Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 04-Feb-2019 | Report No: PIDISDSA25480

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Uzbekistan	P166305	Ferghana Valley Enterprise Development Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	22-Jan-2019	21-Mar-2019	Agriculture
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Republic of Uzbekistan	Agro Industry and Food Agency (AIFSA)	

Proposed Development Objective(s)

To support the expansion of rural enterprise activity and job creation in Ferghana Valley

Components

Component 1: Enterprise Development
Component 2: Access to Finance
Component 3: Project Management and Coordination
Unallocated

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	247.00
Total Financing	247.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00

Non-World Bank Group Financing	
Counterpart Funding	47.00
Local Beneficiaries	47.00

Environmental Assessment Category

B-Partial Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Uzbekistan is currently undergoing a paradigm shift away from its state managed economy**. In the past year, the Government of Uzbekistan has launched a wide range of reforms that represent a shift from a state-led economic system to a market economy. As noted in the 2018 Performance & Learning Review (PLR), these entail four fundamental economic and social shifts: (i) from the state to the private sector; (ii) from inward-looking to outward-looking growth and jobs drivers; (iii) from general government subsidies to targeted social programs; and (iv) from central government to regional and local authorities, in particular as regards to responsibility and accountability for the implementation of the reform agenda on the ground.

2. **The transition to a market driven economy is driven by an ambitious reform agenda.** Major reforms in the past two years include the liberalization of the exchange rate and currency depreciation, the reduction of Government involvement in the agricultural sector, the progress on the discontinuation of forced and systematic labor mobilization in the cotton sector, the diversification of agriculture to shift away from cotton and wheat production, the introduction of price adjustments and differentiation in energy and utility tariffs, and efforts to improve communication with citizens, and improving access to information. Financial sector reforms have also emerged as a priority to support economic transformation and foster private-led growth.

3. **As reforms continue, an increasing share of economic growth and employment will be driven by the informal and non-state sector.** In 2017 around 78 percent of all employed individuals worked in small or individual enterprises and more than 27 percent of all employment was in the agriculture sector followed by industry (13.5 percent) and trade (11 percent)[1]. The recent Country Private Sector Diagnostic (CPSD) identified

[1] Statistical Review of Uzbekistan, 2017

inadequate job creation, reduced competitiveness, and domination of the formal sector by underperforming state-owned enterprises as major constraints to developing private sector enterprises in Uzbekistan. In its reform agenda, the Government has recognized the need to find new drivers of economic growth and placed significant emphasis on accelerating private sector growth and modernization of the economy to ensure income growth and job creation for long-term sustainability of the country's social and economic gains.

4. **Despite its achievements in reducing poverty over the past ten years, Uzbekistan faces significant longer-term challenges in providing high-productivity, well-paid employment opportunities, especially for youth, women and rural populations**. Uzbekistan experiences significant outmigration - an estimated 1.2 million Uzbek citizens have legal work permits in Russia with an unknown number working informally. While recent survey data is not available, labor force participation among youth and women is low. A 2013 survey found Uzbekistan's labor force participation rate for males (as a percentage of the male population aged 15-64) was 79 percent and 51 percent for females. One in ten people aged 20-24 were not looking for a job because they could not find one and an estimated one in three males aged 20 to 24 was a migrant with most migrants originating from rural areas.

5. **The Ferghana Valley represents a unique part of Uzbekistan characterized by high population density and economic development that has not kept pace with its potential.** The entire Ferghana Valley encompasses an area located in three countries – the Andijan, Ferghana and Namangan regions in Uzbekistan; portions of the Sughd region in Tajikistan, and the Osh, Jalalabad, and Batkan regions of Kyrgyzstan. With a total population estimated at 14 million across all three countries, the portion of Ferghana Valley located in Uzbekistan is the largest, with approximately 9.3 million people, comprising 28 percent of Uzbekistan's total population. The region is home to one quarter of Uzbekistan's poor and is one of the most ethnically diverse regions in the country with populations of Tajik and Kyrgyz communities. The Ferghana Valley includes some of Uzbekistan's most highly productive agricultural land and at the same time, has a relatively high level of industrial development compared to other parts of Uzbekistan. Despite being well endowed, development challenges include bio-physical (climate change induced weather variability, water scarcity); social (growing labor pool); and economic (structural transition to a market-led economic model, uneven growth leading to development gaps between districts). Isolated extremist groups emerged during the post-independence period in the Uzbek portion of the Ferghana Valley and while these groups have been largely pushed out of the country, there is concern about continued ties to the Ferghana Valley.

