



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Dec-2019 | Report No: PIDA27072



**BASIC INFORMATION**

**A. Basic Project Data**

Country Uzbekistan	Project ID P158372	Project Name Agriculture Modernization Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 20-Dec-2019	Estimated Board Date 26-Mar-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Uzbekistan	Implementing Agency Ministry of Agriculture (Agroindustry and Food Security Agency)	

Proposed Development Objective(s)

The proposed project development objective is to enhance productivity-supporting agricultural services and promote market-led high-value horticulture value chains.

Components

1. Enhancing productivity-supporting agricultural services
2. Supporting investments in high-value horticulture value chains
3. Facilitating trade and marketing
4. Supporting project management

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

**SUMMARY**

<b>Total Project Cost</b>	610.00
<b>Total Financing</b>	610.00
<b>of which IBRD/IDA</b>	500.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	276.00
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International Development Association (IDA)	224.00
IDA Credit	224.00

**Non-World Bank Group Financing**

Counterpart Funding	110.00
National Government	76.00
Sub-borrower(s)	34.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

The proposed Agriculture Modernization Project (AMP) supports the Government of Uzbekistan (GoU) to implement an ambitious agricultural reform strategy that aims to successfully transition to a market-oriented and inclusive agricultural sector. Agricultural reforms are a critical part of the overall reform package organized under two pillars necessary to this transition: (i) increasing the role of markets and the private sector in the economy; and (ii) enhancing inclusion. The proposed project is central to the World Bank Group’s overall engagement with Uzbekistan, as described in the revised 2016-2020 Country Partnership Framework.

Uzbekistan has taken a series of steps in this transition. 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 Uzbek Som against the US dollar. Since then, the 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 trading 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. The World Bank (WB) forecasts the GDP to continue growing above 5 percent (5.5 percent in 2019 and 5.7 percent in 2020), well above the Central Asia’s average of 4.5 percent. Macroeconomic stability and debt sustainability have been broadly maintained, although some risks, such as those arising from double-digit inflation and government-directed lending, require closer policy attention.

Early results of these reforms enjoy broad public support. Data from the 2019 *Listening to the Citizens of Uzbekistan (L2CU)* survey,<sup>1</sup> a collaborative effort led by the World Bank and the Development Strategy Center in

<sup>1</sup> <https://www.worldbank.org/en/country/uzbekistan/brief/l2cu>



Tashkent, show a strong for the exchange rate unification and increased private participation and competition.

Robust economic growth, small business development, income from remittances, and an extensive social safety net have driven poverty reduction in recent years. An estimated 9.6 percent of Uzbekistan’s population (3.2 million people) lives below the US\$3.2/day poverty line—which is the international definition for lower middle-income countries<sup>2</sup>. By 2021, the poverty rate at this line is predicted to decrease to 8 percent, concentrating in rural areas where half of the population resides and largely depends on agriculture for their livelihoods. Official poverty and inequality measures have also fallen sharply. The official poverty rate fell by over 60 percent between 2003 and 2018, and official Gini coefficient by over a quarter between 2003 and 2013 (the last year in which the coefficient estimate was reported).

Micro- and small businesses development have contributed to the trend of poverty reduction. Official sources credit these entities for 78 percent of total jobs. 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.

Many transition challenges remain, with reforms in some areas are complex, drawing attention to agriculture as a sector with potentially quick wins. The more visible benefits of market-oriented reforms tend to take time to materialize and require a strong sequence of complementary reforms. Many of these reforms, such as the restructuring of state-owned enterprises and banking sector, creation of a more level playing field between state-owned and private enterprises, urban and agricultural land reforms, and the development of more accountable public institutions are also likely to be more difficult to tackle.

In this context, attention has shifted to agriculture, the sector with many opportunities compared to other sectors to generate quick and inclusive growth and other benefits. Uzbekistan’s transition starting point favors its export competitiveness that could help overcome high costs associated with its ‘double-locked’ location and weak connective infrastructure<sup>3</sup>.

The country is vulnerable to the impacts of climate change, particularly in the sectors of agriculture, energy, and water resource management. Anticipated climate impacts include increases in monthly maximum temperatures across Uzbekistan, high variability of rainfall across different agroecological zones, and increased glacier melting with implications for water availability and river flow. For agriculture, climate change is increasing the risk with regard to water availability, but also pests, insects, and diseases. Droughts may become more frequent due to decreases of runoffs of Amu and Syr Darya Rivers. Areas with increased demand from economic development and population growth may be impacted with implications for food security.

