention on Poverty	✓
SDG 10.1			
SDG 12.3			
SDG 13.a			
4. Risk Categorization: Low			
5. Safeguard Categorization Environment: FI Involuntary Resettlement: FI-C Indigenous Peoples: FI-C			
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign Project (Concessional Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		87.45	
Beneficiaries		56.15	
Government		31.30	
Total		237.45	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Uzbekistan for the Livestock Value Chain Development Project.

2. The proposed project will support the development of livestock value chains by increasing the outreach of participating financial institutions (PFIs) to livestock farmers and entrepreneurs throughout the country. It will improve access to market-based, long-term finance for producers, processing enterprises, input suppliers, and service providers in the livestock value chain. The project will help increase livestock productivity, sustainability, processing capacity and utilization; as well as marketing of inputs and livestock products. It will facilitate the development of private sector veterinary practices to improve access to clinical veterinary services and animal management and health advice. This will in turn promote long-term economic and environmental sustainability and enhance profitability for producers and agribusiness enterprises. Together with ongoing Asian Development Bank (ADB) assistance in horticulture value chain development, the project will help diversify the country's agriculture from cotton production to high-value agricultural products that generate better financial and economic returns, and have fewer associated social and environmental concerns.¹

II. THE PROJECT

A. Rationale

3. **Sector performance.** Uzbekistan's gross domestic product (GDP) grew by at least 8.0% per year during 2007–2014.² Growth has subsequently slowed—GDP grew by 5.1% in 2018, reaching \$48.7 billion, with growth projected to rise to 5.2% in 2019 and 5.5% in 2020.³ Lower growth rates in 2018 reflected weak agricultural performance, the impact of the devaluation of the Uzbek sum in September 2017, and reduced domestic demand. The generally high growth rates since 2000 have helped reduce poverty—according to national poverty line estimates, the proportion of people defined as poor declined from 27.5% of the population in 2001 to 11.6% in 2018.⁴ However, the unemployment rate has increased from 5.2% in 2016 to 9.3% in 2018.⁵ In line with total GDP growth, agriculture output grew an annual rate of 6.4%–7.2% from 2010 to 2016, but the growth rate fell to 1.2% in 2017 and is estimated at 0.2% in 2018, largely as a result of poor rainfall that cut the cereal harvest by 12.5% and broader crop production by 4.5%. When combined with higher rates of growth in other sectors (industry grew by 4.8% and services by 6.4% in 2017), the low rate of growth in agriculture contributed to the continuing decline in agriculture's contribution to GDP, from 34.4% in 2000 to 19.2% in 2017. Agriculture's share of total employment has also declined, although more slowly: in 2000, agriculture accounted for 36.7% of total employment, which fell to 27.2% in 2017. Agriculture remains an important source of employment and income, especially in rural areas, which are home to 49% of the population, and 75% of people living below the national poverty line.

4. **Livestock development.** In 2016, the livestock subsector accounts for 40% of agriculture gross value added, which equates to about 8% of total GDP.⁶ Within livestock, dairy production makes up 45% of livestock gross value added. Livestock production grew 4.2% in 2017 and 6.5%

¹ ADB. [Preparing the Livestock Value Chain Development Project](#).

² ADB. 2018. *Key Indicators for Asia and the Pacific 2018*. Manila.

³ ADB. 2019. *Asian Development Outlook 2019: Strengthening Disaster Resilience*. Manila.

⁴ World Bank. 2018. *The World Bank in Uzbekistan: Country Snapshot*. Washington, DC.

⁵ Tashkent Times. 2019. *Uzbekistan Unemployment Rate at 9.3% in 2018*. 29 January.

⁶ Government of Uzbekistan, State Statistics Committee. 2018. *Agriculture in Uzbekistan*. Tashkent.

in 2018, outpacing the growth in agriculture overall. Despite this growth in production, Uzbekistan has a trade deficit in livestock products, although this has improved since 2015.⁷ In 2017, Uzbekistan imported \$86.4 million in livestock products and exported only \$11.2 million, resulting in a trade deficit of \$75.2 million, down from \$123.6 million in 2015.

