

Document of  
The World Bank

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Report No: PAD1228

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT TO  
THE REPUBLIC OF TAJIKISTAN  
IN THE AMOUNT OF SDR 6.4 MILLION  
(US\$9.0 MILLION EQUIVALENT)

PROPOSED CREDIT TO  
THE REPUBLIC OF UZBEKISTAN  
IN THE AMOUNT OF SDR 10.0 MILLION  
(US\$14.0 MILLION EQUIVALENT)

AND

PROPOSED GRANT TO  
EXECUTIVE COMMITTEE OF INTERNATIONAL FUND FOR SAVING THE ARAL SEA  
IN THE AMOUNT OF SDR 10.7 MILLION  
(US\$15.0 MILLION EQUIVALENT)

FOR A

CLIMATE ADAPTATION AND MITIGATION PROGRAM FOR ARAL SEA BASIN

October 13, 2015

Environment and Natural Resources Global Practice  
Agriculture Global Practice  
Social, Urban, Rural, and Resilience Global Practice  
Water Global Practice  
Europe and Central Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2015)

Currency Unit = US\$  
SDR 0.711 = US\$ 1  
US\$ 1.406 = SDR 1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CAEWDP	Central Asia Energy Water Development Program
CAHMP	Central Asia Hydromet Modernization Project
CAMP4ASB	Climate Adaptation and Mitigation Program for Aral Sea Basin
CAREC	Regional Environmental Center for Central Asia
CAWaRM	Central Asia Water Resource Management Program
CBU	Central Bank of Uzbekistan
CEP	Committee for Environmental Protection
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DA	Designated Account
DSC	Debt Service Coverage
ECA	Europe and Central Asia
ECADEVPTF	Europe and Central Asia Capacity Development Trust Fund
EC-IFAS	Executive Committee of International Fund for Saving the Aral Sea
EA	Environmental Assessment
EIA	Environmental Impact Assessment
EMF	Environmental Management Framework
FBM	Feedback Mechanism
FLERMONECA	Forest and Biodiversity Governance Including Environmental Monitoring
FM	Financial Management
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIS	Geographic Information System
IA	Implementing Agency
ICSD	Interstate Commission for Sustainable Development
ICT	Information Communication and Technology
IDA	International Development Association
IFAS	International Fund for Saving the Aral Sea
IFC	International Finance Corporation

IFR	Interim Un-audited Financial Reports
ILO	International Labor Organization
IOM	International Organization for Migration
IPM	Integrated Pest Management
M&E	Monitoring and Evaluation
MOF PMU	Project Management Unit at the Ministry of Finance
MONECA	Environmental Monitoring in Central Asia
NCU	National Coordination Unit
NGO	Non-Governmental Organization
OSCE	Organization for Security and Co-operation in Europe
PDO	Project Development Objective
PFI	Participating Financial Institution
PMU	Project Management Unit
POM	Project Operational Manual
RAS	Reimbursable Advisory Services
RCU	Regional Coordination Unit
RRA	Rural Restructuring Agency
RSC	Regional Steering Committee
SLA	Subsidiary Loan Agreement
SOE	Statement of Expenses
TPM	Third Party Monitoring
TWG	Technical Working Group

Regional Vice President:	Cyril Muller
Regional Director:	Saroj Jha
Senior Global Practice Director:	Paula Caballero
Practice Manager:	Kulsum Ahmed
Task Team Leader:	Philippe Ambrosi / Angela Armstrong



**CENTRAL ASIA**  
**Climate Adaptation and Mitigation Program for Aral Sea Basin**

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## PAD DATA SHEET

*Central Asia*

*Climate Adaptation and Mitigation Program for Aral Sea Basin (CAMP4ASB) (P151363)*

### PROJECT APPRAISAL DOCUMENT

*EUROPE AND CENTRAL ASIA*

*GENDR*

Report No.: PAD1228

Basic Information			
Project ID P151363	EA Category B - Partial Assessment	Team Leader Angela G. Armstrong and Philippe Ambrosi	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [X]		
	Series of Projects [X]		
Project Implementation Start Date 03-Nov-2015	Project Implementation End Date 27-Apr-2021		
Expected Effectiveness Date 28-Apr-2016	Expected Closing Date 30-Apr-2021		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Kulsum Ahmed	Paula Caballero	Saroj Kumar Jha	Cyril Muller
Borrower: Executive Committee of International Fund for Saving the Aral Sea, Republic of Tajikistan, Republic of Uzbekistan			
Responsible Agency: Executive Committee of International Fund for Saving the Aral Sea			
Contact:	Shavkat Khamraev	Title:	Acting Chairman
Telephone No.:	712304490	Email:	mail@ec-ifas.org
Responsible Agency: Committee for Environmental Protection (Tajikistan)			
Contact:	Khayrullo Ibodzoda	Title:	Chairman

Telephone No.: 2217644		Email: ijzattj@mail.ru								
Responsible Agency: Ministry of Agriculture and Water Resources (Uzbekistan)										
Contact:	Shukhrat Teshaeв		Title: Minister							
Telephone No.: 2410042		Email: info@agro.uz								
<b>Project Financing Data(in USD Million)</b>										
<input type="checkbox"/> Loan	<input checked="" type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee								
<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other								
Total Project Cost:	44.78	Total Bank Financing:	38.00							
Financing Gap:	0.00									
<b>Financing Source</b>		<b>Amount</b>								
BORROWER/RECIPIENT		0.00								
International Development Association (IDA)		23.00								
IDA Grant		15.00								
Community Beneficiaries		6.78								
Total		44.78								
<b>Expected Disbursements (in USD Million)</b>										
Fiscal Year	2016	2017	2018	2019	2020	2021				
Annual	0.03	6.21	10.37	10.02	7.75	3.62				
Cumulative	0.03	6.24	16.61	26.63	34.38	38.00				
<b>Institutional Data</b>										
<b>Practice Area / Cross Cutting Solution Area</b>										
Environment & Natural Resources										
<b>Cross Cutting Areas</b>										
<input checked="" type="checkbox"/>	Climate Change									
<input type="checkbox"/>	Fragile, Conflict & Violence									
<input checked="" type="checkbox"/>	Gender									
<input checked="" type="checkbox"/>	Jobs									
<input type="checkbox"/>	Public Private Partnership									
<b>Sectors / Climate Change</b>										



Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Central government administration	40	100	50
Public Administration, Law, and Justice	Public administration- Information and communications	30	100	30
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	15	100	40
Agriculture, fishing, and forestry	Forestry	15	100	100
Total		100		
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Social protection and risk management	Natural disaster management	25		
Environment and natural resources management	Environmental policies and institutions	25		
Social protection and risk management	Other social protection and risk management	25		
Environment and natural resources management	Climate change	25		
Total		100		
Proposed Development Objective(s)				
<p>The Project Development Objective (PDO) is to enhance regionally coordinated access to improved climate change knowledge services for key stakeholders (e.g., policy makers, communities, and civil society) in participating Central Asian countries, as well as to increased investments and capacity building that, combined, will address climate challenges common to these countries.</p>				
Components				
Component Name		Cost (USD Millions)		
Regional Climate Knowledge Services		12.49		

Regional Climate Investment Facility	21.35
Regional and National Coordination	3.86
Unallocated Amount	0.30

### Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	H
2. Macroeconomic	M
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	H
6. Fiduciary	H
7. Environment and Social	M
8. Stakeholders	H
9. Other	n/a
<b>OVERALL</b>	<b>H</b>

### Compliance

#### Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any waivers of Bank policies?	Yes [ X ]	No [ ]
Have these been approved by Bank management?	Yes [ X ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X

Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60			X
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements, Schedule 2, Section I.A. of the FA (EC-IFAS)	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall carry out Component 1 and Subcomponent 3.1 of the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operational Manual and the Environmental Management Framework, and shall not assign, amend, abrogate or waive any provisions of these two documents without prior approval of the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements, Schedule 2, Section I.A. of the FA (EC-IFAS)		27-Jun-2016	
<b>Description of Covenant</b>			
Within 60 days of the Effective Date, the Recipient shall establish and thereafter maintain a Steering Committee to provide strategic guidance for Project implementation. The mechanism and structure of the Steering Committee will be to be documented in the Project Operational Manual.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements, Schedule 2, Section I.A. of the FA (EC-IFAS)	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall contract two technical specialists, to assist the Recipient in carrying out the oversight, inter-agency coordination and policy guidance of the regional activities of the Project.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall carry out Subcomponents 2.1 and 2.2 through MOF PMU, and Subcomponent 3.2 through MOF PMU and CEP, in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project and Line of Credit Operational Manuals and the Environmental Management Framework, and shall not assign, amend, abrogate or waive any provisions of these documents without prior approval of the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS
<b>Description of Covenant</b>			

No later than 45 days from the Effective Date, the Recipient shall establish the NCU within CEP and thereafter maintain the NCU and the MOF PMU until Project completion, and shall ensure that these units are adequately staffed by personnel and consultants with qualifications and under terms of reference and functions, at all times in accordance with procedures necessary and appropriate for the carrying out of the Project and acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)		12-Jun-2016	

**Description of Covenant**

No later than 45 days from the Effective Date, the Recipient shall cause MOF-PMU to (a) contract a credit specialist to assist PFIs with execution of Subcomponent 2.1 of the Project; (b) sign the contract for installation and adaptation of the accounting software acceptable to the Association for Project accounting, budgeting and reporting; and (c) make provisions for adequate training on the new accounting system for the effective use by its accounting staff and the financial management consultant.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall ensure that the financial and accounting units of CEP and MOF PMU carry out the financial management and disbursement functions related to Subcomponent 3.2 of the Project, and that MOF PMU's financial and accounting unit carries out the financial management and disbursement functions related to Subcomponents 2.1 and 2.2 of the Project.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

For purposes of implementation of Subcomponent 2.2 of the Project, the Recipient, through MOF PMU, shall (i) select Facilitating Organizations based on the criteria set forth in the Project Operational Manual; and (ii) execute a contract with each Facilitating Organization for carrying out the activities under Subcomponent 2.2 of the Project, and such contracts shall contain terms and conditions satisfactory to the Association.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall maintain the Technical Working Group, throughout the life of the Project in accordance with the provisions set forth in the Project Operational Manual.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall (a) cause the Technical Working Group and the NCU to coordinate and collaborate with EC-IFAS, RCU for implementation of Component 1 of the Project, in accordance with the Project Operational Manual; and (b) afford all reasonable opportunity for representatives of EC-IFAS and RCU to visit any part of its territory for purposes related to Component 1 of the Project.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (TJ)		27-Aug-2016	

**Description of Covenant**

The Recipient shall, within 120 days of the Effective Date, in consultation with the stakeholders and the Project Beneficiaries, establish and maintain a Grievance Redress Mechanism, in accordance with procedures and guidelines set forth in the Project Operational Manual, and acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.C of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

For the purposes of carrying out Subcomponent 2.1 of the Project, the Recipient, through MOF PMU, shall select eligible PFIs in accordance with the criteria and procedures set forth in the Line of Credit Operational Manual and on terms and conditions referred to in the Financing Agreement.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.C of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall make Subsidiary Loans to eligible PFIs under Subsidiary Loan Agreements to be entered into between the Recipient and each eligible PFI. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.

