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Report No: PAD2583

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED ADDITIONAL LOAN

IN THE AMOUNT OF US\$500 MILLION

TO THE

REPUBLIC OF UZBEKISTAN

FOR A

HORTICULTURE DEVELOPMENT PROJECT

January 2, 2018

Agriculture Global Practice
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective December 5, 2017)

Currency Unit = Uzbek Som (UZS)

UZS 8,097 = US\$1

FISCAL YEAR

January 1 – December 31

Regional Vice President: Cyril E Muller

Country Director: Lilia Burunciuc

Senior Global Practice Director: Juergen Voegele

Practice Manager: Julian A. Lampietti

Task Team Leader(s): Dilshod Khidirov, Melissa Brown

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CPF	Country Partnership Framework
ERR	Economic Rate of Return
ESMP	Environmental and Social Management Plan
ESMF	Environment and Social Management Framework
EU	European Union
FBM	Feedback Mechanism
FM	Financial Management
GRM	Grievance Redress Mechanism
HACCP	Hazard Analysis and Critical Control Points
HDP	Horticulture Development Project
IAS	International Accounting Standards
IFC	International Finance Corporation
ILO	International Labour Organization
IPM	Integrated Pest Management
MAWR	Ministry of Agriculture and Water Resources
MCI	Micro-Credit Institution
MoF	Ministry of Finance
OM	Operational Manual
PDO	Project Development Objective
PFI	Participating Financial Institution
RESP	Rural Enterprise Support Project
RRA	Rural Restructuring Agency
SCD	Systematic Country Diagnostic
SLA	Subsidiary Loan Agreement
SOE	Statement of Expenditure
TA	Technical Assistance
TPM	Third-Party Monitoring
USD	United States Dollars



BASIC INFORMATION – PARENT (Horticulture Development Project - P133703)

Country	Product Line	Team Leader(s)		
Uzbekistan	IBRD/IDA	Dilshod Khidirov		
Project ID	Financing Instrument	Resp CC	Req CC	Practice Area (Lead)
P133703	Investment Project Financing	GFA03 (9240)	ECCCA (1608)	Agriculture

Implementing Agency: Rural Restructuring Agency

Is this a regionally tagged project?			
No			
<input type="checkbox"/> Situations of Urgent Need or Capacity Constraints	Bank/IFC Collaboration		
<input type="checkbox"/> Financial Intermediaries	No		
<input type="checkbox"/> Series of Projects			
Approval Date	Closing Date	Original Environmental Assessment Category	Current EA Category
12-Jun-2014	30-Jun-2021	Partial Assessment (B)	Partial Assessment (B)

Development Objective(s)

The project development objective is to enhance the productivity and profitability of horticulture sector in the project area.

Ratings (from Parent ISR)

	Implementation	Latest ISR
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	15-May-2015	06-Aug-2015	12-Feb-2016	14-Sep-2016	24-Mar-2017	16-Oct-2017
Progress towards achievement of PDO	S	MS	MS	MS	MS	MS
Overall Implementation Progress (IP)	MS	MU	MU	MS	MS	MS
Overall Safeguards Rating				S	S	S
Overall Risk	M	M	M	M	M	M

BASIC INFORMATION – ADDITIONAL FINANCING (Additional Financing - Horticulture Development Project - P164226)

Project ID P164226	Project Name Additional Financing - Horticulture Development Project	Additional Financing Type Scale Up	Urgent Need or Capacity Constraints No
Financing instrument Investment Project Financing	Product line IBRD/IDA	Approval Date 25-Jan-2018	
Closing Date 30-Jun-2021	Bank/IFC Collaboration Yes	Joint Level Complementary or Interdependent project requiring active coordination	
Is this a regionally tagged project? No			

- Situations of Urgent Need or Capacity Constraints
- Financial Intermediaries
- Series of Projects

PROJECT FINANCING DATA – PARENT (Horticulture Development Project - P133703)



Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed	
IBRD	150.00	140.04	9.96	<div style="width: 93%; background-color: green;"></div>	93 %
IDA				<div style="width: 0%; background-color: gray;"></div>	%
Grants				<div style="width: 0%; background-color: gray;"></div>	%

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Additional Financing - Horticulture Development Project - P164226)

FINANCING DATA (US\$, Millions)

<input checked="" type="checkbox"/> Counterpart Funding	<input checked="" type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit	<input type="checkbox"/> IDA Grant	<input checked="" type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
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For Loans/Credits/Others (US\$, millions)

	Amount	Financing Source	Amount
Total Project Cost :	637.44	Borrower	16.93
Financing Gap :	0.00	Free-standing Cofinancing Trust Fund	25.00
Total Financing :	637.44	International Bank for Reconstruction and Development	500.00
Of Which Bank Financing (IBRD/IDA):	500.00	LOCAL: BENEFICIARIES	95.51
		Total	637.44

FINANCING SUMMARY (Parent and AF)

	Parent Project	Additional Financing	Total
Total Project Cost	183.13	637.44	820.57
Total Financing	183.13	637.44	820.57



Borrower	5.27	16.93	22.20
Free-standing Cofinancing Trust Fund	0.00	25.00	25.00
International Bank for Reconstruction and Development	150.00	500.00	650.00
LOCAL: BENEFICIARIES	27.86	95.51	123.37
Financing Gap	0	0.00	0

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any other Policy waiver(s)?

Yes No

INSTITUTIONAL DATA

Practice Area (Lead)

Agriculture

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes



b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Dilshod Khidirov	Team Leader (ADM Responsible)	Senior Agricultural Specialist	GFA03
Melissa Brown	Team Leader	Senior Economist	GFA03
Fasliddin Rakhimov	Procurement Specialist (ADM Responsible)	Procurement Specialist	GGOPC
Djamshid Iriskulov	Financial Management Specialist	Financial Management Specialist	GGOEE
Arcadii Capcelea	Environmental Safeguards Specialist	Senior Environmental Specialist	GEN03
Dilnara Isamiddinova	Team Member	Senior Operations Officer	GFAGE
Funda Canli	Team Member	Senior Program Assistant	GFA03
Jasna Mestnik	Team Member	Finance Officer	WFALN
Nina Kolybashkina	Social Safeguards Specialist	Senior Social Development Specialist	GSU03
Olivier Durand	Team Member	Senior Agriculture Economist	GFA03
Oydin Dyusebaeva	Team Member	Program Assistant	ECCUZ
Parmesh Shah	Team Member	Lead Rural Development Specialist	GFA07
Ruxandra Costache	Counsel	Country Lawyer	LEGLE
Sandra Broka	Team Member	Senior Agriculture Economist	GFA05
Sevara Abdusamatova	Team Member	Procurement Assistant	ECCUZ
Shakhnoza Ayupova	Team Member	Executive Assistant	ECCUZ
Svetlana Edmeades	Team Member	Senior Agriculture Economist	GFA03
Valencia M. Copeland	Team Member	Program Assistant	GFA03



Extended Team

Name	Title	Organization	Location
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UZBEKISTAN

ADDITIONAL FINANCING - HORTICULTURE DEVELOPMENT PROJECT

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I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. INTRODUCTION

1. **This Project Paper seeks the approval of the Executive Directors to provide Additional Financing (AF) in the amount of US\$500 million for the Horticulture Development Project (HDP) (P133703, IBRD Loan 8393 UZ) and 24-month extension of the closing date of the parent project.** The AF will support the scaling up of the original project's credit line under Component 2: Access to Credit, by providing funds through selected participating financial institutions (PFIs) for investment and working capital sub-loans and lease financing to beneficiaries. The overall project design and institutional arrangements will remain the same. The AF does not trigger any new safeguard policies and its environmental category will remain 'B.' The Results Monitoring Framework has been adjusted to reflect the additional credit, introduce new sector indicators, and revise some target values given changes in circumstances both within and outside of the project.

B. BACKGROUND

2. **Uzbekistan is gradually moving away from a state-driven development model toward a more diversified and private sector-led economy.** This structural change—which has accelerated significantly in the past year—is also taking place within the context of significant macroeconomic policy shifts, the most prominent of which has been the recent move toward greater currency convertibility and a significant devaluation in September 2017. Furthermore, over 15 bilateral international trade agreements were signed; interest in joining the World Trade Organization was declared; and it was in the top 10 global improvers in the 2018 'Doing Business' report. These developments play a strong role in shaping the country's development agenda going forward.

3. **Agriculture continues to play an important part in Uzbekistan's economy and in 2016 accounted for 17 percent of gross domestic product, 15 percent of export revenues, and over one-third of employment.** As noted in the May 2016 Systematic Country Diagnostic (SCD),¹ the agriculture sector may produce significant results in terms of economic growth and employment in the medium term. Also, diversification of outputs and exports have considerable space to expand.

4. **Horticulture plays an important role in promoting a gradual shift away from the traditional crops (cotton and wheat) and toward a more liberal and diversified agricultural sector.** Agriculture value added has grown at an average annual rate of 6.5 percent since 2003 and while wheat and cotton constitute the largest sub-sectors, the strongest growth has come from other crops and livestock. With a growing domestic and export market, the area devoted to horticulture has increased steadily. The economic impact of the fruit and vegetables subsector is also large, accounting for 50 percent of the value of crop output and over 35 percent of agriculture export value. Despite delayed returns and higher investment costs, horticultural crops generate revenues to farmers that are significantly higher than wheat and cotton.²

¹ World Bank. 2016 "Systematic Country Diagnostic for Uzbekistan" Report No. 106454 Washington DC: World Bank.

² World Bank. 2015. *Uzbekistan: Strengthening the Horticulture Value Chain*. Washington, DC: World Bank.



5. **The horticulture sector provides an important source of all-season jobs in rural areas and is a significant employer of women.** Workers in rural communities benefit when farmers switch to horticulture because it requires more hired labor than cotton and wheat production. Labor requirements are spread throughout the year due to the nature of the value chain, which includes all-weather greenhouse production and extensive post-harvest processing and marketing activities. Women comprise a substantial share of full-time and part-time employees within agro-firms and horticulture enterprises and provide most of *dehkan* farm labor. A beneficiary survey of World Bank-financed horticulture investments (Rural Enterprise Support Project II [RESP II] and the HDP) also showed that increased investment in horticulture led to greater female labor force participation. Enterprises participating in the program showed a 67 percent increase in the number of female employees.

