



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 12-Sep-2018 | Report No: PIDISDSC24619



BASIC INFORMATION

A. Basic Project Data

Country Uzbekistan	Project ID P166305	Parent Project ID (if any)	Project Name Ferghana Valley Enterprise Development Project (P166305)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Nov 12, 2018	Estimated Board Date Jan 03, 2019	Practice Area (Lead) Agriculture
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency State Investment Committee	

Proposed Development Objective(s)

To increase access to services and expand economic and job opportunities, especially for women and youth, within Ferghana Valley

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	200.00
Total Financing	200.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00
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Environmental Assessment Category

B - Partial Assessment

Concept Review Decision

Track II-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

1. Uzbekistan is currently undergoing a paradigm shift away from its state managed economy. In the past year, the Government of Uzbekistan has launched a wide range of reforms that represent a shift from a state-led economic system to a market economy. As noted in the recent PLR, these entail four fundamental economic and social shifts: (i) from the state to the private sector; (ii) from inward-looking to outward-looking growth and jobs drivers; (iii) from general government subsidies to targeted social programs; and (iv) from central government to regional and local authorities, in particular as regards responsibility and accountability for the implementation of the reform agenda on the ground.
2. A number of major policy and institutional reforms have been initiated in the past year: major reforms include the liberalization of the exchange rate and currency depreciation, the reduction of Government involvement in the agricultural sector, the progress on the discontinuation of forced and systematic labor mobilization in the cotton sector, the diversification of agriculture to shift away from cotton and wheat production, the introduction of price adjustments and differentiation in energy and utility tariffs, and the efforts to improve communication with citizens, and improving access to information.
3. Despite its achievements in reducing poverty over the past ten years, Uzbekistan faces significant longer-term challenges in providing high-productivity, well-paid employment opportunities, especially for youth, and a high disparity in living standards between rural and urban areas. As reforms continue, an increasing the share of economic growth and employment will be driven by the informal and non-state sector – particularly at lower income levels.
4. Uzbekistan’s individual regions face a range of development challenges – in Ferghana Valley development has not kept pace with its potential. The entire Ferghana valley encompasses an area located in three countries – the Andijan, Ferghana and Namangan regions in Uzbekistan; portions of the Sughd region in Tajikistan, and the Osh, Jalalabad, and Batkan regions of Kyrgyzstan. With a total population estimated at 14 million across all three countries, the portion of Ferghana Valley located in Uzbekistan is the largest, with approximately 9.3 million people, comprising 28% of Uzbekistan’s total population. The region is home to one quarter of Uzbekistan’s poor and average income falls on the lower end of the income spectrum. The Ferghana Valley includes some of Uzbekistan’s most highly productive agricultural land and at the same time, has a relatively high level of industrial development compared to other parts of Uzbekistan. Despite being well endowed development challenges include bio-physical (climate change induced weather variability, water scarcity, limited power generation capacity); social (growing labor pool); and economic (structural transition to a market led economic model, uneven growth leading to development gaps between districts).



Sectoral and Institutional Context

5. A key constraint facing Uzbekistan and Ferghana Valley is a lack of job and entrepreneurship opportunities for large sections of the economically active population, particularly youth and women. This is closely linked to the enabling ecosystem for innovation, entrepreneurship and incubation at the individual level and at the economy-wide level, and limited service delivery across key services that underpin development of new economic opportunities. There is a substantial gender and youth gap in Uzbekistan's labor market, with low labor force participation across most sectors - highlighting the need to promote the socio-economic inclusion of youth and women.

6. Achieving more robust economic growth in Ferghana Valley will require creation of more and better jobs and, in turn, enhancing the ability of small and medium size enterprises to be created, grow, and formalize. Government statistics estimate that 78 percent of all jobs, including seasonal and part-time jobs, are located in private micro and small firms. While recent reforms to foreign exchange restrictions and the currency devaluation have substantially improved the business environment for SMEs, a number of challenges exist to growing or establishing new SMEs. The 2016 Strategic Country Diagnostic noted that expanding and equalizing access to services will be essential to support entrepreneurship and encourage the growth of SMEs. More inclusive growth will also require widening the base of small and medium enterprises beyond its current level. While a number of projects or programs have developed robust credit lines accessible to SMEs, there are gaps – micro-credit for new entrants is still limited as most credit lines target medium scale enterprises and have significant collateral requirements. Gaps also exist in developing entrepreneurship skills and strengthening business models to be more competitive and market oriented.

