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Report No: 67598-UZ

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 26.4 MILLION
(US$40 MILLION EQUIVALENT)

TO THE

REPUBLIC OF UZBEKISTAN

FOR THE

SECOND RURAL ENTERPRISE SUPPORT PROJECT

August 6, 2012

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 5, 2012)

Currency Unit	=	Uzbek Soum (UZS)
1,795.00	=	US$1
US$1,198	=	SDR 1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIS	Administration of Irrigation Systems
AC	Additional Credit
BAIS	Basin Administration of Irrigation Systems
CBU	Central Bank of Uzbekistan
CPS	Country Partnership Strategy
EMF	Environmental Management Framework
FMRs	Financial Monitoring Reports
FY	Fiscal Year
GEF	Global Environmental Facility
IFRs	Interim Un-audited Financial Reports
IDA	International Development Association
MAWR	Ministry of Agriculture & Water Resource
MOF	Ministry of Finance
MTR	Mid-Term Review
PAD	Project Appraisal Document
PDO	Project Development Objective
PFI	Participating Financial Institution
REI	Rural Enterprise Investment
REIR	Rural Enterprise Investment Regulations
RESP	Rural Enterprise Support Project
RRA	Rural Restructuring Agency
SADC	Swiss Agency for Development and Cooperation
SDR	Special Drawing Rights
SLA	Subsidiary Loan Agreements
SOE	Statements of Expense
WSU	WUA Support Unit
WUA	Water User Association

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REPUBLIC OF UZBEKISTAN

ADDITIONAL CREDIT FOR THE SECOND RURAL ENTERPRISE SUPPORT PROJECT

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Basic Information - Additional Credit	
Country Director: Saroj Kumar Jha Sector Director: Laszlo Lovei Sector Manager: Dina Umali-Deininger Team Leader: Dilshod Khidirov Project ID: P126962 Expected Effectiveness Date: November 30, 2012 Lending Instrument: Specific Investment Loan Additional Credit Type: Scale-up	Sectors: Agro-industry (25%), SME Development (50%) Themes: Rural Services and Infrastructure; Rural Markets Environmental category: B Expected Closing Date: December 31, 2016
Basic Information - Original Project	
Project ID: P109126 Project Name: Second Rural Enterprise Support Project Lending Instrument: Specific Investment Loan	Environmental category: B Expected Closing Date: December 31, 2016

Additional Credit Project Financing Data
[ ] Loan [x] Credit [ ] Grant [ ] Guarantee [ ] Other:
Total Bank financing IDA Credit of SDR 26.4 million (US$40 million equivalent)
Proposed terms: 25 year of term including 5 years of grace period

Additional Credit Financing Plan (US$m)

Source	**Total Amount (US $m)**
Total Project Cost:	44.0 US$ million
IDA (Additional Credit)	40.0 US$ million
Beneficiary	4.0 US$ million

Client Information

Recipient: The Republic of Uzbekistan
Responsible Agency: Rural Restructuring Agency (RRA) under the Ministry of Agriculture and Water Resources
39 B Kari Niyazova street, Tashkent, Republic of Uzbekistan
Contact Person: N. Najimov
Telephone No.: 99871 237-16-57
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Additional Credit Estimated Disbursements (Bank FY/US$m)

FY	2013	2014	2015	2016	
Annual	20	10	5	5	
Cumulative	25	30	35	40	

Project Development Objective and Description
Original project development objective: Increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area. **Revised project development objective:** Not applicable The proposed additional credit will support the scaling up of the Credit Line for Loans and Leases, under Component 1, Rural Enterprise Finance. It would add an additional US$40 million through selected PFIs of investment and working capital sub-loans and lease financings to beneficiaries. **Original Project description as set forth in the Financing Agreement (Credit 4433-UZ):** **Part A. Rural Enterprise Finance**: (i) provision through selected PFIs of investment and working capital sub-loans and lease financings to beneficiaries and (ii) provision of technical assistance for participating financial institutions, leasing companies and beneficiaries, including capacity building for PFIs and leasing companies and preparation of business plans for the beneficiaries. **Part B. Irrigation and Drainage:** (i) provision of goods, works and services for rehabilitation of on-farm and inter-farm irrigation and drainage systems; (ii) provision of goods, services and training for strengthening the capacity of Water User Associations (WUAs) and the Basin Administration of Irrigation Systems (BAIS); and (iii) support for improved irrigation and drainage technologies by provision of goods, services and training for demonstration purposes. **Part C. Rural Training and Advisory Services:** (i) provision of training and workshops to farmers on various topics related to the farm management, including but not limited to the management of natural resources management, land fertility, integrated pest management, pesticide handling water management and water saving technologies; (ii) support to the Rural Restructuring Agency (RRA) to design training and workshops, including developing methodology, curricula, tests, feedback forms and assessment of training and workshops; and (iii) provision of finance for mass media campaigns to farmers on availability of rural enterprise services and approaches, and training and workshops. **Part D. Project Management:** provision of goods, technical assistance and training to the RRA for the implementation of the Project, including financial management, procurement and disbursement.

Safeguard and Exception to Policies	
Safeguard policies triggered:	
Environmental Assessment (OP/BP 4.01)	[X]Yes [ ] No
Natural Habitats (OP/BP 4.04)	[ ]Yes [X] No
Forests (OP/BP 4.36)	[ ]Yes [X] No
Pest Management (OP 4.09)	[ ]Yes [X] No
Physical Cultural Resources (OP/BP 4.11)	[ ]Yes [X] No
Indigenous Peoples (OP/BP 4.10)	[ ]Yes [X] No
Involuntary Resettlement (OP/BP 4.12)	[ ]Yes [X] No
Safety of Dams (OP/BP 4.37)	[ ]Yes [X] No
Projects on International Waterways (OP/BP 7.50)	[X]Yes [ ] No
Projects in Disputed Areas (OP/BP 7.60)	[ ]Yes [X] No
Financial Intermediary Lending (OP/BP 8.30)	[X]Yes [] No
Does the project require any waivers of Bank policies?	[ ]Yes [X] No
Have these been endorsed or approved by Bank management?	[ ]Yes [ ] No

Conditions and Legal Covenants:

Financing Agreement Reference	Description of Condition/Covenant	Date Due
ARTICLE V, 5.01 (Effectiveness)	Recipient has submitted to the Association a revised PIP satisfactory to the Association.	November 30, 2012
SCHEDULE 2, SECTION IV. B (1) (Disbursement Condition)	No withdrawal shall be made under category (1) unless the Recipient has: (i) prepared and approved the Rural Enterprise Investment Guidelines in a manner satisfactory to the Association; and (ii) entered into the respective Subsidiary Loan Agreements with RRA and each PFI under terms and conditions approved by the Association pursuant to Section I. C of this Schedule.	December 28, 2012

REPUBLIC OF UZBEKISTAN

ADDITIONAL CREDIT FOR THE SECOND RURAL ENTERPRISE SUPPORT PROJECT

PROJECT PAPER

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional International Development Association (IDA) Credit in the amount of SDR 26,400,000 million (US$40 million equivalent) to the Republic of Uzbekistan Second Rural Enterprise Support Project (RESP II, P109126), IDA Credit No. 4433 UZ.

2. The proposed additional credit will support the scaling-up of the original project's credit line for loans and leases under Component 1, Rural Enterprise Finance, by providing funds through selected Participating Financial Institutions (PFIs) for investment and working capital sub-loans and lease financings to beneficiaries. The overall project design and institutional arrangements will remain the same. The environmental safeguards category will remain "B." The results monitoring framework has been revised to reflect the additional credit, disaggregate existing indicators by gender, introduce new core sector indicators (CSIs), and revise some target values given changes in circumstances both within and outside of the project.

II. Background and Rationale for Additional Credit

3. ***Background.*** The Project Development Objective (PDO) of RESP II is to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusinesses in the project area. The project has four components: (i) Component 1: Rural Enterprise Finance; (ii) Component 2: Irrigation and Drainage; (iii) Component 3: Rural Training and Advisory Services; and (iv) Component 4: Project Management. The original Project IDA credit in the amount of SDR41.3 million (US$67.96 million equivalent) was approved on June 12, 2008 and became effective on December 30, 2008.

4. Project implementation and progress towards achievement of the PDO have been rated satisfactory or moderately satisfactory over the Project life. The key results of the project to date include: (i) 317 agribusinesses have received financing for procurement of agricultural machinery, processing equipment, packaging equipment and materials, investments in tree-crops, and poultry, and fishery and livestock production; (ii) 269 training seminars have been conducted for 14,946 farmers under the Rural Training and Advisory Component, on topics including (a) principles of crop protection and pest control; (b) development of livestock production; (c) poultry production; (d) fish production; (e) preparation of business plans; (f) accountancy; (g) agricultural law and taxation (h) water resource management (i) orchard and vineyard production; (j) processing and marketing of products; and (k) products for domestic and export markets; and (iii) 62 new Water User Associations (WUAs) were established to improve water management in the seven project districts. The training program for all new WUAs, Administration of Irrigation Systems (AIS) and BAIS (Basin Administration of Irrigation Systems) has been carried out, including 359 workshops, and 10,214 water management

specialists have been trained to date through the parallel financing of the Swiss Agency for Development and Cooperation (SADC). The project is fully up to date on audits, and financial management and procurement are both rated satisfactory.