6. **Labor issues within World Bank-financed projects continue to be monitored closely.** Third-party monitoring (TPM) carried out by the International Labour Organization (ILO) in Uzbekistan indicates that Government policy toward child and forced labor in the cotton harvest has undergone a significant change. Recent yearly monitoring and assessment undertaken by a team of ILO monitors both before and during the harvest has shown that systematic use of child labor has ended over the past few years. Concrete measures to completely end the use of forced labor are also being implemented. In general, forced labor has not been a feature in the horticulture sector due to its structure, which does not have any state procurement quotas. Such quotas have been the drivers of child and forced labor in the past. Production in the horticulture sector is also significantly more labor intensive than cotton and wheat, the peaks of seasonal labor demands are more dispersed across various crops, and the profits are higher. The sector therefore has the potential to create jobs that are more sustainable and provide working conditions that appeal to unemployed and underemployed populations in the project areas.

7. **The HDP is part of a portfolio of agricultural investments aimed at diversifying agriculture into higher-value crops, intensifying agricultural yields and productivity, and fostering more and better rural jobs.** Approved in June 2014, the HDP focused on addressing several constraints facing the horticulture sector: (a) improving access to technologies, knowledge, and markets; (b) strengthening technical and managerial capacity in the farming and agribusiness sectors; and (c) introducing new financial products. The design of the HDP drew on the implementation experience of the Rural Enterprise Support Program (RESP), which established a successful model for long-term agricultural finance through private and state-owned banks.

8. **The HDP's primary project beneficiaries are farmers, farmer groups, private enterprises, agro-firms, and agro-processing enterprises involved in the country's horticultural subsector.** Secondary beneficiaries are the PFIs through improved skills and acquisition of a more diverse menu of suitably adapted financial products and the national network of private growers through training and technical assistance (TA). At the same time, the project was designed to support the growth and development of small and medium enterprises in the rural areas, creating more and better paying jobs in the agro-processing, trading and export sectors and increasing the value added of the agricultural sector.

9. **The Project Development Objective (PDO) is to enhance the productivity and profitability of the horticulture sector in the project area.** The project has three components: Component 1: Agricultural Support Services; Component 2: Access to Credit; and Component 3: Project Management. The original project IBRD Loan in the amount of US\$150 million was approved by the Board of Directors



on June 12, 2014, and became effective on October 5, 2015. An Administration Agreement was signed with the European Union (EU) in November, 2017 for a grant of Euro 21 million to finance technical assistance (TA) elements within Component 1.

10. **The parent project is disbursing quickly and expected to achieve its objective.** Demand by potential beneficiaries for investments in fruit processing and packaging, cold storage, greenhouses, and intensive orchards is high. To date, the HDP has disbursed 92 percent of the total loan, a total of US\$137.9 million, primarily under Component 2: Access to Credit (provision of sub-loans to beneficiaries). Disbursements took place during the first two years of project implementation and represented 97 percent of allocated funding for Component 2, providing financing for 228 sub-loans. The pipeline remains full and several sub-loans are at various stages of approval with the PFIs, Rural Restructuring Agency (RRA), or Project Management Unit, and the World Bank.³ Overall project implementation progress is rated Moderately Satisfactory due to delays in the implementation of Component 1 and securing financing under the EU. For the same reason the progress toward achieving the PDOs was also assessed as Moderately Satisfactory, though all PDO indicators are expected to be achieved before the closing date. The project is subject to World Bank-managed TPM and feedback mechanism (FBM), financed through a separate Trust Fund that focuses on forced labor issue. The overall (including social) safeguards rating for the project is assessed as Satisfactory.

C. RATIONALE FOR ADDITIONAL FINANCING

11. **The proposed AF will contribute to Uzbekistan's accelerating reform agenda, which is creating rapid structural change.** Structural reforms will create both opportunities and risks in Uzbekistan. Exchange rate devaluation has created a clear opportunity to expand exports. Price liberalization is also expected to contribute to the development of more competitive industries and a diversified economy. At the same time, the negative impacts of reform could lead to job losses in inefficient industries and lower overall growth while the economy adjusts. Significant fiscal resources may also be required to maintain currency reserves and address financial risks in state-owned enterprises and the banking sector. In this context, additional investments to increase private sector participation in the economy and financial sectors with the potential for growth and job creation can be an important element in mitigating the costs of structural transition.

12. **The Government's reform and development agenda places increasing emphasis on horticulture, as can be seen in national strategies and investment priorities.** The recently approved National Development Strategy for 2017–2021 recognizes the need for diversification of agricultural production from cotton into higher value-added and labor-intensive production and processing, including horticulture and livestock sectors, both of which are expected to contribute to significant growth of rural jobs, food security, and exports. Such diversification would require support not only to producers but also to the entire value chain, which is planned under the proposed AF. Since the start of implementation of the parent HDP, the Government has also made further efforts to liberalize the horticulture sector by adopting a new resolution (Presidential Resolution dated June 21, 2017) which allows horticulture farmers and agricultural enterprises to sell their products directly in domestic and foreign markets.

³ The World Bank reviews all sub-loans above US\$1 million equivalent.



13. **Uzbekistan’s horticultural sector shows global potential.** Uzbekistan is among the top five producers of apricots in the world, the 6th largest producer of cherries, and 17th in apple production.⁴ Uzbekistan has a comparative advantage in horticulture thanks to its natural endowments. The agroclimatic conditions, which are similar to Chile, Turkey, and California in the United States, support many of the same crops grown in these countries. Uzbekistan produces a large variety of fruits and vegetables, including some subtropical fruits, such as persimmons and pomegranates. The climate supports two vegetable crop harvests in most places, and three harvests in some regions. The climate also allows farmers to grow crops with different ripening periods (early, medium, and late) throughout the year. Favorable conditions also reduce problems related to pests and diseases. Farmers often use organic fertilizers and the weather also allows high productivity without the heavy use of pesticides. Together, these conditions provide Uzbek farmers with a unique opportunity to deliver high-quality fruits, nuts, and vegetables to domestic and high-end export markets.

14. **Water scarcity is a growing problem in Uzbekistan and is projected to be further exacerbated by climate change.** Concerns around water and other environmental and social problems associated with cotton production have spurred a shift in the cropping structure in the country—first to wheat to achieve food security, and then increasingly to horticulture crops. Horticulture crops are generally more water efficient than cotton and investments in improved technology (equipment or improved varieties) under the HDP are designed to improve water use.

15. **Fruit trees also play an important secondary role in agroecological systems.** Through their contributions to restoring soil fertility, providing land or wind breaks to reduce erosion, fruit trees contribute to environmental benefits. They also generate global climate benefits through increased carbon sequestration. Climate risk screening and greenhouse gas accounting indicate positive benefits from the HDP to resilience and climate change mitigation.

16. **Demand for credit in the horticulture sector is high and restricted by liquidity constraints within the banking sector.** Full disbursement of the project’s Component 2 has demonstrated strong demand for sub-loans. This was anticipated under the HDP, given the experience of RESP II, analysis of the sector, and expressions of interest by potential PFIs. A significant amount of unmet demand still exists within HDP areas and the PFIs have a pipeline of additional subproject beneficiaries that have successfully met criteria established in the HDP Credit Guidelines. In view of such accelerated disbursement of the credit line and the continued significant unmet demand for investment resources in the agribusiness sector, the Government of the Republic of Uzbekistan has submitted a request to the World Bank for an additional loan to scale up the investment and working capital sub-loans and lease financing activities. Table 1 provides a breakdown of estimated demand as captured by the PFIs that carried out an initial demand assessment among potential eligible borrowers.

⁴ USDA (United States Department of Agriculture). 2014. *Uzbekistan Fresh Deciduous and Stone Fruits*.



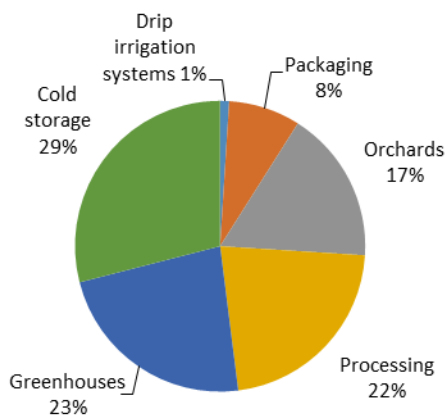
Table 1. Estimated Volume of Unmet Credit Demand under the HDP

Region	Andijan	Bukhara	Djizzakh	Fergana	Republic of Karakalpakstan
Credit demand estimate (US\$, millions)	34.20	66.90	32.20	82.86	13.45
Number of PFIs eligible under the HDP	8	7	9	8	7
Region	Kashkadarya	Khorezm	Namangan	Navoiy	Samarkand
Credit demand estimate (US\$, millions)	51.31	22.70	54.20	45.90	168.30
Number of PFIs eligible under the HDP	10	7	5	9	7
Region	Surkhandarya	Syrdarya	Tashkent	All Regions	
Credit demand estimate (US\$, millions)	67.80	28.00	36.90	704.70	
Number of PFIs eligible under the HDP	8	3	7	10	

Source: RRA, based on survey of PFIs.

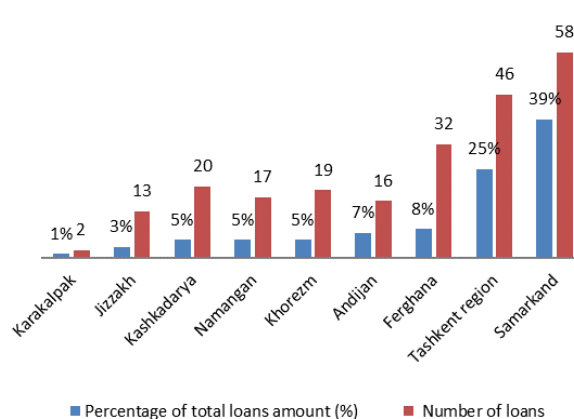
17. **The proposed AF will build on positive results under the HDP.** Project performance has demonstrated solid achievements thus far with a total of 223 sub-loans issued across all regions targeted by the project for a range of investments. Figures 1 and 2 provide a breakdown of type and locations of sub-loans.

