



The World Bank

Resilient Agri-food Clusters Development Project (P178120)

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Nov-2022 | Report No: PIDC34106



BASIC INFORMATION

A. Basic Project Data

Country Kyrgyz Republic	Project ID P178120	Parent Project ID (if any)	Project Name Resilient Agri-food Clusters Development Project (P178120)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Apr 11, 2023	Estimated Board Date Jun 20, 2023	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture	

Proposed Development Objective(s)

To increase productivity and climate resilience of select agri-food clusters.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	30.00
Total Financing	30.00
of which IBRD/IDA	25.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	25.00
IDA Credit	25.00

Non-World Bank Group Financing

Trust Funds	5.00
Global Agriculture and Food Security Program	5.00



Environmental and Social Risk Classification

Moderate

Concept Review Decision

Track I-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **As one of two Central Asia's low-income countries, the Kyrgyz Republic faces several development challenges that have been amplified by the Russia-Ukraine conflict and the COVID-19 pandemic.** The economy remains heavily dependent on gold production (about 10 percent of GDP and 35 percent of exports), remittances (30 percent of GDP), and foreign aid. The country's growth is constrained by large infrastructure gaps, the weak governance, poor business environment, onerous regulations, and financially unsustainable energy sector. The economy grew at an average rate of 4.5 percent over the 2000-2019 period but shrank by 8.4% in 2020. The economy was hit hard by the pandemic in 2020 but began recovering in 2021 as GDP grew by 3.6 percent and is expected to grow by 4.9 percent in 2022.¹
2. **Poverty in the country increased during the COVID-19 pandemic and the Russia-Ukraine conflict is increasingly impacting food affordability.** The COVID-19 pandemic increased the poverty rate (US\$3.2 a day, 2011 PPP) from 9.7 percent in 2019 to 16.2 percent in 2020. Reduced labor income and remittance caused by the pandemic and inflation pushed an additional 700,000 people (11 percent of the population) into poverty and this trend is expected to increase with poverty rate reaching 25.5 percent in 2022 (at the \$3.65 a day, 2017 PPP poverty line) from 21.8 percent in 2021. Food and fuel prices drove inflation to 11.2 percent in December 2021 from 9.7 percent a year ago but has since fallen to 10.8 percent since February 2022. The uncertainties related to geopolitical and global economic situation are expected to increase inflation in Kyrgyz Republic to 15.5 percent, thus creating significant further pressure on fiscal and debt management as well as potentially pushing more people into poverty.
3. **Poverty in Kyrgyz Republic also has strong gender and spatial dimensions – being particularly high in female headed households, rural populations, and “lagging” regions.** Children are among the most vulnerable – more than 230,000 additional children afflicted by poverty and at risk of suffering long-term impacts and malnutrition. Unemployment and jobs agenda (especially for youth) was already important pre-Covid and would be even more so in 2022 and beyond. Population in rural areas suffers from absolute and relative poverty compared with the urban population. A direct consequence of high incidence of rural poverty is also reflected through low agricultural² productivity. Continuing use of obsolete technologies and production practices have led to low yields and equally low quality of inputs such as seeds, fertilizers, etc.³ These challenges are now exacerbated with the compounding effects of the slow pace of economic recovery post-Covid-19, growing frequencies and intensities of climate shocks, and continuing spikes in international prices of key food staples, fuel, and fertilizer. The World Hunger Map (World Food Program) places Kyrgyz Republic at "moderately high" risk due to its dependency on food and inputs import and climatic vulnerability.

¹ World Bank. Eastern Europe and Central Asia Economic Update, Spring 2022. <https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update>

² Agricultural productivity refers to production generated in all agricultural sub-sectors i.e., crop, livestock, horticulture (fruits & vegetables), agroforestry, floriculture, aquaculture, etc.

³ Mogilevskii et al. 2017. The outcomes of 25 years of agricultural reforms in Kyrgyz Republic.



Some 1.8 million of Kyrgyz's 6.6 million inhabitants have insufficient food consumption with 11.8 percent of children under five considered acutely malnourished.⁴

4. The Kyrgyz Republic ranks as one of the most vulnerable countries to climate change in Central Asia⁵. Climate change is a major source of uncertainty and makes weather extremes harder to predict. The temperature has increased consistently over the past 80 years at an average rate of 0.1°C/decade, leading to a significant loss of 'greenness' in the lowland and cropland regions of Kyrgyzstan.⁶ Climate change and natural disasters cause risks to the livelihoods of the most vulnerable and poor rural populations who mainly rely on agriculture. Changes in climate increase the risk of outbreaks of animal diseases. Climate conditions are also likely to affect the extent to which existing regions suitable for growing certain crops would need to be extended into other regions to ensure that critical local food production systems are resilient for national food security.

