

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No: AC191

Date ISDS Prepared/Updated: December 16, 2003

I. BASIC INFORMATION

A. Basic Project Data

Country: Kyrgyz Republic	Project ID: P049724
Project Name: KYRGYZ AGRIBUSINESS AND MARKETING PROJECT	Task Team Leader: Edward C. Cook
Estimated Appraisal Date: May 17, 2004	Loan/Credit amount (\$m.): IDA: 10
Estimated Board Date: September 14, 2004	
Managing Unit: ECSSD	Lending Instrument: Specific Investment Loan
Sector: Agricultural marketing and trade (85%); Agro-industry (15%)	Theme: Rural markets (P); Rural policies and institutions (P); Rural non-farm income generation (P); Rural services and infrastructure (P)
Safeguard Policies Specialists in the task team:	
Other financing amounts by source:	(\$m.)

B. Project Objective

The direct project development objectives will be to expand the level of activity of processing, marketing, and trade enterprises downstream of the farmgate, increase the number and economic importance of producer organizations, and to build trade linkages between producers, primary and secondary level trade organizations. The ultimate objective of these efforts will be to increase the amount of value added to Kyrgyz agro-food commodities, to increase sales of those commodities both domestically and abroad, and to improve the performance of agricultural markets.

C. Project Description

The Project will have a two-pronged approach. It will address regulatory and policy issues effecting agro-food trade and commerce on a broad front. It will also work directly with identified producer organizations and business enterprises in improving value chain linkages for specific commodities. The approach on value chain development will be to work with those business opportunities that are relatively close to achieving higher sales of commodities, rather than to take on higher-risk areas where a substantial list of issues needs to be addressed and large amounts of investment would be required.

The Project will be composed of two components; a Market Development Component and an Access to Credit Component. For the business decisions that need to be taken with regard to value chain development and strengthening, it is imperative that decisions be taken by objective and competent bodies free from political influence. For this purpose it is proposed that an independent body be established to manage activities under the Market Development Component. This will be modeled on the basis of organizations set up under the Moldovan First Private Sector Development Project and the Georgia Private Enterprise Development Project that have proven successful in supporting the development of domestic institutional capacity and skills in the private sector. For the Access to Credit Component, participating Financial Institutions (FIs) will have autonomy to control credit allocation decisions.

1. Market Development Component – This component will focus on bringing together parties involved in the value chains of specific agricultural commodities and providing them the foundation to work together more effectively so

as to provide more competitive products to the market. The objective of the component will be to provide successful models of value chain development that can then be expanded more broadly throughout the economy. The commodities to be addressed will be identified through interaction with processors, traders, and agricultural producers with the objective being to work with those commodities or products with the best prospect for success in terms of the goals of increased sales and value added. Commodity and market analysis is available for most major agricultural products. This provides an indication of where market development prospects are more promising and where they are less so. However, the Project will not set a priori limitations on the set of commodities that would be eligible for consideration.

The model for value chain development will be a clusters approach as demonstrated in the Georgia Enterprise Rehabilitation Project and in projects in other regions of the Bank, with appropriate adjustments to the Kyrgyz situation. The clusters approach envisioned will involve working with groups of related enterprises or producers to identify business opportunities for specific commodities and then to pull into the group related up- and down-stream actors in those value chains. For the model to work it is critical to have coherent and professional management of value chain issues, proper delineation of public and private sector roles, and careful combination of international and local skills in building institutional capacity.

The types of services to be provided under the component will include basic business and technical training programs, support to development of producer organizations, a matching grant program for commercial innovation, and the identification of relevant regulatory, policy, and infrastructure constraints impeding increased competitiveness.

This program would be managed by an independent body established by the Government that would be responsible for combination of international expertise with available local consulting services to work with selected enterprises. The objective would be to carefully define and target the foreign technical assistance to provide needed skills both to the enterprises in question as well as to domestic Kyrgyz business consulting capacity.

2. Access to Credit Component – The package of interventions under the Market Development Component would be supplemented with activities addressing the question of access to credit. The task team has analyzed the question of access to credit for the agro-food sector of the economy through interviews with financial institutions and review of available data. The main factors restricting the flow of credit resources to support value chain development in the sector include: (i) perceived high risks to agricultural and rural lending; (ii) lack of good business proposals and lack of capacity in the businesses to operate in the market conditions; (iii) the short-term nature of the liquidity in the banking sector; (iv) inefficient operations of the commercial banks; and (v) lack of collateral acceptable to banks.

