



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 25-Jan-2022 | Report No: PIDA31683

**BASIC INFORMATION****A. Basic Project Data**

Country Uzbekistan	Project ID P176017	Project Name Second Rural Enterprise Development Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 07-Jan-2022	Estimated Board Date 17-Mar-2022	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Agency for Supporting Entrepreneurship, Ministry of Economic Development and Poverty Reduction	

Proposed Development Objective(s)

The project development objective is to support the expansion of rural enterprise activity, investments, and job creation in regions supported by the project.

Components

Enterprise Development. Facilitate the establishment and growth of MSMEs through the provision of technical support and facilitation.

Access to Finance. Address a number of key constraints to access to finance by MSMEs and will introduce two financing instruments: a credit line and partial credit guarantee fund.

Project Management. Support the implementation, management, monitoring and evaluation of the project.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

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

DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	180.00
International Development Association (IDA)	20.00
IDA Credit	20.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Uzbekistan has taken a series of agricultural reform steps as it moves towards a market-oriented and inclusive agricultural sector.** Market-oriented reforms were launched with a major decision in September 2017 to remove foreign exchange market controls and unify the official and market exchange rates, initially through a 50 percent devaluation of the Som against the US dollar. Since then, the Government of Uzbekistan (GoU) has implemented a wide range of reforms, including an overhaul of the tax system to improve its efficiency and reach; the removal of several price, production, and trade controls; easing of cumbersome bureaucratic processes faced by businesses and citizens alike; lowering of import tariffs and strengthening of trade facilitation to accelerate the World Trade Organization accession process. Economic growth has remained strong at over 5 percent, except in 2020. In 2020, the GDP growth was only 1.6 percent due to the COVID-19 impact on the overall economy. The World Bank (WB) forecasts the gross domestic production (GDP) to continue growing around 5 percent (4.8 percent in 2021 and 5.5 percent in 2022), well above the Central Asia's average of 3.7 percent for 2021.¹ Early results of these reforms resulted in widespread public endorsement of the reforms. Data from the 2019 Listening to the Citizens of Uzbekistan (L2CU) survey² show strong support for the exchange rate unification and the increased private participation and competition.

2. **Robust economic growth, small business development, income from remittances, and an extensive social safety net have driven poverty reduction in recent years.** Official poverty and inequality measures have also fallen sharply. The official poverty rate fell from 27.5 percent in 2001 to 11.4 percent in 2018, and official Gini coefficient by over a quarter between 2003 and 2013 (the last year in which the coefficient estimate was reported). However, the number of people living in poverty (US\$3.2 a day, 2011 purchasing power parity adjusted) has increased during the pandemic to 9 percent of the population (well above the precrisis projection

¹ WBG projections as of June 2021.

² A collaborative effort led by the WB in cooperation with the authorities, non-governmental organizations, United Nations International Children's Emergency Fund, the European Union (EU), and US Agency for International Development (USAID).



of 7.4 percent in 2020), as the pandemic led to job losses, income reductions, and declining remittances. Nearly 1 million people dropped below the poverty line in 2020. Micro- and small businesses development have contributed to the trend of poverty reduction in recent years. Official sources credit these entities for 78 percent of total jobs.³ In addition to dispersed benefits of strong economic growth that has been sustained over an extended period, social assistance and remittances have also played an important role in mitigating the poverty situation. About 37 percent of the population living below US\$3.2/day receives social assistance. More than 17 percent of the bottom quintile of households receive remittances from abroad, accounting for 60 percent of their income. Income growth and rising remittance inflows will remain the primary drivers of poverty reduction over the medium-term.

Sectoral and Institutional Context

3. **International experience has shown micro, small and medium enterprises (MSMEs) can be engines for growth in developing economies.** Evidence globally shows that SMEs generate more jobs than large-scale enterprises in developing economies. The GoU economic agenda has recognized the need to find new drivers of economic growth and has placed significant emphasis on accelerating private sector growth and modernization of the economy to ensure income growth and job creation. Within the Uzbek economy, MSMEs account for a significant share of economic activity. In 2019, around 76 percent of all employed individuals in Uzbekistan worked in small business or individual private enterprises – an estimated 10.3 million individuals. Small businesses and individual private enterprises also contributed 22 percent of exports – US\$4.7 billion equivalent – and generated an estimated 56.5 percent of GDP.