Figure 1. HDP Horticulture Investments



Source: HDP project reports

Figure 2. Loan Recipients by Region



Source: HDP project reports

18. **Initial analysis indicates that job creation has been strong for HDP beneficiaries.** A preliminary beneficiary survey carried out in July and August 2017 estimated that HDP sub-loan beneficiaries increased the number of full-time employees by 78 percent within the first two years of implementation. Based on approved sub-loan applications and business plans, it is estimated that the original HDP credit line will have created 2,500 full-time jobs in beneficiary enterprises. Seasonal jobs

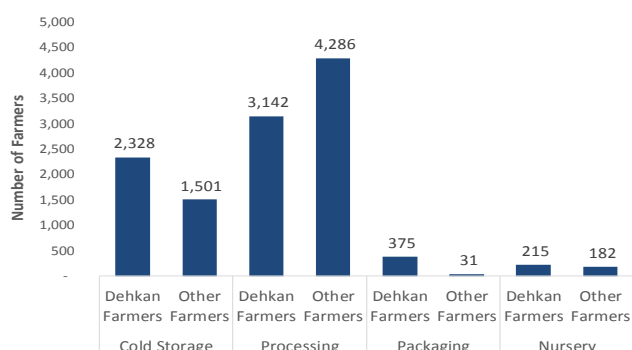


are expected to exceed 10,000 and sub-loan activities are expected to contribute to creation of a larger number of indirect jobs within the value chain.

19. **The HDP has also leveraged private sector investment within participating enterprises.** In addition to the investment and working capital sub-loans and lease financing resources received by beneficiaries, the sub-borrowers have also co-invested US\$52.3 million equivalent of their own funds, bringing the total amount of investments in the agricultural sector under the project to US\$185 million.

20. **Each of the sub-loans has also financed business activities that affect a larger pool of horticultural producers and farmers by providing improved access to services and facilities (cold storage, processing) or inputs such as seedlings (through greenhouse nurseries).** Some sub-loan beneficiaries have also expanded or developed input credit arrangements with small farmers in return for outputs that can be exported or processed. These arrangements are particularly encouraging because much of agricultural finance globally is provided through value chain actors rather than banks. Developing value chain financing in Uzbekistan will be important in building forward and backward linkages in the sector. Figure 3 represents results from surveys of sub-loan beneficiaries who have tried to estimate the pool of farmers benefitting from HDP sub-loan activities thus far, including a breakdown by farm type (*dehkan* farmers who farm less than 0.5 ha) and other farmers (greater than 0.5 ha).

Figure 3. Number of Farmers with Access to HDP-Financed Facilities



Source: RRA Project reports

Table 2. Number of Farmers with Access to HDP-Financed Facilities by Region

Karakalpakstan		Samarkand	
Dehkan farmers	20	Dehkan farmers	0
Other farmers	12	Other farmers	2,779
Andijan		Tashkent	
Dehkan farmers	2,633	Dehkan farmers	700
Other farmers	1,274	Other farmers	192
Jizzakh		Fergana	
Dehkan farmers	48	Dehkan farmers	1,570
Other farmers	73	Other farmers	825
Kashkadarya		Khorezm	
Dehkan farmers	154	Dehkan farmers	495
Other farmers	163	Other farmers	210
Namangan			
Dehkan Farmers	407	Total	12,060
Other farmers	505		

Source: RRA Project reports

21. **An initial beneficiary survey indicates job creation and higher productivity and profitability.** A preliminary beneficiary survey was also carried out in July and August 2017 and sampled a subset of 55 HDP beneficiaries based on a simple random sampling procedure in all HDP regions. The survey found the following:

- Strong job creation with the number of permanent jobs within HDP-financed enterprises increasing on average, 78 percent after the enterprise received subproject financing. Of these new jobs, women were hired more than men, with beneficiaries reporting a doubling of permanent jobs held by women after receiving HDP financing.



- Sales and profits increased with an average increase in enterprise sales of 281 percent and an average increase in enterprise profits of 250 percent.
- An increase in the proportion of recipients who reported exporting products—with 5 percent indicating that they exported horticultural products before participating in the HDP to 15 percent after receiving HDP support. Several reported entry into entirely new export markets (Turkey, Ukraine, India, Great Britain, Malaysia, and Turkmenistan).
- Adoption of new crops, varieties, or agronomic practices, with 15 percent of HDP loan recipients introducing new crop production systems.

II. DESCRIPTION OF ADDITIONAL FINANCING

A. PROPOSED CHANGES

22. **PDO.** No change is proposed to the PDO, which will remain “to enhance the productivity and profitability of horticulture sector in the project area.” The project area, however, will be expanded from nine to 13 regions (full coverage of the country) and the closing date is proposed to be extended a further two years to 2023.

23. **Results indicators.** PDO-level results indicators will continue to measure changes in productivity and agribusiness performance levels and have been adjusted to accommodate the scale-up within the project. Some intermediate results indicators have been adjusted to reflect the increase in the volume of credit and reaching out to additional beneficiaries to additional beneficiaries. Adjustments have also been made to Component 1 indicators and TA-related activities.

24. **Component 1. Agriculture Support Services (US\$20 million IBRD funding and US\$ 25 million co-financing from EU).** Activities within the component will remain as originally designed in the HDP. EU co-financing will be used for:

- (i) Strengthening the capacity of participating research institutes to conduct research and genetic material multiplication activities through: (a) improvement of laboratory facilities; (b) provision of training on horticultural sector value chain development; (c) development of pest surveillance maps of horticulture crops; and (d) the creation of a seed storage facility for the Research Institute for Vegetables, Melons and Potatoes.
- (ii) Bridging the knowledge and experience gap in the horticulture sector related to new production techniques, storage methods, post-harvest handling, marketing and business management knowledge by: (a) establishing a knowledge management and market information system; (b) carrying out of open-field demonstration activities and training for beneficiaries on production techniques, post-harvesting handling and storage methods; (c) developing the value chain through the creation of partnerships between producers, processors and traders; (d) support for the establishment of a promotional association for fruits and vegetables and the provision of support to producer participation in national and international trade events; and (e) the assessment of export and domestic marketing policies.



25. IBRD funds will be used for targeted financing to the Uzbek Agency for Standardization, Metrology and Certification in order to support improving food production and handling practices through: (a) carrying out of comparative studies between existing domestic regulations and international standards on food safety; (b) development of manuals for quality management and packaging requirements; (c) support for gathering and dissemination of information about national and international standards for food safety and quality in destination markets; and (d) improvement of the laboratory facilities.

26. A key area of focus under research activities within Component 1 will be increased focus on promoting and improving access to technologies and information to help farmers to move away from water and energy intensive crop production and better respond to climate stress (adverse temperature or weather events). This includes promotion and testing of irrigation technologies that reduce water and energy use, greenhouse production technologies that are protected from damaging weather events, varieties that are more tolerant to higher temperatures, and land management practices to prevent erosion, restore soil fertility and reduce fertilizer use.

27. Greater focus will also be placed in the AF on targeting female producers and entrepreneurs under the component's planned training and capacity building. This will include awareness raising, training and business advisory support to strengthen the capacity of female entrepreneurs. Additional training activities targeting exclusively female farmers will focus on a range of topics including technical aspects of horticulture production and post harvest handling, business management, and market information.

28. **Component 2. Access to Credit (US\$478 million IBRD funding and US\$95 million co-financing from Beneficiaries).** The core structure and design of the component will stay the same with AF resources directed to scaling up activities within the PFIs. This component will continue to focus on improving access to financial services for farmers and agribusinesses and will support purchase of new cultivars, seeds/seedlings, water-saving irrigation facilities (such as drip irrigation), cold storage and other cold chain facilities, and value-added handling/processing equipment and facilities.

29. Given the novelty of the nontraditional financial products to support value chain development, the project will continue to implement a capacity-building program for the financial institutions involved in the project. The training program will build on the Investment Lending and Leasing in Agriculture training carried out under RESP II. The training program will cover (a) value chain financing products and (b) tree-crop financing methodologies. The PFIs will receive training on applicability of the new financial products in lending to horticulture-related activities, assessing the suitability and effectiveness of these new financial products, and on mitigation of the related risks. The training will be for about five days and will target loan officers and branch managers of PFIs. An international bank training company will be hired under the project, to conduct the initial training, as well as transfer this specific knowledge to a local bank training company, which will take over the training activities at the later stages of the project. In addition, all the PFIs will undergo environmental and social training.

30. To expand financial services, a new capacity-building program will be offered to three to five high potential micro-credit institutions (MCIs) that are interested in increasing their outreach to the agriculture sector. Each MCI will be offered project-specific training (such as agricultural loan appraisal) as well as other specific subjects, such as new product development, general participating MCI



management basics, strengthening their capacity in business planning, financial management (FM), accounting, risk management, credit analysis and credit, portfolio management, management information systems, governance, reporting, and other aspects of running a successful MCI. The participating MCIs will be selected based on agreed selection criteria described in the Project Implementation Plan and Credit Line Investment Guidelines, which will include financial and governance criteria, as well as the potential for growth and development.

31. The AF will use the same on-lending modality that has been employed in the original project to channel resources through PFIs. It will also use the same lending terms and conditions used under the parent HDP except the maturity of loans to PFIs will be extended up to 25 years with a grace period of five years, mirroring the terms and conditions of IBRD financing to the Government. Under the original HDP, nine banks have been qualified as PFIs and it is expected that additional banks will also apply under the proposed AF. The same due diligence process used in the parent HDP will be followed by new PFIs. Terms and conditions of the credit line and the associated credit line guidelines will remain the same except for the following:

- (a) The maximum exposure to an individual borrower will be maintained at US\$2 million, however, financing of the entire value chains (production, processing, and trade/exports) may be up to US\$4 million per value chain.
- (b) There will be no regional restriction, subprojects may be financed anywhere in the country so long as they meet the eligibility criteria.
- (c) A broad range of subprojects will be eligible for financing (expanding the scope from orchards/vineyards, cold storage, greenhouses, and some processing which dominated the original HDP).
- (d) US\$50 million equivalent will be allocated to support small-scale lending, with a focus on expanding value chain financing.

32. Annex 1 contains more details on the credit line modalities.

33. **Component 3: Project Management (US\$1.18 million IBRD funding).** No changes will be made to project modalities; however, additional staff will be hired in regional RRA offices to support environmental safeguards screening and monitoring activities. A Social Development Specialist will be hired in RRA's central office to monitor the social aspects of the project.