Sectoral and Institutional Context

6. **The shift from planned to market economy will create opportunities for Ferghana Valley's population of micro, small and medium size enterprises (MSMEs).** Economic reforms and expected GDP growth will create opportunities for MSMEs in both domestic and regional markets. The population of MSMEs in Ferghana Valley is substantial and growing, with nearly 49,000 registered firms classified as micro (less than five employees) or small (less than 50 employees), and an additional 84,000 commercial farm enterprises or single entrepreneurs engaged in business activities.

7. **Ferghana Valley's geographic location and comparative advantage in agri-business/agri-food, textile, and small scale manufacturing show high potential to expand trade.** Ferghana Valley has developed a distinct domestic and international reputation for quality production in agri-business/agri-food, textile production and traditional crafts. The region's horticultural products, silk and weaving materials, and traditional ceramics are

sold within Uzbekistan and increasingly in the Central Asia region and beyond. The recent Country Private Sector Diagnostic identified sectors with strong potential for growth and showed the financial industry, Information and Communication Technology (ICT) and ICT-enabled services, transport, chemicals and fertilizers, tourism, retail chains and food production, and horticulture and agri-processing all have the potential to help propel the Uzbek economy toward much higher economic growth rates. While chemicals and fertilizers require significant economies of scale, all other sectors represent opportunities for MSME growth. This is particularly important as evidence globally shows SME contribute significantly to job growth, in developing economies SMEs typically account for half of employment and the majority of jobs created.

8. **A key challenge facing individual, micro, and small enterprises will be improving productivity and developing more effective value chain linkages to achieve more efficient and profitable production.** Increasing land and labor productivity will be a necessary condition for most MSMEs to grow and improve profitability. A number of models to support increased competitiveness and profitability for small enterprises and firms have been identified internationally. They include models that facilitate supply chain linkages between small-scale suppliers/producers and buyers (productive alliances) or structured support for a geographically concentrated cluster of interconnected enterprises and firms (clusters).[2] A common element in these approaches has been the provision of structured support to groups of enterprises to help overcome informational or organizational failures or to strengthen linkages between producers, buyers, processors, and service providers to overcome market barriers, improve quality, and increase production levels.

9. **Access to finance remains is a significant constraint for MSMEs.** Overall, Uzbekistan has a credit-to-Gross Domestic Product (GDP) ratio of 25 percent, compared with an average of 43 percent for all lower middle-income countries. The MSME segment plays a significant role in the Uzbek economy, representing 78 percent of employment and 49.2 percent of the national GDP in June 2018 (69.6 percent in Namangan, 66.4 percent in Andijan, and 61.6 percent in Fergana)[3]. Despite their contribution to the economy, these firms are challenged by limited access to finance, which limits their ability, their expansion and contribution to growth. According to the 2013 (WB) Enterprise Survey, 97.3 percent of registered firms had access to a checking or savings account, but only 26.4 percent had a bank loan or a line of credit, well below the average of 37.7 percent for Europe and Central Asia[4]. Firms relied heavily on internal funds to maintain and expand their businesses (only 16 percent of firms used banks to finance investments). Among the challenges are: (i) low financial literacy levels, lack of reliable financial statements and limited managerial capacity to prepare loan application; (ii) insufficient levels of collaterals acceptable by financial institutions, especially among new enterprises; (iii) limited availability of financial products and lending methodologies, which suit the specific needs of MSMEs; and (iv) limited financial market infrastructure (such as moveable collateral registration). These challenges are exacerbated by declining rates of liquidity observed by commercial banks in the past year.

[2] For a useful summary of productive alliances see: World Bank Group. 2016. Linking Farmers to Markets through Productive Alliances : An Assessment of the World Bank Experience in Latin America. World Bank, Washington, DC. https://openknowledge.worldbank.org/handle/10986/25752
For a useful summary on cluster development and competitiveness see: Nallari, Raj; Griffith, Breda. 2013. Clusters of competitiveness (English). Directions in development : private sector development. Washington DC ; World Bank. http://documents.worldbank.org/curated/en/152521468158381169/Clusters-of-competitiveness
3 The State Committee of the Republic of Uzbekistan on Statistics.
4 Despite these numbers, a small percentage of firms identify access to finance as a pressing constraint and a significant percentage of firms report not needing a loan, which might reflect the lack of banking culture in the country.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

10. The project's objective is to support the expansion of rural enterprise activity and job creation in Ferghana Valley.