5. ***Rationale for the Additional Credit.*** The additional credit in the amount of US$40 million equivalent has been included in the new County Partnership Strategy (CPS) for Uzbekistan, which has been discussed by the Executive Directors on December 6, 2011. The additional credit will support private-sector development in rural areas by scaling-up activities under the ongoing RESP II and help further develop Uzbekistan's domestic markets.

6. The Rural Finance Component has been successful and has disbursed faster than anticipated. In the first two years of project implementation, US$25.7 million (82.5%) of the credit line has been disbursed, financing 317 sub-projects[1]. The remaining US$5.5 million, taking into account the sub-project pipeline in the PFIs, are expected to be disbursed by the end of August 2012[2]. In addition to project resources providing investment working capital sub-loans and lease financing, sub-borrowers have co-invested US$4.2 million equivalent of their own funds, bringing the total amount of investments in the agricultural sector under the project to US$30 million. In view of such accelerated disbursement of the Credit Line and the continued significant unmet demand for investment resources from the agribusiness sector, the Government of the Republic of Uzbekistan requested from the World Bank an additional credit of US$40 million to RESP II, to scale up the credit line activities.

7. **Key Features of the Sub-loan Portfolio under RESP II include**:

(i) *Predominantly financed investments*: 93.3% of the sub-loans have maturities above 5 years, 5.3% of the portfolio-between 2 and 5 years, and the remaining 1.4% of the sub-loans have maturity of up to 2 years.
(ii) *Supports a broad range of investments*: The sub-loans financed: agricultural equipment and machinery (61.3%), livestock (10.7%), poultry business (9.3%), agro-processing (2.1%), horticulture and vineyards (1.6%), greenhouses and vegetable farming (0.6%), fish farming (0.5%), and other types of sub-loans (0.9%).
(iii) *Provides equal access to financing to beneficiaries in all project regions*: sub-loans are distributed across all regions of the country, with shares ranging between 9% and 22%. Where possible women beneficiaries are targeted and impacts monitored.
(iv) *Good portfolio quality*: there are no problem loans, but a few sub-loans have had payments delayed for up to two months. However, such sub-loans represent a very small portion of the portfolio, and any delayed payments are usually repaid by borrowers within a few months.
(v) *Generating employment opportunities:* Project investments allowed for creation of 851 new jobs by sub-borrowers.

8. A survey of 70 sub-loan beneficiaries or 22% of total 317 sub-loan beneficiaries (10 from each project region) showed that, as a result of the loan, the following impact has been achieved:

[1] This also includes 63 leasing sub-projects in the total amount of US$3.4 million.
[2] Two of the PFIs have already fully exhausted their allocations from the credit line, with less than US$200,000 remaining.

(i) *The 70 sub-loans have allowed for*: (a) creation of 279 jobs; (b) average increase in enterprise sales of 86%; (c) average increase in enterprise profits by 306%; (d) average increase in household incomes by 151%; (e) average increase in the processing volume of 20%; (f) average increase in the yield per ha of 32%; (g) average increase in the number of heads of animals by 230%; and (h) average increase of the land area under cultivation by 33%.

(ii) *Loan purpose*. Fifty three percent of respondents borrowed to improve their productive assets (agricultural machinery, processing equipment, irrigation equipment and storage facilities), 27% of borrowers had taken the loan to enter into a new area of business, 11% of sub-loans allowed expansion of the land area under cultivation, and for 9%, sub-loans permitted expansion of the animal herd.

(iii) *Primary objective of the loan* (respondents could mark multiple answers). Sixty-nine percent of respondents mentioned that they were aiming to increase their incomes or profits of their companies, and 21% mentioned that they wanted to increase the incomes of their families. Twenty-seven percent were aiming to decrease labor costs or increase the capacity of their labor, and 17% wanted to reduce product losses. Twenty-four percent were aiming to expand their production/processing volume and 16% were aiming to improve the technologies in their companies.

(iv) Eighty-seven percent of respondents mentioned that the above objectives were substantially achieved, and 13% assessed them as somewhat achieved.

9. The demand for additional long-term investment funds for financing the rural and agricultural sectors continues to be very strong. An assessment[3] of the demand for long-term funds by the existing PFIs, the potential new PFIs and beneficiaries shows that during the calendar years 2012 – 2014, just over US$50 million could be disbursed by the existing PFIs of RESP II and the additional financial institutions[4] interested in participating in the project.

10. The proposed additional credit will provide funds through the selected PFIs for investment and working capital sub-loans and lease financing to beneficiaries on the same terms and conditions[5] agreed under the original RESP II. The only expected changes are an increase in the maximum loan size and the interest rates on the Subsidiary Loans both in US Dollars and UZ Soums (see para. 12). In addition to the six PFIs currently active under the project, other commercial banks and leasing companies[6] could join the project, subject to successful completion of the due diligence based on the established criteria.

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[3] Carried out by the Rural Restructuring Agency and the World Bank team.

[4] See paragraph 10 for more information on the potential PFIs.

[5] The proposed additional credit will also be used as complementary finance investments in more environmentally sustainable technologies and practices in the agro-business sector. Preparation of a complementary GEF project (total grant amount US$12.6 million) to finance introduction of renewable energy technologies in rural areas and to improve environmental management of irrigated lands is currently underway. About US$9.0 million from the GEF project would be used as complementary financing of renewable energy investments, with the balance of the financing to be provided by the RESP II additional credit via the PFIs. Separate guidelines will be developed for the matching grant program. The GEF grant will provide a good incentive for diversification of the RESP II credit line portfolio, improve the operational efficiency and management of environmental issues in the agribusiness sector, and enhance expertise within the RRA for environmental support to the project overall.

[6] At this time, one leasing company and three commercial banks are interested to join the project.

11. Following the request of the Ministry of Agriculture and Water Resource and WB GEF focal point, the Global Environment Facility (GEF) Secretariat has approved US$12.6 million under the Climate Change and Land Degradation themes. The GEF project would provide matching grant funds to complement the Additional Credit (AC) to scale-up and expand the introduction of renewable energy technologies in small- and medium-size (SME) agribusinesses and on small and large farms in the seven RESP II project oblasts.

III. Proposed Changes

12. The PDO and project design will remain the same. The project's Environmental Management Framework (EMF) has been revised to take into account the AC and a proposed parallel GEF project is designed to complement credit line activities.

13. The following changes will be introduced to the AC credit line: (i) the maximum loan size to one beneficiary will be increased from US$300,000 to US$500,000 and to US$1 million for storage facilities; (ii) the interest rates on the subsidiary loans both in US Dollars and UZ Soums to the PFIs will differ from the Original Project due to the changes to the interest rate that the Republic of Uzbekistan will pay to IDA. Uzbekistan will receive the additional credit on standard blend IDA terms at a fixed interest rate of 1.25% per annum, in addition to the service charge of 0.75% per annum, with a maturity of 25 years and a 5 year grace period; and (iii) the Jizzak region will be added to the project area to reach more beneficiaries under the additional credit line; (iv) the Closing Date will be extended by 19 months to December 31, 2016; and (v) the results framework will be revised as detailed below.

14. The changes to the estimated project cost under the proposed AC is reflected in the below table.

Project Cost by Components (US$ '000)

Component	Original Cost	Additional Credit	Revised Cost
Rural Enterprise Finance Component	**36.6**	**40.0**	**76.6**
Total	**36.6**	**40.0**	**76.6**

15. **Project Outcome Indicators:**

- ***Revision to the existing indicators:*** (a) The target number of all loans/leases envisaged by the end of the project will be reduced from 800 to 600. This is due to a larger than expected average loan size under the original RESP II credit line. As a result, less than 400 sub-loans will have been provided so far by the PFIs with the original US$31.2 million. Since the expected average sub-loan size under the credit line is expected to increase further (e.g., storage facilities are eligible for sub-loans/leases of up to US$1 million), it is estimated that only a little over 200 sub-loans will be provided from the US$40 million of the additional credit/financing; (b) also, the target for the intermediate outcome indicator for number of farmers to be trained under the Rural Training and Advisory Services component has been lowered from 83,720 to 61,000 as a result of farm optimization reform introduced by the government in 2010-2011, which resulted in the reduction in the number of farmers country-wide by 70 percent. In this respect, the number of workshops for farmers has been also reduced from 2,093 to 884; (c) the Outcome Indicator, "Amount of maintenance work undertaken by WUAs in the project districts" is proposed to be dropped as this is already included as an intermediate result indicator, and the end-target for intermediate indicator, "Amount of maintenance conducted by WUAs," is reduced from 75 to 60 percent due to the project WUAs were newly established from old administrative boundaries to new hydrographic/canal level boundaries. The original baseline indicator was 34 percent but after newly establishment it became 0.

- ***Introduction of a New Indicator***: a new indicator is added on "Number of jobs created disaggregated for women and men" to better capture the project's gender impacts.

16. The proposed changes to the targets will not have an impact on the project's PDO, which will be achieved in full.

17. **Disbursement:** The AC will follow the same disbursement arrangements as the original credit. It will disburse through transaction-based disbursement methods that include: reimbursements with full documentation, reimbursements on the basis of Statements of Expenditures (SOEs) for small expenditures with defined thresholds, payments against Special Commitments, direct payments to third parties, and payments through the Designated Account.