5. A robust and sustainable economic recovery and growth would require a much greater focus on diversification and private sector investment.⁷ The Kyrgyz Republic's reliance on a few export commodities has intensified the economy's vulnerability to shocks. To diversify export commodities, private sector and government alike have identified the need for improved trade and logistics infrastructure to efficiently and hygienically aggregate, store and prepare greater varieties of horticultural or other perishable products for export. The proposed project is expected to increase opportunities for leveraging new investment in sub-sectors that have shown significant potential such as horticulture and dairy. To adequately address the need to support institutional capacity to leverage climate-smart technologies as well as building producers' capacities to become effective value-chain actors and credible partners, this project will be supplemented with a Global Agriculture and Food Security Program (GAFSP) financing grant.

Sectoral and Institutional Context

6. Agriculture is the main source of income and livelihoods in rural areas but is dominated by smallholders both upstream and downstream. The sector employs 29 percent of all labor in the country and consists mainly of small-scale production systems with over 400,000 farm units and more than 700,000 rural households that collectively produce over 95 percent of the total agricultural products in the country. Agricultural GDP is split nearly evenly between crop and livestock production systems with increasing trends towards livestock production as the national herd size increases. The overall agricultural growth in Kyrgyz Republic has remained positive, averaging at 2 percent. However, most farmers are small in scale (less than five hectares) and not well integrated in agri-food value chains. They engage mostly in intercropped and mixed crop-livestock systems and produce often for domestic consumption. Any surplus production remains unprocessed as it enters the market. Middle- and large-scale production systems are mostly privately owned, and benefit from commercial investment targeted to production of wheat, barley, sugar beet, maize, and potato.

7. Productivity remains below potential. Yields of major crops remain below Central Asia and ECA averages and while livestock numbers have been rising, productivity gains remain small due to low levels of investment, pasture degradation, livestock diseases and insufficient access to veterinary services. Other factors affecting low productivity relates to low public investments in productive service provision. Although considerable investments have been made in large public infrastructure for agriculture, such as irrigation canals, major roads, electric grids, they have not been

⁴ WFP World Hunger Map Live: <https://hungermap.wfp.org/>

⁵ World Bank. 2014. Turn Down the Heat: Confronting the New Climate Normal. Washington, DC:

⁶ Zhou, Y., Zhang, L., Fensholt, R., Wang, K., Vitkovskaya, I., & Tian, F. 2015. Climate Contributions to Vegetation Variations in Central Asian Drylands. *Remote Sensing*, 7(3), 2449–2470. URL: <https://www.mdpi.com/2072-4292/7/3/2449>

⁷ World Bank Group. 2021. "Country Private Sector Diagnostic: Creating Markets in the Kyrgyz Republic, Unleashing the Private Sector to Rebuild Development Success."



reinforced by adequate on-farm small-scale investments and support services to make any meaningful improvements in overall productivity. Similarly, linkage among smallholders and agri-food enterprises remains fragile with missed opportunities for effective integration of smallholders into market mechanisms. Access to agricultural inputs such as improved seeds, fertilizer, farm equipment, extension services, and financing also constraint productivity.

8. Despite challenges in the sector, Kyrgyz Republic has the potential to benefit from its strategic proximity to the Chinese, South Asian and Russian markets. The Kyrgyz Republic is the net exporter of several agricultural commodities (e.g., dairy products, potatoes, beans, vegetables, and other horticulture products). There is strong export potential for additional agricultural products from Kyrgyz Republic (such as berries, cherries, walnuts, fresh apricots, and plums, etc.) to China, Russia, and Central Asian markets, subject to meeting food safety and other requirements.⁸ The Government's *COVID Anti-Crisis Plan* calls for re-starting economic activity and supporting income generating activities where agriculture is expected to contribute. The Government is making concerted efforts to align the country's regulatory framework and public food safety enforcement capacity to improve competitiveness of agricultural value chains. The February 2021 *Presidential Decree on agro-industrial complex development* is intended to promote agri-food clusters across the country to improve farmers' access to innovation, resource-saving and climate resilient practices, and digital technologies to enhance productivity and processing systems.

9. The current scale of agriculture sector-wide support requires consistent investments and institutional strengthening. A sector-wide growth program is needed that responds to the Government's vision of transforming the agriculture sector through the agro-industrial complex. Such sector-wide program would address systemic challenges of low productivity, resilience to climate vulnerabilities and shocks, and constraints to value addition, quality and food safety compliance. The proposed agriculture program would adopt a multi-year, phased approach that targets and strengthens competitive agri-food clusters by supporting physical investments (e.g., farm-level small-scale infrastructure, laboratories, and equipment) as well as technical assistance and systems support (e.g., regulatory and compliance mechanisms, stronger institutional systems, and systematic transition to resilient, green, and innovative practices).