34. **Collaboration with International Finance Corporation (IFC).** The project will continue to collaborate with IFC on PFI training in the following manner: (a) IFC will provide comments on the terms of reference and training manuals for PFI training under the HDP; (b) the bank training program under the project will incorporate information on the work done by IFC at Hamkorbank, including the experiences of setting up an agricultural lending unit and a credit scoring product that IFC has developed (along with other similar products, to allow for choice); and (c) regular reviews of the joint activities under the Component 2: Access to Finance will take place to ensure coordination and complementarity.



35. **No changes in the environmental category (the parent project is classified as Environmental Category B) and no new safeguards policies are triggered.** The AF will scale up activities supported under the parent project. The safeguards issues remain the same and will be addressed by following the rules and procedures of the parent project's Environment and Social Management Framework (ESMF) updated to reflect new project areas. Additional public consultations on the ESMF were held in October 2017 in the new regions to be covered by the project and the updated ESMF was publicly disclosed.

B. ALIGNMENT TO CPF

36. The proposed AF is aligned to the current Country Partnership Framework (CPF) for FY16–20 (Report No. 105771-UZ), which also focuses on expanding support to the horticulture sector and envisages supporting the Government in its efforts to strengthen foundations for private sector-led diversification. The proposed scale-up of the activities will help address the stated CPF objectives by diversifying agriculture toward higher-value, more job-intensive, and less water-intensive production; strengthen private sector access to finance and financial services; and increase private investment and job creation in agribusiness.

III. KEY RISKS

37. The overall risk rating of the project is Moderate. While macroeconomic and political and governance risks are rated Substantial, all other risks are rated Moderate or Low based on the implementation experience and demonstrated capacity of the RRA and PFIs to satisfactorily implement project activities. Mitigation measures for macroeconomic and political and governance risks are being pursued through other World Bank engagements including on-going dialogue and technical support to Government around its reform agenda and institutional strengthening.

IV. APPRAISAL SUMMARY

A. Economic and Financial Analysis

38. **Public financing is required to fill a critical gap in the horticulture sector.** Horticulture is an important source of livelihood for the rural population, including the 4.7 million *dehkan* farmers who comprise the poorest households. Horticulture offers the highest potential for increasing incomes (gross margins per ha are up to five times higher than cotton and wheat) and the sector generates more all-season employment than other crops or livestock activities. The Government is supporting the expansion of the horticulture area through greater direct technical and financial support to the sector through various trade and export promotion activities. HDP financing has played an important role in stimulating lending to the horticulture sector. Using the public funds to support the provision of financing through PFIs is important to accelerate sector development and to fill a critical gap in agriculture financing that is not being met through private sector financial flows alone. This is a short-term measure to kick-start growth in the horticulture sector and will be phased out to allow financing to be sourced from the private sector. However, at this stage, liquidity constraints remain an issue across many sectors and are particularly severe in the agriculture sector, where investments in horticulture production and processing can be high and repayment periods are much longer than annual crops or nonagricultural activities.



39. **Analysis of the horticulture sector demonstrates high returns to investment.** The original HDP economic and financial analysis is considered valid for the proposed AF and generally showed positive and high rates of return. The financial analysis was based on an indicative set of horticulture production models, which analyzed benefits derived from increased productivity and production due to the introduction of intensive technologies (improved seeds and varieties, new agronomic practices, improved equipment) and improved access to markets. All models showed benefits and positive rates of financial return (see the parent Project Appraisal Document for a fuller discussion of financial models).

40. Evidence from cost benefit analysis undertaken by other development partner programs supporting the horticulture sector (USAID, Asian Development Bank, GiZ) also show favorable rates of return as do data collected from the beneficiary survey. The recent liberalization of exchange rates and trade restrictions (with an accompanying devaluation of the currency) made the profitability of the horticulture sector even stronger than before.

41. Economic analysis during the appraisal of the HDP showed positive rates of return and sensitivity analysis carried out pointed to robust rates of return even under higher-cost scenarios. The base case economic rate of return (ERR) was 27 percent at the appraisal stage. Recalculating the ERR with the proposed AF for sub-loans generates a higher ERR of 35 percent. Increasing projects costs as part of sensitivity analysis to a level that is 100 percent higher reduces the ERR to 23 percent, which still remains in the acceptable range, above what is generally considered a breakeven rate of return.

B. Technical

42. The current subproject portfolio for the development of the horticulture sector will follow the original design and AF will follow the provisions of the Horticulture Sector Credit Line Investment Guidelines and Subsidiary Loan Agreement (SLA). The proposed credit line is fully in line with the Bank Policy "Investment Project Financing".

43. The Government representatives, Central Bank of Uzbekistan, and PFIs informed the Bank team that the effects of exchange rate liberalization (on September 5, 2017, the Uzbek som was devalued by approximately 100 percent) on the financial stability of the PFIs will be limited. In addition to providing the banking sector with time to prepare for the devaluation, the PFIs overall have limited currency exposure on the liability side, and the Government of Uzbekistan extended capital support to state-owned banks. Nevertheless, no withdrawals will take place before: (a) commercial banks interested to join the project have been qualified through due diligence (the scope and extent of the due diligence may vary depending on whether the commercial bank or leasing company is an active PFI under a current Bank-financed project or a new potential PFI); and (b) financial health of all PFIs has been reconfirmed by receiving an unqualified audit report for 2017, confirming their compliance with the PFI eligibility criteria.

44. IBRD AF and EU co-financing with collaboration with the IFC will support value chain development through: (i) measures to strengthen market information and quality and food safety systems in the country; (ii) technical assistance to the government on improving the policy environment; and (iii) by providing a line of credit to increase access to finance by farmers and private sector entrepreneurs to undertake the needed investments to improve their competitiveness.. Initial efforts by



RRA to bring project beneficiaries to the International Horticulture Fairs, organized in Tashkent in July and November 2016, were very useful for farmers and horticulture enterprises to collect market information from the international and local horticulture companies.

45. The HDP will also support investments in capacity building around the following areas:

- Adoption of integrated pest management (IPM) approaches, awareness of pesticide-related hazards and good practices for safe pesticides use, handling, and storage, and options for use of alternative nonchemical pest management approaches. The RRA, in cooperation with the Research Institute for Plant Protection, has conducted training on IPM for farmers and private enterprises using the IBRD funds and IPM issues are expected to receive additional attention going forward.
- Capacity building seminars and trainings were carried out for farmers and regional PFIs offices on a range of topics, including (a) project on-lending terms and conditions; (b) required procurement procedures under the commercial practice method; (c) preparation of subproject documents and, based on the past experience, the issues which needed the most attention in the sub-loan applications submitted to the PFIs; and (d) compliance with national legislation and ILO conventions on child and forced labor ratified by Uzbekistan.
- The RRA, with the IFC consultants, carried out training on the Global Good Agricultural Practices (GlobalGAP) for the project beneficiaries, which is the international certification for the primary production. GlobalGAP implementation will help Uzbek farmers reach the shelves of the multinational retailers and increase exports.
- Under the credit line, provision of relevant training and hands-on TA to the PFIs will ensure technical sustainability of the operation. The PFIs will be trained in applicability of the new financial products, assessing the suitability and effectiveness of these new products, and on mitigation of the related risks.

46. **The project is expected to generate climate co-benefits.** Access to credit under the project is expected to help farmers exercise adaptation strategies that increase climate resilience of agricultural systems. The shift away from cotton monocropping through horticulture production will also generate a more diversified agricultural system that is, in turn, more resilient to climate shocks. Resiliency is also built by shifting to new cultivars/ seeds that are more tolerant to higher temperatures, extreme weather events, or pests; and fruit tree plantations that prevent erosion and restore soil fertility.

47. The project is also expected to contribute to climate change mitigation activities. Sub-loan beneficiaries expanding orchards can contribute to increasing afforestation/reforestation, which in turn improve soil carbon. Access to credit will also reduce fertilizer use, as farmers move away from intensive fertilizer use under cotton and wheat production systems to lower usage under horticulture productions systems – and which also occupy smaller units of land. Similarly, because irrigation requirements are reduced compared to extensive irrigated cotton or wheat production, shifting to horticultural production can generate energy savings. Both reduced fertilizer application and lower energy usage can be expected to contribute to reduction of non-CO2 GG emissions.



48. **Citizen engagement will take place through multiple channels.** HDP will support citizen engagement through: (i) use of feedback generated through the intermediate results indicator that measures client satisfaction with services provided under the project; (ii) support to the establishment of a horticulture producers association, which will provide a platform for dialogue as well as market access and information; and (iii) the larger joint TPM and FBM established to monitor labor issues under World Bank projects.

C. Financial Management

49. As in the ongoing HDP, the RRA will continue to be responsible for implementation of the FM function of the proposed AF. The RRA will be responsible for flow of funds, budgeting, accounting, reporting, and auditing. The RRA has solid experience in the implementation of the ongoing and already closed World Bank-financed projects. FM and disbursement arrangements for this AF will be identical to arrangements that are in place for the ongoing HDP: project audit will be conducted by independent private auditors and on terms of reference acceptable to the World Bank and procured by the RRA. The annual audited project financial statements will be submitted to the World Bank within six months of the end of each fiscal year. The cost of the audit will be financed from the proceeds of the credit. The RRA will produce a full set of quarterly interim unaudited financial reports throughout the life of the project and will submit them to the World Bank no later than 45 days after the end of each calendar quarter.

50. FM arrangements in the ongoing HDP were confirmed to be Satisfactory based on the most recent monitoring visit completed in October 2017. All key FM and disbursement arrangements were in place, and the project complies with the key fiduciary requirements.

D. Procurement

51. The new World Bank Procurement Regulations for Investment Project Financing Borrowers, dated July 2016, revised November apply to the AF. In line with the exemption under the Procurement Regulations, the goods, services and works to be financed via financial intermediaries to private borrowers under this financing will not follow the procurement regulations, but will be procured under national commercial practices. The Project Operations Manual (OM) will include the procurement arrangements under sub-loans, including a sufficient level of detail on the terms of the national commercial practices that will be used by the financial intermediaries. The financial intermediaries will also apply the Anti-Corruption Guidelines of 2016. Procurement capacity building for PFIs and potential sub-borrowers to follow the OM will be organized in the first year of AF implementation and on demand in the later years.