18. To facilitate project implementation, a separate Designated Account will be opened at the same financial institution as the original Credit. The Designated Account, which will be managed by the RRA (Rural Restructuring Agency), will be replenished on a quarterly basis, as needed. The total ceiling will be limited to US$2,000,000 million. The Designated Account will be audited annually in conjunction with the audit of the project financial statements.

19. Disbursements will be made on the basis of full documentation for: (i) contracts for goods costing more than the equivalent of US$100,000 each; (ii) contracts for works costing more than the equivalent of US$100,000 each; and (iii) services under contracts of more than the equivalent of US$100,000 for each consulting firms and more than the equivalent of US$50,000 each for individual consultants. Disbursements below these thresholds and for expenditures against incremental operating costs and training would be made according to certified SOEs.

20. For all expenditures financed under SOEs full documentation in support of the SOEs will be retained in the RRA for at least two years after the project closing date. This information will be available for review by Bank missions during project supervision and by the projects auditors. SOEs will be audited in conjunction with the annual audit of the project. Further instructions on the size of the minimum application and on how funds will be withdrawn from this credit will be provided in the Disbursement Letter. The Rural Financing Guidelines should be revised before disbursement.

21. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to such Category, and the percentage of expenditures to be financed for Eligible Expenditures in such Category:

Table 3 Expenditures by category (US$000)

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(4) (a) Investment and Working Capital Sub-loans and Lease Financings under Part A.1 of the Project	26,400,000	100%
TOTAL AMOUNT	**26,400,000**	

IV. Appraisal Summary

22. The AC will be managed and implemented by the RRA, an institution that is currently implementing the Second Rural Enterprise Support Project and other donors' projects. The RRA already has established office premises in the country's capital, with trained and professional staff who have experience implementing agriculture and rural development projects. Due to the complexity of the implementation of the large number of components under the RESP II, the necessity to directly liaise with regional and district government, and the importance of constant access to project beneficiaries (farmers in project regions), the RRA has also established small offices in the seven project regions. At present the regional offices provide day-to-day management of implementation activities, as well as fulfilling monitoring and reporting functions.

23. The Rural Finance Component triggered OP8.30 on Financial Intermediary Lending. A compliance review was carried out and the project's credit line was preliminarily assessed as compliant with provisions of OP8.30. For more details, please see Annex 3.

24. **Economic Analysis:** Given that the beneficiaries, loan products and terms and conditions of the AC are the same as under the original RESP II credit line[7], the same assumptions and key results obtained in the economic and financial analysis of the original Project Appraisal Document (PAD) apply.

25. **Financial and Economic Analysis:** The AC is expected to yield substantial net incremental benefits in terms of increased farm and enterprise profitability for around 500 entrepreneurs. A methodology of the financial and economic analysis for the AC is similar to the analysis of the Rural Finance component of the RESP-II that estimated benefits based on the

[7] Except for the increased maximum sub-credit amounts referenced in paragraph 10 above.

illustrative model representing the farmer investing in farm machinery to provide farm mechanization services. However, the current analysis estimates returns using more illustrative models representing main economic activities for which loans disbursed under the current project were used. These models demonstrate loans used for investments in productive assets such as farm machinery, processing and irrigation equipment and storage facilities, crop and livestock production, and services and other non-agricultural activities. Data and benefits assumptions used in the current analysis are based on the results of the impact assessment survey recently conducted by the project. The analysis assumes that distribution of the loans among the economic activities will be similar to the one recorded under the current project and will be at (a) 53 percent for productive assets, (b) 20 percent for crop and livestock production, and (c) 27 percent for services and other non-agricultural activities. One major modification introduced to the current analysis is that unlike the original analysis that assumed benefits to the total credit funds disbursed over the two years of project life, it accounts for benefits to the credit funds disbursed during the project period of three years. Additionally, although the impact assessment survey results demonstrate that each investment had on average generated four jobs, the current analysis excludes such benefits.

26. The AC yields net incremental benefits with a financial net present value (FNPV) of US$20 million and financial internal rate of return (FIRR) of 21 percent. The incremental net return to US$1.0 of investment is expected to be in the ranges of US$0.40 and US$0.45 with highest returns estimated for the investments in the productive assets. The economic internal rate of return (EIRR) to beneficiaries is expected to be 19 percent and an economic net present value (ENPV) is estimated at US$18 million.

27. **Sensitivity Analysis:** Sensitivity analyses tested robustness of the project for three risk variables: an increase in the project cost, a benefits decline, and a two-year delay in benefit accumulation. The project is moderately sensitive to changes in all variables, and it remains attractive when the project costs increases by 20 percent or benefits decline by 20 percent with the EIRR at 15 percent and FRR at 17 percent. The project is also moderately sensitive to the two year delay in benefit accumulation with EIRR at around 14 percent and FIRR at 15 percent. Switching value for the benefit accumulation delay is four years implying that more than four year delays in the Project implementation would make the project economically unfeasible.

28. **Environmental Safeguards:** The proposed activities will not change the environmental category nor trigger any new safeguard policies. It is expected that the scaled-up credit line will continue to support the same typologies of sub-projects (i.e., farming, agribusinesses) as under RESP II, and will also provide complementary financing for GEF project to fund the introduction of renewable energy technologies in rural areas, and to improve environmental management of irrigated lands. A well qualified environmental specialist has recently been recruited to work with the RRA to support implementation and monitoring of the project with respect to environmental impacts.

29. The project's EMF has been updated so that it will apply to the Additional Finance activities and the parallel GEF project. The key changes in the EMF include clarifying the RRA-Environmental Specialist's (ES) and contractors' roles as to the Irrigation and Drainage rehabilitation contracts, clarifying the required environmental semi-annual reports, and raising

(rationalizing) the Category B/A thresholds. The semi-annual reports will be part of the Project-wide progress reports and will cover inter alia: (1) environmental audit for the contractors, (2) M&E indicators listed in the EMF (e.g. groundwater table depth and soil salinity), and (3) environmental training. The RRA-ES roles would be facilitated by the other safeguard-related resources available to the PMU (the 20 man-month environmental expert on the design consulting team, and the environmental monitoring and training contracts).

30. **Social Development and Social Safeguards:** The summer training seminars made the farmers aware of their statutory obligations under the International Labor Organization (ILO) convention, including national child labor laws and regulations. Training farmers on these statutory obligations will be an ongoing activity of the project. Based on the recent Mid-Term Review (MTR) of the project in November 2011, it was concluded that the project unit and partner banks had a good screening, supervision and monitoring procedure in place to ensure that social issues were addressed. The additional finance will continue to focus on 3 main social issues: (i) to ensure that no child labor is used in any of the enterprises supported by the project; (ii) to give preference to activities that lead to creation of additional jobs; and (iii) to encourage the direct and indirect targeting of women beneficiaries as well as any other vulnerable group where feasible.

31. The potential for the project to impact vulnerable groups is limited to the creation of secondary jobs as a result of sub-project activities. Most registered farm owners are men and hence they are the party who sign the loan agreement. Where there are women farm owners, the project will be given special attention. RESP II shows that women benefitted through job creation from the new investment in the rural area. In particular, poultry and livestock-related activities tended to favor job creation for women. RESP II recorded 218 jobs created for women through the investments. In addition, the training activities will also include women farmers and the data will be disaggregated by gender.

32. There is limited scope to affect other vulnerable groups such as disabled persons, or children used as labour as the equipment bought is normally heavy and requires hygienic environments with restricted entry. This, along with the need for formal work passports for employment, is why the risk of child labor is seen to be low in activities directly financed by the project

33. All beneficiaries need to comply with the ratified ILO conventions and local child labor regulations. On site supervision by the PFIs, RRA and Bank supervision mission also will look into this issue as necessary.

34. The RESP II project has received an exception approved by RVP to the ‘Notification to Riparians’ under OP 7.50 on the basis that the Irrigation and Drainage activities will be limited to rehabilitation of existing schemes, will not adversely change the quality or quantity of water flows to the other riparians and are not likely to be adversely affected by the other riparian’s possible water use. No new or additional irrigation and drainage investments would be supported under the additional financing. Therefore, the exception to the notification requirement under OP 7.50 provided prior to appraisal of RESP II remains in effect for the project.

35. **Financial Management:** The overall financial management functions under the AC including the flow of funds, staffing, accounting, reporting and auditing, will be handled by the Rural Restructuring Agency (RRA), currently responsible for implementation of the parent project. Particularly, all funds are flowing through the RRA, which verifies all the payment supporting documents before processing the payments from the Bank, and government sources. The same financial management procedures will be adopted for the AC. The financial management arrangements of the original RESP II (P109126) implemented by the RRA have been reviewed periodically as part of the project supervision and have been found satisfactory. The last supervision was performed in December 2011. According to the Financial Management Supervision results, the financial management arrangements of the project are satisfactory to the Bank and good internal control procedures are in place. The client is in compliance with the audit covenant: audit reports have been received by due dates and the auditor have given unqualified opinion on the project financial statements with no serious internal control issues in the management letter. The overall FM risk for the project is substantial. Similar audit arrangements to the original RESP II will be adopted for the AC: the project audit will be conducted by independent private auditors and on terms of reference acceptable to the Bank, and procured by RRA. The annual audited project financial statements will be submitted to the Bank within six months of the end of each fiscal year and also at the closing of the project. The cost of the audit will be financed from the proceeds of the credit. Project management-oriented Interim Un-audited Financial Reports (IFRs) - previously known as Financial Monitoring Reports (FMRs) - will be used for the AC monitoring and supervision. The existing formats of the IFRs will be used and the RRA will produce a full set of IFRs every quarter throughout the life of the project and will submit them to the Bank no later than 45 days after the calendar quarter end. No complementary changes to Financial Management Arrangements of the original project are assumed.