Relationship to CPF

10. The proposed project is aligned to the Country Partnership Framework (CPF) 2019-2022 (Report No. 130399-KG), which seeks to promote diversified, export-oriented, inclusive, and sustainable growth in the Kyrgyz Republic and is focused on improving conditions for private sector growth. The proposed project falls under the CPF Focus Area 1: Strengthen foundations for inclusive private sector-led growth and Focus Area 3: Enhance economic opportunities and resilience. The project would target activities focusing on improving service delivery in the agriculture sector, creating a better enabling environment for private sector development; and boosting resilience of the food system within agri-food clusters.

11. The proposed project is well-aligned with the World Bank Climate Change Action Plan, 2021-2025⁹, that promotes Green, Resilient, and Inclusive Development (GRID) approach to eliminate extreme poverty and boosts shared prosperity. This project would integrate: (i) the "build back greener" approach from the COVID-19 crisis; (ii) climate-change mitigation and adaptation practices in agriculture sector; and (iii) address long-term food security risks associated with external shocks such climate vulnerabilities and the war in Ukraine.

⁸ World Bank. 2020. Central Asia's Horticulture Sector – Capitalizing on New Export Opportunities in Chinese and Russian markets.

⁹ World Bank Group, Climate Change Action Plan, 2021-2025. Supporting Green, Resilient, and Inclusive Development. The World Bank, 2021.



12. **The proposed project is in line with the country's national development strategies and agriculture policy.** A significant part of the *National Sustainable Development Strategy (2018-2040)* is devoted to agriculture, and the government's priority for the country to not only ensure its own food security, but also to "regain the status of a major supplier of organic agricultural products and processed goods to the international market that meets international standards and requirements." The document also recognizes the importance of integrating smallholder producers into groups (calling them "nodes of growth").¹⁰ The *Development Program of the Kyrgyz Republic (2018-2022)* reaffirms these priorities, and also calls for the establishment of logistics centers for agricultural projects in the regions together with accompanying infrastructure (such as processing enterprises and transport companies).¹¹ The government has prioritized 9 agri-food clusters¹² as its vision for developing a competitive and resilient agriculture sector.

C. Proposed Development Objective(s)

13. The propose Project Development Objective (PDO) is to increase productivity and climate resilience of select agri-food clusters.

Key Results (From PCN)

14. The PDO will be achieved through improving production processes and linkages in selected agri-food clusters, strengthening associated national and regional support systems, and promoting climate smart technologies and practices. The achievement of the PDO would be measured by following key indicators:

- Percent yield increases within each agri-food cluster (by volume and quality)
- Percent increase in sale of agricultural products by project beneficiaries
- Number of farmers adopting climate-smart agricultural technologies and practices (CRI, by gender)

D. Concept Description

15. In supporting an agriculture sector program in Kyrgyz Republic, strategic refocus is needed for investments and institutions to shift from short-term, food self-sufficiency to long-term food security, improved productivity and competitiveness, and food systems resilience. To support such a shift, a programmatic framework approach would best serve the needs of the country. The proposed project components are as follows:

Component 1: Support for Agriculture Productivity and Resilience (US\$ 20 million)

16. This component would support agricultural enterprises and smallholders and producers by financing targeted investments to increase yields, improve quality, improve processing, and value addition while integrating climate-smart practices and technologies within each operation. The project would focus on improved linkages, productivity, and resilience. The advantages of working with clusters, *inter alia*, would include: (i) covering the entire value chain; (ii) addressing weak linkages for improved performance of the entire chain; and (iii) promoting inclusion of smallholders in market access. This component will finance infrastructure, consulting and non-consulting services, equipment and goods, social mobilization and group formation, and training and capacity building through following sub-components.

¹⁰ The *National Development Strategy of the Kyrgyz Republic for 2018-2040* available at: <http://www.stat.kg/en/nsur/> (select pages: 86 – 91).

¹¹ The *Development Program of the Kyrgyz Republic "Unity, Trust and Creation" for 2018-2022* available at:

http://donors.kg/images/DEVELOPMENT_PROGRAM_OF_KR_Unity_trust_creation.pdf (select pages: 6, 8, 32 – 33).

¹² The nine (9) agri-food clusters include: dairy (milk), horticulture (fruits and vegetables), meat, fish (trout), vegetable oils, sugar (beet), potato, honey, and grain crops.



17. **Sub-component 1.1. Agri-food clusters development (US\$ 15 million).** This component would promote collective action in each agri-food cluster by establishing producer groups engaged in primary production activities and productive partnerships among producers and aggregators/processors engaged in value addition. The project would finance public services as well as investments for producer groups and productive partnerships. Public services could include infrastructure critical to improving the functioning of the partnerships, technical assistance, and training for producer groups for production quality assurance, pest and disease control and food safety improvements, etc. Investments for producer groups and productive partnerships could include on-farm application of production improvement and climate resilient technologies, farm equipment, availability of climate resilient crop or livestock varieties, post-harvest operations, and other facilities (e.g., storage, washing, grading, packing, pre-cooling, cold storage). The detailed group formation and terms of partnerships would be outlined in the Project Operations Manual (POM) and would be adapted to the context of each selected agri-food cluster. This project would support the following agri-food clusters.