5. In 2018, livestock production included 2.42 million tons of meat (live weight), 10.48 million tons of milk, 7.36 billion eggs, and 35,000 tons of wool (footnote 6). Most livestock owners and producers are small in scale, accounting for about 90% of total production (95% of milk, 94% of meat, and 55% of eggs). However, productivity on small farms is low. Milk yields, for instance, average 1,300 liters per lactation or about 6 liters per day, compared with an international average of 22 liters per day. When combined with poor cooling and distribution infrastructure, this means small farms are not well integrated into supply chains. A number of key constraints need to be addressed for small farms to increase productivity and for the livestock subsector to realize its potential.

6. **Limited supply of fodder and feed.** The emphasis on cotton and wheat production has in the past adversely affected the production of fodder. The area under fodder has historically been less than 5% of arable land. This severely limits the supply of fodder and is well below the contribution of livestock to agricultural output. The relaxation of production quotas for cotton and wheat, and the use of irrigated land for crops other than cotton and wheat, should facilitate an increase in fodder production that will help address current shortages. However, the allocation of land remains tightly controlled by local government administrations, and insecurity of land tenure is a concern for many farmers. There is also limited knowledge of how to effectively grow, harvest, and store feed and fodder, especially silage.

7. **Weak capacity of aggregators and processors.** While aggregators and processors play an essential role in the livestock supply chain, they lack capacity to expand physical outreach and increase the scale of operations and/or product diversification. The growth of supermarkets in major urban centers has promoted the development of processing facilities, notably for milk and milk products, although there is limited access to milk supplies, processing and packaging technology, and inputs. Increasing the productivity and incomes of small farm producers depends on their links to processing facilities, either directly or—particularly for milk producers—through a network of collection centers. However, many producers have no access to local collection points and travel long distances each day to deliver milk to processors. As a result, about two-thirds of milk and dairy products are consumed at home, with the rest sold directly to households or at local markets.

8. **Sporadic support services.** Veterinary services are provided through a combination of public and a limited number of private sector services. In the public sector, the State Committee for Veterinary and Livestock Development is largely responsible for the control of major livestock diseases, but lacks sufficient staff and equipment, notably in its laboratories. The government's policy of shifting veterinary services delivery to the private sector is a positive step, but the transition process lacks definition, and the pace of change is slow. Small livestock owners and/or farmers, who constitute the majority of livestock producers, continue to lack adequate access to effective veterinary services. Livestock research and extension services are under-resourced, with the main state providers facing shortages of skilled staff and modern, appropriate laboratory and field equipment.

⁷ International Trade Centre. [International Trade Statistics 2001–2019](#) (accessed 30 April 2019). Data are based on the 4-digit harmonized system, product codes 01 to 05. Data for 2018 are not available.

9. **Limited access to finance.** Limited access to both equity and long-term debt finance for producers and enterprises along the livestock value chain is a key constraint to the development of the subsector. The credit received by the subsector is disproportionately low compared with its contribution to GDP. Aggregate livestock lending accounted for 1% of banks' loan portfolios in 2018, while the subsector contributed about 8% of GDP. The limited assets and financial capacity of small farmers limits their access to formal financial institutions, forcing them to self-finance or depend on informal sources. Contract farming arrangements with processors have the potential to better integrate such farms into the livestock value chain and could facilitate improvement in productivity, both in individual farms and for the subsector as a whole. However, lack of access to long-term debt financing has prohibited processors from expanding business linkages both upstream and downstream. The demand for credit in the livestock subsector is estimated at about \$3.2 billion for 2019–2021.⁸

10. **Climate change.** Uzbekistan has a continental, subtropical climate that is arid, with an abundance of heat and sunlight, and sharp day–night and winter–summer temperature variations. The number of cattle has increased by about 2.5 times since 1991, which has implications for climate change. Agriculture accounted for 10.7% of total greenhouse gas emissions in Uzbekistan in 2018, with livestock contributing through enteric fermentation and animal manure. Changes in the temperature regime will place thermal stress on animals, decreasing their immunity to disease, while changes in animals' usual living environment will lead to physical overheating or overcooling. Changes in precipitation will reduce moisture availability and lower fodder crop yields on rain-fed land and fodder phytomass on pastures. Lack of moisture together with increasing anthropogenic load will increase pressure on natural pastures and induce degradation and abandonment of rain-fed land. Changes in the temperature regime, precipitation amount, and air humidity may stimulate outbursts of plant and animal diseases and the propagation of certain pest varieties. Increasing frequency of droughts will also reduce pasture productivity. Against this backdrop, the project design incorporated appropriate adaptation and mitigation measures to minimize risks of reduced productivity and quality of fodder production, pasture management, livestock production, and processing.⁹