36. **Procurement:** The AC will use the same procedures and processes as set forth in the Rural Enterprise Investment Guidelines, with the exception of increasing the threshold for prior review of procurement aspects of the sub-loans proposed by the PFIs for refinancing. An amendment to that effect will be introduced in the REIR. RRA, the project implementing agency, has the prior experience in handling procurement-related issues.

37. **Project** effectiveness **condition:** The Project Implementation Plan, satisfactory to the Association, to be approved by the Recipient.

Annex 1: Results Framework and Monitoring

REPUBLIC OF UZBEKISTAN: RURAL ENTERPRISE SUPPORT PROJECT II – ADDITIONAL CREDIT

Results Framework

Revisions to the Results Framework		Comments/ Rationale for Change
PDO		
Current (PAD)	*Proposed*	
Increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area.	No change	
PDO indicators		
Current (PAD)	*Proposed change**	
Farmers in project regions will have increased their overall productivity and income	No change	
Farmers and agribusiness access to information about and demonstrations of environmentally sustainable practices improved; 10% of farmers in the project area who benefit from RTBAS activities will have begun to adopt these practices by end of project	No change	
Farmers and agribusiness access to financial services improved: growth in overall agricultural portfolio of the commercial banks at least 10 percent per year during the project period	No change	
Increased irrigated areas with adequate water supply and drainage in the project districts	No change	
Increased amount of maintenance work undertaken by WUAs in the project districts	Dropped	It was agreed to remove this indicators from the list of the PDO indicator since it is already included in the list of intermediate results indicators
Current (PAD)	*Proposed change**	

Revisions to the Results Framework		Comments/ Rationale for Change
• Loans/leases provided by all qualified PFIs (commercial banks)	Decrease in the total number of loans/leases to 600	Given that the expected average sub-loan size will increase (storage facilities may be financed with sub-loans of up to US$1 million), it is proposed to reduce the total expected number of sub-loans/leases to 600.
• Increased diversity of the agricultural portfolio financed under the project	No change	
• No of jobs created disaggregated for men and women	New indicator	To better capture project impacts on men and women beneficiaries.
• PFI staff trained in agricultural investment lending	No change	
Rehabilitation of Irrigation and Drainage • Increase in area of irrigated land with adequate water supply • Increase in area of irrigated land with adequate drainage • Decrease in area of saline land	No change	
Strengthening of WUAs • Trainings provided by WSUs	No change	
• Increase in amount of maintenance executed by WUAs	No change	
• Percentage of water users satisfied with WUA performance.	No change	
• Number of trained farmers (men)	Disaggregate data for men and women	To differentiate impacts on men and women and ensure women benefit from project activities
• Number of trained farmers (women)	Disaggregate data for men and women	To differentiate impacts on men and women and ensure women benefit from project activities
• Beneficiaries' contribution to costs	No change	
• Number of information campaigns for farmers	No change	
• Beneficiaries feedback	No change	
• ToT evaluations	No change	
• Periodic surveys	No change	

*** Indicate if the indicator is Dropped, Continued, New, Revised, or if there is a change in the end of project target value**

REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective (PDO): Increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area.

Click here to enter the revised PDO of your operation – PDO is not changed

PDO Level Results Indicators[8]	Core	UOM[9]	Baseline Original Project Start (2008)	Progress To Date (2012)[10]	Cumulative Target Values[11]				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2013	2014	2015	2016				
Overall farmer productivity and income in project regions have increased.	☐		0	Selected Indicators: • Ave increase in household incomes by 151%; • Ave increase in the yield per ha of 32%; • Ave increase in the number of heads of animals by 230%	5%	10%	15%	20%	Annually	Annual survey	RRA	According to the conducted survey of 70 sub-loans the following results have been achieved: (a) created 653 jobs of which 218 number of jobs are for women; (b) average increased in enterprise sales of 86%; (c) average increased in enterprise profits by 306%, (d) average increased in household incomes by 151%, (e) average increased in the processing volume of 20%, (f) average increased in the yield per ha of 32%; (g) average increased in the number of heads of

[8] **Please indicate whether the indicator is a Core Sector Indicator (for additional guidance – please see http://coreindicators).**
[9] **UOM = Unit of Measurement.**
[10] **For new indicators introduced as part of the additional credit, the progress to date column is used to reflect the baseline value.**
[11] **Target values should be entered for the years data will be available, not necessarily annually. Target values should normally be cumulative. If targets refer to annual values, please indicate this in the indicator name and in the "Comments" column.**

												animals by 230%, and (h) average increased of the land area under cultivation by 33%.
Farmer access to information about and demonstrations of environmentally sustainable practices improved	☐		0	209 training seminars held up to date with 11,650 farmers participating in these seminars	27,300	37,300	47,350	52,000	Annually	Project monitoring		In total 209 training seminars on various environmentally sustainable practices were conducted to date, which were attended by a total of 11,650 farmers. The recent quick impact assessment survey (November 2011) showed that 136 out 597 surveyed farmers attended these seminars and all 136 farmers have begun to adopt these practices.
Growth in overall agricultural portfolio of the commercial banks at least 10 percent per year during the project period	☐		0	36% growth	10%	20%	30%	40%	Annually	Project monitoring	RRA	Average annual growth in agricultural portfolio of 6 PFIs was: 18% in 2009; 27% in 2010; and 36% in 2010.
Irrigated areas with adequate water supply and drainage in the project districts	☐		35%	Irrigation works design in progress	40%	50%	60%	65%	Annually	Project monitoring	RRA	The consultancy contract with international Consultant was signed in Nov 2010 and registered at MFER in Feb 2011. The team was mobilized and started its activity in May 2011. To date, 42 out of 62 proposals have been developed and are at different

												stage of engineering design development. It is expected that the civil works will start beginning of the 2012 calendar year and be completed by the end of the project closing December , 2016.
Beneficiaries[12]												
Project beneficiaries,	☒	Number	0	15,328	17,000	18,000	19,000	20,000	Annually	Project monitoring		
Of which female (beneficiaries)	☒	Number	0	2,460	4,600	6,750	8,850	9,600	Annually	Project monitoring		

Intermediate Results and Indicators													
Intermediate Results Indicators	**Core**	**Unit of Measurement**	**Baseline Original Project Start (2008)**	**Progress To Date (2012)**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Comments**
					2013	**2014**	**2015**	**2016**	**Total**				
Intermediate Result 1: Click here to enter the Revised Intermediate Results Statement 1													
Loans provided by all PFIs (cumulative)	☐	No of loans	0	317	370	470	570	600	600	Quarterly	Reports PFIs, RRA	RRA	The PFIs provided 317 loans (against 300 planned for MTR) in total amount of US$25.7 million (or 82.5% of the total available funding).

[12] **All projects are encouraged to identify and measure the number of project beneficiaries. The adoption and reporting on this indicator is required for investment projects which have an approval date of July 1, 2009 or later (for additional guidance – please see http://coreindicators).**

Intermediate Results and Indicators														
Intermediate Results Indicators	**Core**	**Unit of Measurement**	**Baseline Original Project Start (2008)**	**Progress To Date (2012)**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Comments**
					2013	**2014**	**2015**	**2016**	**Total**				
Jobs created for Men		Number	0	653	720	915	1110	1,170	1,170	Quarterly	Reports PFIs, RRA	RRA	To date 653 jobs were created
Jobs created for Women		Number	0	218	240	305	370	390	390	Quarterly	Reports PFIs, RRA	RRA	To date 218 jobs were created
Number of PFI staff trained	☐	No of people trained	0	65	50	100	150	200	200	Quarterly	Reports, PFIs, RRA & consultants	RRA	The contract was signed with the Frankfurt School of Finance and Management (International Consultant) to provide training to PFIs in investment lending and agriculture. The first 2 training events were held in Samarqand and Bukhara in Sept-Oct 2011 for 3 PFIs with total of 65 loan officers trained.
Intermediate Result 2: Click here to enter the Revised Intermediate Results Statement 2													
Area of land with adequate irrigation water supply	☒		74,000	74,000	104,000	134,000	150,000	165,000	165,000	MTR & completion	BAIS/WUA reports & Survey	BAIS, WUA, RRA	The project consultant team finalizing the civil work design and bidding documents.