Under this component a credit line will be extended with two objectives: (a) to address the shortage of longer-term capital; and (b) to assist in the development of innovative working capital relations between processors and traders on one hand, and producers and suppliers of agricultural commodities on the other. The credit line would be disbursed through participating financial institutions (PFIs) and the PFIs would have full autonomy in assessing risk and taking lending decisions. The credit lines would likewise be open to the entire agro-food sector and not be restricted to the clusters being developed under the Market Development Component, nor would the PFIs be under any obligation to lend to the beneficiaries of the Market Development Component.

Capacity of participating financial institutions will be enhanced through in-house training in specifics of agricultural lending, appraisal of financial and operational sustainability of investment proposals, including commercialization opportunities, and appraisal of the associated risks and setting of the margin. In addition, the Project will provide training to PFIs in: (a) the use of price risk management mechanisms by those involved in agro-food supply chains and the role of banks in the operation of those mechanisms; and (b) the use of other financial mechanisms to support development of the agro-food sector of the economy, such as the use of supplier credit and warehouse receipts and/or other commodity-based financing programs.

D. Project location (if known)

Project locations will be dependent on the commodity clusters which are selected.

E. Borrower's Institutional Capacity

The Borrower has limited institutional capacity for implementation of a project of this type. The Ministry of Agriculture, Water Resources, and Processing Industry (MAWRPI) has limited experience in supporting private sector development in a sustainable manner and will require guidance on appropriate public and private sector roles needed for achievement of project objectives. Capacity elsewhere in Government for activity foreseen under the Project is limited. Existing capacity within the private sector will need to be strengthened through the Project.

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Applicable?	Safeguard Policy If Applicable, How Might It Apply?
<input checked="" type="checkbox"/>	Environmental Assessment (OP/BP 4.01)
<input type="checkbox"/>	Natural Habitats (OP/BP 4.04)
<input type="checkbox"/>	Pest Management (OP 4.09)
<input type="checkbox"/>	Involuntary Resettlement (OP/BP 4.12)
<input type="checkbox"/>	Indigenous Peoples (OD 4.20)
<input type="checkbox"/>	Forests (OP/BP 4.36)
<input type="checkbox"/>	Safety of Dams (OP/BP 4.37)
<input type="checkbox"/>	Cultural Property (draft OP 4.11 - OPN 11.03)
<input type="checkbox"/>	Projects in Disputed Areas (OP/BP/GP 7.60)*
<input type="checkbox"/>	Projects on International Waterways (OP/BP/GP 7.50)

Environmental Assessment Category:

A B C FI TBD (to be determined)

If TBD, explain follow-up and calendar/steps for the determination of the category:

Safeguard Policies Classification:

S₁ S₂ S₃ S_F TBD (to be determined)

If TBD, explain follow-up and calendar/steps for the determination of the classification:

III. ACTIONS DURING PROJECT PREPARATION

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

A. What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?

Both a social assessment and an environmental assessment are planned and will be financed by the PHRD Grant for the Project.

B. How might consultation and disclosure requirements be addressed?

It is planned to establish a consultative council to oversee the Project composed of representatives of primary stakeholders, including private sector representatives, NGOs, other donors, and Government agencies. A project conference is planned at the end of preparation which will discuss project design and the findings of the social and environmental assessments.

IV. AGREEMENTS REACHED ON SAFEGUARDS AT PCN REVIEW

Environmental safeguard issues are foreseen with regard to component (ii), which will provide credit lines to existing agro-processing enterprises, and with regard to rehabilitation of public infrastructure, if any, under component (i). The project is not likely to raise any significant pest management issues. The TTL informed that purchase of pesticides is not intended under the project, although the use of pesticides by the sub-borrowers cannot otherwise be precluded. No land expropriation is expected in any of the physical investments for which funds may be borrowed by enterprises under the Credit component. Land transactions, if any, will be private, on a willing-seller willing-buyer basis. Under the Market Development component for Public Infrastructure there will be no new construction requiring acquisition of land through eminent domain, and work will be limited to rehabilitating existing structures, if any.

It was agreed that the environmental category B is appropriate. An environmental chapter of the Operations Manual will be prepared describing the procedures and arrangements to assure subprojects compliance with the national environmental regulations and Bank policy on Environmental Assessment.

Agreed target date for Quality Enhancement Review:

Prior to the next mission, preferably in January 2004.