11. **Government strategy.** The government's development priorities include modernization and intensive development of agriculture as important priorities,¹⁰ including through (i) continuing structural reforms and production diversification; (ii) mechanization, improvement of infrastructure, and development of agribusiness; (iii) more productive land and water use; (iv) greater financial stability of farm entities; and (v) more market-oriented agricultural policies. The livestock subsector is considered a key driver of agricultural and rural development and several government initiatives have given impetus to livestock activities.¹¹ Presidential Decree No. UP-5696, dated 28 March 2019, acknowledged that the current situation in Uzbekistan's regions requires the implementation of specific comprehensive measures to support livestock enterprises, increase feed supply, and improve breeding by developing artificial insemination and strengthening breeding farms. The feed and fodder constraint is to be addressed specifically by allocating land from the reserves of district local administrations for the production of fodder crops.

⁸ Estimates provided by the Agency for Implementation of Projects in the Field of Agro-Industry and Food Security, based on submissions by regional administrations.

⁹ Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

¹⁰ Government of Uzbekistan. 2017. *Strategy of Actions for Further Development of Uzbekistan, 2017–2021*. Presidential Decree No. UP-4947. Tashkent.

¹¹ Most recently, Presidential Resolution No. PP-2460 dated 29 December 2015 “On measures of further reforming and development of agriculture for period of 2016–2020,” which defined targets for increases in animal numbers and livestock product output by 2020.

12. **ADB and development partner assistance.** ADB has provided significant support to agriculture through policy reforms and irrigation and drainage system rehabilitation. Since 2016, through PFIs, ADB has supported private sector development in agriculture. The Horticulture Value Chain Development Project (including its additional financing) has significantly increased access to medium- and long-term finance for horticulture value chain strengthening.¹² As of July 2019, the loan funds have almost been utilized due to proper project designs and appropriate implementation arrangements. The performance of these projects have been rated as “on track”. Agriculture is also supported by the World Bank, the International Fund for Agriculture Development, the European Commission, and the Agence Française de Développement (AFD). The World Bank has implemented two rural enterprise support projects that included support for small food-processing enterprises, poultry production, and fisheries. Together with the European Commission, it is helping small farmers and small- and medium-sized enterprises to improve livestock production and supply chain management by improving access to finance and extension services. The International Fund for Agriculture Development has provided support to develop rural enterprises and strengthen dairy value chains by providing funds for microfinance loans and field extension support. AFD is preparing a project to enhance financial inclusion in the livestock subsector. The project will support livestock policy reforms, institutional development, and increased access to finance for small farmers through three financing mechanisms: credit through PFIs, and grants and risk-sharing (partial guarantee) for farmers without adequate collateral. There is clear synergy with the AFD-financed project, which will provide access to finance for small producers to complement contract farming arrangements with processors financed under the proposed project.

13. Despite past and ongoing livestock subsector support, there is significant unmet demand for long-term finance by medium and large agribusiness enterprises to invest in expanding capacity and promoting vertical and horizontal integration along the livestock value chain. In addition, there is a critical need to enhance public and private veterinary services to undertake risk assessment, risk management, and control of animal diseases. In this context, the project design has been coordinated with key development initiatives of the government and development partners to complement and optimize synergies with past and ongoing efforts.¹³

14. **Lessons and ADB’s value addition.** The project design reflects lessons from past and ongoing projects funded by ADB and development partners in agriculture, livestock, and finance. Key lessons call for (i) diversifying away from cotton–wheat crop rotation, (ii) investing in modern production systems, (iii) designing projects based on an analysis of agricultural demand and socioeconomic needs, (iv) focusing on high-impact stakeholder segments that can promote market linkages, and (v) keeping project implementation arrangements simple. These lessons also emphasize the importance of (i) addressing the entire value chain to ensure cost-efficient logistical capacity, (ii) designing financing programs that are relevant to the size and scope of potential sub-borrowers’ demand, and (iii) applying a demand-driven approach to commercial financing. Together with ADB’s assistance in horticulture value chain development, the project will support the implementation of the government’s agricultural diversification strategy, which will generate higher financial and economic returns, reduce social costs and the fiscal burden, and raise fewer social and environmental concerns. In addition, enhancing public and private veterinary services will significantly enhance the capacity to assess and manage animal health and control diseases, which helps minimize risks to human health.