- Dairy cluster would build on the ongoing Integrated Dairy Productivity Improvement Project (IDPIP) (P155412) and would scale up to include Jalalabad and Chui oblasts (the other 5 oblasts are covered by IDPIP and the two Regional Economic Development Projects).
- Horticulture cluster would support producers and processors in Jalalabad and Naryn oblasts. Naryn has significant potential for diversification into high-value horticulture crops (e.g., berries, and vegetables) while Jalalabad is well known for several horticulture products (e.g., prunes, vegetables, nuts, etc.). The local administration in Naryn oblast is currently promoting diversification to high value horticulture products such as berries (e.g., black currants, sea-buckthorn, etc.) to increase the export potential and income generation for local population, especially women and youth.

18. **Sub-component 1.2. Training and capacity building (US\$ 5 million).** This sub-component would be financed through the GAFSP grant¹³ to support training and capacity building of targeted beneficiaries including farmers, processing enterprises, and relevant government agencies. The capacity building activities would be expected to enable producers' groups to become effective value-chain actors and credible partners for upstream and downstream stakeholders by supporting: (i) organizational development and strengthening; (ii) climate resilient, nutrition smart, and green technology promotion; and (iii) improving market readiness. The GAFSP grant would be implemented through a Bank Executed Trust Fund (BETF) and a Recipient Executed Trust Fund (RETF) for technical assistance and training services.

Component 2: Strengthening of Institutions and Systems (US\$ 8 million)

19. This component would finance consulting and non-consulting services, goods, and equipment for the following sub-components.

20. **Sub-component 2.1. Modernization of seed system (US\$ 4 million).** This sub-component would support building a modern and sustainable seed system to ensure that high quality seeds of a wide range of varieties are produced and consistently available. This sub-component would finance activities including: (i) review existing legislation, policy and institutional arrangements in the country at national, regional and local scales; (ii) assess validity of existing seed system regulatory framework including quality assurance mechanism in place; (iii) review seed production, multiplication and commercialization processes; (iv) identify areas of improvement for storage, delivery and distribution networks; (v) support upgradation of laboratory and equipment for accreditation of rayon-level (district-level) testing centers; and (vi)

¹³ The GAFSP Steering Committee approved on December 2, 2021, a grant in the amount of US\$ 5 million to be managed by the World Bank and the Food and Agriculture Organization (FAO) of the United Nations as Supervising Entities (SEs).



support seed farms for multiplication and promotion of climate resilient (disease and drought tolerant varieties) and nutritious crops.

21. **Sub-component 2.2. Improvement of livestock breeding and information system (US\$ 4 million).** This sub-component would support improvement of animal breeding policies and regulations, support to Livestock Research Institutes and selected state breeding farms through agricultural equipment and associated technologies. This sub-component would finance: (i) establishment of adequate and nutritious forage base; (ii) upgradation of the central biotechnological laboratory for breed improvement; (ii) demonstration farms for modeling effective breeding and artificial insemination (AI); and (iv) expansion of the cadre of qualified AI technicians with improved skills to support farmers.

Component 3: Operational Support and Project Management (US\$ 2 million)

22. This component would support project implementation, including the project's monitoring and evaluation system, communication strategy, compliance with environment and social standards and fiduciary requirements, training, and incremental operating costs.

Component 5: Contingent Emergency Response Component (CERC) (US\$ 0)

23. The project would include a zero-dollar component that would provide support in the event of an eligible crisis or emergency, including climate-related disasters, to reallocate project funds to support emergency response. This component would draw from the uncommitted credit/grant resources under the project from other components to cover emergency response. An emergency eligible for financing is an event that has caused or is likely imminently to cause, a major adverse economic and/or social impact to the Borrower, associated with disaster.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

24. The environmental and social risks are assessed as Moderate. The project will not include any intervention that would result in significant environmental and social risks and impacts. The planned activities represent various agricultural processing activities that are temporary by nature and site-specific and can be easily mitigated by applying best construction and/or agricultural processing practices and relevant mitigation measures. The primary instrument for managing these risks is the Environmental and Social Management Framework (ESMF), which will be prepared, consulted, and disclosed before appraisal. A Stakeholders Engagement Plan (SEP) will also be prepared, consulted upon, and disclosed before project Appraisal. The Borrower will develop project-level Labor Management Procedures (LMP) acceptable to the Bank no later than the effective date of the credit.

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APPROVAL

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