Uzbekistan ranks high at global gender-focused indices, but there are still gender inequalities. In 2017, Uzbekistan ranked 105<sup>th</sup> out of 185 countries in the Human Development Index and was categorized as a high human development country<sup>4</sup>. The country was ranked 57<sup>th</sup> out of 188 countries in the 2017 Gender Inequality Index, primarily due to women’s high levels of education and labor market participation. Both the Global Gender Gap Index and the Gender Equity Index show that Uzbekistan is close to attaining gender equality in education

<sup>2</sup> WB report (2019) *Where They Live: District-Level Measures of Poverty, Average Consumption, and the Middle Class in Central Asia*. Policy Research Working Paper 8940, Washington, D.C.

<sup>3</sup> WB report *China/Russia 2030 – Opportunities for Central Asia’s Agriculture* (2019) presents challenges and opportunities for realizing horticulture export potential in the countries of Central Asia, including Uzbekistan.

<sup>4</sup> WB background paper on *Enhancing the Livelihoods of Rural Women in Uzbekistan* (2019).



(enrollment, educational attainment, and literacy) and health (sex ratio at birth and healthy life expectancy). According to the 2019 L2CU, 95 percent of citizens believed that women have equal access to education, employment, and healthcare. Nevertheless, 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<sup>5</sup>.

### Sectoral and Institutional Context

For decades, inward-oriented production focus, production and market distortions, and resultant low productivity have characterized Uzbekistan's agriculture. Since the break-up of the Soviet Union, Uzbekistan's farmers have been operating under artificially low output prices and state production targets for cotton and wheat<sup>6</sup>.

Weak land tenure rights and the control of local government over production and land allocative decisions have been a significant source of distortions. Prior to 2017, more than 70 percent of arable land was administratively allocated to the state-controlled production of cotton and wheat, which constitute agricultural commodities with profits, labor intensity, and labor productivity much lower than those for the majority of horticulture products.

These two crops consume 90 percent of water used in agriculture and 75 percent of water used in the entire country. In 2015, about 14 percent of cotton pickers were forced to pick cotton. Horticulture, which generated 50 percent of the value of crop production and 40 percent of gross agricultural output just from about 10 percent of total arable land, has been neglected in public service provision and taxed by the government monopoly over fruits and vegetables exports (through Uzagroexport, the specialized state export company) and other regulatory restrictions. Agriculture, the largest economic sector, which accounted for 34 percent of GDP and 27 percent of labor force in 2016 (3.6 million people), has performed much below its potential.

The first-generation agricultural reforms have focused on the removal of price and market distortions for horticulture export, promoting outward-oriented agriculture. Uzbekistan's strong potential in horticulture<sup>7</sup>, if realized, can contribute to higher economic growth and can generate larger export revenue. Horticulture has also the potential to create many better paid and inclusive jobs with already more than one million jobs created in horticulture subsector.

Labor requirements in horticulture are spread throughout the year, especially for greenhouses and post-harvest processing and marketing activities, and women comprise a substantial share of full and part-time employees within agro-firms and horticulture farms. This subsector covers a wide range of fruits, vegetables, potatoes, melons, and wine grapes, producing more than 180 types of products.

Between 2017 and 2019, the majority of horticulture export restrictions was eliminated, including: (i) abolishment of export monopoly of Uzagroexport; (ii) abolishment of mandatory sale of 25 percent hard currency earning, and permission to keep hard currency in exporters' account; (iii) reduction in time to receive certificate and register the contract at the customs for horticulture exporters; (iv) elimination of railroad monopoly for export; (v) establishment of "green corridors" at border crossings; (vi) elimination of minimum export prices; and (vii) removal of full prepayment requirement for export contracts outside of Uzagroexport<sup>8</sup>. As a result, in 2018

<sup>5</sup> Asian Development Bank (2018) *Uzbekistan Country Gender Assessment Update*.

<sup>6</sup> The state order system in Uzbekistan includes four elements: (i) allocating land for specific crops (e.g., cotton and wheat); (ii) setting up a state procurement price at farm-gate level; (iii) setting up production targets and rendering the local authorities responsible for meeting these targets; and (iv) controlling marketing of agricultural outputs.

<sup>7</sup> WB report *China/Russia 2030 – Opportunities for Central Asia's Agriculture* (2019) and the WBG *Country Private Sector Diagnostic for Uzbekistan (CPSD)* (2018).