¹² ADB Uzbekistan. [Horticulture Value Chain Development Project](#); ADB. Uzbekistan [Horticulture Value Chain Development Project \(Additional Financing\)](#).

¹³ Development Coordination (accessible from the list of linked documents in Appendix 2).

15. **Potential for enhancing women's entrepreneurship.** Women have a prominent role in agricultural production, but they are mainly engaged in simple, nontechnical work. In 2018, women accounted for 52.6% of agricultural workers but farms led by women accounted for only 5.8% of the total. While rural women and female small farmers are an important part of the livestock value chain, they face difficulties in establishing businesses and finding formal jobs because of a lack of professional skills, access to information, and finance; and limited entrepreneurship and leadership skills. There is significant potential for job creation and entrepreneurship for women in the livestock subsector if key constraints—such as access to inputs, support services, finance, information, and training—are addressed.

16. **Alignment with ADB's Strategy 2030 and country partnership strategy.** The project is aligned with the Strategy 2030 operational priority area on promoting rural development and food security, which includes market connectivity and agricultural value chain linkages, agricultural productivity, and food security and safety.¹⁴ ADB's country partnership strategy, 2019–2023 for Uzbekistan supports the country's transformation into a modern industrial and service economy through sustained and inclusive growth, reduced poverty, and expanded regional cooperation.¹⁵ The project is in ADB's country operations business plan, 2019–2021.¹⁶

B. Impact and Outcome

17. The impact will be contribution of agriculture to inclusive economic growth, incomes, and employment increased (footnote 10). The outcome will be production and marketing of livestock products increased.¹⁷

C. Outputs

18. **Output 1: Access to finance in the livestock subsector increased.** The project will provide long-term funds to PFIs to extend sub-loans to eligible sub-borrowers for capital investment. To be eligible, a sub-borrower must be a commercial entity registered under and compliant with Uzbek laws and regulations; must not be a PFI-related party as defined by the Central Bank of Uzbekistan (CBU); and must have a maximum asset value of \$50 million equivalent at the time of the application for a sub-loan. Investment subprojects will include livestock production, marketing, processing, input supply, and service delivery.¹⁸ The project will improve access to market-based bank finance for producers, processing enterprises, input suppliers, and service providers in the livestock value chain. As such, it will help increase livestock productivity and sustainability, processing capacity and utilization, and marketing of inputs and livestock products.

19. **Output 2: Support services to the livestock subsector improved.** The project will facilitate the development of private sector veterinary practices to improve access to clinical veterinary services and animal management and health advice, including the effective use of antimicrobial drugs.¹⁹ Specifically, the project will support the Institute of Veterinary Medicine in Samarkand province to (i) develop and deliver a continuing education program for veterinarians

¹⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

¹⁵ ADB. 2019. *Country Partnership Strategy: Uzbekistan, 2019–2023—Supporting Economic Transformation*. Manila.

¹⁶ ADB. 2019. *Country Operations Business Plan: Uzbekistan, 2019–2021*. Manila.

¹⁷ The design and monitoring framework is in Appendix 1.

¹⁸ Detailed eligibility criteria for PFIs, sub-borrowers, subprojects, and sub-loans are in the Project Administration Manual (PAM) (accessible from the list of linked documents in Appendix 2).

¹⁹ Assistance will consider thematic assessments conducted by the World Organisation for Animal Health.

that provide public and private veterinary services, (ii) establish a veterinary association and upgrade a veterinary journal to further enhance professionalism and effective dissemination of veterinary best practices, (iii) establish a private veterinary practice under the auspices of the Institute of Veterinary Medicine as a model for the development of private veterinary service delivery in Uzbekistan, and (iv) replicate the model practice in at least six private veterinary practices in other areas of Uzbekistan. The project will also help develop the capacity of PFIs in developing livestock lending policy and procedures, and credit products; training staff in livestock subsector lending; and implementing an outreach strategy through increased client awareness of bank products and services, and application procedures.