E. Social (including Safeguards)

52. **The expected direct positive impacts of the HDP include creation of new jobs and increased income for farmers involved in the horticulture sector.** Horticulture provides labor-intensive jobs, with an extended season dispersed across various crops. The beneficiary survey conducted in July–August 2017 to study the economic effectiveness of the loans issued under the HDP indicated the number of both permanent and seasonal jobs has almost doubled under the project, but only 50 percent of



recruited staff had formal contracts with their employers. Beneficiaries mostly relied on family and community networks for identifying candidates for the jobs, rather than the services of the employment centers. To ensure that the labor rights of employees are fully observed, the project will include collaboration with the training centers of the Ministry of Employment and Labor Relations to assist with recruitment of staff, conduct qualification upgrading, and train staff and employees on decent working conditions and occupational health and safety.

53. Issues related to the risks of child and forced labor in the cotton harvest have been a challenge in the agricultural sector in Uzbekistan and efforts to eliminate these practices have received high-level support within the Government and among development partners. Some questions have been raised around whether such risks also apply to the horticultural sector. The structure of the horticulture sector is different from cotton and wheat as there are no state procurement quotas. Production in the horticultural sector uses more constant labor demands throughout the year and the sector has the potential to create jobs that are more sustainable and provide better working conditions. Job creation, especially for rural women and youth, is one of the central priorities of the Government, and this project will contribute to its goal. Moreover, migration of labor away from the cotton sector and into the horticulture sector will help mitigate changes to labor practices in the cotton subsector.

54. The project contributes to improved labor relations and practices in the agricultural sector of the country, and the project envisions continued close collaboration with the ILO. The project is already covered by World Bank-managed TPM, implemented by the ILO and financed through a separate Trust Fund that focuses on agricultural modernization and labor relations in agriculture, with focus on forced labor in cotton. To date, TPM has not identified any child or forced labor issues related to the project. Modules on applicable legislation and regulation on child and forced labor, labor rights, decent working conditions, and occupational health and safety issues in agriculture will be incorporated into all training activities, delivered as part of this project. It is anticipated that starting from 2018, research activities to monitor labor relations in the horticultural sector and to provide recommendations for creating decent working conditions would be implemented jointly with the ILO.

55. **The project will continue to address gender issues.** The recent World Bank ‘Diagnostic of Barriers for Strengthening Livelihoods of Low-Income Rural Women in Uzbekistan’ identifies agriculture as the main option for employment in rural areas of Uzbekistan and women represent 45.5 percent of employees in the sector. However, women’s participation is mostly informal, unregulated, and part time. Full-time farm-based roles are limited for women, and day labor rates are typically lower than for men. While female-owned farms are not the norm, cases of successful female farmers who earned more than their male counterparts were reported in every sampled district. Successful female farmers were purportedly an inspiration to other women, and horticulture is the sector that women are most interested in.

56. RRA will hire a social specialist at headquarters level within one month of project effectiveness to increase RRA’s capacity to address social issues. To boost employment of women, and encourage access of female entrepreneurs to loans, the project will closely collaborate with the Women’s Committee of Uzbekistan and the Association of Business Women of Uzbekistan (over 140 female entrepreneurs working in horticultural sector are members of the Association). Activities will include policy-level activities for mainstreaming gender in the sector, publicizing information about female role models, and providing targeted capacity building. Women entrepreneurs with the potential to expand



their business will be identified, and they will receive targeted training and business advisory support, to strengthen their capacity so that they apply for sub-loans under the project. Additional training activities exclusively female farmers focusing on technical issues—such as improved farming techniques, processing and marketing technologies—would also be conducted.

57. **The project directly contributes to the World Bank’s overall goal of ending extreme poverty and boosting shared prosperity.** The project will have an explicit focus on targeting more vulnerable farmers, both directly and indirectly. To achieve indirect effects, eligibility criteria for sub-loans will also consider the social impact of the project, including direct job creation, the multiplier effects of supporting suppliers down the value chain, as well as contributions toward improving community infrastructure. Through the AF, a share of the project resources would also be ring-fenced to target smaller farmers and entrepreneurs directly. Smallholder *dehkan* farmers would be expected to benefit directly and indirectly through participation in value chain activities. Through the AF, TA would be provided to conduct a review of the smallholder segment of the sector and to design and implement strategies for building the capacity of *dehkan* and *tamorka* owners, strengthening cooperation among them, and assisting with access to value chains. Targeted training activities for this segment of the sector would also be conducted, in collaboration with the Farmers’ Council.

58. **The performance of the Grievance Redress Mechanism has been satisfactory.** The project also has a functional Grievance Redress Mechanism (GRM), established by the RRA, and governed by a detailed operations manual. The RRA is actively sharing information about the GRM during the trainings and other information-sharing events. As of September 30, 2017, the HDP received 103 inquires from the beneficiaries through the GRM, of which 98 letters were requests of beneficiaries to obtain confirmation letter of the RRA for waiving customs and tax fee to importing goods. The remaining five letters included requests for clarifications on procedures for sub-loan financing, and bank application.

F. Environment (including Safeguards)

59. **Project Environmental Assessment (EA) remains the same and the Environmental and Social Management Framework (ESMF) has been updated.** The project AF safeguards issues with respect to environment remain the same and can be addressed by following the rules and procedures of the initial project ESMF and by implementing mitigation and monitoring measures stipulated in sub-projects site specific environment and social management plans (ESMPs). The World Bank and RRA Environmental Specialists (ESs) have jointly updated the ESMF to accommodate the AF and have included additional EA institutional and human capacity building activities. The updated ESMF underwent public consultation in October, 2017 and was disclosed in its final version on the RRA website and on the Bank’s website on December 1, 2017.

60. **Proposed EA Institutional Capacity Building.** Considering the scaling up activities for the project AF, it was agreed the RRA will hire three additional ESs at provincial level within one month of project effectiveness. RRA provincial level PIUs are being established to cover all World Bank projects, and any other projects RRA will be implementing (such as the Livestock Development Project which was approved by the Board in June 2017). While the RRA ES at headquarters will have the major coordinating role on EA, the PIU ESs will be responsible for assisting the PFIs in implementation of the Credit component of the project, including reviewing environmental impact assessment (EIA) studies and/or ESMPs, monitoring their implementation, advising and guiding PFIs on specific environmental



issues and management options, and ensuring that potential cumulative impacts are addressed. One of the major areas of their responsibility will be inspection of environmental compliance at worksites, ensuring the ESMP provisions are fully implemented. The PIUs ESs will advise PFIs in terms of integrating environmental requirements into bidding documents, and analyzing contracts and their implementation in terms of environmental management and mitigation issues. ESs will be responsible also for analyzing the environmental condition of the sub-projects' area and identify main environmental parameters. On a quarterly basis, PIUs' ESs will prepare short reports on implementing ESMF and site specific ESMPs for supported sub-projects. They will also identify the status of environmental compliance of sub-projects implementation, and, when needed, will undertake relevant measures and agree with the sub-project beneficiaries on corrective measures and/or proposing to the PFIs and the RRA canceling sub-project financing.

V. WORLD BANK GRIEVANCE REDRESS

61. Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org



VI. SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Change in Results Framework	✓	
Change in Components and Cost	✓	
Change in Loan Closing Date(s)	✓	
Change in Procurement	✓	
Change in Implementing Agency		✓
Change in Project's Development Objectives		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in APA Reliance		✓

VII. DETAILED CHANGE(S)

RESULTS FRAMEWORK

Project Development Objective Indicators

Increase in productivity index value
Unit of Measure: Percentage
Indicator Type: Custom



	Baseline	Actual (Current)	End Target	Action
Value	0.00	7.67	20.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Increase in overall gross sales of farmers Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	5.00	20.00	Marked for Deletion
Date	01-May-2014	02-Oct-2017	30-Jun-2021	
Increase in overall gross sales of productive units Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	5.00	20.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Increase in overall gross sales of productive units - farmers Unit of Measure: Percentage Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	5.00	20.00	New
Increase in overall gross sales of productive units - agribusinesses Unit of Measure: Percentage Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	5.00	20.00	New
Change in aggregate portfolio lending by participating financial institutions to horticulture sector Unit of Measure: Percentage Indicator Type: Custom				



	Baseline	Actual (Current)	End Target	Action
Value	0.66	1.12	20.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	

Intermediate Indicators

Portfolio at Risk - SME Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	5.00	Marked for Deletion
Date	01-May-2014	02-Oct-2017	30-Jun-2021	
Percentage of project-supported institutions that are reporting on this indicator Unit of Measure: Percentage Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	100.00	Marked for Deletion
Client days of training provided (number) Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	9,600.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Client days of training provided - Female (number) Unit of Measure: Number Indicator Type: Custom Breakdown				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	1,920.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Farmers and traders trained in real-time information on markets and pricing on horticulture products				



Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	4,000.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Farmers and traders trained in real-time information on markets and pricing on horticulture products - female Unit of Measure: Number Indicator Type: Custom Breakdown				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	800.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Farmers and traders trained in real-time information on markets and pricing on horticulture products - of which through the producer association Unit of Measure: Number Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	400.00	New
Improved horticulture varieties introduced under the project Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	8.00	12.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Improved horticulture varieties introduced under the project - area planted Unit of Measure: Hectare(Ha) Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	500.00	2,000.00	New
Horticulture crops for which pest and diseases mapping completed at the regional level				



Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	20.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Identification of processing additives and pesticides (number) Unit of Measure: Number Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	2.00	2.00	50.00	New
Technologies demonstrated in the project areas (number) Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	20.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Beneficiaries satisfied with agricultural services (percentage) Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Targeted clients satisfied with agricultural services - male (number) Unit of Measure: Number Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Marked for Deletion
Beneficiaries satisfied with agricultural services - female				



Unit of Measure: Percentage Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Marked for Deletion
Targeted clients- male (number) Unit of Measure: Number Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Marked for Deletion
Beneficiaries - female (number) Unit of Measure: Number Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	Marked for Deletion
Number of market studies for horticulture crops undertaken Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	5.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
PFIs staff trained and supporting investments in horticulture sector (cumulative values) Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	50.00	250.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	



Sub- loans approved				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	228.00	600.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Sub- loans approved - female beneficiaries				
Unit of Measure: Number				
Indicator Type: Custom Breakdown				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	5.00	60.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Sub-loans approved - smallholder beneficiaries				
Unit of Measure: Number				
Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	77.00	200.00	New
Volume of approved sub-loans (USD millions)				
Unit of Measure: Amount(USD)				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	137.90	644.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Volume of approved sub-loans - female beneficiaries (USD millions)				
Unit of Measure: Amount(USD)				
Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	1.50	6.00	New
Volume of approved sub-loans - smallholder beneficiaries (USD millions)				