Key Results

11. The project will contribute to the larger goal of building greater economic and job opportunities within Ferghana Valley and facilitating private sector-led economic growth. The project is expected to result in an increase in enterprise intensity within the region; increased employment (particularly among youth and women) as a result of new business startups or expansions of existing enterprises; increase in access to financial and non-financial services by micro, small and medium businesses; and increase in market linkages within value chains in targeted areas. PDO level results would be measured by the following outcome indicators:

(a) Enterprise intensity index[5] (disaggregated by gender and age of owners);
(b) Number of enterprises supported under the project (disaggregated by type of enterprise);
(c) Increase in total revenues of enterprises supported under the project (disaggregated by type of enterprise), USD;
(d) Number of additional jobs generated by enterprises supported by the project (disaggregated by gender and age of employees).

D. Project Description

12. Project financing would be directed at: (i) rural entrepreneurship with a focus on business incubation and apprenticeship; (ii) cluster development to strengthen backward and forward linkages in supply chains and facilitate greater market access and business development; and (iii) improving access to non-financial and financial services among micro and small enterprises in high potential sectors (agri-food, tourism, textiles/apparel, light manufacturing). The project will place a strong focus on inclusion (targeting youth and women), innovation (deploying technology, digitization and management models to improve effectiveness, efficiency and scale); incubation (facilitation and mentorship for developing an entrepreneurial ecosystem); and linking rural areas with emerging economic clusters in urban areas and other economic clusters in the country and the region.

Component 1: Enterprise Development

13. The objective of the first component is to facilitate the establishment and growth of micro, small and medium enterprises (MSMEs) through the provision of technical support and facilitation. The project will provide a range of services designed to respond to the diversity of enterprises in the MSME space with a focus on providing solutions for differently cohorts SMEs (micro, small or medium, but also orientation, and maturity) with the aim of growing the pool of MSMEs and putting them on a growth path.

[5] Enterprise intensity index is a ratio of the number of enterprises and the able age population.

Sub-Component 1.1: Business Incubation and Mentorship (USD 17 million)

14. **Business incubator hubs**. The project will finance a business incubator program for rural entrepreneurs that address key bottlenecks faced by entrepreneurs - obtaining business development and non-financial services, exposure to new technology and skills, and identifying potential sources of financing. The program will utilize the current infrastructure of one-stop shops, business facilitation centers and co-working spaces to expand the menu of services available to entrepreneurs and facilitate greater outreach to rural areas. These efforts will complement the Government's current investment in strengthening one-stop shops, which primarily focus on providing administrative and regulatory services, as well as co-working spaces, which provide ICT connectivity and networking space.

15. **Innovation Startups**. While business incubators are expected to support new businesses, the project will also target specific support facilitated innovation start-ups in order to provide more intensive support to translate innovative technologies or business models into viable enterprises. This will involve sustained engagement and support for new technology/innovations. The project will finance challenge competitions to attract SMEs with the best business ideas and innovative products to come out and compete through an "innovation marketplace" model. Key phases would focus on challenge competitions for selection of ideas and participants; supporting start-ups to move from ideas to business plans and ideas (pre-incubation); supporting development of business plans to enterprises (incubation phase), submitting plans and pitching them to experts and financiers (launch phase); launching business and developing markets, customers and technology (growth phase).

Sub-Component 1.2: Cluster and Value Chain Development (USD 7 million)

16. The cluster development activities under the second sub-component will focus on groups of producers/ enterprises and finance demand-driven investments to strengthen value chains and expand or establish enterprise clusters that seek to expand productive activities or reach new markets. The objective of these activities would be to integrate value chains, improve competitiveness and develop an ecosystem of enterprises that deliver greater quality, volume and profitability. Most clusters would be expected in the agriculture and food processing sector but would be open to handicraft, textile and small manufacturing sectors. Given the already strong focus and significant financing available for cotton/textile clusters, which constituted the initial emphasis of cluster development in the country, the project would not finance clusters involving primary cotton production. Textile clusters supported by the project would be those that focused on silk production or cotton textile manufacturing at the latter stages of production (sewing, weaving and weaving or apparel manufacturing).

17. Various types of cluster models could be supported under the project and are expected to include: (i) vertically integrated clusters centered around a primary processing or exporting enterprise with the potential for contract farming or supply arrangements with a pool of raw material producers (a productive alliance model); (ii) a cluster of inter-connected enterprises and firms that are geographically concentrated but who supply different parts of a value chain and may not have formal contractual relationships (such as agri-food, small-scale manufacturing or tourism clusters); or (iii) groups of producers or common interest groups who could develop better access markets with greater producer organization, aggregation and marketing capacity (such as agriculture, handicraft cooperatives). These different cluster models would have very different

objectives, needs and organizational requirements but would share an over-arching aim to leverage the capacity of the actors within the cluster to improve productivity and market access.