Intermediate Results and Indicators													
Intermediate Results Indicators	**Core**	**Unit of Measurement**	**Baseline Original Project Start (2008)**	**Progress To Date (2012)**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Comments**
					2013	**2014**	**2015**	**2016**	**Total**				
													I&D works have not yet started.
Area of land with adequate drainage (cumulative)	☒		21,500	21,500	43,000	73,000	96,000	105,000	105,000	MTR & completion	BAIS & WUA reports & Survey	BAIS, WUA, RRA	I&D works have not started. The data are provided from the actual design completed.
Amount of maintenance conducted by WUAs	☐		0	20%	30%	40%	50%	60%	60%	Bi-annually	WUA reports & Survey	WUA, RRA	The baseline is 0, as 62 new WUAs have been established (reorganized out of previous 96 WUAs) in October 2010.
Water users satisfied with WUA performance	☐		0	66%	20%	40%	60%	80%	80%	MTR & completion	Survey	RRA	As per SDC Survey.
Trainings provided by WSU	☐		0	446	10	20	30	40	40	Annually	Survey/training evaluation results	BAIS, WUA, RRA	All training programs for WUAs, AISs and BAISs are carried out per schedule with the SDC parallel financing. In total 446
Intermediate Result 3: Click here to enter the Revised Intermediate Results Statement 3													
Total Farmers trained	☒		0	14,946	36,300	46,300	56,300	61,000		Annually	RRA reporting	RRA	There were 135,000 farmers operating in the

Intermediate Results and Indicators														
Intermediate Results Indicators	**Core**	**Unit of Measurement**	**Baseline Original Project Start (2008)**	**Progress To Date (2012)**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Comments**
					2013	**2014**	**2015**	**2016**	**Total**				
									61,000				project area when project was approved, but then Government introduced a farm restructuring process and number of project farmers were reduced by 70% from 139,000 to currently 42,000 farmers. Hence the number of farmers trained has also fallen. 269 (instead of 980 envisaged) workshops have been conducted by the MTR stage. The targeted training program was not achieved due to the farm restructuring and reducing by 70 % number of farmers. Both indicators are to be revised
Total Farmers trained (women)	☒		0	2,242	5,450	6,950	8,450	9,150	9,150	Annually	RRA reporting	RRA	Data on men and women farmers

Intermediate Results and Indicators														
Intermediate Results Indicators	**Core**	**Unit of Measurement**	**Baseline Original Project Start (2008)**	**Progress To Date (2012)**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Comments**
					2013	**2014**	**2015**	**2016**	**Total**				
													trained will be disaggregated to better capture project impact on women beneficiaries.
Number of workshops	☐		0	269	557	680	800	884	884	Annually	RRA reporting	RRA	Number of Workshops has been reduced because the number of farmers has been reduced by70%
Farmers satisfied with training	☒		0	100%	90%	90%	90%	90%	90%+	Bi-annually	Training evaluation results/farmer cost contributions	RRA	Based on recent quick impact assessment survey, 90% of 597 surveyed farmers stated that training were good or very good.

Annex 2-Operational Risk Assessment Framework (ORAF)

Uzbekistan: Additional Credit for Second Rural Enterprise Support Project (P126192)

Stage: Appraisal

1. Project Stakeholder Risks								
1.1. Stakeholder Risk	**Rating**	**Moderate**						
Description: Bank's relation with Borrower is positive and project's PDOs are aligned with Bank's sector priorities. External NGOs may continue raising child labor issue with the Bank.	**Risk Management:** Bank will continue advocacy for the reform agenda with intensive consultations with Government and donor community. The Bank will address this issue by continuing to include: covenants in the Financing Agreement of the Additional Credit signed between the government and World Bank that all farmers seeking credit for farm investments under this project must comply with ratified ILO convention and all national child labor laws and regulations; raise farmers' awareness about national child labor laws and policies through the winter and summer trainings, and in the project monitoring and evaluation plan, close monitoring of the progress and compliance on labor issues through regular supervision missions.							
	Resp:	Bank	**Stage:**	Preparation	**Due Date:**		**Status:**	Not yet due
2. Implementing Agency Risks (including fiduciary)								
3.1. Capacity	**Rating**	**Moderate**						
Description: The Rural Restructuring Agency (RRA) has adequate capacity and sound track record under the RESP II that ensures sufficient experience and capacity to effectively implement the AC. However, there is a risk that new staff of the agency may not be able to cope with additional responsibilities assigned under the GEF.	**Risk Management:** The capacity risks associated with the new specialists (Procurement, Financial Management, Environment etc.) will be mitigated by adequate training in Bank's procedures and Bank's provision of regular implementation support. The RRA will be supported with additional support and personnel if necessary							
	Resp:	Client	**Stage:**	Preparation	**Due Date:**	06/30/13	**Status:**	
	Resp:	Bank	**Stage:**	Preparation	**Due Date:**	06/30/13	**Status:**	**In process**
3. Project Risks								
4.1. Design	**Rating**	**Moderate**						
Description: Financial institutions consider the agricultural sector risky.	**Risk Management:** The project will strengthen the investment appraisal skills of PFIs through training programs. The Credit Line will be channeled through PFIs experienced in agricultural lending.							

	Resp: Client · **Stage:** Preparation · **Due Date:** 12/31/12 · **Status: In process**
4.2. Social and Environmental	**Rating** **Moderate**
Description: As of today, compliance with the Environmental Management Plan under RESP II has been generally satisfactory, albeit with challenges posed by gaps in staffing at the RRA and delays in delivering training on the EMP to PFI loan officers. There have been no cases of use of child labor in RESP II.	**Risk Management:** The expertise of RRA and PFIs for environmental support will be enhanced through training to be provided under RESP II. The performance of the RRA environmental specialist will be closely monitored with additional support provided if needed. The GEF Climate Change and Land Degradation Project will provide local and international environmental support and expertise to RESP-2 **Resp:** Client · **Stage:** Preparation · **Due Date:** 12/31/12 · **Status: In Process**
4.3. Program and Donor	**Rating** **Low**
Description: Currently there is limited donor support (the Bank and ADB) to support credit line activities in the country's agricultural sector.	**Risk Management:** Currently there is limited donor support (the Bank and ADB) to support credit line activities in the country's agricultural sector. In the current operating environment, the only other major donor active in the agricultural sector is the Asian Development Bank (ADB). Several discussions were held with ADB and Government of Uzbekistan to ascertain the main areas of their current and intended operations to ensure that the proposed project did not duplicate other efforts in the sector. An international partner roundtable (including UNDP, GiZ, OECD) was convened and will function during implementation to coordinate climate change and land degradation activities. **Resp:** Bank · **Stage:** Preparation · **Due Date:** 02/02/12 · **Status: Partners informed**
4.4. Delivery Monitoring and Sustainability	**Rating** **Moderate**
Description: Low capacity of newly created farmers negatively affects their ability to access credit. Increased cost of credit funds might reduce farmer willingness to access credit	**Risk Management:** Description: Farmers and service providers will receive direct assistance in business planning and loan application submission, which will compliment broader training and advisory services. With the stabilization of the economy, the refinancing rate, which is the on-lending rate from MOF to PFIs, is likely to fall. The training is envisaged to increase the efficiency of PFIs and allow them to reduce the on-lending margins to final Recipients. Most importantly, the GEF project will provide a complementary grant financing for eligible investments, and the above mentioned training programs are being already provided to farmers under RESP II. **Resp:** Client · **Stage:** Preparation · **Due Date:** 06/30/12 · **Status: In process**

5. Project Team Proposed Rating Before Review

Preparation Risk Rating: **Moderate**	**Implementation Risk Rating:** **Moderate**
Comments:	Comments:
6. Risk Team	
Preparation Risk Rating:	**Implementation Risk Rating:**
Comments:	Comments:
7. Overall Risk Following Review	
Preparation Risk Rating: Moderate	**Implementation Risk Rating:** Moderate
Comments: It was agreed at the PCN review meeting to rate overall preparation risk as Moderate	Comments: It was agreed at the PCN review meeting to rate overall implementation risk as Moderate

Note : Include on average no more than 3 Risk Management Measures per Risk Category

Annex 3 - OP8.30 Compliance Review on Financial Intermediary Lending

SECOND RURAL ENTERPRISE SUPPORT PROJECT

Rural Enterprise Financing Component

I. Rationale

1. This Note has been prepared for the purposes of OP8.30 compliance, to present additional credit in the amount of US$40 million to the Second Rural Enterprise Support Project (RESP II). The entire US$40 million will supplement the Rural Enterprise Financing Component (REFC), in particular, the component's Credit Line in the original amount of US$35 million. The Credit Line is channeled through the MOF of the Republic of Uzbekistan to the Participating Financial Institutions (PFIs) to finance private agriculture development in Uzbekistan. The original concepts and provisions of the RESP II Credit Line Concept Note apply. This Note discusses the results of RESPII credit component to date, and provides an update on developments in the country's financial sector and the PFIs.

II. RESP II Rural Enterprise Component Financing Progress and Results to Date

2. **RESP II Project Objectives**. RESP II was approved by the Bank on June 12, 2008, and became effective on December 30, 2008. RESP II has the main objectives of increasing the productivity and sustainability of agriculture and agribusinesses in project areas. This is being achieved by supporting the private independent farmers and agribusinesses in seven selected oblasts of the country.

3. **Rural Enterprise Financing Component (REFC).** The component enhances the access to commercial financial services by the newly independent farmers originating from the collective farm (Shirkat) reform and small/ medium size rural enterprises, increasing profitability of agriculture-related activities and reducing unemployment in rural areas. This objective is facilitated through (i) improving the sector-specific lending skills of the staff of the commercial lenders through training; and (ii) providing assistance to the potential borrowers on business planning and agro-technical advice, accounting, taxation, and improved water resource management, to reduce the risks for commercial lenders through the Rural Training and Advisory Services Component of the RESP II.