D. Summary Cost Estimates and Financing Plan

20. The project is estimated to cost \$237.45 million (Table 1).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Access to finance in the livestock subsector increased	224.62
2. Support services to the livestock subsector improved	3.76
Subtotal (A)	228.38
B. Contingencies^c	0.23
C. Financing Charges During Implementation^d	8.84
Total (A+B+C)	237.45

^a Includes taxes and duties of \$22.53 million. Such amount does not represent an excessive share of the project cost.

^b In mid-2019 prices as of 30 June 2019.

^c Physical contingencies have been estimated at 5% for all goods and services (excluding finance for subproject investment). Price contingency for local currency costs is based on the following rates: 16.0% for 2019, 14.0% for 2020, 9.3% for 2021, 8.1% for 2022, and 7.7% for 2023; and for foreign exchange costs 1.5% in 2019, and 1.6% in 2020 and thereafter.

^d Includes interest during implementation for the Asian Development Bank's ordinary capital resources loan, financed by the government.

Source: Asian Development Bank estimates.

21. The government has requested a concessional loan of \$150,000,000 from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements.²⁰ Sub-borrowers will contribute \$56.15 million as equity contribution for the loan-financed subprojects. The government will contribute \$31.30 million, comprising \$22.46 million through exemptions of taxes and duties for imported goods, and \$8.84 million for interest charges during implementation.²¹ The loan will finance sub-loans, capacity building, and project management office operations. The summary financing plan is in Table 2 and further detailed in the project administration manual (PAM).²²

²⁰ ADB will finance taxes and duties of \$0.07 million related to project management. The amount does not represent an excessive share of the project cost and is within applicable country partnership strategy parameters (ADB. 2005. *Innovation and Efficiency Initiative—Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila).

²¹ PFIs will determine sub-borrower equity contributions based on the nature of the credit risk, which, depending on each PFI's credit policy, would be 20%–30% of the subproject cost.

²² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

22. Climate mitigation is estimated at \$6.25 million and climate adaptation is estimated at \$45.00 million. ADB will finance 100% of mitigation and adaptation costs.²³ Key measures include application of hazard analysis and critical control points, and good manufacturing practices in subprojects; improvement of veterinary services, diagnostic laboratory services; and establishment of model farms with demonstration of best practice in livestock production.

23. The government will relend the loan proceeds in United States (US) dollars to PFIs through subsidiary loan agreements that satisfy ADB's eligibility criteria in the PAM and the loan and project agreements.²⁴ The government is expected to relend the loan proceeds to PFIs for 25 years, with a 5-year grace period. The government's relending rate will be the interest rate charged by ADB for the loan plus a margin to cover administrative costs.²⁵

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	150.00	63.17
Sub-borrowers' equity contributions	56.15	23.65
Government	31.30	13.18
Total	237.45	100.00

Source: Asian Development Bank estimates.

24. PFIs' sub-loans may be issued in US dollars and/or local currency; and priced by PFIs at market rates that cover risks related to foreign exchange, credit, maturity, and interest rates. Sub-loan repayment may be in US dollars and/or local currency subject to sub-borrowers' demand and subprojects' revenue streams, as well as specific agreements between PFIs and sub-borrowers. Sub-loans extended by PFIs will have a tenor of up to 10 years. PFIs will determine the creditworthiness of sub-borrowers and assume the full credit risk. The maximum sub-loan size will be \$5 million based on an assessment of past and prospective demand of PFIs' clients.

25. **Participating financial institutions.** PFIs were selected from among the domestic commercial banks participating in the Horticulture Value Chain Development Project (footnote 12) and those that expressed interest in participating in the project. ADB conducted detailed due diligence on the five banks it selected to participate as PFIs (footnote 24). A portion of loan funds has been reserved for competitive withdrawal by these and additional commercial banks that complete the due diligence process. PFIs for the most part are in compliance with CBU prudential regulations and meet ADB's eligibility requirements for financial intermediaries and ADB-determined financial covenants.²⁶ To address areas of minor noncompliance, PFIs will be required to satisfy disbursement conditions and to implement action plans for financial covenants.

²³ Climate finance was calculated based on the estimated demand for sub-loans by financing category. The mitigation cost is based on the investment cost of chilling facilities and better practices in animal husbandry, while the adaptation cost of \$45 million is based on the investment cost of processing facilities.