<sup>8</sup> Policy dialogue for these reforms has been underpinned by the Maximizing Finance for Development-inspired WBG's analytical work



the horticulture export grew 35 percent, accounting for 80 percent of total agri-food export<sup>9</sup>. And, in 2019, horticulture export is projected to grow by further 40 percent.

Horticulture exports, however, account for only 8 percent of total horticulture production and remain concentrated in countries that attach a low value to Uzbekistan's products. They include traditional markets of Russia, Kazakhstan, and other members of the Commonwealth of Independent States (CIS) that accept standards set by Uzbekistan's phytosanitary and food safety systems.

Even in these countries, though, most Uzbek products are sold on open markets (*bazaars*), and not in supermarkets that represent opportunities for faster increase in demand and higher retail prices. The share of CIS countries of Uzbekistan's export market was 79 percent in 2017 and 75 percent in 2018. For selected products, the price differential for Uzbekistan's products between its current traditional markets and larger markets, where Uzbekistan's presence is marginal, however, is significant.

The WB has been assisting horticulture farmers and agribusinesses to support improved production through better access to finance. The WB-financed Horticulture Development Project (HDP), which was approved in 2014 and received additional financing in 2018, assists improving access to long-term finance for tailored investments in the horticulture value chains and building strong leading agro-firms and farms critical for future agriculture development. As of October 2019, the project financed 819 sub-projects of modern greenhouses, cold storage, packaging, and processing, and intensive orchards, helping create 16,000 jobs, and women comprising 31 percent of full-time employees within agro-firms and horticulture farms.

Reforms and modernization have also started in cotton and wheat subsectors. In 2015-2019, more than 340,000 hectares (ha) of arable land was shifted from cotton and wheat to accelerate agricultural diversification. In 2019, the state procurement prices for wheat and cotton largely reached those at the market level, although during 2016-2018 their artificially low level was estimated by WB to have cost farmers 2.2 percent of GDP annually. Systematic child labor in cotton picking was eliminated<sup>10</sup> and the use of forced labor dropped to 6.8 percent in 2018<sup>11</sup>. The GoU has indicated a strong readiness to eliminate completely the use of forced labor and state production targets in the upcoming years.

Second-generation agricultural reforms need to focus on factor market efficiency and public institutions in order to accelerate growth in agriculture in general and horticulture in particular. This was concurred by the recently adopted Strategy for Agricultural Development 2020-2030 (hereafter *Agricultural Strategy*)<sup>12</sup>.

Farmland tenure insecurity and lack of a formal land rental market remain significant challenges in the medium to long-term. In addition, the lack of a functioning financial sector and the resultant narrow availability of tailored financial products with collateral requirements deemed suitable for farmers and exporters are among the most

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(e.g., CPSD) and investment projects (e.g., WB-financed HDP). Elimination of minimum export prices and removal of full prepayment requirement for export contracts outside of Uzagroexport were among the prior actions in the WB's second Development Policy Operation (DPO) approved in May 2019.

<sup>9</sup> Uzbekistan exports more than 180 types of fresh and processed horticulture products. The range of export destinations has expanded over the last five years to include trade with more than 80 countries, allowing Uzbekistan to become: the 2nd largest global exporter of dried apricots, the 3rd largest exporter of persimmons, the 4th largest exporter of raisins and apricots, and the 5th largest exporter of dried prunes, fresh cherries and plums.

<sup>10</sup> In 2018, the US State Department removed Uzbekistan from the list of countries with systematic child labor in cotton harvesting.

<sup>11</sup> The ILO (2019) estimated the forced labor to decline to 7 percent in 2018, from 14 percent in 2015 and 13 percent in 2017, attributing it largely to increased wages for cotton pickers, and the strong political commitment and clear communication from the GOU to eradicate the forced labor.

<sup>12</sup> Decree of the President of Uzbekistan No. 5853 "On Approval of the Strategy of Agricultural Development of the Republic of Uzbekistan 2020-2030" dated October 23, 2019.



significant short-term factors limiting the generation of quick and inclusive wins from the agriculture sector.

Human capital in agriculture and technology generation and adoption also remain low, due to significant underinvestment in agricultural research and development (R&D) and extension/advisory services that are proven globally to drive long-term agricultural growth<sup>13</sup>. Uzbekistan's public investments in agricultural R&D in 2016-2018 averaged 0.04 percent of agricultural value added vis-à-vis the average of 1.0 percent in middle-income countries and 2.5 percent in high income countries<sup>14</sup>.