Relationship to CPF

7. The new operation is consistent with the adjustments to Bank's country program, which has been adapted to meet Uzbekistan's growing social and economic transformation. The proposed project falls under the proposed new adjusted CPF Focus Area 2: Reform of select state institutions and citizen engagement. Focus Area 2 aims to build and strengthen the institutions that are necessary to deliver on the new policy reform agenda and has four objectives: (i) enhanced corporate governance and strengthened financial sustainability of SOEs; (ii) increased access and reliability of power supply and heating services; (iii) improved access to and quality of water supply and sanitation services; (iv) Improved connectivity of transport and digital services; and (v) strengthened citizen participation. The proposed project will address interventions across objectives (ii) through (iv) and will also support the CPF's higher level goals to support the growth of private sector and creation of markets.

C. Proposed Development Objective(s)

8. 12. The project's objective is to expand economic and job opportunities within Ferghana Valley through rural enterprise development and establishment of an enabling environment for private sector-led economic growth. Financing would be directed at: (i) rural entrepreneurship with a focus on business incubation and cluster development; (ii) rural enterprise financing with a focus on micro and small enterprises in high potential sectors (agri-food, tourism, textiles/apparel, light manufacturing); and (iii) productive investments in targeted rural communities to facilitate economic and livelihood activities associated with clusters or enterprise zones. The project will place a strong focus on inclusion (targeting vulnerable groups and the poor), innovation (deploying technology, digitization and management models to improve effectiveness, efficiency and scale); and incubation (facilitation and mentorship for ecosystem development).



Key Results (From PCN)

9. The project would be expected to result in an increase in enterprise intensity (number and type of enterprises); increase in the number of formal and informal jobs generated from new enterprise activity, particularly among youth and women; and increased access to productive rural infrastructure in targeted areas.

D. Concept Description

Component 1: Enterprise Development

Sub-Component 1.1: Technical support and Facilitation

10. The objective of the first sub-component is to facilitate the establishment and growth of micro and small enterprises – including enterprise clusters – through the provision of technical support and facilitation. Two approaches will be used to meet the specific needs of target beneficiaries, some of whom may require basic market access and enterprise development, and others which require support on developing more sophisticated stand alone enterprises. The project will support: (i) cluster development for economic aggregation and mobilization in selected communities; and (ii) support the development of a market based enterprise ecosystem, with a focus on business incubation and mentorship. The project will link rural areas with potential growth opportunities in selected sectors and also link rural areas with emerging economic clusters in urban areas and other economic clusters in the country and the region.

Sub-Component 1.2: Rural Enterprise Financing Facility

11. The objective of the second sub-component is to increase the capacity of the financial sector to support micro and small enterprises or clusters. The second component will establish a Ferghana Rural Enterprise Development facility and support the development of the financial instruments that can provide catalytical financial support and linkages to financial institutions.

Component 2: Improving the Enabling Environment for SMEs and Business Clusters

12. The objective of the second component is to improve the competitiveness of the Ferghana Valley by supporting the infrastructure, service delivery and market promotion required to support economic activity in targeted clusters or enterprise zones. This component would be closely tied to activities in the first component and aimed at putting in place the required public goods infrastructure or services required to facilitate enterprise clusters or economic aggregation activities. Activities would include:

13. **Productive Infrastructure for Business Clusters/Enterprise Zones.** Spatial development disparities have led to gaps in infrastructure and services in some districts that represent a binding constraint to the expansion of economic activity. Initial assessments in the project identification stage have indicated there are a number of gaps in productive infrastructure in more isolated rural districts that would prevent the development of new agri-businesses, agri-food processing, tourism or textile production activities, particularly in terms of reliable electricity and availability of water. ICT and transport connectivity are also increasingly important if rural areas are to be able to strengthen linkages to urban areas and take advantage of an emerging digital economy.