Unit of Measure: Amount(USD) Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	8.10	50.00	New
Farmers and traders accessing project supported facilities Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	12,060.00	25,000.00	Revised
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
IPM programs introduced for horticulture crops under the project (number) Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	1.00	11.00	New
Date	01-Nov-2017	01-Dec-2017	30-Jun-2023	
Seed storage facility for Research Institute for Veg, Melons and Potato established and actively storing seed Unit of Measure: Tones/year Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	5.00	New
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Fruit and Vegetable Industry Association of Uzbekistan established and operational Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	New
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Number of environmentally and climate friendly technologies promoted under the project Unit of Measure: Number				



Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	11.00	New
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Number of online updates per year from Knowledge Management and Market Information System Unit of Measure: Number Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	4.00	New
Date	01-May-2014	01-Dec-2017	30-Jun-2023	
Well-staffed national project coordination/management team in place Unit of Measure: Yes/No Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	Yes	Yes	Yes	Marked for Deletion
Date	01-May-2014	02-Oct-2017	30-Jun-2021	
Implementation of action plan on strengthening Regulatory framework on food production and handling practices Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	70.00	New
Date	01-May-2015	01-Dec-2017	30-Jun-2023	
The % of participating exporters (farmers and agribusinesses) receiving food safety certificates: Global-GAP or HACCP Unit of Measure: Percentage Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	50.00	New
Date	01-May-2014	01-Dec-2017	30-Jun-2023	



Monitoring and evaluation system used by MAWR and RRA for assessing project performance and guiding project adjustment				
Unit of Measure: Yes/No				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No	Yes	Yes	Marked for Deletion
Date	01-May-2014	02-Oct-2017	30-Jun-2021	

COMPONENTS

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Agricultural Support Services	11.49	Revised	Agricultural Support Services	24.40
Access to Credit	163.53	Revised	Access to Credit	586.76
Project Management	8.11	Revised	Project Management	1.20
TOTAL	183.13			612.36

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Current Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-83930	Effective	30-Jun-2021	30-Jun-2021	30-Jun-2023	30-Oct-2023

FINANCING PLAN

Summary (US\$, millions)

	Original Amount	Proposed Amount
Total Project Cost	637.44	
Total Financing		637.44
Borrower		16.93
Free-standing Cofinancing Trust Fund		25.00
International Bank for Reconstruction and Development		500.00



LOCAL: BENEFICIARIES	95.51
Financing Gap	0.00

Details

Counterpart Funding

Source	Currency	Amount	US\$ (Equivalent)
Borrower(BORR)	USD	16,933,600.00	16,933,600.00
LOCAL: BENEFICIARIES(ZBEN)	USD	95,505,500.00	95,505,500.00

International Bank for Reconstruction and Development (IBRD)

Source	Currency	Amount
IBRD	USD	500,000,000.00

Trust Funds

Source	Currency	Amount	US\$ (Equivalent)
Free-standing Cofinancing Trust Fund(FSCO)	EUR	0.00	25,000,000.00

Expected Disbursements (in US\$, millions)

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Annual	0.00	0.00	11.84	119.84	75.00	90.00	100.00	116.00	105.00	32.32
Cumulative	0.00	0.00	11.84	131.68	206.68	296.68	396.68	512.68	617.68	650.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● Substantial	● Substantial
Macroeconomic	● Substantial	● Substantial
Sector Strategies and Policies	● Moderate	● Moderate
Technical Design of Project or Program	● Moderate	● Moderate



Institutional Capacity for Implementation and Sustainability	● Moderate	● Moderate
Fiduciary	● Moderate	● Moderate
Environment and Social	● Moderate	● Moderate
Stakeholders	● Low	● Low
Other	● Moderate	● Moderate
Overall	● Moderate	● Moderate

LEGAL COVENANTS – Additional Financing - Horticulture Development Project (P164226)

Sections and Description

Hiring of one Social Specialist at RRA headquarters and three provincial level environmental specialists within one month of project effectiveness

The Project Implementation Plan has been adopted by the Borrower in form and substance satisfactory to the Bank.



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Uzbekistan
Additional Financing - Horticulture Development Project (P164226)

Project Development Objectives

Project Development Objective Indicators

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	Name: Increase in productivity index value		Percentage	0.00	20.00	Annual	Annual survey reports	RRA, PFIs
Description: The wording of the indicator has been refined but targets remain the same (percentage change in productivity). Index to be measured by an index constructed by an aggregation of crop yields weighted by area planted.								
Revised	Name: Increase in overall gross sales of productive units		Percentage	0.00	20.00	RRA, PFIs	Annual survey reports	annual
New	Increase in overall gross		Percentage	0.00	20.00	Annual	Project surveys	RRA



	sales of productive units - farmers							
New	Increase in overall gross sales of productive units - agribusinesses		Percentage	0.00	20.00	Annual	Project surveys	RRA

Description: Indicators combined to have just one measure of overall sales. Productive units are defined to include farmers, producers and agribusiness.

Revised	Name: Change in aggregate portfolio lending by participating financial institutions to horticulture sector		Percentage	0.66	20.00	Annual	Progress reports of PFIs	RRA, PFIs
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Description: Change in percent of portfolio devoted to horticulture

Intermediate Results Indicators

Action	Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Revised	Name: Client days of training provided (number)		Number	0.00	9,600.00	Annual	Project reports	RRA



Revised	Client days of training provided - Female (number)		Number	0.00	1,920.00	Annual	Project reports	RRA
Description: This indicator measures the number of client days of training provided i.e. the number of clients who completed training multiplied by the duration of training expressed in days.								
Revised	Name: Farmers and traders trained in real-time information on markets and pricing on horticulture products		Number	0.00	4,000.00	Annual	Project reports	RRA
Revised	Farmers and traders trained in real-time information on markets and pricing on horticulture products - female		Number	0.00	800.00	Annual	Project reports	RRA
New	Farmers and traders trained in real-time information on markets and pricing on horticulture products - of which through the producer association		Number	0.00	400.00	Annual	Project reports	RRA
Description:								



Revised	Name: Improved horticulture varieties introduced under the project		Number	0.00	12.00	Annual	Project reports	RRA
New	Improved horticulture varieties introduced under the project - area planted		Hectare(Ha)	0.00	2,000.00	Annual	Project reports	RRA
Description:								
Revised	Name: Horticulture crops for which pest and diseases mapping completed at the regional level		Number	0.00	20.00	Annual	Project reports	RRA
New	Identification of processing additives and pesticides (number)		Number	2.00	50.00	Annual	Project reports	RRA
Description:								
Revised	Name: Technologies demonstrated in the project areas (number)		Number	0.00	20.00	Annual	Project reports	RRA
Description: This indicator measures the number of unique technologies demonstrated by the project.								
Revised	Name: Beneficiaries		Percentage	0.00	70.00	Annual	Project reports	RRA



	satisfied with agricultural services (percentage)							
Description: This indicator measures the percentage of clients who expressed satisfaction with the services provided in the project areas based on formal or informal survey.								
Revised	Name: Number of market studies for horticulture crops undertaken		Number	0.00	5.00	Annual	Project reports	RRA
Description:								
Revised	Name: PFIs staff trained and supporting investments in horticulture sector (cumulative values)		Number	0.00	250.00	Annual	Project reports	RRA
Description:								
Revised	Name: Sub- loans approved		Number	0.00	600.00	Annual	Project reports	RRA, PFIs
Revised	Sub- loans approved - female beneficiaries		Number	0.00	60.00	Annual	Project reports	RRA, PFIs
New	Sub-loans approved - smallholder beneficiaries		Number	0.00	200.00	Annual	Project reports	RRA, PFIs



Description:

Revised	Name: Volume of approved sub-loans (USD millions)		Amount(USD)	0.00	644.00	Annual	Project reports	RRA, PFIs
New	Volume of approved sub-loans - female beneficiaries (USD millions)		Amount(USD)	0.00	6.00	Annual	Project reports	RRA, PFIs
New	Volume of approved sub-loans - smallholder beneficiaries (USD millions)		Amount(USD)	0.00	50.00	Annual	Project reports	RRA, PFIs

Description: A line of credit is "SME finance" if the supporting subloans have an average outstanding balance > microfinance cut-off noted below, but no more than \$300,000. A line of credit is classified "microfinance" if supporting subloans: a) Have an average outstanding balance (gross loan portfolio ÷ number of active borrowers) < 300% of the latest per capita GNI, OR b) Less than \$1,000. EITHER circumstance triggers classification as microfinance. Lines of credit and other funding for retail SME sub-loans by Participating Financial Institutions or Community-Managed Loan Funds. Report the cumulative amounts disbursed as of most recent date available. If a split by micro and SME is not available or possible, please use 50% for each as proxy.

Revised	Name: Farmers and traders accessing project supported facilities		Number	0.00	25,000.00			
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Description:



New	Name: IPM programs introduced for horticulture crops under the project (number)		Number	0.00	11.00	Annual	Project reports	RRA
Description:								
New	Name: Seed storage facility for Research Institute for Veg, Melons and Potato established and actively storing seed		Tones/year	0.00	5.00	Annual	Project reports	RRA
Description:								
New	Name: Fruit and Vegetable Industry Association of Uzbekistan established and operational		Yes/No	No	Yes	Annual	Project reports	RRA
Description: Operational based on recommendations of consultants report – which will define charter and an institutional structure with active members.								
New	Name: Number of environmentally and climate friendly technologies promoted under the project		Number	0.00	11.00	Annual	Project reports	RRA



Description:

New	Name: Number of online updates per year from Knowledge Management and Market Information System		Number	0.00	4.00	Annual	Project reports	RRA
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Description: Measure functionality of the system. Target based on at least quarterly updates every year.

New	Name: Implementation of action plan on strengthening Regulatory framework on food production and handling practices		Percentage	0.00	70.00	Annual	Project reports	RRA
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Description: To be based on action plan emerging from consultant reports.

New	Name: The % of participating exporters (farmers and agribusinesses) receiving food safety certificates: Global-GAP or HACCP		Percentage	0.00	50.00	Annual	Project reports	RRA
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Description: To be measured from the subset of beneficiaries that are exporting (e.g. 50% of the subset of beneficiaries that are actually exporting under the project).