4. **Uzbekistan's rural economy shows strong potential in agriculture and food processing, textiles, tourism and small-scale manufacturing.** The 2018 Country Private Sector Diagnostic and the recently published Agri-Food Job Diagnostic in Uzbekistan have identified sectors with strong potential for growth and showed that food production, horticulture and agri-processing all have the potential to help propel the Uzbek economy toward much higher economic growth rates and generate more employment. The Agri-Food Job Diagnostic specifically lays out a roadmap for operationalization of the implicit job agenda of the Strategy for Agricultural Development 2020-2030 (hereafter Agricultural Strategy for Uzbekistan). The illustrative scenarios presented in the report show that public policies and investments can help the agri-food sector increase employment between 19 and 32 percentage points in 2030 compared to 2019, allowing annual creation of 0.7 to 1.3 million jobs. Particularly the horticulture sub-sector with strong comparative advantages and market opportunities has a potential for more productive and sustainable jobs. Those jobs will be inclusive, being available to women and youth not only in Tashkent and other large cities, but also in rural areas and secondary towns. The Government's reforms agenda has also prioritized transformation of the cotton sector and promotion of domestic textile production with the aim of reducing raw cotton exports and developing a more vibrant domestic industry. As part of these efforts, the Government has provided land to the cotton and horticulture clusters under long-term leases to further facilitate the supply chain integration and develop new export markets.

5. **The President has signed a US\$1 billion economic relief plan to aid the economy and vulnerable population groups as a response to COVID-19.**⁴ The plan establishes the Anti-crisis Fund and National Anti-Crisis Commission to oversee and coordinate preparedness and response measures. The Anti-crisis Fund will finance COVID-19 prevention and control activities, social support to low-income families, and support to strategic

³ WBG. 2019. *Uzbekistan Country Economic Update Summer 2019*.

⁴ Presidential Decree #5969 (УП-5969), March 19, 2020.



economic areas and small businesses. The plan also introduces time-limited tax rate reductions to support individuals and enterprises.⁵

6. **A resilient recovery will require a suite of instruments that strengthen the existing ecosystem for MSME development.** Experience from the Ferghana Valley Rural Enterprise Development Project (FVREDP; P166305) has shown the potential to develop a micro-enterprise support ecosystem that includes non-financial services such as advisory services, business development and incubation together with financial services.

D. Project Description

Component 1: Enterprise Development

7. **Sub-Component 1.1: Business Incubation and Mentorship.** Financing will be provided for business advisory and business development support services designed to incubate and mentor various classes of micro and small entrepreneurs. REDP will continue to establish business incubator hubs as an anchor for entrepreneurship and business development service delivery. Financing would also be provided to innovation startup competitions targeting youth to support innovation and more in-depth mentorship and support to incubate new businesses. TA and training activities will be modular and include modules targeting climate resilience and adaptation strategies. Dedicated training sessions targeting youth and women will be supported to ensure outreach to these groups.

8. **Sub-Component 1.2: Partnership and Value Chain Development.** The project will promote building of value chains and productive partnerships between producers and processors, and producers and traders, through financing for market/demand research for the specific type of product to be sold, training of the chain participants, technical advice on inputs and technologies, sales and marketing advice, and producer participation in national and international trade shows to promote investments and exports, and to improve quality of production, marketing and investment decisions. The project would also organize visits of large buyers from key countries to Uzbekistan (e.g. a group of supermarket procurement managers and buyers from leading import companies).

9. **Sub-Component 1.3: Climate Smart and Green Technology Demonstration.** This sub-component activities will aim to demonstrate climate smart technologies in small- and medium-sized agribusinesses and farm enterprises in the project regions. The project would support the introduction of innovative technologies that would have a significant impact in the long run on reducing GHG emissions, building resilience, and developing capacity for adaptation to climate change. This could also include renewable energy technologies that have been shown to be impactful and cost-efficient but have not been widely demonstrated and adopted in Uzbekistan, such as bio-gas digesters, solar water heaters, solar photovoltaics, biomass, wind and micro-hydroelectric installations.

10. **Sub-Component 1.4 Women's Entrepreneurship Development.** This sub-component would enable the project to develop more specific entrepreneurship support interventions that can better address women's particular needs, including low-income women who face greater constraints in starting new business activities. The sub-component will expand and scale up a pilot project financed through the World Bank Japan Social Development Fund, Enhancing Economic Opportunities for Rural Women Project (P171760) that launched in mid-2021. This pilot project utilizes a group-based approach to provide a package of services tailored to the needs of women in low-income households in rural areas around financial literacy, groups savings and later matching grants.

⁵ World Bank Project Appraisal Document for Uzbekistan Emergency COVID-19 Response Project (P173827).