Name	Recurrent	Due Date	Frequency
Safeguards, Schedule 2, Section D of the FA (TJ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall ensure that the Project is implemented in accordance with applicable environmental and social standards and practices and in compliance with applicable laws and regulations on child and forced labor.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall carry out Component 2 and Subcomponent 3.2 through RRA, as per requirements, criteria, organizational arrangements and operational procedures set forth in the Project and Line of Credit Operational Manuals and the Environmental Management Framework, and shall not assign, amend, abrogate or waive any provisions of these documents, without prior approval of the Association.

Name	Recurrent	Due Date	Frequency
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Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)	<b>X</b>		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall maintain the NCU within RRA throughout the duration of the Project and shall ensure that the NCU is adequately staffed by personnel and consultants with qualifications and under terms of reference and functions, at all times in accordance with procedures necessary and appropriate for the carrying out of the Project.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)	<b>X</b>		CONTINUOUS
<b>Description of Covenant</b>			
The Recipient shall ensure that RRA's financial and accounting unit carries out the financial management and disbursement functions related to Subcomponent 2.2 and 3.2 of the Project.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)	<b>X</b>		CONTINUOUS
<b>Description of Covenant</b>			
For purposes of implementation of Subcomponent 2.2 of the Project, the Recipient, through the RRA, shall (i) select Facilitating Organizations based on the criteria set forth in the Project Operational Manual; and (ii) execute a contract with each Facilitating Organization for carrying out the activities under Subcomponent 2.2 of the Project, and such contracts shall contain terms and conditions satisfactory to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)		28-May-2016	
<b>Description of Covenant</b>			
The Recipient shall cause the RRA, within 30 days of the Effective Date, to (a) sign a contract for adaptation of the accounting software acceptable to the Association for Project accounting, budgeting and reporting; and (b) make provisions for adequate training on the new accounting system for the effective use by its accounting staff and the financial management consultant.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)		28-May-2016	
<b>Description of Covenant</b>			
No later than 30 days from the Effective Date, the Recipient shall cause RRA to sign a contract for retention of a credit specialist to assist PFIs with execution of Subcomponent 2.1 of the Project.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)		27-Jun-2016	
<b>Description of Covenant</b>			

No later than 60 days from the Effective Date, the Recipient shall establish a focal point or focal group for (a) coordination and collaboration with EC-IFAS, RCU, NCU and/or the Steering Committee for implementation of Component 1 of the Project, and (b) supporting inter-agency dialogue and regional coordination of Part 2.1 and 3.2 of the Project, throughout the life of the Project, all in accordance with the provisions set forth in the Project Operational Manual.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.A. of the FA (UZ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall (a) cause the established focal point or group, and the NCU to coordinate and collaborate with EC-IFAS, RCU for implementation of Component 1 of the Project, in accordance with the Project Operational Manual; and (b) afford all reasonable opportunity for representatives of EC-IFAS and RCU to visit any part of its territory for purposes related to Component 1 of the Project.

Name	Recurrent	Due Date	Frequency
Institutional Arrangements, Schedule 2, Section I.A. of the FA (UZ)		27-Aug-2016	

**Description of Covenant**

The Recipient shall, within 120 days of the Effective Date, in consultation with the stakeholders and the Project Beneficiaries, establish and maintain a Grievance Redress Mechanism, in accordance with procedures and guidelines set forth in the Project Operational Manual, and acceptable to the Association.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.C of the FA (UZ)	X		CONTINUOUS

**Description of Covenant**

For the purposes of carrying out Subcomponent 2.1 of the Project, the Recipient, through RRA, shall select eligible PFIs in accordance with the criteria and procedures set forth in the Line of Credit Operational Manual and on terms and conditions referred to in the Financing Agreement.

Name	Recurrent	Due Date	Frequency
Implementation Arrangements, Schedule 2, Section I.C of the FA (UZ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall make Subsidiary Loans to eligible PFIs under Subsidiary Loan Agreements to be entered into between the Recipient and each eligible PFI. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.

Name	Recurrent	Due Date	Frequency
Safeguards, Schedule 2, Section D of the FA (UZ)	X		CONTINUOUS

**Description of Covenant**

The Recipient shall ensure that the Project is implemented in accordance with applicable environmental and social standards and practices and in compliance with applicable laws and regulations on child and forced labor.

<b>Conditions</b>		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDAT	Cross effectiveness, Article V of FA (EC-IFAS)	Effectiveness
<b>Description of Condition</b>		
At least one of the National Financing Agreements has been signed and all conditions precedent to its effectiveness or to the right of the relevant Participating Country to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDAT	EC-IFAS/CAREC Operating Agreement, Article V of FA (EC-IFAS)	Effectiveness
<b>Description of Condition</b>		
The Operating Agreement has been executed by the Recipient and CAREC in accordance with Section I.A(6) of Schedule 2 to Financing Agreement (EC-IFAS), in a manner acceptable to the Association.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDAT	Project Operational Manual, Article V of FA (EC-IFAS)	Effectiveness
<b>Description of Condition</b>		
The Project Operational Manual, satisfactory to the Association has been adopted by the Recipient.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDAT	RCU Fiduciary Staffing, Article V of FA (EC-IFAS)	Effectiveness
<b>Description of Condition</b>		
The RCU has contracted, under terms of reference satisfactory to the Association, a financial management specialist and procurement specialist.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Cross effectiveness, Article V of FA (TJ)	Effectiveness
<b>Description of Condition</b>		
The Financing Agreement (EC-IFAS) has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Project and Line of Credit Operational Manuals, Article V of FA (TJ)	Effectiveness
<b>Description of Condition</b>		
The Project Operational Manual (POM) and Line of Credit Operational Manual, acceptable to the Association, have been adopted by the Committee for Environmental Protection (CEP) and the MOF PMU.		
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>
IDA	Fiduciary Staffing, Article V of FA (TJ)	Effectiveness



<b>Description of Condition</b>			
The Recipient has contracted, under terms of reference and in a manner acceptable to the Association, a financial management consultant to support the MOF PMU.			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
IDA	Cross effectiveness, Article V of FA (UZ)	Effectiveness	
<b>Description of Condition</b>			
The Financing Agreement (EC-IFAS) has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
IDA	Project and Line of Credit Operational Manuals, Article V of FA (UZ)	Effectiveness	
<b>Description of Condition</b>			
The Project Operational Manual (POM), and Line of Credit Operational Manual, acceptable to the Association, have been adopted by the RRA.			
<b>Team Composition</b>			
<b>Bank Staff</b>			
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Philippe Ambrosi	Senior Environmental Economist	Team Lead	GENDR
Angela G. Armstrong	Senior Natural Resources Mgmt. Spec.	Team Lead	GENDR
Rustam Arstanov	Environmental Specialist	Environmental Specialist	GENDR
Sandra Broka	Senior Rural Finance Specialist	Senior Rural Finance Specialist	GFADR
Iskander Buranov	Energy Specialist	Energy Specialist	GEEDR
Arcadie Capcelea	Senior Environmental Specialist	Senior Environmental Specialist	GENDR
Manon Pascale Cassara	Consultant	Water Resource Management Specialist	GWADR
Laurent Debroux	Program Leader	Sector Leader	ECCU8
Erick C.M. Fernandes	Adviser	Adviser	GFADR
Daryl Fields	Senior Water Resources Spec.	Senior Water Resources Spec.	GWADR
Habiba Gitay	Senior Environmental Specialist	Senior Environmental Specialist	GCCPT
Nagaraja Rao	Lead Environmental	Lead Environmental	GENDR

Harshadeep	Specialist	Specialist	
Serdar Jepbarov	Senior Operations Officer	Senior Operations Officer	ECCTM
Tolkun Jukusheva	E T Consultant	E T Consultant	GSURR
Angela Nyawira Khaminwa	Senior Social Development Specialist	Senior Social Development Specialist	GSURR
Dilshod Khidirov	Senior Rural Development Specialist	Senior Rural Development Specialist	GFADR
Aliya Kim	Financial Management Specialist	Financial Management Analyst	GGODR
Sydnella E. Kpundeh	Senior Program Assistant	Senior Program Assistant	GENDR
Nurbek Kurmanaliev	Procurement Specialist	Procurement Specialist	GGODR
Craig M. Meisner	Senior Environmental Economist	Senior Environmental Economist	GENDR
Jasna Mestnik	Finance Officer	Finance Officer	WFALA
Nicolas Perrin	Senior Social Development Specialist	Senior Social Development Specialist	GSURR
Fasliddin Rakhimov	Procurement Specialist	Procurement Specialist	GGODR
Natalia Robalino	Senior Counsel	Senior Counsel	LEGIA
Adam Shayne	Lead Counsel	Lead Counsel	LEGLE
Jitendra P. Srivastava	Consultant	Rural Development Specialist	GENDR
Oraz Sultanov	Operations Officer	Operations Officer	ECCTM
Talimjan Urazov	Senior Operations Officer	Senior Operations Officer	GFADR
Xiaolan Wang	Senior Operations Officer	Senior Operations Officer	GSURR
Bobojon Yatimov	Senior Rural Development Specialist	Senior Rural Development Specialist	GFADR