²⁴ Based on each PFI's absorptive capacity, and subject to review and adjustment during project implementation, the tentative allocation of loan proceeds is currently set as follows: Microcreditbank (\$10 million), Qishloq Qurilish Bank (\$30 million), Turonbank (\$50 million), Uzpromstroybank (\$10 million), and Xalq Bank (\$30 million). An amount of \$16 million is reserved for competitive withdrawal and/or new PFI accreditation.

²⁵ The government will charge the interest on the ADB loan plus 1.0% per year to the PFIs. PFI interest rates carry the cost for (i) loan origination, (ii) provision of foreign exchange, and (iii) credit risk and related charges.

²⁶ ADB. 2003. Financial Intermediation Loans. *Operations Manual*. OM D6/BP. Manila (para. 8).

E. Implementation Arrangements

26. The Agency for Implementation of Projects in the Field of Agro-industry and Food Security (AIFSA) will be the executing agency. It will be responsible for (i) reviewing and monitoring subproject implementation, (ii) overseeing project financial audits, and (iii) implementing veterinary services and the capacity development activities of PFIs. AIFSA will recruit technical experts to support PFIs in developing livestock lending credit policies and procedures, credit products, and outreach strategy. The implementing agencies will be Microcreditbank, Qishloq Qurilish Bank, Turonbank, Uzpromstroybank, Xalq Bank, and other PFIs meeting the eligibility requirements.²⁷ The implementation arrangements are summarized in Table 3 and described in detail in the PAM.

Table 3: Implementation Arrangements

Table of Implementation Arrangements			
Aspects	Arrangements		
Implementation period	January 2020–December 2024		
Estimated completion date	31 December 2024		
Estimated loan closing date	30 June 2025		
Management			
(i) Executing agency	AIFSA		
(ii) Key implementing agencies	PFIs: Microcreditbank, Qishloq Qurilish Bank, Turonbank, Uzpromstroybank, and Xalq Bank		
(iii) Implementation units	Project management office in AIFSA; project implementation units in PFIs		
Procurement ^a	OCB	1 contract	\$300,000
	RFQ	3 contracts	\$117,418
Consulting services ^a	QCBS	3 contracts (110 person-months)	\$1,534,394
	LCS	2 contracts (40 person-months)	\$172,862
Disbursement	Loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and arrangements agreed between the Government of Uzbekistan and ADB.		

ADB = Asian Development Bank, AIFSA = Agency for Implementation of Projects in the Field of Agro-industry and Food Security, LCS = least-cost selection; OCB = open competitive bidding; PFI = participating financial institution; QCBS = quality- and cost-based selection; RFQ = request for quotation.

^a AIFSA will procure goods and consulting services related to capacity development and project management following the ADB Procurement Policy (2017, as amended from time to time).

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

27. By addressing the constraints of limited access to long-term finance and weak veterinary services, the project will help increase productivity in livestock production activities; and improve the capacity and efficiency of production, processing, and marketing enterprises. This will increase the volume and enhance the quality of Uzbek livestock produce for domestic and export markets, and minimize imports. An analysis of indicative investments indicates that livestock production and agribusiness investments generate financial internal rates of return of 14%–32%, and their economic internal rates of return are 19%–23%, suggesting such investments are viable.

28. The five proposed PFIs have experience in agricultural lending and have varying levels of agricultural loan portfolios. They have all been assessed as financially sound. Financial projections for the project implementation period indicate that the PFIs will continue to perform

²⁷ The executing agency and each implementing agency will enter into separate project agreements with ADB.

well and comply with CBU regulations and ADB loan financial covenants. The maximum value of project-financed sub-loans is projected at 0.3%–13.1% of PFIs' gross loan portfolios during project implementation in 2020–2024. Borrowing under the project is, therefore, within the absorptive capacity of each PFI.²⁸

B. Governance

29. Each PFI underwent financial and integrity due diligence. The overall pre-mitigation risk for financial management is *moderate* while the integrity risk is *low to medium* and the project-specific procurement risk is *low*. An action plan has been prepared by each PFI to address financial management issues and these will be implemented by the first quarter of 2020. Financial management and procurement capacity assessment of AIFSA, the executing agency, did not identify any issues that would adversely affect its project management role, and no significant integrity risks were identified. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, AIFSA, and PFIs. The specific policy requirements and supplementary measures are described in the PAM.

