

Document of
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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
AGRIBUSINESS & MARKETING PROJECT (P049724)

CREDIT 4015-KG
PHRD TF053554

DECEMBER 14, 2004

TO THE
KYRGYZ REPUBLIC

JANUARY 28, 2011

ABBREVIATIONS AND ACRONYMS

ABCC	Agribusiness Competitiveness Center
ABMP	Agribusiness and Marketing Project
DCA	Development Credit Agreement
ITA	International Technical Assistance
MDS	Market Development Service
MOA	Ministry of Agriculture
PHRD	Policy and Human Resources Development Grant
SDR	Special Drawing Rights
SIL	Special Investment Loan

Regional Vice President:	Philippe Le Houerou
Country Director:	Motoo Konishi
Sector Manager:	Dina Umali-Deininger

Task Team Leader: Sandra Broka

Restructuring Status: Draft

Restructuring Type: Level two

Last modified on date : 01/19/2011

1. Basic Information

Project ID & Name	P049724: AGRIBUSINESS & MARKETING
Country	Kyrgyz Republic
Task Team Leader	Sandra Broka
Sector Manager	Dina Umali-Deininger
Country Director	Motoo Konishi
Original Board Approval Date	12/14/2004
Original Closing Date:	12/31/2010
Current Closing Date	12/31/2011
Proposed Closing Date	12/31/2011
EA Category	B-Partial Assessment
Revised EA Category	B-Partial Assessment-Partial Assessment
EA Completion Date	05/26/2004
Revised EA Completion Date	N/A

2. Revised Financing Plan (US\$m)

Source	Original	Revised
BORR	0.13	0.13
IDA	8.10	8.10
ZMUL	4.75	4.75
Total	12.98	12.98

3. Borrower

Organization	Department	Location
Government of the Kyrgyz Republic		Kyrgyz Republic

4. Implementing Agency

Organization	Department	Location
Ministry of Finance	Investment Policy	Kyrgyz Republic
Ministry of Economic Regulation		Kyrgyz Republic

5. Disbursement Estimates (US\$m)

Actual amount disbursed as of 01/19/2011 5.25

Fiscal Year	Annual	Cumulative
2011	1.6	6.85
2012	1.25	8.1
	Total	8.1

6. Policy Exceptions and Safeguard Policies	
Does the restructured project require any exceptions to Bank policies?	N
Does the restructured project trigger any new safeguard policies? If yes, please select from the checklist below and update ISDS accordingly before submitting the package.	N

7a. Project Development Objectives/Outcomes
Original Project Development Objectives/Outcomes
The direct project development objectives will be to expand the level of activity of processing, marketing, and trade enterprises downstream of the farmgate, to increase the number and economic importance of producer organizations, and to improve the functioning of markets and trade linkages between producers, and primary and secondary level trade organizations. The Project will work directly with private enterprises and producer and other commercial organizations to improve the competitiveness of Kyrgyz products. 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 operation of domestic agricultural markets.

7b. Revised/Current Project Development Objectives/Outcomes
The objective of the Project is to assist the Borrower in increasing and enhancing the business activities of the Beneficiary agribusinesses supporting the Borrower's economic growth.
<u>Key outcome indicators:</u>
(a) Increase in sales of agribusinesses supported by the Project.
(b) Increase in profits of agribusinesses supported by the Project

KYRGYZ REPUBLIC
AGRIBUSINESS & MARKETING PROJECT

CONTENTS

	Page
A. SUMMARY.....	4
B. PROJECT STATUS.....	4
C. PROPOSED CHANGES	4

AGRIBUSINESS & MARKETING PROJECT RESTRUCTURING PAPER

SUMMARY

This Restructuring Paper seeks approval for: (i) correction of the numbering of disbursement categories listed in Paragraph 1 of Schedule 1 to the Development Credit Agreement (DCA) dated September 9, 2009 and countersigned by the Ministry of Finance of the Kyrgyz Republic on July 1, 2010, and (ii) a reallocation of IDA credit funds in the amount of SDR213,000 to the Incremental operating expenses Category to permit operation of the project's implementing units for the remainder of the project implementation period.