**Non-Bank Staff**

<b>Name</b>	<b>Title</b>	<b>City</b>
Jitendra Shah	Climate Change Coordinator	Manila, Philippines

<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
Tajikistan					
Uzbekistan	-Republic of Karakalpakstan -Khorazm Province				
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required?		Consulting services to be determined			



## **I. STRATEGIC CONTEXT**

### **A. Regional Context**

1. Central Asian countries are among the most recent independent nations in the world and despite fast growing economies, the countries account for the highest poverty levels in Europe and Central Asia (ECA). Since 1992, governments have focused on nation building, self-sufficiency, stability, and gradual opening to the global economy. The region overall is still in transition towards democracy and a market economy. Significant challenges remain with transparency, citizen engagement, and business environment. Growth in the region averaged eight percent a year over 2003-14, with an improvement in living conditions and decline in poverty. However, the prospects for Central Asia's economies have deteriorated to some extent, following the decline in oil prices, the contraction in Russia's economy, and the slowdown of China's economy. Lower projected growth rates could depress job creation and poverty reduction, as well as undermine social stability, in a region with a significant share of people living under US\$2.50 per day. In addition, about 60 percent of the population (and the largest share of the region's "Bottom 40 percent") live in rural areas and rely on agriculture for jobs and livelihoods. For growth and prosperity to continue, Central Asian countries will need to integrate more regionally and globally, as well as create more and better jobs, which will require improvements in the region's physical, human, and institutional capital.

2. Two key challenges facing Central Asia, arising from its unique landlocked geography and recent history, call for more regional cooperation, including: (i) the need to enhance connectivity and (ii) the need to achieve water and energy security. With respect to connectivity, it takes about 3,000 kilometers and two borders (in the case of Uzbekistan) to reach a seaport. Externally, connections with natural trade partners (China, Middle-East, South Asia) have long remained inhibited, and removing barriers and re-opening trade routes outside the region is essential for Central Asia's prosperity and stability. Central Asia is also a landlocked hydrographic system where the five countries share limited water as a strategic resource. Water is vital for multiple and sometimes competing uses, such as winter hydropower upstream and summer irrigation downstream, both within the same country, as well as often across different countries in the region. This, in turn, has led to disagreements between upstream and downstream countries, and the soviet system of centralized allocation of water and energy before these countries became independent has not been replaced. As a result, the region faces today inefficiencies which could be addressed, with significant mutual benefits, through regional cooperation. Climate change will further change water predictability and over time, will reduce water availability, so more cooperation is needed.

### **B. Sectoral and Institutional Context**

3. The five Central Asian countries are among the ECA Region's most vulnerable to climate change and building resilience to climate's mounting impacts is a priority for poverty reduction and shared prosperity in Central Asia. Average annual temperatures across the region have increased since the mid-20th century by 0.5°C in the south to 1.6°C in the north and impacts are already being observed, from melting glaciers in upland areas (where glaciers have lost one-third of their volume since the 1900s) to droughts and floods in the lowlands (where weather-related disasters are estimated to cause economic losses from 0.4 to 1.3 percent of Gross Domestic Product per annum for Tajikistan, Turkmenistan, and Kyrgyz Republic, for instance). Under current

greenhouse gas trajectories, climate change is expected to intensify over the coming decades, increasing pressure on natural resources and assets such as water, land, biodiversity and ecosystems, with rising costs for key development sectors, such as agriculture, energy, and human health (see Box 1). Climate variability and change, in particular, pose significant risks to the agriculture sector, which accounts for up to 65 percent of employment in some Central Asian countries and is characterized by environmental degradation and unsustainable use of natural resources. While the population is vulnerable as a whole, those pursuing subsistence agriculture and pastoralism will be particularly affected as they depend more directly on vulnerable and depleted land and water resources. Across the region, 50 to 75 percent of the countries' population live in rural areas, with often high poverty rates, and climate change threatens to keep, or further push them, into poverty.

4. Together with climatic factors, legacy issues are important drivers of climate vulnerability in Central Asian countries. A number of social, economic, and institutional factors are increasing sensitivity to climate change, making economic sectors, infrastructure, and populations particularly at risk from climate variability and change. Such factors include: aging infrastructure (e.g., in the region, energy losses can reach up to 20 percent of electricity and heat supply, and water losses in irrigation systems average 48 percent in conveyance and operational losses); unsustainable land and water management (e.g., significant land degradation through salinization, overgrazing, erosion, and desertification; insufficient maintenance of irrigation and drainage systems leading to extremely low water productivity, below US\$0.50 per cubic meter in four countries); rural poverty (e.g., 60 to 75 percent of the “Bottom 40 percent” are rural, depending on natural, over-depleted, assets for their livelihood); and low adaptive capacity to ongoing and future changes. These factors also indicate the existence of a large potential for no-regret measures (e.g., cost-effective and resistant to long-term uncertainties in climate and development scenarios) for mainstreaming climate considerations into development investments.

5. In Central Asia, the sectors most at risk from climate change are agriculture, energy, and water resources, with women disproportionately affected. In agriculture, which is critical for the largely rural livelihoods in the region, cropping system productivity (including in both rain-fed and irrigated systems) is sensitive to variations in rainfall, hydrologic flows modulated by snow accumulation and melt, system storage, as well as evapotranspiration. Energy systems are sensitive to hydrologic changes (e.g., in the case of hydropower), demand changes (e.g., in warmer areas in summer), the impact of extreme events on transmission systems, as well as mitigation actions (e.g., in the case of fossil fuels). Across these sectors women tend to be more vulnerable to the impacts of climate change, given in particular their dependence on natural resources threatened by climate change as well as their unequal access to resources, particularly in rural areas. It is therefore important to identify gender-specific strategies that support sustainable, climate-resilient development.

6. Climate risks extend across national borders, through connectivity in land and water systems as well as social and economic interactions (e.g., migratory flows, food and energy markets). For example, the Syr Darya, one of the two largest rivers in Central Asia, originates in the mountains of Kyrgyz Republic and is mainly fed by glacier and snow melt. The river then flows through Uzbekistan, Tajikistan, and Kazakhstan, where it is utilized for large-scale irrigated agriculture, particularly cotton and wheat production, and ends in the Aral Sea. While the water flow could increase in the short term (as a consequence of glacier melt), the hydrologic flow

reduction in the long run (from changes in snow/ice accumulation and melt, enhanced evaporation and crop water requirements, and uncertain precipitation changes) could have dramatically adverse social, economic, and environmental consequences on irrigation-dependent agriculture across Central Asia. The story is similar for the other major river in the region, the Amu Darya, which originates in the mountains of Tajikistan and Afghanistan. In addition to irrigated agriculture, the other major agro-ecological zones of Central Asia (i.e., mountain ecosystems, agro-pastoralism in foothills, extensive cattle ranching in the temperate and arid steppes, and rain-fed agriculture) will experience comparable climate challenges for economic activities and livelihoods.

**Box 1: Climate Change Impacts in Central Asia: Water Scarcity Challenges for Agriculture and Electricity Production**

Water resources in Central Asia are sensitive to climate variability and change, and climate impacts on water provisioning will reverberate in the agriculture and energy sectors. The region is likely to experience more intense warming than the global average: in a 4°C warmer world for instance, mean annual temperature over Central Asia at the end of the 21st century could rise by 7°C relative to 1951-1980 (or 3°C higher than the global mean). Glaciers in the region have already shrunk by one-third in volume since the beginning of the 20th century and are projected to lose up to 50 percent in volume in a 2°C warmer world, and potentially up to 75 percent in a 4°C warmer world. Concurrently, a 25 percent decrease in snow cover is expected in the Northern hemisphere with 4°C warming.

For the Amu and Syr Darya basins, the glaciers' extent is projected to decline by 54 to 65 percent over the period 2007-2050 in a 2°C warmer world. Projections of volume loss for the end of the century are in the range of 50 to 78 percent in a 4°C warmer world. While glaciers store water over decades to centuries, the seasonal snow pack stores water mainly at a shorter intra-annual time scale. With a projected smaller fraction of precipitation falling as snow, expected snowpack changes pose another threat to freshwater availability.

In the coming decades, river runoff is projected to increase due to glacial melt, and to then decrease through the second half of the century. By around 2030, this increase is expected to level off, as rising land surface temperatures lead to higher evaporation. By the end of the 21<sup>st</sup> century a noticeable decrease in the runoff of the Syr Darya is expected, and even more so for the Amu Darya given its higher share of glacier melt water. Critical for water resource availability, the timing of peak flows is projected to shift towards spring, resulting in a 25 percent reduction in discharge during the mid-summer period (July and August) in a 3°C warmer world. As a result, less water will be available during the crop-growing season.

Reduction in water availability is predicted to occur along with an increasing demand for irrigation water of about 30 percent in 4°C warmer world. Combined with increased heat extremes that negatively affect crop productivity, substantial risks for irrigated and rain-fed agricultural systems can also be expected. Greater variability and uncertainty in the timing and volume of water available is also raising concern regarding energy security, particularly for hydropower plants in small, unregulated catchments (where output could decrease by up to 20 percent in some locations at around 2°C warming by the 2050s).

Source: World Bank (2014). *Turn Down the Heat: Confronting the New Climate Normal*. Washington, DC: World Bank.