4. RESP II credit line aims to broaden the access to financial services in rural areas. The main aspects of the credit line include: (i) commercial banks are subject to strict eligibility criteria to ensure their soundness and reduce the risk to the government's funding; (ii) once the participating financial institutions (PFI) are selected, lending decisions are left to the financial institutions, including establishment of the on-lending rates; (iii) financing is available for a broad range of agriculture-related activities, including production, processing, storage and marketing/selling of agricultural products, to promote diversified rural economy and address the low farmer income issue in rural areas. The credit line is subject to only one restriction: the sub-projects have to be located in the project area: Andijan, Bukhara, Ferhgana, Kashkadarya, Samarkand, Sirdarya and Tashkent oblasts; and (iv) to facilitate outreach of the PFIs into rural

areas, the skills of the PFI lending staff are upgraded through a technical assistance program in the form of training of the PFI staff in appraisal and risk assessment of investment lending and leasing in agriculture.

5. **Achievement of the Project-related Outcomes.** Overall, the component is on track to achieve the following: (i) increasing the outreach of formal financial services into rural areas; (ii) strengthened capacity of formal financial sector institutions to work with rural (including small-scale) borrowers; (iii) increased productivity and employment among participating farm and non-farm rural businesses; and (iv) diversification of rural economy through supporting a broad spectrum of rural economic activities and by providing the necessary technical assistance and credit.

6. **REFC Progress To Date**. After some delay, the subsidiary loan agreements between the Ministry of Finance, the PFIs and the Rural Restructuring Agency (RRA; the implementing agency) were signed during August/September 2009. Since then, the credit line has moved very fast. As of November 2011, of the US$31.2 million originally allocated for the credit line through commercial banks, US$25.7 million equivalent (82.5% of the available funding) have been disbursed in 317 sub-loans. The sub-borrowers have co-invested US$4.2 million equivalent of own funds, bringing the total amount of investments in the agricultural sector under the project to almost US$30 million. Two banks have already fully disbursed their allocations. The enclosed table provides a snap-shot of activity by each PFI:

Table 1: PFI Activity under RESP II Credit Line

PFI	**SLA Amount Signed US$ mil**	**Sub-loans Refinanced by the Project**		
		No of Sub-loans	**Amount in US$ mil**	**As a % of Total Refinanced**
Agrobank	17.2	192	15.4	59.9
Hamkorbank	3.0	17	2.0	7.7
Mikrokredit Bank	5.0	79	4.6	18.0
Qishlok Qurilish Bank	2.0	7	1.8	7.1
Turon Bank	2.0	14	1.2	4.6
Uzpromstroibank	2.0	8	0.7	2.7
Total	**31.2**	**317**	**25.7**	**100.0**

7. The commercial banks participating in the project (PFIs) have increased their lending volumes to agriculture during the project period:

Table 2: Annual Growth Rate of the PFIs' Agricultural Credit Portfolio

Annual growth rate of PFIs' agricultural credit portfolio during the RESP II implementation				
PFI	2008-2011 (%)			
	2008 (base)	2009	2010	10/1/2011
OJSCB Agrobank	0	32	24	95
OJSCB Mikrokreditbank	0	34	43	60
OJSCB Uzpromstroybank	0	6	4	21
OJSCB Qishloq qurilish bank	0	10	5	4
OJSCB Turonbank	0	22	78	31
OJSCB Hamkorbank	0	4	7	6
Growth rate of all PFIs' agricultural credit portfolios	0	18	27	36
Achievement of the project's indicator - minimum annual growht rate of 10%		Yes	Yes	Yes

8. **Changes to the RESP II REFC Design after OP8.30 approval**. Two changes should be mentioned:

(i) The credit line has progressed in accordance with the criteria, terms and conditions set forth in the RESP II concept note, with one exception: the cost of funds to the PFI was reduced, at the government's request during the RESP II negotiations to *Refinancing Rate of the CBU minus 3%* for subsidiary loans denominated in UZ Soums and to *Libor* for US Dollar-denominated subsidiary loans.

(ii) A key development has taken place in the microfinance sector, making the implementation of the microfinance credit line under RESP II impossible. The credit union sector, which the project targeted for support, has been effectively liquidated by the Central Bank during August – November, 2011. The formal cause of the liquidation of the credit unions was stated as the need to strengthen the credit union system, following a couple of fraud cases where the management withdrew the credit unions funds and fled. Given these developments and following a formal Government reallocation request received on February 27, 2012, the US$5 million initially allocated for the microfinance activities have been reallocated to the main credit line for the PFIs, which have exhausted their original financing allocations until this additional credit becomes effective.

9. **Description of the RESP II Sub-loan Portfolio**:

(i) *Sub-loan Portfolio Breakdown*. Agricultural equipment and machinery continue to dominate the portfolio and represent 61.3% of all disbursed sub-loans, down from 87.1% in May 2011. Other types of investments are growing as a share of the portfolio, and include: livestock -10.7%, poultry business – 9.3%, agro-processing – 2.1%, horticulture and vineyards – 1.6%, greenhouses and vegetable farming – 0.6%, fish farming – 0.5%, other sub-loans represent 0.9% of the total portfolio. The supervision missions maintain an increased focus on portfolio diversification.

(ii) *Regional breakdown of sub-loans*. The investments are fairly equally distributed in all participating regions:

Table 3: Regional Breakdown of Sub-loans

Region	Number of sub-loans	Total Amount Refinanced	Amount Refinanced as a % of Total Refinanced
Andijon	83	4,643,566	18.1%
Bukhara	33	3,292,455	12.8%
Ferhgana	27	2,196,030	8.5%
Kahkadarya	41	3,608,853	14.1%
Samarkand	48	3,668,293	14.3%
Sirdarya	32	2,635,220	10.3%
Tashkent	53	5,641,068	22.0%
Total	**317**	**25,685,485**	**100.0%**

(iii) *Sub-Loan Characteristics.* Majority of the sub-loans provided finance long-term investments, thus 93.3% of the sub-loans have maturities of above 5 years, 5.3% of the portfolio-between 2 and 5 years, and the remaining 1.38% finance portfolio of maturity of up to 2 years. The interest rate to the ultimate borrowers ranges: for US$-denominated sub-loans between Libor+2 % and Libor+10%, and for UZ Soum sub-loans between 11 % to 24%. There are no problem loans, but a few sub-loans have had payments delayed for up to two months. However, such sub-loans represent a very small portion of the portfolio, and any delayed payments are usually repaid by the borrowers in the next months. Of the total portfolio, the credit line has financed 63 leasing sub-projects in the total amount of US$3.4 million.

(iv) Approximately 851 new jobs have been created by the sub-borrowers as a result of the borrowing. Women borrowers represent 7% of the total number of borrowers under the Credit Line.

10. **REFC Results to Date**. A quick borrower (credit line beneficiary) survey to assess the impact of the credit line was carried out during November 2011. 70 beneficiaries were interviewed in the 7 project regions – 10 from each. All borrowers have an on-going business activity, which is progressing well. Sixty-six (94%) of the interviewees were males, and 4 (6%) females. Ninety-one percent of the respondents had university degree, and the others had high school (or vocational) education. The key results include:

(v) 74% (52 of 70) of the interviewees were first-time borrowers from the banking sector.

(vi) Loan purpose. 53% of respondents borrowed to improve their productive assets (agricultural machinery, processing equipment, irrigation equipment and storage facilities), 27% of borrowers had taken the loan to enter into a new area of business, for 11 percent the sub-loans allowed to expand the land area under cultivation, and for 9% it permitted expansion of the animal heard.

(vii) Primary objective of the loan (respondents could mark multiple answers). 69% of respondents mentioned that they were aiming to increase their incomes or profits of their companies, and 21% mentioned they wanted to increase the incomes of their families. 27% were aiming to decrease labour costs or increase the capacity of their labour, and 17% wanted to reduce product losses. 24% were aiming to expand their production/processing volume and 16% were aiming to improve the technologies in their companies.

(viii) 87% of the respondents mentioned that their above objectives were substantially achieved, and 13% assessed them as somewhat achieved.

(ix) The 70 sub-loans allowed for[13]: (a) creation of 279 jobs; (b) average increase in enterprise sales of 86%; (c) average increase in enterprise profits by 306%, (d) average increase in household incomes by 151%, (e) average increase in the processing volume of 20%, (f) average increase in the yield per ha of 32%; (g) average increase in the number of heads of animals by 230%, and (h) average increase of the land area under cultivation by 33%.

11. **Training of PFIs**. Investment Lending in Agriculture. It is planned to train a total of 200 branch managers and loan officers of the PFIs under the project. Frankfurt School of Finance and Management have been hired as the International Consultants under the bank training activity to provide training to the PFIs in Investment Lending in Agriculture. The Regional Bank Training Center (Tashkent) have been hired as the National Consultants to gain knowledge on the subject, which would able them to provide training independently at later stages of the project, but also to help with training logistics. The first two training events were held in Samarqand and Bukhara (the training is done in oblasts, to make it easier for the PFI staff to participate) during September-October, 2011. The PFIs were actively participating in the training, in particular Agrobank, Hamkorbank and Mikrokreditbank. The training will be continued in 2012. To date, 65 loan officers and branch managers of the PFIs have been trained, including:

Table 4: Participation in Training, by PFI

PFI	Branch Managers/Head of Lending Dept.	Loan Officers	Total
Agrobank	12	5	**17**
Hamkorbank	2	10	**12**
Mikrokreditbank	6	11	**17**
Qishloq Qurilish Bank	4	4	**8**
Turonbank	2	2	**4**
Uzpromstrojbank	2	3	**5**
RRA	2	0	**2**
Total	**30**	**35**	**65**

[13] Not all companies answered to all questions, therefore the numbers mentioned are not directly linked. Averages are based on the responses obtained.