Component 2: Access to Finance

Sub-Component 2.1: Credit Line for MSMEs (USD 130.5 million) and Sub-Component 2.2: Guarantee Fund for MSMEs (USD 20.5 million)

18. The project will support two financing instruments: a credit line and a partial credit guarantee fund. The objective of the credit line is to address liquidity constraints faced by banks while the partial credit guarantees are intended to reduce financial institutions' risk exposure and increase their risk appetite for MSME and agricultural lending[6]. The credit line and partial credit guarantee will target micro, small and medium enterprises in Ferghana Valley in the value chains targeted by the project. The bulk of project investment will be allocated to the credit line (US$80 million) with a limited amount of funding allocated to the partial credit guarantee fund (US$20 million). This allocation may change over the life of the project but is based on the assessment of the immediate demand for greater liquidity for the provisioning of financing to MSMEs and the need to strengthen institutional capacity to manage the partial credit guarantee fund, which is a relatively new to Uzbekistan.

Sub-Component 2.3: Pilots in Financial Services (USD 5 million)

19. The project would set aside USD 5 million to fund pilots on innovative financial solutions developed based on proposals submitted by commercial banks. Three areas where commercial banks indicated an interest during pre-appraisal/appraisal that include microfinance, inventory finance, and digital financial services. A number of innovations around alternative methods of collateral (agri-value chain finance, warehouse receipts finance, and inventory finance) and digital tools (mobile wallet, digital financial services, digital identity, real-time credit assessment/scoring) have emerged to address gaps in access to financial services) have emerged to address gaps in financing and rural and small enterprise development. Some models rely on alternative collateral mechanisms where inventory or contracts become collateral rather than capital assets. Other models lower transaction costs for financial service providers by using digital or mobile platforms to reach rural customer base where traditional bank branches are not viable. Digital technologies can also help develop behavioral profiles that can be used to better assess the creditworthiness for nano, small or group enterprises by providing data on savings behavior, cash flow and other metrics. Pilots would be financed under terms and conditions established for the larger credit line and described in the FVEDP Credit Guidelines.

Component 3: Project Management and Coordination (USD 5 million)

20. The third component will finance project management and coordination activities. A project implementation unit will be established to coordinate implementation activities and will be located in the Rural Restructuring Agency (RRA). The component will be focused on strengthening RRA's capacity for project management, monitoring and evaluation through the provision of goods, consultant services, training and financing of incremental operating costs. This component will: (i) support operation of RRA, and finance overall

[6] In 2018, the ratio of liquid assets to total assets decreased to 10.5 from 23.9 percent in 2017.

project management, as well as contract administration, procurement, and financial management; and (ii) establish a robust performance-based Management Information System (MIS) and beneficiary satisfaction survey, and arrange for data collection and reporting on key performance output and impact indicators, through baseline surveys, participatory assessments, mid-term review and final evaluation.

E. Implementation

Institutional and Implementation Arrangements

21. **RRA will facilitate day to day implementation of the project with close collaboration with the three Ferghana Valley Hokimiyats.** RRA will establish the project implementation unit (PIU) within its current structure and utilize its three regional Ferghana Valley offices located within the regional hokimiyat structure to facilitate day to day implementation of the project together with implementing partners. RRA will work closely with implementing partners who will be responsible for implementing specific activities within the project in the following areas:

- Business advisory services: the Chamber of Commerce and Industry (lead service provider), Business Women's Association, and Youth Union would deliver the business development and technical assistance to start-up and SMEs to participating entrepreneurs together with additional business advisory support or expertise as needed.
- One stop shop centers under the Ministry of Justice would host and facilitate the business incubator hubs, including through the expansion of their mobile one-stop shops (mobile portable offices)
- Regional innovation centers under the MoI and regional hokimiyats will host and support innovation startup activities including providing physical space and support to RRA in managing innovation challenges.
- Participating financial institutions will channel credit lines for SMEs.
- The State Fund for Entrepreneurship Development will manage the partial credit guarantee scheme under the project and work with participating financial institutions. The RRA will carry out fiduciary and safeguards responsibilities related to the guarantee scheme.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The entire Ferghana valley encompasses an area located in three countries – the Andijan, Ferghana and Namangan regions in Uzbekistan; portions of the Sughd region in Tajikistan, and the Osh, Jalalabad, and Batkan regions of Kyrgyzstan. With a total population estimated at 14 million across all three countries, the portion of Ferghana Valley located in Uzbekistan is the largest, with approximately 8.8 million people, comprising 28% of Uzbekistan's total population. The region is home to one quarter of Uzbekistan's poor. The Ferghana Valley includes some of Uzbekistan's most highly productive agricultural land and at the same time, has a relatively high level of industrial development compared to other parts of Uzbekistan. Despite being well endowed development challenges include bio-physical (climate change induced weather