7. At the national level, Central Asian countries are at different stages in terms of defining and implementing their climate response, with great potential to learn from each other on their common adaptation and mitigation priorities. For example, Kazakhstan has initiated work under the Clean Technology Fund and has launched an emissions trading system, while Tajikistan has developed a Strategic Program for Climate Resilience, with five investment and capacity-building activities. Other countries in the region can share their experience with leveraging climate finance instruments, such as Uzbekistan, which features the highest number of carbon finance projects in the region (14 registered projects under the Clean Development Mechanism). Much can be learned also on the policy and institutional front, e.g., on formulation of national and sectoral climate change strategies, policies and action plans; on formal institutional arrangements to coordinate across sectors and facilitate implementation of climate action plans; on public access to

information and citizen engagement on climate action such as from Turkmenistan, which has shown leadership by developing the first national strategy for climate change in the region, and from the Kyrgyz Republic, which has set up a multi-sector ministerial-level committee, chaired by the Vice Prime Minister, for climate policy coordination in the country. There is also emerging experience in the region from climate-smart investments in common agro-ecological zones (e.g., climate-resilient development in communities located in arid zones). A few regional projects are providing a platform to foster dialogue and cooperation on climate change, such as a Bank/Pilot Program for Climate Resilience (PPCR) project underway to initiate modernization of the region's hydromet services that are so critical for early warning of weather hazards (Central Asia Hydrometeorology Modernization Project - P120788). However, for dialogue and experience sharing to accelerate the move towards more effective climate risk management and action, better information accessible to multiple stakeholders, an institutional platform to enable collaboration, and investments, addressing common climate challenges in common eco-zones to generate lessons for scale-up across countries, are key to further progress.

8. Currently there is no institutional platform in Central Asia with explicit mandate to support regional cooperation on climate change across a broad range of sectors. Given inherent connections in water and land systems within the region as well as similarities in climate change challenges across countries, a coordinated and integrated approach toward climate change could bring multiple benefits. In particular, it could help improve the effectiveness of national climate actions through (i) economies of scale (e.g., shared research and knowledge efforts); (ii) faster learning through experience-sharing for replication and scaling-up across countries of successful climate innovation; (iii) strategic planning and financing (e.g., access to climate finance, collaboration with development partners); and (iv) maximizing synergies in national actions among neighboring countries, thereby enhancing climate resilience in the region and the countries themselves (e.g., multi-country risk-management mechanisms in agriculture). Existing regional institutions under the International Fund for Saving the Aral Sea (IFAS) – such as IFAS Executive Committee (EC IFAS) or the Interstate Commission on Sustainable Development (ICSD), are well positioned to serve as a platform for regional collaboration on climate change given their mandate (to coordinate and manage regional cooperation on sustainable development in Central Asia), their high-level convening power (which facilitates dialogue among countries and with the development community), their knowledge management activities (e.g., new research, data and information management, experience sharing and training events) and, in some instances, their project implementation experience in key vulnerable sectors.

9. Recognizing the importance of climate action, Central Asian countries convened at the inaugural Central Asia Climate Knowledge Forum (held in June 2013 in Almaty, Kazakhstan). Representatives from each of the five Central Asian countries attended the Forum, acknowledging that climate risks transcend borders between Central Asian countries and emphasizing the importance of establishing a regular platform to collaborate in effective and scaled-up resilience. Since then, the Forum has emerged as a platform to encourage learning, dialogue, and collaboration among Central Asian countries on climate-resilient development, including establishing the building blocks of a regional program for climate resilience. The Second Central Asia Climate Knowledge Forum, held in May 2014 in Almaty, Kazakhstan, concluded with a call from all five Central Asian countries for a regional program aimed at strengthening dialogue and collaboration to enhance preparedness among Central Asian countries to the mounting challenges of climate change. All five countries agreed that a regional program for climate adaptation and



mitigation is a priority and can build on, and strengthen, existing experience and initiatives in the region. Such a regional program would provide a platform, such as that initiated by the Climate Forum, for regular meetings and technical exchanges on climate related issues, thus laying a foundation which, over time, would build better understanding and confidence, and allow countries to aspire to more collaborative actions on climate. Work by the Central Asia Technical Working Group on Climate Change<sup>1</sup> also indicated that the countries are facing similar sectoral challenges where resilience must be strengthened (e.g., agriculture, water, energy, health, forestry, and biodiversity) as well as gaps for addressing these challenges (e.g., knowledge and capacity, lack of an enabling regulatory framework, and access to finance and technology). These commonalities lend themselves well to a systematic and integrated approach at the regional scale, with higher gains than unilateral interventions at the national level.

### **C. Higher Level Objectives to which the Project Contributes**

10. As the Program is aimed at strengthening regional and national institutions in addressing climate change, this initiative is aligned with the climate change priorities of Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan Country Partnership Strategies (CPSs), as well as the Turkmenistan Country Engagement Note. All five country strategies stress the importance of climate change preparedness in key sectors, including water, energy and agriculture. Some of the CPSs also emphasize the importance of regional cooperation, including for tackling transboundary challenges and better managing shared natural resources. In that regard, the proposed Program fully supports the vision of enhanced dialogue and cooperation for sustainability in Central Asia, notably by supporting an existing regional institution (IFAS) and by closely coordinating with the on-going Central Asia Hydromet Modernization Project (CAHMP, P120788) and the Central Asia Water Resource Management Program (CAWaRM, P152346), under preparation. Both CAMP4ASB and CAWaRM will build and expand on CAHMP to continue upgrading and capacity strengthening for climate and environment monitoring. In addition, CAMP4ASB and CAWaRM will complement each other, with CAWaRM strengthening the knowledge chain for managing water flows at both national and regional levels and CAMP4ASB piloting upgrading of climate-related monitoring systems, which could be scaled-up under other national and regional investments (including the forthcoming CAWaRM Program).

11. The proposed Program is well aligned with ECA's updated Strategic Framework, presented to the Board on March 5, 2015, which identifies climate action as a key direction under its Sustainability Pillar aimed at reducing extreme poverty and boosting shared prosperity, as well as the Bank's twin goals of ending extreme poverty and boosting shared prosperity. Poor people will be most affected by the risks of climate change, as they tend to depend more directly on vulnerable land and water resources. The adoption of climate-smart strategies, such as adoption of sustainable land management strategies for agro-ecosystems, will help farmers and communities address current threats to agricultural production and rural livelihoods, stemming from climate risks such as droughts and weather extremes, and better adapt and become more resilient to climate change to not only restore productive natural resources, but also to improve livelihoods and food security.

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<sup>1</sup> A group of technical experts nominated by the Governments of the five Central Asian countries to work across borders and sectors on climate-smart solutions.

12. Also, the Program addresses IDA's growing emphasis on climate resilience (since addressing climate change is the *raison d'être* of CAMP4ASB) as well as on gender equality (with knowledge management activities to increase understanding of, and raise awareness on, the higher vulnerability of women to climate change and with specific mechanisms and requirements to ensure women's participation in the planning and implementation of CAMP4ASB-supported community-level climate investments). The Program, more broadly, also supports IDA-17's overarching theme of maximizing development impact, by strengthening public sector institutions, and facilitating knowledge exchange between countries.

13. In addition, climate change is a well-recognized challenge in Central Asia and the proposed Program will support and strengthen the implementation of a number of national strategies and programs, especially those targeting cross-cutting concerns of the water, agriculture, and energy sectors identified by all countries. Such strategic frameworks include: the Green Economy Concept (with a 2013-20 Action Plan including such priorities as energy conservation and energy efficiency, renewable energy, efficient and sustainable agriculture, or water security) as well as a draft Adaptation Framework in Kazakhstan; priority directions for adaptation in Kyrgyz Republic, covering water resources, agriculture, health, disaster-risk management, forest resources, and biodiversity; a National Adaptation Strategy under preparation in Tajikistan, that builds on the analytical and operational experience gained under the framework of its Strategic Program for Climate Resilience; Turkmenistan's National Strategy on Climate Change, approved in 2012, with adaptation and mitigation action plans under development, looking at the water and agriculture nexus for resilience; and the upcoming Vision 2030 under preparation in Uzbekistan, where green growth considerations offer an entry point for climate action.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

14. The Project Development Objective (PDO) is to enhance regionally coordinated access to improved climate change knowledge services for key stakeholders (e.g., policy makers, communities, and civil society) in participating Central Asian countries as well as to increased investments and capacity building that, combined, will address climate challenges common to these countries.

15. The Program will also support the systematic evaluation of these climate investments and their dissemination to a broad range of stakeholders to accelerate learning, replication, and scaling-up of such climate good practices in the region. While the Program is establishing a regional platform for all Central Asian countries to have improved access to climate information and increased funding for priority investments, the Program is being implemented in phases as a series of projects taking into consideration differences in countries' own processing requirements. In this respect, the Program's first phase will support the regional implementing agency in establishing such a regional platform for improved climate knowledge services as well as provide for climate investments in two Central Asian countries (Tajikistan and Uzbekistan). Preparation is already underway in the other Central Asian countries for their participation in the Program, with Kazakhstan and Turkmenistan expected to join in FY16 and Kyrgyz Republic by FY17 (see paragraph 35).

## **B. Project Beneficiaries**

16. The Program's benefits will be at several levels. First, by providing a platform for regular dialogue and exchange of information on climate change among all participating Central Asian countries, the Program will be foundational in terms of building confidence for increased cooperation in the region around common climate change challenges. Second, implementing climate investments and regularly sharing information and lessons on similar climate-related sectoral issues and solutions will help individual countries to learn faster by benefiting from the lessons of all five countries. Third, the Program will support stakeholders at different levels (government, farmers, banks, CSOs, etc.) to improve their awareness of climate change as well as related responses to strengthen climate resilience. This broad understanding across all participating Central Asian countries is expected to foster collaborative projects and actions over two or more countries in the outer years of the Program. Fourth, on the ground investments will play a direct role in strengthening local beneficiaries (such as farmers and communities as highlighted above) to be more resilient to climate change.