12. **Training Evaluation**. Overall, the feedback on the training carried out is very positive and overall assessed by the participants as valuable and practical, and the trainers as professional, knowledgeable and experienced. On a scale from 1 to 6, the trainees assessed the training as follows:

Table 5: Training Evaluation by Trainees

Evaluation Parameter	Investment Lending/Leasing			
	Samarqand		Bukhara	
	Branch Managers	Loan Officers	Branch Managers	Loan Officers
Overall satisfaction with the training event	5.1	5.4	5.9	5.6
Satisfaction with the training content	5.1	5.4	5.9	5.6
Satisfactions with the training methodology	5.5	5.7	5.9	5.7
Assessment of the overall trainers' capacity	5.2	5.6	5.3	5.6
Did the training meet your expectations?	5.2	5.7	5.8	5.7
Were the objectives of the training achieved?	5.2	5.6	5.8	5.9
Will you use the knowledge and information obtained in your daily business operations?	4.5	5.5	5.4	5.6

13. **Monitoring of the Credit Line by RRA**. RRA carries out monitoring of the sub-loans not later than within four (4) months from the disbursement of the sub-loan. Monitoring of sub-loans covers both a visit to the sub-borrower and a review of the sub-loan file at the PFI. The work is led by the Credit Line Specialists in the RRA's Regional Offices, supervised by the REFCC who also does selective on-site monitoring. To date, 300 sub-loans (95% of the total number of sub-loans refinanced) have been monitored. Monitoring is planned to be done every month, on rolling basis, for the sub-loans that have been disbursed during the past maximum 4 months. The RRA also ensures timely collection of the audited reports of the PFIs, in compliance with the provisions of the subsidiary loan agreement. In addition, during the post-crisis period, a system of quarterly reports was established, where the PFIs reported to the RRA their key financial numbers (such as balance sheet and Income Statement), and key portfolio quality ratios (in particular, NPLs).

III. Proposed Additional Credit

14. **Approach.** The AC will continue to expand the outreach of the formal financial sector into the rural areas. Understanding the scarcity of long term resources in the banking sector the additional credit will provide access for qualified commercial banks and leasing companies access to long term funds in the banking sector to meet some of the needs for long-term financing in agriculture and rural sectors. In addition, the project also provides access to funds in foreign currency, which supports import of technological equipment, which assists with the diversification of the rural economy. This diversification and generation of new businesses and jobs allows the government to continue addressing the unemployment issue in rural areas, in particular stemming from the farm optimization of 2009-2010, as a result of which the average farm size tripled from about 20 Ha to about 60Ha.

15. **Recent Developments in the Economy and Financial Sector.** The macroeconomic situation in Uzbekistan is relatively stable, and the country has been experiencing continued

economic growth during the last 10 years or so. The country is an oil and gas exporter, and due to its isolation, has remained relatively shielded from global impacts. For instance, the most recent global financial crisis had almost no impact on the country. During the last three years, the real GDP growth has continued: 9.0% in 2008, 8.1% in 2009 and 8.5% in 2010. The projection for year-end 2011 is 7.0%. Services, transport and communication, as well as trade and agriculture have been fastest-growing sectors, mostly due to domestic consumption. The current account balance has been positive for the last several years. Inflation, in accordance with the data of the Government of UPzbekistan, was 7.4% at the end of 2009, 7.3% at the end of 2010, and is projected to be 7.2% at the end of 2011[14]. However, in accordance with IMF observations, the inflation has been on rise since about mid-2010, to a large extent due to fiscal stimuli program, which the government has been continuing for several years.

16. The Central Bank of Uzbekistan (CBU) has been taking measures, for years, to contain inflation by sterilizing the money in circulation. The UZ Soum has continued depreciating both against US Dollar and EURO. CBU reduced its Refinancing Rate as of January 1, 2011 to 12%, down from 14% - which had been in effect from mid-July 2006 until December 31, 2010. Medium-term (2-year) T-bill rates are around 6.5%.

17. **Lending Rates**. Most of the lending done by the commercial banks continues to be short-term, less than a year, due to the scarcity of long-term funding. The only sources of long-term funding are the banks' own capital, international donor funding (ADB, EBRD and IDA), and some government's programs. The cost of funds to qualified financial intermediaries from international lenders range between 0% (such as the Savings Bank Foundation for International Cooperation) to LIBOR+4% / LIBOR+5% (such as EBRD and IFC). The average interest rates to the ultimate borrowers are around 10% in US Dollars and 14% in UZ Soums (8% - 12% on short-term loans and around 18% on long-term loans). Due to the strict regulation of foreign currency in Uzbekistan, banks can only lend foreign currency loans from donor funds.

18. **Lending to Agriculture Sector.** Two developments set the background for the lending to the agricultural sector:

(i) The authorities of Uzbekistan have embarked on a program to modernize and diversify the economy, including the diversification of the agricultural sector. The government sees such sub-sectors as poultry, horticulture, dairy, etc., as a way to diversify out of wheat and cotton production, the two strategic crops.

(ii) The continued support to production of the two strategic crops (cotton and wheat) that farmers have to produce, which account for approximately 60% of the total agricultural production. The government supports it through subsidized funding in UZ Soum, which is channeled through the banking sector at an interest rate of 3%, inclusive of a 2% margin for the commercial banks. Maturity of these loans is up to 12 months for wheat and up to 18 months for cotton.

[14] According o the IMF, the year-end inflation for 2009 was 10.6%, 12.1% for 2010, and projected at 12.7% for end-2011.

19. **Potential Demand for Funding for under the RESP II Additional Credit.** The tentative demand for funds under the AC is as follows:

Table 6: Potential Demand under RESP II AC

Financial Institution	Tentative Demand, US$ million equivalent
Agrobank*	5.0
Hamkorbank*	5.0
Mikrokreditbank*	10.0
Qishloq Qurilish Bank*	10.0
Turonbank*	4.5
Uzpromstrojbank*	3.0
Sub-total Active PFIs	**37.5**
Infinbank	5.0
Ipak Yoli Bank	3.0
Uzbekleasing	5.0+
Xalq Bank	2.0
Total	**52.5**

Note: Those marked with an asterisk "*" are existing PFIs.

20. **Features of the Additional Credit Line.** The credit line will continue to finance a wide range of investments in agriculture-related activities, as originally designed. It is expected to keep all terms and conditions, except it is being proposed to increase the maximum loan size (exposure) per beneficiary from US$300,000 to US$500,000. In addition, acknowledging the significant issue with storage facilities (refrigerated and non-refrigerated), where, depending on the year, up to 40% of the agricultural produce stored have spoiled during the winter storage, the project team has agreed to support the Borrower's request to allow for a loan size of up to US$1 million for the purposes of establishing storage facilities (since modern storage facilities require about US$1 million and up). Similar to the original design, the PFIs will do full appraisal of sub-loans, will set the on-lending rates, and carry all risks related to the sub-loans provided. It is also expected that the cost of funds to the PFI will remain the same as under the original project. Setting of the costs of funds towards the lower end of the spectrum is justified by: (i) the credit line supports the early stages of development of private agricultural sector, which has a high potential, but, at the same time, is considered risky due to lack of appropriate agricultural risk management instruments; (ii) the need to allow commercial banks to charge sufficient (not exorbitant!) margins to facilitate outreach to rural borrowers, including, opening of representative offices in locations where it makes economic sense; and (iii) the long-term investment nature of the expected loans to be financed from the Credit Line. At the same time, the pricing gives due consideration to other credit lines.

21. **Arrangements after the RESP II closing**. Similar to the main RESP II credit line, the additional credit line funds will continue revolving in the PFIs for a period of 20 years, with a gradual repayment of the funds to the MOF according to the agreed schedule. Interest payments on the subsidiary loans and principal amounts repaid by the PFIs will be channeled to the MOF, which will use the money to repay to IDA. After the end of the 20 year period, the MOF may chose to on-lend the money back in the banking sector for an extended period of time under a separate legal arrangement. Agreements will be made with the MOF towards the project closing

that, after the project closing, a department in the MOF will be assigned to carry out the monitoring of the Credit Line implementation.

22. **Financial and Operational Status of the PFIs.** Six commercial banks, namely, Agrobank (formerly Pahta Bank),Qishloq Qurilish Bank (formerly Gallabank), Hamkorbank, Turonbank, Mikrokreditbank and Uzpromstrojbank participate in the implementation of the credit line under the RESP II. All PFIs have submitted audited report for 2010 and 2012, except Agrobank[15]. The auditors have issued clean (unqualified) audit opinions on all submitted audit reports. All PFIs have been audited by internationally recognized auditors, in particular, Deloitte and PriceWaterhouseCoopers. Based on information received, the PFIs are in compliance with the eligibility criteria for PFIs.