Component 2: Access to Finance

11. **Sub-component 2.1: Credit line for Farmers, agribusinesses, and rural enterprises for climate-resilient investments.** The objective of the credit line will be to support lending to farmers, agribusinesses, and rural enterprises in new project areas. The Credit Line will support climate-resilient investments in the agricultural and rural sectors and will provide financing through one General Window and one limited-scale special Windows targeting micro and small enterprises. The General Window would finance individual loans while the Special Window will use more streamlined procedures for smaller sized loans targeting micro and small beneficiaries. This special window is deemed necessary to fill the credit gap of micro- and small enterprises who have not been able to access previous credit lines. The micro and small farming and agribusiness enterprises play a particularly important role in rural economic diversification, poverty reduction and income generation. The Special Window would also cater for the financing needs of the startups and women entrepreneurs supported under component 1. A Credit Line Investment Guidelines (CLIG) will provide the detailed eligibility criteria, terms and conditions of the financing under the various windows, as well as responsibilities of the implementing parties (PFIs, sub-borrowers and the PIU under the MEDPR).

12. **Sub-component 2.2.: Partial Credit Guarantees under the State Fund for Support of Entrepreneurship.** The project will expand the partial credit guarantee (PCG) mechanism of the State Fund for Support of Entrepreneurship given that collateral requirements for rural and agricultural lending remain high in Uzbekistan, revealing a persistent risk aversion of Participating Financial Institutions (PFIs) towards this segment. In this context, the REDP will allocate funds to expand the current PCG mechanism conditional on the concurrent implementation of an institutional strengthening agenda, identified in the technical assistance undertaken under FVREDP. Institutional and regulatory reform measures should be adopted by the State Fund for Support of Entrepreneurship to align the PCG scheme with international practices, optimize the use of the scheme, and promote its long-term sustainability. These reform measures also respond to feedback from current PFIs, engaged in the FVREDP, especially with regards to the design and operational features of the existing scheme. Institutional reforms would be expected to include element such as institutionalizing risk management systems, putting in place sustainability measures, increasing operational and financial autonomy, introducing greater independence in terms of governance, and regulatory supervision – which are important building blocks for achieving the intended objectives of the scheme and its sustainable expansion.

13. **Sub-component 2.3 Technical Assistance to PFIs.** Training will be provided to the commercial banks to introduce innovative financing instruments such as digital financial services and value chain finance modalities for agricultural and rural enterprises.

14. **Component 3: Project Management.** This component will support the implementation, management, monitoring and evaluation of the project. A PIU will provide overall project coordination and implementation support, including implementation planning, technical supervision, fiduciary management (financial management, procurement), environmental and social safeguards implementation and monitoring and evaluation.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50

No



Projects in Disputed Areas OP 7.60

No

Summary of Assessment of Environmental and Social Risks and Impacts

15. **Project location.** Government has requested to scale up the project country-wide. A detailed geographic scope of the activities (targeted in a smaller geographic area or widely implemented with nation-wide coverage by different activities) will be further determined during the preparation. UZ lies between the Syr Darya and Amu Darya Rivers with an area of 458,000 km², mostly occupied by vast plains, and the rest by the Tien Shan and the Altay Range mountains. Its climate is featured with dry hot summers, cool and wet autumns, and relatively cold winters. Biodiversity is characterized by a high rate of endemism, about 8% of the flora and more than 8% of the fauna. Specially protected areas and IUCN I-IV categorized areas occupy about 2% and 5% of the country's territory, respectively. Soil and water are critical for agriculture, which is a major economic sector. The scarcity of fertile soils and freshwater poses risks for sustainable agriculture and land management. The Aral Sea crisis in Northern UZ, an ecological catastrophe, is negatively impacting plants and agriculture in even remote areas and neighboring countries. Freshwater supply is threatened, especially close to big cities and in irrigated areas due to contamination with pesticides, heavy metals, nitrates, and contain excessive soluble salts. Climate change adds pressures to water resource and could reverse poverty reduction progress, particularly in vulnerable rural areas due to potential risks of reduced water availability, growing incidence of pests and diseases, frequent droughts, adversely impacted soil fertility and productivity, and higher soil salinity.