In fact, most agricultural public goods in Uzbekistan remain severely underfinanced, limiting the growth in agricultural productivity and export. In horticulture, increasing the value of products and being a successful exporter requires much attention to quality, reliability, safety, and logistics. Uzbekistan is at the early stage of making investments in all these areas. It can materialize its potential to increase the volume and value of its agricultural, and specifically horticultural, exports by addressing constraints related to: (i) availability and quality of agricultural services for raising on-farm productivity, resilience to climate change, and output quality; (ii) better value chain organization, farm cooperation, and access to suitable financial products; and (iii) facilitation of trade and marketing through better agri-logistics, enhanced phytosanitary capacity, and access to market information.

The Ministry of Agriculture (MOA), which needs to implement the most reforms, itself requires strengthening and modernization. Its structure and capacity have been designed to support the planning economy agriculture, with focus on directing production of strategic crops such as cotton and wheat, centralized input delivery, and monitoring of the achievement of production targets. Moreover, the Ministry's capacity for designing and implementing public programs essential for market-oriented and inclusive agriculture remains weak, despite the reduced institutional fragmentation and return of many functions to the Ministry after the split of the Ministry of Agriculture and Water Resources in 2017.

The process of preparation and adoption of the *Agricultural Strategy* has created a momentum for institutional reforms. They will need to focus on: (i) enabling the Ministry to address the challenges of transition from a centrally controlled, planned economic system to a market-based approach and orientation; (ii) aligning the Ministry's core competencies with its changing mandate; and (iii) strengthening technical departments in line with new strategic priorities and requirements.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The proposed project development objective is to enhance productivity-supporting agricultural services and promote market-led high-value horticulture value chains.

#### Key Results

Success of the project will be monitored against achievement of the following results indicators:

- a. Farmers adopting improved agricultural technologies.
- b. Beneficiaries satisfied with project-supporting services.
- c. Agribusinesses that established and maintained productive partnerships with farmers.
- d. Horticulture as a share of total arable land area.

<sup>13</sup> WB report on *Harvesting Prosperity: Technology and Productivity Growth in Agriculture* (2019) calls for renewed focus on innovations through modernizing the agricultural R&D system to drive future agricultural productivity growth, which is key for poverty alleviation.

<sup>14</sup> WB estimates in the *Agriculture Public Expenditure Review for Uzbekistan* (2019).



#### D. Project Description

**Component 1: Enhancing Productivity-Supporting Agricultural Services.** The objective of this Component is to enhance the knowledge and human capital base to enable accelerated productive transformation of Uzbekistan agriculture to make it more productive, climate-resilient, diversified, and market-led. The Component seeks to strengthen anchor public institutions through institutional modernization and upgrading of functional capacities to make more relevant and impactful contributions and increasingly leverage the private sector.

It also aims to establish systems and modalities to provide more relevant and effective support to farmers across a range of technical and learning needs. The sub-components are: (i) applied agricultural research and development; (ii) seed and seedling production; (iii) natural resource management; and (iv) farmer adoption support.

**Component 2: Supporting Investments in Horticulture Value Chains.** The objectives of this Component are to support investments in high-value horticulture value chains, facilitate farmers’ participation in investment opportunities created by economic liberalization and agricultural diversification, and enable productive partnerships/clusters between farm groups and agribusinesses.

These objectives will be achieved through a mix of technical support provided under Component 1 and two credit windows that would offer long-term financing tailored to the needs of farmers and agribusinesses. The first credit window will offer the access to credit to farm cooperatives. The second credit window will offer the access to credit to agribusinesses - in trading, processing or final food industries, who enter into formal contract agreements with farmers and farm cooperatives by establishing productive partnerships, including the provision of advisory services to farmers and value chain financing, e.g. working capital financing between businesses within a supply chain. Farmers participating in productive partnership can also borrow.

**Component 3: Facilitating Trade and Marketing.** The objective of this Component is to improve access of Uzbekistan’s horticulture products on both internal and external markets through improvements in the following areas: (i) agro-logistics; (ii) plant protection and plant quarantine measures; and (iii) market information system.

**Component 4: Supporting Project Management.** This Component is for project management, coordination, monitoring and evaluation, and implementation of environmental and social measures under the WB Environmental and Social Framework.