17. The direct Program beneficiaries of the climate investments will include rural communities, private farmers and farmer groups, villages or village communities, and resource user groups (e.g., water, pasture) interested in introducing climate measures (resilience or mitigation). These communities will benefit from technical and financial support to implement sub-projects that improve their livelihoods while also demonstrating climate change mitigation and/or adaptation efforts that can be ultimately shared and scaled up across the region. Beneficiaries from the climate investments in the first phase of CAMP4ASB (including Tajikistan and Uzbekistan) are expected to reach about 240,000 individuals, of which at least 35 percent will be female. Investments will be selected based on gender focus and their cost-effectiveness, post-project sustainability, and potential for replication at a regional level. The selection of project investment sites will take into account: degree of climate vulnerability, based on extent of land and vegetation degradation, expected water shortages, and predicted increase in temperature; and complementarity with government- or donor-funded initiatives on the ground.

18. An important mechanism to facilitate cooperation across Central Asian countries will be through the sharing of lessons and experiences in implementing climate investments. These climate investments contribute to a coordinated approach for strengthening climate preparedness and response in Central Asia: (i) they will address climate change in priority areas common to all countries, thereby maximizing potential for learning and experience sharing; (ii) they will be selected according to criteria agreed upon by all Central Asian countries emphasizing innovation, learning, and potential for scaling up in these regional priority areas; and (iii) they will generate results and lessons on climate-related approaches and technologies that can be shared widely in all Central Asian countries. This collaboration around experience sharing will enable faster learning and incorporation of such good climate practices into the countries' planning processes as well as lead to their more rapid adoption at scale throughout the region. The Program will ensure that results and lessons learned are disseminated widely to national and regional stakeholders. In this regard, beneficiaries will include regional institutions (such as EC-IFAS and ICSD), national institutions (such as Climate Change Departments, Ministries of Environment, Hydromet Agencies, and Ministries of Agriculture, Energy, etc.), and civil society.

### C. PDO Level Results Indicators

19. Progress towards achieving the PDO, for the first phase of CAMP4ASB, supporting Tajikistan, Uzbekistan, and a regional institution (EC-IFAS) will be measured using the following indicators and end of project targets:

- Proportion of users reporting satisfaction with climate knowledge services provided by Program will reach 60 percent;<sup>2</sup>
- Number of country-led plans and programs that draw on Program's climate knowledge services, including lessons from climate investments, will reach 3;
- Cooperative action resulting in the financing of investments that require collaboration across countries. This collaborative action could be supporting action in a transboundary geographical area or could include explicit coordination actions across countries to maximize synergies to better adapt to climate change in relevant national policies (target 2 at the end of the project); and
- Additional resources mobilized for knowledge, capacity, and investment for regional climate/green actions through increased Program-led coordination between Central Asian countries and development community will reach US\$40 million.

## III. PROJECT DESCRIPTION

### A. Project Components

#### **Component 1. Regional Climate Knowledge Services (US\$12.5 million in IDA grant financing)**

20. This component will provide technical assistance, as well as minor civil works, goods (including software and equipment), and training, at both the regional and national levels, to develop a unified, integrated regional analytical platform for climate-resilient and low emission development, with improved data, information, knowledge, and decision-support tools. Although this information platform will be managed at the regional level, national agencies and other stakeholders (e.g., academia, civil society organizations) in each participating country will also have access to this system. In addition to providing an improved data and information platform, this component will also develop a mechanism to assess the results and lessons of the climate investments implemented under the Program (under Component 2) in order to ensure that these lessons and results are systematically evaluated and disseminated to support Central Asian countries in their planning processes and lead to greater scale-up of climate action in the region. This dissemination and regional capacity building will be further supported under the component via an annual climate change forum, regional training and e-learning events, as well as climate networks.

21. Component activities will seek to maximize synergies with other knowledge and capacity initiatives in Central Asia, including exploring cost-sharing opportunities. The component's climate knowledge services will cover both climate resilience and green growth/low emissions

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<sup>2</sup> Measurements to be disaggregated by gender.

development. Particular attention will also be paid to ensuring close linkages with Component 2 (e.g., providing data, knowledge, and tools to inform the design and implementation of sub-projects under the Regional Climate Investment Facility; evaluating systematically and disseminating lessons from these sub-projects, nationally and regionally, to facilitate replication and scaling up under separate sectoral investment programs). The component's climate knowledge services will include:

- *Strengthening the Information Platform for Central Asia*, to facilitate access by stakeholders (e.g., government agencies, civil society, academia) to public-domain data for climate assessment and decision-making (e.g., socio-economic, greenhouse gas emissions, land use, hydromet, climate change scenarios, etc.). This platform will make available comprehensive and up-to-date data and information, linking with high-quality datasets, from global, regional, and local sources, including time series and spatial information (e.g., real-time earth observation systems). It will also provide tools and interfaces for the visualization and interpretation of data and information (e.g., mapping tools, to layer data and map hotspots and areas at risk, screening tools, etc.). The Platform will be designed following open data practices, starting from publicly available datasets (and building on on-going initiatives such as the World Bank Spatial Agent App) and promoting further information sharing (e.g., supporting data rescue and their publication through the Platform, crowdsourcing). This activity will be supported with approximately US\$2.4 million.
- *Targeted upgrading of climate-related monitoring systems*. This activity will support improved monitoring systems to support project activities (e.g., snow, permafrost, and glacier/cryosphere surveys and monitoring, agricultural and forest systems monitoring). These investments could then be scaled up under other national and regional investments (including the forthcoming CAWaRM Program). This activity will be supported with approximately US\$4.3 million.
- *Developing methodologies, approaches, and tools for decision support*. This activity will include regional development of climate screening tools for specific sectors, climate impact assessment and management tools, and support for climate-related decision making (e.g., robust-decision making) and development of climate investments (e.g., review of climate strategies and development of investment programs) at the national level. This activity will be supported with approximately US\$1 million.
- *Developing knowledge products*, under a broad range of support such as web portals, mobile apps, publications, specialized analytical work (e.g., climate risk and vulnerability analyses, strategy papers to inform future directions for Climate Knowledge Services and Climate Investment Facility), a periodic *Central Asia Climate Change Atlas*, on trends and indicators in the region for climate as well as environmental and socio-economic impacts. This activity will be supported with approximately US\$1.3 million.
- *Building capacity*, including activities related to training and study tours (e.g., on best practice climate solutions, on greenhouse gas inventories), engaging young professionals via internship programs. This activity will be supported with approximately US\$1.5 million.
- *Setting up a Climate Investment Assessment Mechanism*. This activity will support the systematic evaluation of climate investments under Component 2. A pool of experts, comprising national TWG members from the five Central Asian countries, Regional Coordination Unit technical experts, and additional experts as appropriate, will be

established. Approximately six to ten climate investments, at an advanced implementation stage, will be selected each year following criteria such as: use of an innovative climate technology or practice, or addressing a climate risk specific to a particular agro-ecological zone, etc. For each of these selected investments, two to three members from the expert pool, including from Central Asian countries other than that of the climate investment location, will evaluate the climate investment and will draw lessons based on a pre-established assessment methodology. The evaluations will be available for public dissemination, including for presentation and discussion at events such as the Annual Climate Forum. These evaluations will also be inputs toward CAMP4ASB-funded knowledge products, e.g., strategy and sectoral policy papers. This activity will be supported with approximately US\$387,000, and facilitated by M&E specialists contracted under Component 3.

- *Outreach and coalition building*, including holding an annual Climate Knowledge Forum (for engagement of Central Asia stakeholders around the Program’s results and its future directions) and fostering climate knowledge networks. This will also be supported by the design and implementation of an effective communications and public engagement strategy to support knowledge dissemination, public outreach, and coalition building (e.g., stakeholder mapping and public opinion research; developing protocols for external and internal communications; providing communications support for the Climate Knowledge Forum and workshops; and engaging with media and building their capacity). This activity will be supported with approximately US\$1.6 million.

## **Component 2. Regional Climate Investment Facility (US\$21.4 million in IDA financing and US\$6.8 million in beneficiary contribution)**

22. This component will provide financing via sub-loans to rural communities<sup>3</sup> for climate investments, considered by participating Central Asian countries as priority for scaled-up climate action. Sub-loans will be provided to communities according to the following criteria: degree to which investments address climate vulnerability, gender focus and cost effectiveness, sustainability and replication potential, and donor complementarity. In addition, sub-loans, as described below, will require satisfactory financial and management performance of the Participating Financial Institutions (PFIs) that will provide on-lending through credit lines. Technical assistance and facilitation support will also be provided under the component to vulnerable communities to plan, implement, and manage climate investments.

23. Agriculture and water management policies in participating countries - although still in transition - allow for the kind of technological innovation and adoption of climate-smart practices that the Program will help pilot and scale up through this component. Tajikistan and Uzbekistan are actively promoting agriculture diversification towards high value, water-efficient crops, reducing state intervention in production and marketing, and improving the quality and efficiency of extension and irrigation services. Although much work remains to be done for modernizing agriculture policies in Central Asian countries, the current framework rightly emphasizes the urgent need to adapt agriculture and water management to a changing climate and it recognizes the leading role played by farmers and water user associations in piloting and scaling up innovative

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<sup>3</sup> Including farmers, farmer groups, private companies, water user associations, pasture management and/or user groups, and other private business representatives.

climate-smart practices with support from public research institutions. It is expected that experience from sub-projects under Component 2 will also help underline policy areas requiring further reform, hence fostering bottom-up discussion on outstanding issues such as water recovery fees, production and exports quotas, land ownership and subleasing, as well as modernization of systems for the provision of better of seeds, seedlings, and animal breeds.