C. Poverty, Social, and Gender

30. The project supports poverty reduction indirectly by enhancing the linkages between small producers and markets. By providing increased and stable market opportunities for small producers, the project will help increase job opportunities and rural incomes. Enhancing efficiency and downstream functionality in the livestock value chain will bring significant benefits to small producers, the majority of whom are low-income. The project is classified *effective gender mainstreaming*. Two main gender constraints are lack of access to finance for women-owned enterprises and limited entrepreneurship. The project gender action plans include increasing PFIs' outreach, ensuring that livestock-related subprojects financed by PFIs' sub-loans prioritize the employment of female workers, and implementing capacity and leadership development activities.²⁹ ADB conducted due diligence and confirmed that the livestock subsector complies with core labor standards.

D. Safeguards

31. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows: *financial intermediation* (treated as category B) for the environment, and *category C* for involuntary resettlement and indigenous peoples.³⁰ Subprojects identified in ADB's Prohibited Investment Activities List in ADB's Safeguard Policy Statement that are classified *category A* for the environment, and *category A* or *category B* for involuntary resettlement or indigenous peoples are not eligible for project financing. In addition, eligible subprojects will comply with applicable national regulations. ADB carried out due diligence of PFIs' environmental and social management systems (ESMSs).³¹ All PFIs must have an ESMS that satisfies ADB's Safeguard Policy Statement prior to their first sub-loan disbursement.

²⁸ Financial Analysis and Economic Analysis (accessible from the list of linked documents in Appendix 2).

²⁹ Summary Poverty Reduction and Social Strategy, and Gender Action Plan (accessible from the list of linked documents in Appendix 2).

³⁰ ADB. [Safeguard Categories](#).

³¹ Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2).

E. Summary of Risk Assessment and Risk Management Plan

32. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³² The overall project risk is *moderate*.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Reduced economic activity affects debt service capacity of livestock farmers and enterprises.	PFI, with staff trained by the project, will undertake prudent sub-loan underwriting to help their clients achieve adequate debt service capacity.
Increasing risk provisions and adopting CBU capital adequacy standards requires additional capital to maintain compliance with prudential regulations.	PFI and CBU will conduct stress testing and internal capital adequacy assessment. PFI will raise capital as required.
PFI incur credit risks.	PFI were selected based on their financial record, including their prudent management of credit risk in lending to agricultural enterprises.

CBU = Central Bank of Uzbekistan, PFI = participating financial institution.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

33. The government and AIFSA have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anti-corruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

34. The government and AIFSA have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements. As a condition of loan effectiveness, at least three PFI shall have entered into a project agreement with ADB, and the government and AIFSA shall have entered into a tripartite subsidiary loan agreement with such PFI, in form and substance satisfactory to ADB. Conditions for loan disbursement for relending to a PFI include the execution of a project agreement with ADB and a subsidiary loan agreement with the government and AIFSA, and the establishment by each PFI of an ESMS following the Safeguard Policy Statement requirements.

V. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$150,000,000 to the Republic of Uzbekistan for the Livestock Value Chain Development Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao
President