14. Financing under the second component will be directed at investments that would provide the needed infrastructure and services needed for priority rural enterprise zones or clusters selected under the project. Financing would primarily target last mile investments for energy, transport or irrigation or water connections, but could also include market or ICT infrastructure. Financing will be complementary to other World Bank infrastructure financing but designed to fill specific business needs. In order to support productive infrastructure investments that hinder economic development or expansion of enterprise activity in target areas, the third component will also support feasibility assessments and strategic planning to identify gaps and bottlenecks.

15. **Market promotion and technology testing.** The second component will also support a small set of market promotion and technology testing activities in order to facilitate the enterprise clusters or SME activities. This could include market-led technology transfer through demonstrations of improved technologies. trade promotion and assessment of export and domestic marketing policies as well as

16. **Spatial development planning.** Financing would also be provided for planning activities that will include a larger spatial development planning exercise. Spatial development planning would focus on identifying a multi-sectoral, integrated and tailored strategy of investments and activities that include a focus on both basic service as well as economic growth opportunities. This would include transport as well as logistics facilities and logistics services at all levels of economic activity based on the underlying rationale that if the Fergana Valley is to grow and prosper it will need to release constraints inhibiting growth of existing agricultural and manufacturing activities through a range of improvements of logistics and transport connections at the local and regional levels. The valley is well placed to take advantage of Uzbekistan reengaging with its immediate neighbors together with extensions of this increased access to markets in Russia, China and South Asia.

Component 3: Project Management and Coordination

17. The third component will finance project management and coordination activities that will be further defined as institutional and implementation arrangements are refined during preparation.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The entire Ferghana valley encompasses an area located in three countries – the Andijan, Ferghana and Namangan regions in Uzbekistan; portions of the Sughd region in Tajikistan, and the Osh, Jalalabad, and Batkan regions of Kyrgyzstan. With a total population estimated at 14 million across all three countries, the portion of Ferghana Valley located in Uzbekistan is the largest, with approximately 8.8 million people, comprising 28% of Uzbekistan’s total population. The region is home to one quarter of Uzbekistan’s poor. The Ferghana Valley includes some of Uzbekistan’s most highly productive agricultural land and at the same time, has a relatively high level of industrial development compared to other parts of Uzbekistan. Despite being well endowed development challenges include bio-physical (climate change induced weather variability, water scarcity, limited power generation capacity); social (growing labor pool); and economic (structural transition to a market led economic model, uneven growth leading to development gaps between districts). Total area of the Province is 4.3 thousand sq. km. The climate of the region is a typically continental



climate with extreme differences between summer and winter temperatures. Due to the fact that mountain chains are preventing cold air masses from entering the region, the winter weather is comparatively moderate. The vegetation period is 217 days, average annual precipitation is 200-250 mm.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Government of Uzbekistan is currently implementing a number of World Bank financed projects through a range of implementing agencies. The current institutional counterpart for the proposed project is the State Investment Committee (however this may be adjusted and discussions are expected to be concluded prior to launching preparation of the safeguards instruments). The SIC is currently hosting the PIU for the propose Medium Cities Project and is developing some experience with Bank safeguards instruments. If an alternative implementing agency is selected it will be an agency which is currently implementing Bank projects and has capacity and experience to meet Bank safeguards requirements. The PIU EA capacity will be assessed during the project design and necessary capacity building activities will be included in the ESMF document.

C. Environmental and Social Safeguards Specialists on the Team

Kristine Schwebach, Social Specialist
Arcadii Capcelea, Environmental Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The proposed investments in infrastructure and service delivery under the Component 2 (which could include electricity, road, and irrigation infrastructure), along with proposed financing under Component 1 for entrepreneurship development and job creation (with a focus on micro and small enterprises in high potential sectors such as agribusiness, tourism, textiles/apparel, light manufacturing) might cause a series of various and direct environmental risks and impacts such as: water and air pollution; solid wastes management issues; occupational health and safety risks; etc. Overall most of these risks and impacts will be short terms and site specific, but in some cases (which would involve or generate hazardous materials and wastes) may be also significant. Furthermore, the proposed development of an integrated spatial development strategy for the Fergana Valley, indirectly might also generate a series of various environmental risks and impacts associated with further related investments.</p> <p>To address identified risks and impacts the client will prepare and Environmental and Social Management Framework which would cover the following: rules and</p>



procedures for environmental and social screening of investments/subprojects; guidance for conducting subprojects Environmental and Social Impact Assessments (ESIA) and/or preparing simple Environmental and Social Management Plans (ESMPs) as well as the related ESMP Checklists; mitigation measures for possible impacts of different proposed activities and types of matching grants and subprojects to be supported by the project; support for SMEs; main requirements for ESA for the potential project investments under the Component 2 which would be on large scale infrastructure development; requirements for monitoring and supervision of implementing of ESIA/ESMPs, implementation arrangements.