24. ***Sub-component 2.1. Investment Financing (US\$20.4 million in IDA financing and US\$6.8 million in beneficiary contribution).*** This sub-component aims to increase productivity and address climate change by promoting the adoption of rural production, land management, and other climate-resilient and mitigation investments, by providing financing via sub-loans at the village community and resource-user levels. Eligible investments are expected to primarily contribute to: (a) crop diversification, climate-resilient seed varieties, and seed system support measures; (b) on-farm water resource management and efficiency improvement measures; (c) rehabilitation of degraded lands and land degradation control through agro-forestry and rangeland management measures; (d) promotion of stability and sustainability of mountain ecosystems and livelihoods; (e) conservation agriculture; (f) livestock production improvements; (g) agro-products processing; (h) energy efficiency improvements (e.g., insulation, lighting, etc.); and (i) expansion of renewable energy sources, particularly for those communities in remote rural areas. Other types of climate investments could be considered at a later stage, based upon new priorities identified and commonly agreed by participating countries. Eligible investments will include those that meet criteria agreed upon by all participating countries (which reflect regional priority areas where climate action must be scaled-up). Investments in a given country will be financed through the IDA financing mobilized by that country.

25. Eligible investments<sup>4</sup> will support activities in the agricultural sector (see Annex 2), but will be required to have a climate resilience element. Examples of such investments include climate-resilient seeds instead of standard seeds, energy-efficient pumps, biological pest control, and fruit and nut-tree based agro-forestry on degraded mountain slopes. Annex 2 provides a more detailed description of potential rural production and land management investments to be supported under the Climate Investment Facility.

26. The Facility will provide sub-loans<sup>5</sup> through Participating Financial Institutions (PFIs) supported by a credit line. These PFIs will provide financing through loans, leasing transactions and micro-finance (e.g., in the case of very small businesses). Maximum financing will not exceed US\$500,000 per sub-borrower, who is expected to contribute a minimum of 20 percent of the sub-project costs (in cash or in kind). To participate, PFIs will have to meet a set of eligibility criteria, such as satisfactory financial and management structure, a satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, and the organization, management and technical staff and other resources required for the efficient carrying out of the operations. In Tajikistan, US\$7.7 million (US\$3.7 million in national IDA and US\$4 million in regional IDA financing) will be made available for sub-project loans and in Uzbekistan, US\$12.6

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<sup>4</sup> Technical advisors (such as ICARDA or similar experienced organizations) will be available to provide advice on how to make on-farm investments more climate-resilient.

<sup>5</sup> Sub-grants are under consideration in some other Central Asian countries (to be decided when these countries' participation in the Program is formally processed). In addition, contingent upon resources from the Green Climate Fund (GCF), sub-grants could be also deployed in Tajikistan and Uzbekistan along with sub-loans, thereby reaching the poorest and most climate-vulnerable populations.

million (US\$8.6 million in national IDA and US\$4 million in regional IDA financing) will support these loans. Beneficiary matching contributions are expected to reach US\$2.6 million and US\$4.2 million, respectively.

27. ***Sub-component 2.2. Capacity Building and Community Support (US\$1.0 million in IDA financing).*** This sub-component includes financing for awareness raising, participatory planning, and implementation support of climate investment plans at the community level. This “facilitation package” is expected to raise interest of potential beneficiary communities for climate investment opportunities under the Program, improve the quality of the funding proposals prepared by these communities, and enhance the likelihood of these investments’ success. This activity will be supported with US\$0.3 million in Tajikistan and US\$0.7 million in Uzbekistan, respectively.

28. *Facilitating community investment planning.* Contracted Non-Governmental Organizations (NGOs) and other organizations will help beneficiaries assess and understand climate threats and impacts, and factor in the potential impact of climate change on livelihoods and vulnerability to weather hazards, based on local and scientific knowledge of climate variability and its likely effects. Local knowledge will include information about trends and changes experienced by the communities themselves and strategies they have used in the past to cope with similar shocks or gradual climate changes, or to mitigate threats and impacts. The contracted organizations will then support community-level participatory appraisals and community action plans, which promote fairness, equity, and transparency. These facilitating organizations will assist beneficiaries to identify and design appropriate investment plans that show clear linkages to the findings of the climate change appraisals. These organizations will also help build the technical and organizational capacities of communities to manage and implement their investments. Preparation of business plans will also be supported by the facilitating package. Local governments will be associated to this process, to check alignment of proposed investment plans with local priorities already identified and existing local development plans, as well as to raise awareness of local decision-makers on climate risks and solutions and on tools and approaches to integrate climate-considerations in planning.

29. *Financial intermediary capacity building.* Under this sub-component, technical assistance will also be provided to PFIs to improve their skills in assessing climate investment proposals in the range of eligible activities considered, broadly covering land, water, agriculture, and energy sectors. The training will cover basic concepts of appraisal as well as monitoring of investment sub-projects. PFI staff will be trained in climate threats and impacts, and environmental awareness, impact assessment, and mitigation.

### **Component 3: Regional and National Coordination (US\$3.9 million in IDA financing)**

30. ***Sub-component 3.1 Regional Coordination (US\$2.5 million in IDA grant financing).*** This sub-component will finance the operating costs of the Regional Coordination Unit (RCU) to be established under the regional host institution (EC-IFAS), responsible for regional coordination and implementation. Support will be provided to the RCU for procurement, financial management, regional coordination, reporting, and monitoring and evaluation. In addition, to strengthen EC-IFAS’s technical capacity and facilitate day-to-day liaison with the RCU, two technical experts will be financed under this sub-component. This is in addition to the RCU implementation personnel in Almaty and these two experts will be under the direct authority of



EC-IFAS. When EC-IFAS chairmanship rotates to a new Central Asian country, these experts will relocate to that country or be replaced by newly-hired experts in the country.

31. **Sub-component 3.2 National Coordination (US\$ 1.4 million in IDA financing (US\$0.7 million per country))**. This sub-component will support the operating costs of the National Coordination Units (NCUs), responsible for national investment oversight, in each of the participating countries. Support will be provided to the NCUs for national-level coordination, procurement, financial management, reporting, safeguards oversight, and monitoring and evaluation.

## B. Project Financing

32. Financing Instrument. The financing included under the Program will be provided for a five-year operation, financed with IDA credit and grant resources of US\$38 million. National IDA contributions from Tajikistan and Uzbekistan total US\$15 million, complemented with an additional US\$23 million in regional IDA resources, of which US\$15 million is IDA grant and US\$8 million is IDA credit. Beneficiary contributions are estimated at US\$6.8 million. Program cost and financing provided in Table 1, for the overall project as well as for each participating country.

**Table 1: Program Cost and Financing (US\$ million)**

Overall Project Project Components	Project Cost	Project Financing			Total IDA	Beneficiary Contributions
		Regional IDA (Grant)	Regional IDA (Credit)	National IDA		
<b>1: Regional Climate Knowledge Services</b>	<b>12.49</b>	<b>12.49</b>			<b>12.49</b>	
<b>2: Regional Climate Investment Facility</b>	<b>28.13</b>		<b>8.00</b>	<b>13.35</b>	<b>21.35</b>	<b>6.78</b>
<i>Investment Financing</i>	<i>27.14</i>		<i>8.00</i>	<i>12.35</i>	<i>20.35</i>	<i>6.78</i>
<i>Capacity Building and Community Support</i>	<i>1.00</i>			<i>1.00</i>	<i>1.00</i>	
<b>3: Regional and National Coordination</b>	<b>3.86</b>	<b>2.51</b>		<b>1.35</b>	<b>3.86</b>	
<i>RCU &amp; EC-IFAS</i>	<i>2.51</i>	<i>2.51</i>			<i>2.51</i>	
<i>NCUs (2 in all)</i>	<i>1.35</i>			<i>1.35</i>	<i>1.35</i>	
<b>Unallocated Amount</b>	<b>0.30</b>			<b>0.30</b>	<b>0.30</b>	
<b>Total</b>	<b>44.78</b>	<b>15.00</b>	<b>8.00</b>	<b>15.00</b>	<b>38.00</b>	<b>6.78</b>

## Tajikistan

Project Components	Project Cost	Project Financing			Beneficiary Contributions	
		Regional IDA (Grant)	Regional IDA (Credit)	National IDA		Total IDA
<b>1: Regional Climate Knowledge Services</b>						
<b>2: Regional Climate Investment Facility</b>	<b>10.62</b>		<b>4.00</b>	<b>4.05</b>	<b>8.05</b>	<b>2.57</b>
<i>Investment Financing</i>	<i>10.29</i>		<i>4.00</i>	<i>3.72</i>	<i>7.72</i>	<i>2.57</i>
<i>Capacity Building and Community Support</i>	<i>0.33</i>			<i>0.33</i>	<i>0.33</i>	
<b>3: Regional and National Coordination</b>	<b>0.66</b>			<b>0.66</b>	<b>0.66</b>	
<i>RCU &amp; EC-IFAS TJ NCU</i>	<i>0.66</i>			<i>0.66</i>	<i>0.66</i>	
<b>Unallocated Amount</b>	<b>0.30</b>			<b>0.30</b>	<b>0.30</b>	
<b>Total</b>	<b>11.57</b>		<b>4.00</b>	<b>5.00</b>	<b>9.00</b>	<b>2.57</b>

## Uzbekistan

Project Components	Project Cost	Project Financing			Beneficiary Contributions	
		Regional IDA (Grant)	Regional IDA (Credit)	National IDA		Total IDA
<b>1: Regional Climate Knowledge Services</b>						
<b>2: Regional Climate Investment Facility</b>	<b>17.52</b>		<b>4.00</b>	<b>9.30</b>	<b>13.30</b>	<b>4.21</b>
<i>Investment Financing</i>	<i>16.85</i>		<i>4.00</i>	<i>8.64</i>	<i>12.64</i>	<i>4.21</i>
<i>Capacity Building and Community Support</i>	<i>0.67</i>			<i>0.67</i>	<i>0.67</i>	
<b>3: Regional and National Coordination</b>	<b>0.70</b>			<b>0.70</b>	<b>0.70</b>	
<i>RCU &amp; EC-IFAS UZ NCU</i>	<i>0.70</i>			<i>0.70</i>	<i>0.70</i>	
<b>Total</b>	<b>18.21</b>		<b>4.00</b>	<b>10.00</b>	<b>14.00</b>	<b>4.21</b>