2 September 2019

³² Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Contribution of agriculture to inclusive economic growth, incomes, and employment increased (Uzbekistan Strategy of Actions for Further Development, 2017–2021) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Production and marketing of livestock products increased	By 2025: a. Production of key livestock products increased to 12.0 million tons for milk and 3.0 million tons for meat (2018 baseline: 10.5 million tons for milk, 2.4 million tons for meat) b. Value of marketed livestock products increased to \$10.0 billion (2018 baseline: \$8.7 billion)	a–b. National Statistics Committee annual statistics, and MOA annual statistics and sector performance reports	Reduced economic activity affects debt service capacity of livestock farmers and enterprises
Output 1. Access to finance in the livestock subsector increased	By 2024: 1a. 725 sub-loans extended to livestock producers and value chain enterprises (2019 baseline: not applicable) 1b. At least 5% of sub-loans extended to livestock producers and agribusiness enterprises led by women (2019 baseline: 0) 1c. Subprojects financed by PFI sub-loans employed at least 30% female workers (2019 baseline: 5%) 1d. Sub-loan monitoring system with disaggregated data established in all PFIs, disaggregated by sub-loan amount; number of sub-loans; new jobs created; number of female loan officers; and number of PFI female staff at headquarters and branches, including senior management (2019 baseline: not applicable) 1e. At least two training sessions on preparing sub-loan documentation conducted by each PFI for potential sub-borrowers (at least 30 participants per PFI, of whom at least 30% are women) (2019 baseline: 0)	1a–e. PFI quarterly and annual progress reports; and quarterly and annual project monitoring reports by PMO	Increasing risk provisions and adopting CBU capital adequacy standards requires additional capital to maintain compliance with prudential regulations PFIs incur credit risk.
2. Support services to the livestock subsector improved	By 2024: 2a. Continuing education program for veterinarians established at IVM	2a–c. PMO's quarterly and annual project monitoring reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>and at least 500 veterinarians trained under the program, of whom at least 150 are women (2019 baseline: 0)</p> <p>2b. Model private veterinary service practice established and provided services to at least (i) 150 livestock producers and/or processors, of which at least 45 are livestock farms and/or processing enterprises led by women; and (ii) 450 visiting veterinarians (2019 baseline: 0)</p> <p>2c. At least 80 PFI loan officers (including at least 25 women) applying knowledge gained from project-financed training in livestock lending credit policy, product development, procedures, and outreach strategy (2019 baseline: 0)</p>		
<p>Key Activities with Milestones</p> <p>1. Access to finance in the livestock subsector increased</p> <p>1.1. Sign subsidiary loan agreements with PFIs (by January 2020)</p> <p>1.2. Establish and/or revise environmental and social management systems at PFIs (by February 2020)</p> <p>1.3. Disburse sub-loans to livestock producers and enterprises (Q1 2020–Q4 2024)</p> <p>2. Support services to livestock subsector improved</p> <p>2.1. Develop continuing education program at IVM (by Q3 2020)</p> <p>2.2. Implement continuing education program (Q4 2020–Q3 2024)</p> <p>2.3. Establish a veterinary association (by Q4 2020)</p> <p>2.4. Accredited veterinary association members (Q1 2021–Q4 2024)</p> <p>2.5. Establish model private veterinary service practice at IVM (by Q4 2020)</p> <p>2.6. Establish at least six private veterinary service practices nationwide (Q1 2022–Q4 2024)</p> <p>2.7. Deliver veterinary advice to livestock producers and processors (Q1 2021–Q4 2024)</p> <p>2.8. Support PFIs in developing livestock lending credit policies and procedures, credit products, and outreach strategies; and training related staff (by Q3 2020)</p> <p>2.9. Assist PFIs in promoting lending products and loan procedures for farmers, producers, and livestock business enterprises (2020–2024)</p>			
<p>Project Management Activities</p> <p>Mobilize capacity development consultants by Q1 2020</p> <p>Replenish the PMO with required staff by Q1 2020</p> <p>Establish project implementation units at each PFI by Q1 2020</p> <p>Set up project performance management system by Q3 2020</p> <p>Prepare annual progress reports</p> <p>Provide technical support and monitoring to PFIs, private veterinary service providers, and sub-borrowers (2020–2024)</p> <p>Prepare project completion report (Q4 2024–Q1 2025)</p>			

Inputs

ADB: \$150.00 million (concessional OCR loan)

Sub-borrowers: \$56.15 million

Government: \$31.30 million

Assumptions for Partner Financing

Not Applicable

ADB = Asian Development Bank, IVM = Institute of Veterinary Medicine, MOA = Ministry of Agriculture, OCR = ordinary capital resources, PFI = participating financial institution, PMO = project management office, Q = quarter.

^a Government of Uzbekistan. 2017. *Strategy of Actions for Further Development of Uzbekistan, 2017–2021*. Presidential Decree No. UP-4947. Tashkent.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=52110-001-3>

1. Loan Agreement: Ordinary Operations (Concessional)
2. Project Agreement: Agency for Implementation of Projects in the Field of Agro-Industry and Food Security
3. Project Agreement: Participating Financial Institutions
4. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
5. Project Administration Manual
6. Contribution to the ADB Results Framework
7. Development Coordination
8. Financial Analysis
9. Economic Analysis
10. Country Economic Indicators
11. Summary Poverty Reduction and Social Strategy
12. Risk Assessment and Risk Management Plan
13. Climate Change Assessment
14. Gender Action Plan
15. Financial Intermediary: Environmental and Social Management System Arrangement

Supplementary Documents

16. Veterinary Services Capacity Development
17. Detailed Project Financial and Economic Analysis
18. Detailed Social and Gender Assessment
19. Lessons and Synergies