Target Values

Project Development Objective Indicators

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Revised	Increase in productivity index value	0.00	0.00	0.00	6.00	10.00	15.00	20.00
Revised	Increase in overall gross sales of productive units	0.00	0.00	0.00	10.00	15.00	20.00	20.00
New	Increase in overall gross sales of productive units - farmers	0.00	0.00	0.00	10.00	15.00	20.00	20.00
New	Increase in overall gross sales of productive units - agribusinesses	0.00	0.00	0.00	10.00	15.00	20.00	20.00
Revised	Change in aggregate portfolio lending by participating financial institutions to horticulture sector	0.66	4.00	8.00	12.00	15.00	18.00	20.00

Intermediate Results Indicators

Action	Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Revised	Client days of training provided (number)	0.00	960.00	2,880.00	4,800.00	6,720.00	8,640.00	9,600.00
Revised	Client days of training provided - Female (number)	0.00	192.00	576.00	960.00	1,344.00	1,728.00	1,920.00



Revised	Farmers and traders trained in real-time information on markets and pricing on horticulture products	0.00	200.00	800.00	1,600.00	2,400.00	3,200.00	4,000.00
Revised	Farmers and traders trained in real-time information on markets and pricing on horticulture products - female	0.00	20.00	80.00	160.00	240.00	320.00	800.00
New	Farmers and traders trained in real-time information on markets and pricing on horticulture products - of which through the producer association	0.00						400.00
Revised	Improved horticulture varieties introduced under the project	0.00	0.00	0.00	2.00	6.00	10.00	12.00
New	Improved horticulture varieties introduced under the project - area planted	0.00						2,000.00
Revised	Horticulture crops for which pest and diseases mapping completed at the regional level	0.00	0.00	3.00	8.00	12.00	15.00	20.00
New	Identification of processing additives and pesticides (number)	2.00						50.00
Revised	Technologies demonstrated	0.00	0.00	2.00	4.00	6.00	8.00	20.00



	in the project areas (number)							
Revised	Beneficiaries satisfied with agricultural services (percentage)	0.00	0.00	30.00	40.00	50.00	60.00	70.00
Revised	Number of market studies for horticulture crops undertaken	0.00	0.00	2.00	5.00	5.00	5.00	5.00
Revised	PFI staff trained and supporting investments in horticulture sector (cumulative values)	0.00	0.00	150.00	250.00	250.00	250.00	250.00
Revised	Sub- loans approved	0.00	50.00	200.00	300.00	400.00	500.00	600.00
Revised	Sub- loans approved - female beneficiaries	0.00	5.00	20.00	30.00	40.00	50.00	60.00
New	Sub-loans approved - smallholder beneficiaries	0.00						200.00
Revised	Volume of approved sub- loans (USD millions)	0.00	12.00	33.00	51.00	74.00	86.20	644.00
New	Volume of approved sub- loans - female beneficiaries (USD millions)	0.00						6.00
New	Volume of approved sub- loans - smallholder beneficiaries (USD millions)	0.00						50.00
Revised	Farmers and traders accessing project supported facilities	0.00	0.00	500.00	1,600.00	2,400.00	3,200.00	25,000.00



New	IPM programs introduced for horticulture crops under the project (number)	0.00						11.00
New	Seed storage facility for Research Institute for Veg, Melons and Potato established and actively storing seed	0.00						5.00
New	Fruit and Vegetable Industry Association of Uzbekistan established and operational	No						Y
New	Number of environmentally and climate friendly technologies promoted under the project	0.00						11.00
New	Number of online updates per year from Knowledge Management and Market Information System	0.00						4.00
New	Implementation of action plan on strengthening Regulatory framework on food production and handling practices	0.00						70.00
New	The % of participating exporters (farmers and agribusinesses) receiving food safety certificates: Global-GAP or HACCP	0.00						50.00





Annex 1: Key Terms and Conditions of the Credit Line

Onlending Terms⁵

1. **Eligible area.** The project will operate in the entire country.
2. **Currency.** The funds will be available both in Uzbek soms and U.S. dollars, based on the demand of the sub-borrowers. The Ministry of Finance (MoF) will assume the foreign exchange risk on the portion of the credit line funds channeled through the PFIs for onlending to the ultimate beneficiaries. It is expected that the majority of beneficiaries currently operating in the domestic market will want to borrow in Uzbek soms. However, as experience of previous credit lines has shown, beneficiaries prefer to borrow in foreign currency when they import equipment or technologies from abroad. The same practice is expected to continue under the AF for the HDP.
3. The interest rate to the PFIs, to be finalized during the preparation of the Credit Line Investment Guidelines together with the MoF, will need to be acceptable to the World Bank and will need to consider (a) the cost of IBRD funds to the borrower and (b) the need to cover administrative costs associated with the credit line.
4. **Onlending rates to final beneficiaries.** The onlending rates to the final beneficiaries will be set by the PFIs and structured based on the following considerations: (a) nature of the subproject to be financed, (b) expected cash flows, and (c) risks associated with the sub-loans and other banking considerations. The PFIs will carry out the full appraisal of the sub-loans/leases and sub-borrowers based on the agreed criteria and will bear the full risk of subsidiary loan repayment.
5. The maximum exposure to one sub-borrower from the credit lines will be up to US\$2million, and up to US\$4 million in cases of financing the entire value chains (production, processing, and trade/exports). The maximum maturity of the sub-loans/leases will not exceed 10 years or the amortization period of the asset, whichever is shorter. The actual size and maturity of the loans/leases will depend on the type of investment financed, profitability of the activity, cash flows generated, collateral, and other banking considerations. Working capital loans will be up to US\$200,000 for up to 18 months, and the value chain financing products will have the maturity dependent on the nature of the transaction this loan would finance.
6. **Maximum financing share.** The project will finance up to 100 percent of the subfinancing/leases in U.S. dollars, while requiring 20 percent cofinancing from the PFIs for Uzbek som subfinancing/leases. The sub-borrowers will be required to contribute 20 percent of the subproject financing.
7. **Eligible sub-borrowers.** A sub-borrower under the credit line means any farmer or farmers' association or private enterprise who is either engaged or intend to engage (as a result of the subfinancing/lease financing) in an eligible entrepreneurial activity (please see paragraph 34 below) in the eligible area, with private ownership, duly registered pursuant to the local laws, to which a PFI proposes to make or has made a sub-loan/lease.

⁵ Reference to sub-loans also refers to leases.



8. **Lending to small farmers.** To ensure that the project addresses the need of small farmers, US\$50 million will be set aside for lending to such small farmers, with a focus on establishing and encouraging value chain financing.
9. **Eligible entrepreneurial activity.** A wide range of investments in horticulture-related activities will be eligible for financing from the credit line, aiming toward enhanced competitiveness of agribusinesses, access to new technologies, equipment and process upgrades for food safety compliance, and improved market access through establishment of market links. The project will finance, among others, investments in tree crops, agricultural machinery and food processing equipment, storages and cold storages, packaging, horticulture-related advisory services, and other long-term investments. Agricultural inputs, such as vegetable seed, fertilizer, and other items will also be eligible for working capital financing.
10. **Additional requirements:**
 - (a) The credit line beneficiaries will have to comply with any applicable legislation and regulation on child and forced labor, in accordance with the relevant provisions of the Financing Agreement and Credit Line Investment Guidelines.
 - (b) A requirement for accessing value chain product financing by a sub-borrower under this credit line will be an upstream or down-stream contractual relationship within the value-chain, to ensure the viability of the productive linkages financed under the credit line.
11. **Each SLA with the PFIs** will be signed for a specific amount, based on the demand expressed by the PFI (it will be adjusted proportionately, as the PFI demand exceeds the available financing). Progress of disbursements will be monitored by the RRA and the World Bank team, to recommend flexibility in amending the SLA amounts when some PFIs are much slower than others in implementation. The withdrawal procedures are briefly described in the next paragraph. Given the likelihood that a number of the PFIs will qualify for participation, it will help ensure the competitive environment necessary for the sub-borrowers to benefit from competitive terms and conditions of the financing.
12. **Withdrawals from the credit line.** Periodically, as agreed between the PFI and the RRA, PFIs will prepare Statements of Expenditure (SOEs), in the agreed format indicated in the Credit Line Investment Guidelines, listing already financed sub-loans, as well as sub-loans approved by its Credit Committee but not yet financed.⁶ The SOE will be submitted together with the one-page sub-loan Information Sheet for each sub-loan. The sub-financing Information Sheet will contain the key terms and conditions of the proposed sub-financing. The RRA will review the list of sub-financings and the one page summaries for every sub-financing to check the eligibility of the sub-financing against the criteria under the project (it is only a 'technical' review by the RRA; the financial appraisal of the sub-financings/lease, loan structuring and all banking considerations lie with the PFI). Upon approval, the money will be transferred to the PFI.
13. **Prior review of sub-loan applications** by the World Bank will be carried out in the following cases: (a) each qualified 'new' PFI (that is, the PFI that did not participate in the implementation of the

⁶ In cases when the PFI does not have an opportunity to extend financing due to the short maturity of the available financing or other considerations.



original HDP) will submit the first three investment subproject proposals; each qualified PFI will submit the first three value chain financing product proposals; and (b) when there are sub-loan proposals in an amount exceeding US\$500,000 equivalent for new PFIs and US\$1,000,000 equivalent for all other PFIs. The prior review threshold for new PFIs is also expected to reach US\$1,000,000 once it has been established that the PFIs are providing good quality proposals.

Eligibility Criteria for Participating Financial Institutions (PFIs)

14. To become a PFI, commercial banks and other financial institutions (such as leasing companies) have to qualify under a due diligence procedure in accordance with a set of operational, financial, and management criteria indicated in the following paragraphs (separate criteria for commercial banks and leasing companies) and have to sign a tripartite SLA with the MoF representing the Republic of Uzbekistan and the RRA. To maintain its eligibility as a PFI, the commercial banks and leasing companies must meet the said criteria always.

15. Potential PFIs (commercial banks and leasing companies) will be individually appraised, through a due diligence procedure by the RRA and the IBRD. During the detailed due diligence assessment, particular attention will be given to the overall lending capabilities, and financial and portfolio performance. The PFI must have a satisfactory financial and management structure; a satisfactory risk-based capital adequacy; an acceptable asset quality and lending performance; adequate liquidity; and the organization, management, and technical staff, and other resources required for the efficient carrying out of the operations.