33. *Rationale for Regional IDA.* The Program meets all regional funding eligibility criteria: (i) it includes three or more countries; (ii) the investments are expected to generate significant regional spill-over benefits; (iii) there is clear evidence of regional commitment from EC-IFAS

and the Central Asia countries; and (iv) it provides a platform for high-level policy harmonization among countries. A more detailed description of how the proposed Program meets the four regional criteria for utilizing the regional IDA envelope, includes:

- (a) **It involves three or more countries**, including Tajikistan and Uzbekistan at present, with Kazakhstan's, Kyrgyz Republic's, and Turkmenistan's participation currently under preparation.<sup>6</sup>
- (b) **It has benefits, either economic or social, that spill over country boundaries:**
  - Climate risks in Central Asia transcend the boundaries of participating countries, through the connectivity of their land and water systems as well as their social and economic interactions (e.g., migratory flows, food and energy markets). The Program aims to improve the monitoring of these interconnected land and water systems and develop tools to support climate-related decision making and inform the prioritization of climate investments in priority areas where climate action must be scaled-up in the region.
  - The Program's regional knowledge spillover benefits will extend throughout Central Asia in terms of facilitating greater cooperation and dialogue among Program stakeholders, through the sharing of lessons and experiences in implementing climate investments at the community level. These lessons and experiences, offering concrete insights on climate-smart technologies, practices, costs, and results, can result in tremendous time and cost savings from learning-by-doing and by centralizing this experience for government agencies overseeing climate-sensitive sectors, academia, civil society, farmers and communities. This collaboration around experience sharing will enable faster learning and incorporation of such good climate practices into the countries' planning processes as well as lead to their more rapid adoption at scale throughout the region. As an example, it is expected that each country will take the lead on different types of investments across different agro-ecological zones (e.g., seed system support measures, on-farm water resource management, agro-forestry, conservation agriculture). Country learning exchanges to sites where these technologies have been trialed and implemented will then allow the other participating countries to learn from these specific experiences and incorporate these lessons into their own programs. This broad understanding across all Central Asian countries is expected to foster collaborative projects and actions over two or more countries in the outer years of the Program, to tackle transboundary climate challenges.
  - Regional level accountability will be ensured through the establishment of a Regional Coordination Unit and a Regional Steering Committee. This Regional Coordination Unit (e.g., CAREC) will support EC-IFAS (see paragraph (c) below), and will be responsible for regional-level coordination and implementation under the Program, and will oversee the implementation of regional activities (e.g., development of IT platform

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<sup>6</sup> For instance, an IBRD loan in support of Kazakhstan's participation is scheduled for Board delivery in FY16, the signing of a RAS supporting Turkmenistan's participation is planned in FY16, and IDA credit and grant funding supporting Kyrgyz Republic's participation is expected to be delivered by FY17.

for Central Asia, upgrading of climate-related monitoring systems, communications outreach, and knowledge products and fora), and prepare yearly work plans. In addition, a Regional Steering Committee will also be established, with representation from the Central Asian countries and the IFAS institutions (ICSD and EC-IFAS, in particular), to provide Program advisory support, define annual climate investment priority areas, recommend future Program directions, monitor Program progress, ensure country coordination, and report to stakeholders.

- (c) **There is strong interest from regional bodies and all five Central Asia countries in the Program.** The Program is being prepared in response to a request from all Central Asia countries for a program that supports collaboration in enhancing regional preparedness to the mounting challenges of climate change. CAMP4ASB will expand regional coordination and access to improved climate change knowledge services for key stakeholders (e.g., policy makers, researchers, and civil society) in participating Central Asia countries and support climate-smart investments and capacity building to address climate challenges common to these countries. In addition, IFAS was established by the Central Asian governments to fund joint regional environmental and research programs aimed at saving the Aral Sea.<sup>7</sup> Given EC-IFAS's mandate as the executive working body of IFAS, it will serve as the implementing agency for the Program's regional, cross-cutting activities. EC-IFAS, which has representation from all Central Asia countries' Ministries of Environment and Economy, has also expressed its broad support for the Program. Further, the Program is expected to increase EC-IFAS's capacity to address climate change in Central Asia under its overall sustainable development regional mandate.
- (d) **It provides a platform for a high-level of policy harmonization between countries.** The Program will provide valuable training as well as field-based practical experience of climate-smart approaches implemented at scale that bring together a variety of stakeholders and make available a range of information sources. Through the Program's climate knowledge services, this information will be shared regionally among Central Asia country policy makers in climate fora, training events, and via collaborative knowledge networks developed under the Program. It is expected that this would help provide access and contribute to global good practice in a shared-vision of climate-smart development, build professional networks, and improve the capacity to mainstream climate change considerations into policy and investment decisions. Providing input to institutions and climate policy via these mechanisms will also enhance the probability of long term sustainability of Program interventions and support.

34. In addition, EC-IFAS meets all eligibility criteria for receiving a regional IDA grant:

- (a) **Recipient is a bona fide regional organization that has the legal status and fiduciary capacity to receive grant funding and the legal authority to carry out the activities financed.** EC-IFAS is an international organization set up by the Heads of State of the five Central Asian countries to promote environmental sustainability in the Aral Sea Basin.

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<sup>7</sup> IFAS, established in 1993, is the only regional political platform uniting all five Central Asian countries (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan).

The rationale for using EC-IFAS includes the organization's capacity to facilitate knowledge sharing regionally and project implementation experience.

- (b) **Recipient does not meet eligibility requirements to take on an IDA credit.** EC-IFAS does not conduct any income-generating activities. EC-IFAS's funding is provided by member state contributions and donors.
- (c) **The costs and benefits of the activity to be financed with an IDA grant are not easily allocated to national programs.** Given that EC-IFAS, through a Regional Coordination Unit, will carry out its mandate of managing a regional program, by ensuring regional coordination of program-supported climate services, such as data collection, assessment, and information sharing, as well as capacity building and other outreach activities, it would be very difficult for such regional functions to be carried out (and paid for) at the national level.
- (d) **The activities to be financed with an IDA grant are related to regional infrastructure development, institutional cooperation for economic integration, and coordinated interventions to provide regional public goods.** As described above, the activities that EC-IFAS will manage through the RCU are coordinated interventions that will provide a regional public good, improved climate knowledge services and experience for climate action. These activities will develop a coordinated approach for strengthening climate preparedness and response in Central Asia: Program-supported investments will provide improved climate knowledge services and generate results and lessons on climate-related approaches and technologies to be shared widely in all countries of Central Asia, and through this collaboration, the Program's results and lessons can be inputs into multiple country planning processes as well as lead to greater scale-up and replication of such good practices for climate action in all countries in the region.
- (e) **Grant co-financing for the activity is not readily available from other development partners.** Although other development partners have been consulted during the Program's preparation, at present no donor funding has been provided to the Program.
- (f) **The regional entity is associated with an IDA-funded regional operation or otherwise supports the strategic objectives of IDA on regional integration.** EC-IFAS, through the RCU, will be responsible for regional coordination and implementation of the CAMP4ASB Program.

### C. Series of Projects Objectives and Phases

35. The Program is expected to support all five Central Asian countries, as well as a regional implementing agency (EC-IFAS), and to be implemented via a series of projects and Reimbursable Advisory Services (RAS) in phases over an approximate seven year period, with each phase having a five-year duration. The expected phases in the series are foreseen to support the following recipients:

- (a) Q2 FY16: Republic of Tajikistan, Republic of Uzbekistan, and the Program's regional implementing agency through IDA resources. This first phase of the Program will lay the foundation for an institutional platform for regional cooperation on climate change across

a broad range of sectors (Regional IDA grant financing of Component 1 and Sub-component 3.1) as well as support Tajikistan and Uzbekistan in implementing climate investments (Regional and National IDA credit financing of Component 2 and Sub-component 3.2);

- (b) Q3 FY16: Republic of Kazakhstan and Republic of Turkmenistan through IBRD and other instruments. This financing would be provided in the form of an IBRD loan and counterpart co-financing of approximately US\$15 million for Kazakhstan and Reimbursable Advisory Services for Turkmenistan. Both Kazakhstan and Turkmenistan have been committed and active counterparts during Program preparation. Kazakhstan's participation is included in the country's Partnership Framework Agreement. In Turkmenistan, a related RAS is under discussion as part of the new Country Engagement Note. In Kazakhstan, the IBRD loan will support the targeted upgrading of climate-related monitoring systems (similar to activities in Component 1), climate investments (similar to activities in Component 2), and the operating costs of the country's NCU. These investments will ensure Kazakhstan's participation in regional activities planned under Component 1, including its participation in the Program's information platform and climate investment assessment mechanism. In Turkmenistan, the RAS will support the country's participation in CAMP4ASB's component on climate change knowledge services (Component 1), preparing the groundwork for national climate investments, which could be funded out of a range of green/climate resources including from the Global Environment Facility (GEF) or Green Climate Fund (GCF);
- (c) FY16/17 (TBD): Kyrgyz Republic, once internal consultations on IDA priorities and climate change programming are completed.

36. There is great potential with the Program to attract additional resources for climate action in the region and increase Central Asia's international visibility. These additional resources would multiply the Program's impact, including by helping countries replicate and scale-up some of the most successful climate investments financed under CAMP4ASB. A US\$19 million funding proposal has recently been submitted to the Green Climate Fund (GCF) to support the first phase of the Program, with the potential to double the Program's expected benefits in Tajikistan and Uzbekistan. In addition, future GCF funding proposals are planned to be put forward to support subsequent phases of the Program when the participation of other Central Asian countries has been prepared. In addition, several donor agencies have indicated their interest in supporting the program through parallel financing once a regional platform is established.