variability, water scarcity, limited power generation capacity); social (growing labor pool); and economic (structural transition to a market led economic model, uneven growth leading to development gaps between districts). Total area of the Province is 4.3 thousand sq. km. The climate of the region is a typically continental climate with extreme differences between summer and winter temperatures. Due to the fact that mountain chains are preventing cold air masses from entering the region, the winter weather is comparatively moderate. The vegetation period is 217 days, average annual precipitation is 200-250 mm.

G. Environmental and Social Safeguards Specialists on the Team

Kristine Schwebach, Social Specialist
Arcadii Capcelea, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The proposed investments in infrastructure and service delivery under the Component 2 (which could include Handicraft (ceramics and furniture manufacture); Livestock (cattle, poultry production); Weaving manufacture (mainly carpet production); Agricultural production (new orchards, greenhouses) and processing; Cluster approaches in cotton production; Sericulture; and Small sewing manufactories (workshops), along with proposed financing under Component 1 for entrepreneurship development and job creation (with a focus on micro and small enterprises in high potential sectors such as agribusiness, tourism, textiles/apparel, light manufacturing) might cause a series of various and direct environmental risks and impacts such as: water and air pollution; solid wastes management issues; occupational health and safety risks; etc. Overall most of these risks and impacts will be short terms and site specific, but in some cases (which would involve or generate hazardous materials and wastes) may be also significant. To address identified risks and impacts the client prepared an Environmental and Social Management Framework which covers the following: rules and procedures for

	environmental and social screening of investments/subprojects; guidance for conducting subprojects Environmental and Social Impact Assessments (ESIA) and/or preparing simple Environmental and Social Management Plans (ESMPs) as well as the related ESMP Checklists; mitigation measures for possible impacts of different proposed activities and types of matching grants and subprojects to be supported by the project; requirements for monitoring and supervision of implementing of ESIA/ESMPs, implementation arrangements. As the development of business plans, or improving production processes can during their implementation generate some impacts related to air and water pollution, waste generation, labor and health risks, etc. the ESMF specifies that all these activities are subject to preliminary screening to identify those which might require an ESIA and/or a simple ESMP. The screening process is aimed at identifying possible areas and recommendations for improving environmental performance of proposed activities by identifying opportunities for sound environmentally and/or socially positive alternatives (e.g., energy efficiency, recycling and reducing waste generation, etc.). The ESMF also specifies capacity building activities that include strengthening of SIC's capacity as well as of participating local institutions on mitigating potential environmental and social risks and conducting subproject-level ESIA. A special attention in this regard is given to developing the capacity of hokimiyats to identify and manage environmental and social risks. Lastly, the document provides a negative list that will include investments with large-scale irreversible social or environmental impacts (Category A subprojects), which will be not supported under the project. Also, the sub-projects located in protected areas, critical habitats or culturally- or socially-sensitive areas, along with sub-projects which might have impact on international waterways, as specified in the ESMF will be excluded from the project financing. The draft ESMF was disclosed and consulted with all interested parties in the country as well as disclosed on the WB website.

Performance Standards for Private Sector Activities OP/BP 4.03	No	N/A
Natural Habitats OP/BP 4.04	No	All proposed activities are to be implemented within existing agricultural land and settlement boundaries, the project will not have impact on wildlife and natural habitats, and thus OP/BP 4.04 Natural habitats are not triggered.
Forests OP/BP 4.36	No	All proposed activities are to be implemented within existing agricultural land and settlement boundaries, the project will not have impact on forests.
Pest Management OP 4.09	Yes	Subprojects which might lead to increased use of pesticides. In the case the project will trigger this OP then the ESMF will provide a special section devoted to pest management issues, promoting Integrated Pest Management approaches, and safety rules.
Physical Cultural Resources OP/BP 4.11	No	All proposed sub-projects will be screened in this regard and in the case there might be impacts on PCRs, those projects will be not supported under the project.
Indigenous Peoples OP/BP 4.10	No	There are no IP in Uzbekistan.
Involuntary Resettlement OP/BP 4.12	No	Participation in project activities is demand driven and no involuntary taking of land or negative impact on livelihood activities would be supported under the project . Cluster sub-projects will be screened to ensure this is the case.
Safety of Dams OP/BP 4.37	No	The proposed activities will not have impacts on or relay on dam safety.
Projects on International Waterways OP/BP 7.50	No	All proposed subprojects will be screened and those which might have impacts on IWs will be excluded.
Projects in Disputed Areas OP/BP 7.60	No	The project will be not implemented in any of disputed areas.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The proposed project activities are expected to result in economic and social benefits but may also generate adverse environmental and social impacts. Under the projects' second component on access to finance (with a focus on micro and small enterprises in high potential sectors such as agribusiness, tourism, textiles/apparel, light manufacturing), potential investments might cause a series of various and direct environmental risks and impacts such as: increased environmental pollution with wastes, noise, dust, air pollution, health hazards and labor safety issues, due to civil