23. Key financial results of the six RESP II banks are indicated in the Table 7 below. The following developments should be noted:

(i) Since 2007/2008, when the previous OP8.30 compliance paper was prepared, the PFIs have experiences extremely rapid growth, in particular, Qishloq Qurilish Bank and Mikrokredit Bank. This is related to: (a) a banking sector restructuring, which the government[16] carried out in 2007-2008 whereby it allocated certain responsibilities to certain banks. For example, Qishloq Qurilish Bank is responsible for rural infrastructure investments (such as rural housing and rural roads), and Mikrokreditbank is the bank charged with a responsibility to issue microloans; (b) the recent substantial increases in bank capitalization by the government are facilitating the authorities' development programs.

(ii) The project (RESP II) has become much smaller relative to the size of the PFI assets and loan portfolios. If the initial US$35 million represented 3.8% of the PFI assets and 6.5% of their overall net portfolios, then the combined US$75 million (the RESP II original credit line and the additional credit) will represent 2% of their assets and 3.3% of the net loans.

24. **Financial and Operational Situation in the PFIs**. Table 7 (which includes comparison of the audited data for 2006 and 2010) shows that all PFIs have experienced very rapid growth during the last four years, including received substantial capital increases (in particular Agrobank, Qishloq Qurilish Bank and Mikrokreditbank). This is partly responsible for the low Return of Equity in QQB and Mikrokreditbank, as the ROE in both banks are lower than the official inflation. During the first 9 months of 2011, the PFIs continued to grow: the assets increased between 115% and 187% in various PFIs, except in Qishloq Qurilish Bank where the assets fell by 4%, while the net loan portfolio almost doubled[17]. Net loans increased between

[15] Given Agrobank's difficulties with submission of audit reports for 2010 and 2011, the June 2011 mission's Aide Memoire recommends that the bank undergoes a due diligence when the due diligence exercise is organized for the banks and leasing companies interested to join RESP II for implementation of the Additional Credit Line.
[16] It should be noted that almost all PFIs, and almost the entire banking sector, is part-owned by the state – either directly by the Ministry of Finance or through large state-owned companies that act as shareholders of these banks.
[17] These movements in the balance sheet are explained as follows: at the end of 2010 the bank had a large balance sheet item of construction-in-progress due to involvement of its subsidiary in construction of rural housing, which increased the bank's assets. At the same time, during the first 9 months of 2011 these houses were completed and

111% and 172% during the same period, depending on the PFI, and capital increased between 108% and 144%. Provisions in the various PFIs were between 1.9% to 5.6% of the gross loan portfolio as of end 2010 and between 1.1% and 4.8% as of end-September 2011. The Non Performing Loans were between 1.1% and 5.2[18]% at the end of 2010 and between 0% and 1% at the end of September 2011.

transferred to the new owners, with an outstanding loan to the bank – which is partly responsible for the almost doubling of the loan portfolio.

[18] A big part of the reason for such, at times, high NPLs is mostly related to loans for production of cotton from the state subsidy program. Payments from ginneries for the cotton supplied by farmers can be delayed for up to 6 months, which delays repayment of the loan, as a result of which banks experience high NPL rations.

Table 7. Audited Financial Data of Active RESP II PFIs - Commercial Banks - as of December 31, 2010, vs. December 31, 2006 **(***US$ Millions)*

	Name of the Bank	Total Assets	Net Loan Portfolio	Total Customer Accounts	Equity	Net Profit	ROA	ROE	NPLs	Number of Branches/ Rep offices (1)
1	Agrobank, 12/31/06	407.0	265.5	238.3	53.2	4.5	1.3%	8.7%	n/a	186/-
	Agrobank, 12/31/10 (2)	1,024.9	628.9	463.1	134.7	11.5	1.2%	10.2%	n/a	n/a
	% Change	253%	237%	194%	1253%	n/a	n/a	n/a	n/a	
2	Qishloq Qurilish Bank 12/31/06	66.5	49.5	25.2	15.0	1.6	2.6%	11.3%	n/a	34/234
	Qishloq Qurilish Bank 12/31/10	735.9	289.0	259.9	104.9	3.05	0.7%	4.2%	2.0%	n/a
	% Change	1,107%	583%	1,031	699%	n/a	n/a	n/a	n/a	
3	Hamkorbank 12/31/06	63.0	38.7	42.5	11.3	3.4	6.1%	32.0%	n/a	24/-
	Hamkorbank 12/31/10	248.4	128.7	186.3	32.9	8.4	4.0%	30.5%	5.2%	n/a
	% Change	394%	333%	438%	291%	n/a	n/a	n/a	n/a	
4	Turon Bank, 12/31/06	55.2	32.5	37.1	4.4	0.4	0.8%	9.2%	n/a	18/109
	Turon Bank, 12/31/10	242.8	146.1	147.0	16.9	2.16	1.2%	14.9%	5.2%	n/a
	% Change	451%	449%	396%	384%	n/a	n/a	n/a	n/a	
5	Mikrokredit Bank(3) 12/31/06	n/a	20.2	n/a	60.5	2.4	n/a	n/a	n/a	75/269
	Mikrokredit Bank(3) 12/31/10	252.5	195.3	84.0	97.8	1.26	0.5%	1.3%	1.1%	n/a
	% Change	n/a	969%	n/a	162%	n/a	n/a	n/a	n/a	
6	Uzpromstroi Bank 12/31/06	545.1	328.9	351.6	37.3	6.5	1.3%	19.9%	n/a	49/91
	Uzpromstroi Bank 12/31/10	1,161.0	856.8	626.2	92.9	7.7	0.7%	8.2%	4.8%	n/a
	% Change	213%	261%	178%	249%	n/a	n/a	n/a	n/a	
	Total 12/31/2006	**930.7+**	**539.8**	**634.8+**	**170.8**	**14.9**	**n/a**	**n/a**	**n/a**	**376/1,469**
	Total 12/31/2010	**3,665.5**	**2,244.8**	**1,766.5**	**480.1**	**34.1**	**n/a**	**n/a**	**n/a**	**n/a**

Notes:

i. Representative offices here include: mini-banks and cash centers only.
ii. Agrobank's data for 2010 are unaudited; the bank was only able to secure the final audit for 2010 in late 2011. The bank was disputing the auditor's findings in terms of portfolio quality. However, the bank confirmed that even with increased provisions, as per auditor's recommendation, the bank would have profit at the end of 2010.
iii. The audited data for 2006 were not available they were unaudited; as of September 30, 2007. The bank was restructured into the Mikrokredit Bank in 2006.
iv. This table only refers to the existing PFIs. Any new PFIs will have to undergo due diligence.
v. Official exchange rate used: US$ 1 = UZS 1,240 as of December 31,2006; US$1 – UZS1,640 as of December 31, 2010.

25. **Due Diligence of the PFIs**. Four potential PFIs – one leasing company (Uzbekleasing) and three commercial banks (Infinbank, Xalq Bank and Ipek Yoli bank) are potentially interested to join the project. All potential PFIs are required to undergo a due diligence before signing the Refinancing Agreement (equivalent to the Subsidiary Loan Agreement). The qualification of the PFIs will be done by an international consultant together with the RRA, and the RRA will carry out the monitoring of the operational and financial status of the PFIs throughout the project period. The criteria for PFIs under RESP II are spelled out in the Rural Enterprise Investment Regulations (REIR). The final determination of each financial institution's participation will be based on a positive outcome of a due diligence to be performed on each one of them. It is planned that the due diligence will be carried out in summer/fall 2012, to ensure availability of the audited report and management letter for 2011. All interested financial institutions will be kept informed of the due diligence process, including the timing of and document requirements for the due diligence. In addition, during the due diligence exercise the audited statements and management letter of all PFIs for 2011 will be reviewed. Agrobank will have to undergo a full due diligence, given its difficulties with audit reports 2010 and 2011, before it will be able to access the Additional Credit Line.

26. **Benefits.** The AC will be similar in nature to the original RESP II credit line. Project benefits will accrue to PFIs in form of an expanded portfolio in the rural/agricultural market niche and broadened client base through the process of "nurturing" their clients. The benefits to farmers and rural entrepreneurs will be in the form of improved productivity, and employment generation for both on farm and off-farm activities, either as hired labor or as increased household labor requirements, and increased household incomes. The presence of improved farm machinery will result in increased yields due to improved land preparation, timely planting and harvesting, and a significant reduction in harvest losses. The diversification of rural economy will bring services closer to the consumers, and will increase incomes where profitability of agriculture is marginal. To the extent feasible women will be targeted as beneficiaries but it is expected that this will largely be done through job creation resulting from the farm investment. In particular, poultry investments result in creation of jobs for women. RESP II has recorded 218 jobs created for women.

27. **Monitoring.** The overall project monitoring, including the compliance of the sub-loans with the eligibility criteria, monitoring of the sub-loan files, and the PFI compliance with the eligibility criteria will be ensured by RRA. The Component Coordinator will regularly visit bank branches to review the loan files for completeness and will make visits to selected borrower sites. The Component will have Monitoring and Evaluation formats, 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 will be done from time to time, similarly to the RESP I Impact Assessment (Farm Survey). Progress reports will continue to be produced every six months, and PFI monitoring reports will be provided on quarterly basis. An Environmental Specialist has finally been hired by the RRA to carry out screening of the proposed sub-loans from the environmental point of view. The impact of project activities on women beneficiaries will be tracked. The issue of child labour will be dealt with at the stage of loan approval where the loan cannot be sanctioned for any activity that involves the use of child labour. Besides, the farmer training component also discusses the issue of child labour to raise awareness on the ILO convention and national laws.