16. The criteria for the initial due diligence and continued maintenance of a PFI status are provided below. These criteria shall be used by the RRA to monitor the continued eligibility of the PFIs operating under the credit line of the AF to the HDP.

Commercial Banks

General Standards

- (a) Be compliant with all banking laws and prudential regulations of the Central Bank of Uzbekistan.
- (b) Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the HDP.
- (c) Have or be willing to open branches or mini-banks within the project radius or the ability to ensure other ways of servicing the potential borrowers in the project radius.
- (d) Undergo an annual audit that is conducted in accordance with International Auditing Standards by an audit company acceptable to IBRD for the purposes of audit of financial institutions, with an unqualified audit opinion.
- (e) Have the necessary staff, knowledge, physical, and other resources to implement the credit facility under the project.



Financial Prudential Standards

- (a) At all times, meet the prudential regulations issued by the Central Bank of Uzbekistan.
- (b) Have a risk-weighted capital adequacy ratio of no less than 10 percent.
- (c) Do not have exposure to any one borrower as a percentage of its International Accounting Standards (IAS) capital of more than 15 percent.
- (d) Have aggregate exposure to insiders (defined as members of the Board of Directors and the Management Board of such PFI, employees in management position and shareholders with voting rights in excess of 10 percent) of no more than 100 percent of IAS capital.
- (e) Have a positive net income for the current and two immediately preceding financial years, as reflected in the financial statements audited in accordance with IAS.
- (f) Have acceptable asset quality and quality management policies, procedures, and skills.
- (g) Ensure that the aggregate share of sub-loan/lease portfolio outstanding under all credit lines of the World Bank (RESP I, II, and the AF) shall not exceed 75 percent of the PFI's IAS capital.

Corporate Governance and Managerial Standards

- (a) Have a Board of Directors, responsible for setting the overall bank policy and perform appropriate oversight of the bank's operations.
- (b) Have a qualified and capable management team.
- (c) Have a sound business plan and appropriate budgeting and budget control procedures.
- (d) Have sound lending policies and procedures, including with regard to the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, and so on.
- (e) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors.
- (f) Do not be exposed to undue interest rate risk, as confirmed by annual audited financial statements.
- (g) Have an internal reporting and management information system capable of providing sufficient information necessary for managing the bank's operations, performance, and risks.

Lease Companies



General Standards

- (a) Have the legal status permitting engagement in leasing operations.
- (b) Be compliant with the criteria and prudential regulations specified below, and operate in accordance with the applicable laws in effect in the Republic of Uzbekistan.
- (c) Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the HDP, and ensure the capability of servicing clients in the project areas.
- (d) Undergo an annual audit that is conducted in accordance with International Standards of Auditing by an audit company acceptable to IBRD for the purposes of audit of financial institutions, with an unqualified audit opinion.
- (e) Provide financial reports at the frequency required by the supervisors under the supervision authority and arrangements set up for this purpose under the project.

Financial Prudential Standards

- (a) At all times, meet the following prudential regulations:
 - (i) The leasing company's exposure to a single client will not exceed 25 percent of the company's net worth (the sum of its unimpaired capital, surpluses, and free reserves, as determined at the close of the previous quarter).
 - (ii) Total commitment to any lessee shall not exceed 25 percent of the total assets of the lessee.
 - (iii) No new commitments shall be made to any sector or industry where the exposure of the leasing company exceeds 25 percent of its outstanding lease portfolio. Exposure to a sector or industry is permissible up to 50 percent of the total outstanding lease portfolio, provided the leasing company has appropriate risk management measures in place.
 - (iv) Income from leasing activities shall account for no less than 65 percent of the total revenues of the leasing company.
 - (v) The average weighted life to final maturity of the leasing company's outstanding borrowings will be substantially identical to or will exceed the average weighted life of the net receivable value of its lease portfolio.
 - (vi) The leasing company's long-term debt-to-equity ratio (including guarantees) shall not exceed a 6 to 1 ratio.
 - (vii) Have acceptable asset quality, both on and off-balance sheet, with the bad lease portfolio not exceeding 5 percent of the total lease portfolio, and with acceptable quality management policies, procedures, and skills.



- (viii) In any three-month period, total maturities due and payable under all borrowings by the leasing company shall not exceed total lease receivables due and payable from its lessees unless covered by unutilized funding commitments or rollover facilities from bank loans customarily renewed on a periodic basis.
 - (ix) The loan loss reserve shall be formed consistent with the size and quality of the lease portfolio, however, based on a minimum of 5 percent of the customer leases outstanding.
 - (x) The leasing company's dividend policy shall provide for a fair return to its shareholders; however, it shall provide for retained earnings and reserves at a rate that would sustain the growth of the leasing company.
 - (xi) Any collateral or other assets belonging to lessees acquired through enforcement proceedings in connection with leasing transactions shall be disposed of within three months after the asset takeover, however, avoiding significant price diminutions.
- (b) Have a positive net income for the current and two immediately preceding financial years, or since the launch of the leasing company, as reflected in the financial statements audited in accordance with IAS.
 - (c) Assets of the leasing company must be sufficiently and adequately insured in accordance with good business practices.

Corporate Governance and Managerial Standards

- (a) Have a Board of Directors, responsible for setting the overall leasing company's policy and perform appropriate oversight of the leasing company's operations.
- (b) Have a qualified and capable management team.
- (c) Have a sound business plan and appropriate budgeting and budget control procedures.
- (d) Have sound leasing policies and procedures, including with regard to the entire credit cycle, problem loan management, write-offs of assets, repossession procedures, credit approval authority, and so on.
- (e) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors.
- (f) Is not exposed to undue interest rate risk, as confirmed by annual audited financial statements.
- (g) Have the necessary staff, knowledge, physical and other resources to implement the credit facility under the project.



Implementation Arrangements: RRA Functions under the Credit Line

17. On behalf of the borrower and in full coordination with the MoF, the RRA will have day-to-day responsibility for overseeing and monitoring the implementation of the credit line activities. Specifically, the RRA, under the supervision of the MoF, will be responsible for

- (a) Serving as the focal point for the PFIs for information, explanation, and assistance requests; organizing round tables and seminars for the PFIs to provide explanations and information sessions;
- (b) Monitoring compliance by the PFIs with terms and conditions of the SLA and the guidelines;
- (c) Upon receipt of SOEs, reviewing the compliance of sub-loans with the provisions of the guidelines, consolidating the withdrawal applications received from the PFIs, preparing the SOEs for submission to IBRD, ensuring that funds are channeled to the PFIs, and maintaining adequate records;
- (d) Submitting to the World Bank for prior review and approval sub-loan proposals as per instructions;
- (e) Transferring the financing for the approved sub-loans to the PFIs;
- (f) Ensuring that information on all financial transactions related to the subsidiary loans of the PFIs is submitted to and processed by the MoF in accordance with procedures prescribed by the MoF and agreed between the MoF and RRA;
- (g) Transferring the funds of the subsidiary loan to the PFI accounts;
- (h) Verifying the Revolving Account balances with the PFIs at the end of each calendar quarter;
- (i) Ensuring compliance with audit requirements, in coordination with the MoF and PFIs;
- (j) Monitoring compliance with Environment and Social Management Plans (ESMPs) under the subprojects and the cumulative impacts on the environment by the subprojects, providing advice on specific issues that may arise including EA/ESMP preparation assistance to category B subprojects through site visits, and providing training on environmental due diligence to the PFIs;
- (k) Carrying out on-site monitoring visits to the beneficiaries and sub-financing file reviews to ensure full necessary documentation is kept in the sub-financing files in the PFIs;
- (l) Advising and informing the PFIs, as well as monitoring of the implementation, of the requirements to ensure compliance with provisions related to TPM/ FBM;
- (m) Providing guidance to the PFIs in all matters related to procurement;



- (n) Preparing quarterly progress reports on the credit line for component monitoring and evaluation;
- (o) Providing to the MoF and IBRD any information on the above activities according to agreed reporting formats and requirements;
- (p) Participating in qualification and monitoring of the PFIs;
- (q) Serving as the liaison with other project components; and
- (r) Liaising with the regional focal points on all issues related to the sub-financings provided from the credit line.

Monitoring

18. The compliance of sub-loans with the eligibility criteria, monitoring of the sub-loan files, and the PFI compliance with the eligibility criteria will be ensured by the RRA. Regular visits to PFI branches to review the loan files for completeness and visits to borrower sites are two key components of the monitoring of credit line implementation. Based on the agreed procedure, on-site visits to the sub-loan sites are carried out not later than within four months from the disbursement of the sub-loan. The work is led by the Credit Line Specialists in the RRA's regional offices, supervised by the Component Coordinator at the RRA in Tashkent who also does selective on-site monitoring. The component will have monitoring and evaluation formats (as part of the Project Implementation Plan to be developed), which will track both the physical implementation of the component, as well as the impact, based on a set of monitoring and evaluation indicators. In addition, independent impact assessments for the project, covering also the credit line activities, will be done from time to time.

19. Progress reports will be produced quarterly, which will also include reports on monitoring of the financial status of the PFIs, including key performance indicators such as portfolio quality, liquidity ratios, and so on. The RRA also ensures timely collection of the audited reports of the PFIs, in compliance with the provisions of the SLA. An Environmental Specialist will carry out screening of the proposed sub-loans from the environmental point of view. In addition, continued PFI compliance with the eligibility criteria will be verified by the World Bank team annually, based on the review of the audited statements of the PFIs and other due diligence procedures, as required.

PFI Capacity Building

20. **The project will support a capacity-building program for the PFIs** involved in the project, given the novelty of the nontraditional financial products to support value chain development. The training program will build on the Investment Lending and Leasing in Agriculture training carried out under RESP II. The training program will cover (a) value chain financing products and (b) tree-crop financing methodologies. The PFIs will receive training on applicability of the new financial products in lending to horticulture-related activities, assessing the suitability and effectiveness of these new financial products, and on mitigation of the related risks. The training will be for about 5 days and will target loan officers and branch managers of PFIs. An international bank training company will be hired under the project, to conduct the initial training, as well as transfer this specific knowledge to a local bank training company,



which will take over the training activities at the later stages of the project. For the PFIs trying to test value chain financing products, a longer-term (resident) TA will be provided, to ensure the PFIs can appropriately structure the deal and manage the risks. In addition, all the PFIs will have to undergo environmental training.