works. Overall most of these risks and impacts are expected to be typical for small scale construction/rehabilitation works, agri-business activities, industrial production, temporary by nature and site specific, and can be easily mitigated by applying best construction practices and relevant mitigation measures, but in some cases (which would involve or generate hazardous materials and wastes) may be also more significant. Under the project's first component, a series of consultancy activities related to development of business plans might, during their implementation and operational phases, generate some environmental and social impacts (air and water pollution, waste generation, labor and health risks).

Potential adverse social impacts could arise in relation to labor issues within MSMEs supported under the project. Child and forced labor is not anticipated as a significant risk, however, as most incidences of forced labor in Uzbekistan are found in cotton production and harvesting, which is not eligible for support under the project. Nonetheless, the project will utilize the screening and monitoring mechanisms described in the ESMF to mitigate any risk of child and forced labor among MSMEs supported by the project.

Activities that show the potential for temporary or permanent involuntary land acquisition, land use restrictions, negative impact on economic activities, or restrict access to resources will not be financed under the project. Any activity that is associated with the project will also be monitored to ensure there is no involuntary land acquisition or negative impact on economic livelihood. All investments in productive activities through cluster development and credit lines will be made on a demand driven basis and screened in the credit appraisal and cluster sub-project evaluation process to identify any proposed activities that would contravene these principles. As a result, WB Operational Policy OP 4.12 on Involuntary Resettlement is not triggered but social issues will continue to be assessed through the ESMF and will be monitored during supervision. Although involuntary land acquisition will not be allowed, a business will be allowed to acquire land in the open market of willing buyer-willing seller situation or acquire unused government land.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The long term and indirect impacts are positive, - the project is expected to contribute to increased economic activity on the part of micro, small and medium enterprises but is not expected to contribute to large scale and long term negative impacts in the project area.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
The only one considered project alternative was "no project alternative" which was rejected as will not provide any further new opportunities for building greater economic and job opportunities within Ferghana Valley and facilitating private sector-led economic growth.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
In accordance with the Bank's safeguard policies and procedures, the project is classified as Category B for which an Environmental Assessment (EA) with Environmental and Social Management Plan (ESMP) is required. As before project appraisal it is not possible to identify the subprojects will be financed the appropriate EA instrument is an Environmental and Social Management Framework (ESMF) was prepared to specify all rules and procedures for the subprojects Environmental and Social Impact Assessment (ESIA). None of the project activity or subproject that would receive financing will cause significant environmental impacts which may fall under the Category A projects and for which a full EIA would be required (none of such subprojects will be supported under the project). However, most

them might cause some adverse environmental impacts and would fall under the Category B projects, for which the Bank requires a simple and/or a partial Environmental and Social Impacts Assessment (ESIA) and/or preparing an Environmental and Social Management Plan (ESMP).

The ESMF will guide the ESIA process and covers the following: rules and procedures for environmental and social screening of subprojects to be supported under the Access to financing Component; guidance for conducting subprojects ESIA and/or preparing simple ESMPs, as well as the related ESMP Checklists; mitigation measures for possible impacts of different proposed activities and subprojects to be supported by the project; a template for Pest Management Plan for agriculture production subprojects; main requirements for ESIA for the business development plans to be developed under the Component 1; requirements for monitoring and supervision of implementing of ESIA/ESMPs, implementation arrangements. As the project is built around two FI components (cluster development and access to finance and the proposed guarantee fund and credit line for mirco-enterprises), the ESMF provides an overview of the capacity of the implementing agency, FI and PFIs for E&S risk management in this FI space. Based on this review, the ESMF specifies capacity building activities that would include all these parties as well activities on strengthening of SIC's capacity as well as of participating local institutions on mitigating potential environmental and social risks and conducting subproject-level ESIA. A special attention in this regard will be on developing the capacity of hokimiyats (provincial administration) ESA capacities. Lastly, the ESMF document provides a negative list that will include primary infrastructure investments, and investments with large-scale irreversible social or environmental impacts (Category A subprojects), which will be not supported under the project. Also, the sub-projects located in protected areas, critical habitats or culturally- or socially-sensitive areas, along with sub-projects which might have impact on international waterways, will be included in this negative list.
Environmental safeguards implementing arrangements are the following:

The RRA Project Management Unit. The Central Project Management Unit (PMU), to be established under RRA at the national level will coordinate project implementation in three-participating oblasts: Andijan, Fergana and Namangan. The PMU will hire a Safeguards Specialist (SS) which will oversee overall coordination of ESMF and individual ESMPs implementation, reporting to SIC and to the WB regarding safeguards issues, as well as of integrating safeguards requirements into biding and contracting documents. He/she also will be responsible for interaction with the environmental authorities, ensuring an efficient implementation of safeguards documents and will undertake, randomly, field visits and environmental supervision and monitoring, assessing environmental compliance at worksites, advising RRA Fergana Valley regional offices (FVROs) on environmental and social safeguards issues. The PMU SS will be, also, responsible for identifying ESA training needs for all parties involved in ESMF/ESMPs implementation.

RRA Fergana Valley regional offices. The project would be implemented at the local level through RRA Regional Offices which will be working closely with the respective oblast and rayon Hokhimiyats. The FVROs will also include a SS, who's main duties would be to ensure that the project activities are implemented in compliance with the WB safeguards Operational Policies and national EA rules and procedures. Among major responsibilities of the FVROs SS will be the following: (a) ensuring that contractors complies with all ESMPs requirements; (b) coordinating of all environmental and social related issues at the city and district level; (c) conducting ESMP supervision and monitoring and assessing environmental and social impacts and efficiency of mitigation measures, as well as identifying non-compliance issues or adverse trends in results, and putting in place programs to correct any identified problems; (d) when needed, providing advises and consulting contractors in ESMP implementation; and, (e) reporting to the PMU with regard to ESMP implementation. All Regional offices will report to the Central PMU.

Participating Financial Intermediaries. The subprojects ESIA and ESMPs implementation will remain under the responsibility of the PFIs and of sub borrowers, including responsibilities for supervision and monitoring of proposed activities and selected subprojects. Compliance with the ESMPs and monitoring of the impact during the construction phase will be undertaken by the PFIs and periodically by RRA and Regional Offices Safeguards Specialists as part of his/her contract supervisory duties. The PFIs will also play the major role in implementing ESMF provisions and will be required to ensure that sub-borrowers conduct an appropriate ESIA and where necessary prepare an EMP, for each sub-project. The PFIs will be involved in the process of project implementation from the very beginning, at the project's appraisal stage. They will evaluate project proposals to attribute them to the WB Category and determines type of Environmental Assessment to be conducted for project, reviews the set of documents prepared by sub-borrowers (sub-projects' Information Sheet or Project Summary Sheet as well as all necessary permits and clearances needed for project implementation) completes Environmental Screening Checklist and makes a final decision on project's financing. In case of non-compliance with presumed mitigation measures during project implementation, the PFIs can make a decision on suspending of funding.

Access to Finance Guidelines (Credit Manual) EA provisions. This document will be prepared before the project start, providing not only the criteria for the selection of recipients of sub-loans, and for the eligible investments, terms and conditions of the sub-loan and other modalities and agreements of the access to finance, but also the rules and procedures for subprojects ESIA that are with details provided in the ESMF.

Beneficaries/contractors' responsibilities. The actual investments will be carried out by subproject beneficiaries and their contractors which should operate in full compliance with national environmental and social legislation and with the ESMPs requirements. Further, the beneficiaries/contractors are obliged to follow regulative requirements of the national law related to traffic safety, occupational health and safety; fire safety; environmental protection; and community health and safety. All ESMPs' associated activities will be financed by the beneficiaries/contractors. The beneficiaries/contractors will also be requested to designate a person in charge of environmental, social, health and safety issues and for implementing the ESMP.

ESA capacity building activities. The implementation of the ESMF requires specific knowledge for beneficiaries and operators engaged in the different phases of the project implementation. As at both – PMU and FVROs levels now there are no yet hired SS, the project will support relevant trainings on knowledge and information on topics such as the ESMF implementation, ESMF/ESMP reporting, World Bank Guidelines etc. For this purpose, before the civil works will start, the client will hire a consultant with knowledge on the environmental and social management requirements for Republic of Uzbekistan, including substantial knowledge on Bank safeguards policies and requirements which will provide EA training which will include the basic requirements of the WB and National safeguards rules and procedures, as well as case studies in this regard. The training activities will continue also during the project implementation when the consultant will provide on the job training regarding environmental and social monitoring and supervision.