A project coordination unit will be established to coordinate implementation, including fiduciary aspects; knowledge management/communication; grievance redress mechanism; citizen engagement; and monitoring the implementation of safeguards-related issues.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No





Summary of Assessment of Environmental and Social Risks and Impacts

**Environmental risks and impacts**

The overall Environmental risk of AMP is assessed as Moderate. The proposed project activities might generate a series of adverse environmental risks and impacts associated with the proposed small-scale and limited construction/rehabilitation of research institutes and other public institutions' buildings and laboratories, construction/rehabilitation of seed production facilities, including rehabilitation of their irrigation infrastructure (if any), along with investments in infrastructure for extension, including demonstration plots close to farm fields.

Furthermore, the project credit support for horticulture values chain, to be implemented through PFIs, which would finance a series of various subprojects (replantation of old and establishment of new orchards; construction of greenhouses; facilities for fruits storage and handling; fruit processing; ALC construction; and other facilities), could also generate some environmental risks and impacts.

These risks and impacts might include: increased environmental pollution with waste, noise, dust, air and water pollution, impacts on biodiversity; health hazards, and labor safety issues. In addition, in the case of introducing new seed varieties, risks and impacts related to biodiversity and ecosystem services may arise. Most of specified risks and impacts are expected to be typical for small-scale construction/rehabilitation works, agriculture production and fruit processing activities, temporary by nature and site specific, and can be mitigated by applying good construction practices and relevant mitigation measures.

**Social risks and impacts**

Social risks and impacts related to the physical footprint of the project are predictable and manageable via measures included in ESMF and the Resettlement Policy Framework (RPF). No significant risks related to labor influx, gender-based violence (GBV) or community health and safety are expected under the project, as most project workers will be recruited locally. The GBV risk is assessed as Moderate mostly due to the status of national GBV legislation, gender norms, and the rural location of most project activities.

Yet, there are a number of contextual social risks in the agriculture sector, due to which the overall Social risk of the project is assessed as Substantial. They relate to the transparency and equity of land allocation and land tenure security, information constraints and overall ability of smaller farmers to partake in benefits of the project, risks of reduced access to land and productive assets due to land reallocation, and the capacity of state institutions and financing institutions to monitor labor and working conditions across rural enterprises.

Environmental and social procedures that are put in place under the project consider these contextual risks, manage and monitor them as they relate to project-supported activities, and provide adequate attention to capacity-building activities of the involved implementing institutions. Mitigation related to the above have been included in the project ESMF – with site-specific Environmental and Social Impact Assessment (ESIA)/Environmental and Social Management Plans (ESMPs) to be developed during implementation; project Labor Management Procedure (LMP), and Stakeholder Engagement Plan (SEP).

Risks of exclusion will be mitigated by the project's investments in: (i) strengthening agricultural research programs, which will generate technologies and farm management solutions suitable for small and larger farms; (ii) establishing an agricultural extension service, which will extend this knowledge and research results to all types of farms for adoption; and (iii) promoting the cooperation of small farmers – with dedicated project funds and activities towards their capacity-building – to ensure that they can also partake in benefits from the development of export value chains and access finance under the project.

Application criteria for project credit will be developed to encourage selection of smaller farmers and agri-



businesses with formal contracts with farmers and farm cooperatives to apply.

## **E. Implementation**

### Institutional and Implementation Arrangements

The implementing agency for AMP will be the Ministry of Agriculture (MOA). The Agency for Implementation of Projects in the Field of Agroindustry and Food Security (UZEIFSA), under MOA, will be responsible for coordination and facilitation of day-to-day implementation of the project in close collaboration with other implementing institutions. They include research institutes, departments, centers, and agencies answerable to MOA, and State Plant Quarantine Inspection and the Agricultural Inspection, both under the Cabinet of Ministers.

UZEIFSA will host the Project Implementation Unit (PIU), which will be responsible for fiduciary aspects of the project implementation and provision of support to the implementing institutions. Its central office in Tashkent will be supported by thirteen regional offices (with about 10 staff in each office), which have been established to support implementation of other projects.

UZEIFSA will also be responsible for monitoring of the credit line implementation. Participating Financing Institutions (PFIs) will implement the credit line, but due diligence will be carried out by UZEIFSA, with the support of qualified staff and consultants. PFIs will be responsible for selection of recipients for the credit line, appraisal of sub-project loans, and disbursement of loans.

UZEIFSA is well experienced with implementing donor-financed projects on agriculture. It leads the implementation of three agricultural WB projects and is also responsible for implementation of agricultural projects financed by ADB, IFAD, and JICA. The final details of the institutional and implementation arrangements will be provided in the Project Operations Manual.

## **CONTACT POINT**

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**APPROVAL**

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