PROJECT STATUS

The Kyrgyz Republic Agribusiness and Marketing Project, financed by an IDA Credit (US\$8.1 million) in combination with a PHRD Co-financing Grant from the Government of Japan (US\$4.75 million), was approved on December 14, 2004 and became effective on May 02, 2005. The Project works directly with private enterprises and producer and other commercial organizations to improve the competitiveness of Kyrgyz products. Overall, the project is progressing well¹, although the pace of project disbursements has been slower than originally anticipated primarily due to periodic political events and uncertainties which impacted the project implementation. Of the IDA Credit, 65% have been disbursed to date, and 72% of the PHRD Grant. The second phase of International Technical Assistance (ITA-2) is progressing well. Agribusiness Competitiveness Center (ABCC) continues to monitor the markets, identify the trade and administrative barriers and develop proposals for their mitigation or elimination. The Market Development Service (MDS) continues to successfully facilitate the trading and promotion of Kyrgyz agricultural products both domestically and abroad (1,216 client contacts have been facilitated on various matters). Eighty one agribusinesses have been financed for a total of US\$5.5 million (including reflows). An extensive training program of loan officers of commercial banks has also been provided under the project.

Financial Management. The project's Financial Management is rated *Satisfactory*. The project has no significant financial management issues. The project audit report for 2009 with an unqualified (clean) opinion was received by the due date. The audit reports and the accompanying project financial statements were acceptable to the Bank.

PROPOSED CHANGES

¹ However, project's IP rating has been downgraded to Moderately Satisfactory due to delays with the implementation of the cooperatives support program under the restructured project stemming from delays with the ratification of the respective Amendments to the DCA.

(1) **Correction of the numbering of Disbursement Categories.** A letter from the Ministry of Finance of the Kyrgyz Republic dated November 13, 2010 requested extension of the ABMP's Closing Date² and reallocation of the credit proceeds. Prior to proceeding with the requested reallocation, the numbering of disbursement categories in Schedule 1 to the Amendment to the DCA would need to be corrected. During the preparation and approval of Amendment to the DCA of the ABMP in 2009, a new withdrawal category "Sub-grants under Part B.4 of the Project", was introduced. The new category was erroneously listed as Category (5), not Category (7). As a result, given the prior withdrawals from the "old" Category (5), this situation has created accounting difficulties. It is proposed, therefore, that the numbering of categories be corrected and the Category "Sub-grants under Part B.4 of the Project" be listed as Category (7).

(2) **Reallocation of SDR213,000 to Incremental Operating Costs Category.** The reallocation of amounts will ensure that the project's implementing units can operate during the extension period. While the letter from the Borrower requests a reallocation of SDR 213,000 to the (5) Incremental Operating Costs Category, the amount proposed to be reallocated will be reduced by SDR 1,131.75 due to an overdraft under Category (2) Goods by such amount. It is proposed, thus, to reallocate SDR63,000 from (1) Public Sector Investment Category and SDR148,868.25 from (6) Unallocated Category to (5) Incremental Operating Costs Category.

(3) The Table below reflects the proposed amendments under (1) and (2) above:

Category of Expenditure		Allocation		% of Financing	
Current ³	Revised	Current	Revised	Current	Revised
(1) Public sector investment	N/A	700,000	637,000	100%	100%
(2) Goods	N/A	60,000	61,131.75	100%	100%
(3) Consultants' services and training, including audit	N/A	430,800	430,800	100% of local expenditures, 90% of foreign expenditures	100% of local expenditures, 90% of foreign expenditures
(4) Sub-loans under Sub-loan Agreements under Part B.2 and B.3 of the Project	N/A	3,350,000	3,350,000	100% of eligible Sub-loans disbursed by the PFIs by December 31, 2006, and 80% thereafter	100% of eligible Sub-loans disbursed by the PFIs by December 31, 2006, and 80% thereafter
(5) Incremental operating costs	N/A	280,000	491,868.25	100%	100%

² The extension of the ABMP Closing Date until December 31, 2011 was approved on December 16, 2010.

³ The Current reflects amounts after the Reallocation of July 31, 2009 (please note that the Amendments to the DCA have been countersigned but not yet ratified. Ratification expected in early 2011.

(6) Unallocated	N/A	<u>150,000</u>	0		
(7) Sub-grants under Part B.4 of the Project	N/A	529,200	529,200	100%	100%
TOTAL		<u>5,500,000</u>	<u>5,500,000</u>		