Environmental and social supervision, monitoring and reporting. Supervision of the ESMF and ESMPs implementation will be the responsibility of the beneficiaries/contractors and RRA Regional offices which periodically (as per monitoring schedule) will prepare short reports on ESMPs implementation to be submitted to the PMU. PMU will compile these reports and semi-annually will present short information about the ESMP implementation as part of the Progress Reports to the WB.

Child and forced labor. National legislation strictly prohibits using child and forced labor and people who infringe legal acts are imposed fines. In addition, Uzbekistan joined/ratified ILO conventions No 29 and No105 on elimination of

forced labor and Conventions No 138 and No 182 that foresee abolition of child labor. Screening mechanisms in the ESMF include screening for labor issues (including child and forced labor) and sub-loan agreements will also require the immediate termination and full repayment of any sub-loan found to be associated with forced labor. The ESMF monitoring mechanisms will also assess compliance with national and international standards on labor.

Additional social instruments. The project will apply participatory approaches in needs assessment, investment prioritization decision-making, service delivery monitoring and feedback, and other key functions, leveraging applications of technology where appropriate. Project institutional and implementation arrangements will include a grievance redress mechanism. The project has designed specific mechanisms for women's participation in enterprise development activities. Specific activities for economic participation of women in livelihood development and entrepreneurship will have been targeted and the incubator hubs will include activities dedicated exclusively for women entrepreneurs in partnership with various women's networks and the Business Women's Association. .

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Public Consultation were undertaken from the beginning of the ESMF development. Number of consultations were conducted with representatives of the State Committee on Ecology and Environment Protection, khokimiyats and representatives of PFIs. Draft version of ESMF in local language was published on Agency's website (http://uzaifsa.uz/sites/default/files/proekt_dlya_sayta.pdf)
on January 9, 2019. Advertisements about planning activities were published in the local newspaper "Pravda Vostoka" on January 10, 2018 in both languages – Russian and Uzbek. Moreover, information about the planning consultation was distributed through local administration as well – khokimiyats and makhallas.
Public Consultations were held during January 17-18 in three cities of the project area – Ferghana, Andijan and Namangan. Representatives from khokimiyats, makhallas, women committee, youth union, banks, state committee on environmental and nature protection, sanitarian epidemiological station and others are attended meetings. During the public consultation information about the project, anticipated environmental and social impacts, proposing mitigation measures, environmental and social assessment procedure were presented to the meeting participants. Proposed GRM was discussed as well. During the meeting it was announced, that final version of ESMF, which will incorporate comments, received during PC will be re-published on Agency's website and on WB external website. Moreover, hard copies of ESMF will be available in RO's offices. At the end the RO's specialists shared their contact information for further comments, suggestions and clarifications on ESMF. In total, more than 100 participants attended the meeting. Overall the document was largely accepted by all participants and no major comments to revise the document have been received (see Annex 10 with the details of conducted consultations).

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
23-Jan-2019	31-Jan-2019	

"In country" Disclosure

Uzbekistan
31-Jan-2019

Comments

Initial draft disclosed on RRA website and public advertisement.Final draft disclosed on RRA website

Pest Management Plan

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission for disclosure
No		

"In country" Disclosure

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

In country disclosure of the initial draft took place on January 9, 2019 that were then followed by in country consultations on January 17 and 18. The final version of the ESMF incorporating received comments was disclosed in the country and on the WB website on January 31, 2019.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?
Yes

Is a separate PMP required?
No
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?
NA

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes
Have costs related to safeguard policy measures been included in the project cost?
Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

World Bank

Melissa Brown
Senior Agriculture Economist

Dilshod Khidirov
Sr Agricultural Spec.

Borrower/Client/Recipient

Republic of Uzbekistan

Implementing Agencies

Agro Industry and Food Agency (AIFSA)
Shohrukh Shoahmedov
General Director
info@rra.uz

FOR MORE INFORMATION CONTACT

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

APPROVAL

Task Team Leader(s):	Melissa Brown Dilshod Khidirov

Approved By

Safeguards Advisor:	Brandon Enrique Carter	04-Feb-2019
Practice Manager/Manager:	Julian A. Lampietti	04-Feb-2019
Country Director:	Hideki Mori	06-Feb-2019