16. **Livelihood and gender issues.** Most rural population depending on agriculture for their livelihood would be disproportionately affected by climate change due to low ability to adapt and high share of income spent on food (50% on average). UZ, the most densely populated country in Central Asia (68 people/km²), ranked 105 out of 185 countries in the 2017 Human Development Index (categorized as high) and 57 out of 188 countries in the 2017 Gender Inequality Index, primarily due to women's high levels of education and labor market participation. UZ is close to attaining gender equality in education (enrollment, educational attainment, and literacy) and health (sex ratio at birth and healthy life expectancy). While 95% of citizens believe that women have equal access to education, employment, and healthcare, gender disparities persist with one manifestation being that women tend to be employed in the social sector or in part-time, seasonal, low-paying, or unskilled jobs in the formal and informal sectors. Women represent a substantial portion of agricultural workers in country. Officially women are about 1/3 of agriculture employees but with many more engaged in informal or seasonal labor in the sector. Establishing business incubation hubs, modernizing agricultural enterprises, technologies and production, strengthening intensive food production and processing has the potential to improve both the availability of jobs as well as the safety and working conditions of its employees. Practice shows export-oriented agriculture enterprises are more likely to pursue international good practice standards in workers training, adequate working conditions, occupational health and safety, and a variety of environmental, health, and safety guidelines. At the same time, the intensive development of agriculture enterprises in the short and medium term can also exacerbate certain risks such as the proliferation of informal, seasonal, and low-paid jobs, unequal terms and conditions (e.g., women paid at lower rates than men for the same output), and unsafe working conditions.

17. **Potential environmental and social risks.** The Environmental Risk Rating is Substantial. The proposed project activities are expected to result in economic and social benefits but may also generate adverse environmental and social impacts. Most physical activities under Component 1 "Enterprise Development" would be expected in the agriculture and food processing sector but open to handicraft, textile (except primary cotton



processing and production) mainly silk production or cotton textile manufacturing at the latter stages of production like sewing, weaving, or apparel manufacturing, tourism and small manufacturing sectors. Under Component 2, “Access to Finance” potential investments (e.g. translating innovative technologies or business models into viable enterprises, innovation start-ups) might cause a series of various and direct environmental risks and impacts at small and medium scale such as: increased environmental pollution with wastes, noise, dust, air pollution, health hazards, and labor safety issues, due to civil works. These impacts can be easily mitigated by applying best construction practices and relevant mitigation measures, but in some cases (which would involve or generate hazardous materials and wastes) may be also more significant. Under Component 1, a series of consultancy activities related to development of business plans might, during their implementation and operational phases, also generate some environmental and social impacts (air and water pollution, noise, waste generation, labor and health risks, disruption of traffic, etc.). Component 2 (includes credit line for smaller-scale enterprises below US\$125,000 and further cluster development sub-projects up to US\$2 million; training program to PFIs on the use of new financial products in lending to horticulture, livestock, silk production and other rural entrepreneurs production activities) may involve the potential for use of pesticides and high amounts of mineral fertilizers in different sub-projects, nevertheless, such use is expected to be well defined and can be managed with proper pest management plans and adequate training on using agricultural chemicals. The risk of indirect disturbance of existing ecosystem in natural habitats and possible pollution of soils and water through intensification of agricultural production and civil works is also possible. Based on implementation experience in the Bank’s ongoing portfolio the country’s policy, legal and institutional framework, applicable to the project are largely consistent with the ESSs. The technical and institutional capacity of the implementing agencies (IA) is strong, evidenced by its direct successful design and implementation of similar projects. The IAs have good capacity and commitment to manage the risks and impacts under the Bank’s safeguard policies. However, due to the nature of proposed works and associated environmental risks, and IAs’ limited knowledge and experience about Bank’s new ESF, and relevant Standards, the project is classified as Substantial risk from environmental perspective and as defined under the Bank’s ESF.

E. Implementation

18. The proposed project would be implemented in close coordination with the current FVREDP Project Implementing Unit (PIU) to take advantage of project synergies and implementation experience. MEDPR has confirmed that the REDP will be implemented by a PIU to be established under the MEDPR. The PIU will put in place a staffing mechanism for: (i) overall project management, as well as contract administration, procurement, safeguards, and financial management; and (ii) a robust performance-based Management Information System (MIS), beneficiary satisfaction survey, data collection, and reporting on key performance output and impact indicators, through baseline surveys, participatory assessments, mid-term review and final evaluation.

CONTACT POINT

World Bank

Dilshod Khidirov
Sr Agricultural Spec.



Melissa Brown
Senior Agriculture Economist

Borrower/Client/Recipient

Ministry of Finance

Implementing Agencies

Agency for Supporting Entrepreneurship, Ministry of Economic Development and Poverty Reduction
Ilkhom Norkulov
First Deputy Minister of Economic Development and Poverty Re
info@mineconomy.uz

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

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

Approved By

Practice Manager/Manager:		
Country Director:	Marco Mantovanelli	26-Jan-2022