As the development of business plans, or improving production processes can during their implementation generate some impacts related to air and water pollution, waste generation, labor and health risks, etc. the ESMF will specify that all these activities will be subject to preliminary screening to identify those which might require an EIA and/or a simple EMP. The screening process will be aimed at identifying possible areas and recommendations for improving environmental performance of proposed activities by identifying opportunities for sound environmentally and/or socially positive alternatives (e.g., energy efficiency, recycling and reducing waste generation, etc.).

The ESMF will also focus attention to the project's support to SMEs - primarily micro and small enterprises, which may have particular social considerations or risks such as child and forced labor, social inclusion of women and youth, and community health and safety. The ESMF will define guidelines for SMEs to follow in managing environmental and social risks and will draw on the extensive experience already in place through other projects, that are financing SMEs through various agriculture and energy sector credit lines.

The ESMF will also specify capacity building activities that would include strengthening of SIC's capacity as well as of participating local institutions on mitigating potential environmental and social risks and conducting subproject-level ESIA. A special attention in this regard will be on developing the capacity of



hokimiyats (provincial administration) ESA capacities. Lastly, the ESMF document will provide a negative list that will include primary infrastructure investments, and investments with large-scale irreversible social or environmental impacts (Category A subprojects), which will be not supported under the project. Also, the sub-projects located in protected areas, critical habitats or culturally- or socially-sensitive areas, along with sub-projects which might have impact on international waterways, will be excluded from the project financing. The draft ESMF will be disclosed and consulted with all interested parties in the country.

Performance Standards for Private Sector Activities OP/BP 4.03	No	N/A
Natural Habitats OP/BP 4.04	No	All proposed activities are to be implemented within existing agricultural land and settlement boundaries, the project will not have impact on wildlife and natural habitats, and thus OP/BP 4.04 Natural habitats are not triggered.
Forests OP/BP 4.36	No	All proposed activities are to be implemented within existing agricultural land and settlement boundaries, the project will not have impact on forests.
Pest Management OP 4.09	TBD	At this stage of the project design it is not clear if there will be supported subprojects which might lead to increased use of pesticides. In the case the project will trigger this OP then a Pest Management Plan will be prepared as part of the ESMF and which will promoting Integrated Pest Management approaches, and safety rules.
Physical Cultural Resources OP/BP 4.11	No	All proposed sub-projects will be screened in this regard and in the case there might be impacts on PCRs, those projects will be not supported under the project.
Indigenous Peoples OP/BP 4.10	No	There are no IP in Uzbekistan.
Involuntary Resettlement OP/BP 4.12	TBD	Proposed activities are expected to be primarily implemented within existing SME boundaries and agricultural land or involve rehabilitation for already existing infrastructure. The project is evaluating two approaches in project design: exclusion of any investments that would cause physical or economic displacement or making provision for involuntary resettlement through preparation of a resettlement policy framework. The primary risks under the project in terms of resettlement are around public goods infrastructure rehabilitation that may cause economic displacement. No physical displacement is envisioned



under the project. Should the OP 4.12 be determined to be triggered a resettlement policy framework will be prepared.

Safety of Dams OP/BP 4.37	No	The proposed activities will not have impacts on or relay on dam safety.
Projects on International Waterways OP/BP 7.50	No	All proposed subprojects will be screened and those which might have impacts on IWs will be excluded.
Projects in Disputed Areas OP/BP 7.60	No	The project will be not implemented in any of disputed areas.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 30, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The ESMF will be launched in end September 2018 and finished in early November, 2018.

CONTACT POINT

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APPROVAL

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