#### **D. Lessons Learned and Reflected in the Project Design**

37. The project design reflects lessons learned regarding regional operations. A 2010 Quality Assurance Group review of regional projects confirmed the strategic importance of regional integration. It outlined a number of recommendations, including:

- (a) *Regional operations should be well grounded in analytical and knowledge products, in order to ensure relevance.* The design of CAMP4ASB builds on recommendations provided during two Central Asia Climate Knowledge Fora (in June 2013 and May 2014), where the latest cutting-edge analytical work from within and outside the region (including findings from the *Turn Down the Heat* Series) as well as experience from climate and development practitioners were discussed among a broad range of Central Asian stakeholders.

- (b) *Project design should be sufficiently flexible to allow for the different pace of implementation between countries, and for the possibility that some activities may move forward faster than others.* The Project's design follows a modular structure so that delays in implementing the Regional Climate Investment Facility in one country do not penalize implementation in another. In addition, the Regional Coordination Unit will play an important role in monitoring implementation across participating countries and providing technical support, as needed, to facilitate investment implementation.
- (c) *Project scale should be sufficient to ensure country ownership and tangible impacts.* A US\$15 million grant will support the provision of Regional Climate Knowledge Services, a relatively large amount for technical assistance activities that will provide a public good benefiting stakeholders in all participating Central Asian countries. In addition, the Program has large potential to attract additional resources, to multiply its impact and help countries scale-up some of the most successful CAMP4ASB-funded climate investments. A US\$19 million proposal has been submitted to the Green Climate Fund to achieve this objective. Finally, the Program's scope and design has been reviewed and agreed by a broad range of Central Asian stakeholders, including national agency counterparts and TWG members.
- (d) *Sufficient support on fiduciary and legal aspects during preparation and implementation is key.* During preparation, resources from the Europe and Central Asia Capacity Development Trust Fund (ECADEVP-TF) have been mobilized to support implementation readiness, including to retain skilled consultants for key positions at the RCU and NCUs prior to effectiveness. In addition, the Bank team will monitor closely identified institutional and management risks during project implementation and ensure adequate training and capacity support is provided accordingly to the RCU and NCUs.

38. The Program also reflects lessons learned from Bank-financed natural resource management and rural development projects (including Community-Driven Development activities) in the region (e.g., Kyrgyz Republic and Tajikistan). Key lessons from these projects are summarized below:

- (a) *Direct investment support to farmers and communities through a systematic grant program, coupled with facilitation and training can build entrepreneurial capacity through a learning-by-doing approach.* Farmers can assume responsibility for sustaining their livelihoods in financially and environmentally sound ways.
- (b) *A multi-stakeholder approach to project implementation with partnerships between government and civil society is worthwhile even in contexts where limited prior experience and local conditions make management challenging.* Such approaches can improve project transparency and accountability and provide new learning opportunities for project participants. The project will include an orientation phase at the start to help ensure stakeholders understand project objectives and approaches, and roles and responsibilities.
- (c) *Support to resource user groups, such as those for pasture and water, is a feasible way to improve resource management.* Community-based planning and implementation processes can contribute to sustainability and more equitable benefits. The project will include capacity building support to strengthen long-term viability of these groups.
- (d) The Bank has recognized that addressing complex socio-economic issues, such as climate change adaptation in rural areas, including the elimination of child and forced labor, requires a multi-pronged approach that includes: policy dialogue, working together with

national and international partners; sector level support, such as technical advice on improving agricultural productivity and crop diversification, adoption of new technologies; as well as mitigation measures and binding provisions at project level. By promoting diversification, CAMP4ASB is very much part of this approach. During project preparation, Senior Bank Management discussed climate change adaptation in rural areas, including child and forced labor issues, with the Governments of Uzbekistan and Tajikistan, and the project will take advantage of a number of measures that were agreed during these discussions, including third party monitoring (TPM) and feedback mechanisms (FBM).

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

39. **Project implementation.** Given its mandate to coordinate cooperation to improve the environmental and socio-economic situation in the Aral Sea Basin, as well as use existing water resources more effectively, EC-IFAS will serve as the implementing agency for the Program's regional, cross-cutting activities. EC-IFAS provides a platform for dialogue among the countries of Central Asia, as well as the international community. As described below, the Program's proposed management arrangements will ensure a balance between effective regional and national coordination, including:

- (a) A **Regional Coordination Unit (RCU)** will support EC-IFAS in the implementation of Regional Climate Knowledge Services (Component 1) as well as Regional Coordination (Sub-component 3.1). The Regional Environmental Center for Central Asia (CAREC), an independent, non-commercial, international organization, founded by all five Central Asian countries as well as the European Commission and the United Nations Development Programme, headquartered in Almaty (Kazakhstan) with country offices in all Central Asian capitals, will serve as RCU. The RCU will provide general Program oversight, oversee implementation of activities implemented at the regional level (including liaising regularly with the NCUs to seek inputs and facilitate consensus on proposed regional activities as well as to receive feedback on their implementation), provide as needed technical support/guidance to the NCUs, review bi-annually a sample of national climate investments to ensure their consistency with guiding investment priorities set by the Regional Steering Committee, organize reviews with country TWG members to assess lessons learned from investments, and ensure lessons and results from Program activities are systematically disseminated to support participating country planning processes. The RCU will also oversee, together with the NCUs, the Program's Feedback/Grievance Redress Mechanism. The RCU will also support arrangements for the Regional Steering Committee meetings.
- (b) **National Coordination Units (NCUs)**, in each participating country, responsible for the implementation of the Climate Investment Facility (Component 2), together with Participating Financing Institutions, as well as ensuring overall National Coordination (Sub-component 3.2). NCUs will operate under the supervision of a national focal point and the national Technical Working Group, will be responsible for overseeing the implementation of the country's Climate Investment Facility, ensuring awareness-raising and outreach of investment opportunities, providing training for climate investment proposal preparation. The NCUs will also monitor investment implementation and ensure



compliance with Bank safeguards and fiduciary requirements. Participating Financing Institutions (PFIs) will be responsible for identifying prospective sub-borrowers, have full autonomy in sub-project approval and determination of lending terms (such as the interest rate and repayment and grace periods) and will bear the lending risks.

- (c) A **Regional Steering Committee**, comprised of representatives from the national and regional coordination agencies, their respective coordination units, and Chairmen of EC-IFAS and ICSD, meeting every six months to review program progress and recommend program priorities. The Regional Steering Committee will provide advisory support, define annual climate investment priority areas, recommend future Program directions, ensure country coordination and facilitate sharing of status update in each country, monitor Program progress on a bi-annual basis, report to stakeholders and be responsible for high-level outreach, as well as settle controversies that might arise during implementation. The Regional Coordination Unit will support the arrangements for the Regional Steering Committee's meetings.

## **B. Results Monitoring and Evaluation**

40. The program's M&E system will involve EC-IFAS's Regional Coordination Unit (RCU), National Coordination Units (NCUs), facilitating organizations, community-based organizations, and participating financing institutions. The M&E system will highlight the roles of different project stakeholders in collecting, processing, and disseminating program data and results. Data collection and reporting formats for country field-based partners will aim to capture essential information while being straightforward to implement. Outcome monitoring and project impact assessments will make use of the data collected by field-based partners, as well as specialized data collection and analyses conducted with external technical assistance as needed. At the community level, monitoring should focus on the range of issues relevant to sub-project sustainability, including environmental, social, and economic. Facilitating organizations will need to actively build community capacities to monitor these aspects and to adapt to changing conditions. For example, the community/beneficiary group as a whole should assemble, at least on a bi-annual basis, to review progress and impacts of all the rural investments, make adjustments in proposed allocations in the community investment plan where necessary, and provide feedback to the facilitators. NCUs will be responsible for collecting and assessing this information, and sharing results and lessons learned with other national and regional stakeholders. The RCU will also ensure these results and lessons are shared among regional program stakeholders at annual climate knowledge forum and in climate knowledge collaborative networks.

41. A detailed guide for program monitoring and evaluation is being developed as part of the Program's Operational Manual to be finalized prior to Effectiveness. The document will provide guidance on the roles and responsibilities of program beneficiaries and stakeholders, in collecting, analyzing, and disseminating program data and results.

## **C. Sustainability**

42. Kazakhstan and Turkmenistan are expected to join the program in the coming months, via an IBRD-supported project in Kazakhstan (the second project in the Program Series of Projects) and RAS in Turkmenistan, to be later followed by the Kyrgyz Republic, once internal consultations

on IDA priorities and climate change programming are completed, thereby formalizing the participation of all Central Asian countries in CAMP4ASB. The Program will support the sustainability of IFAS and its Executive Committee (the regional implementing agency), as well CAREC (the RCU), a non-governmental network promoting regional cooperation on environmental and climate change issues. Having an NGO as a regional PIU will facilitate citizen engagement, grievance redress mechanisms, and gender dimensions. Since the Program's sustainability depends in large part on country budget support, EC-IFAS working with the Steering Committee and RCU will prepare a long-term sustainability plan, examining resource mobilization and options for transition arrangements.

43. The Program will provide valuable field-based practical experience of climate-smart approaches implemented at scale that bring together a variety of stakeholders and make available a range of information sources. Through the Program's climate knowledge services, this information will be shared with national policy makers and other interested parties, that will have access to new data and analyses of livelihood, land management, and climate change issues, as well as regionally among the Central Asia countries in climate fora and via collaborative knowledge networks developed under the program. More broadly, capacity of a wide range of stakeholders will be developed at regional and national levels through training, technical assistance, information sharing, and technology transfer. Providing input to institutions and climate policy via these mechanisms will enhance the probability of long term sustainability of program interventions and support.

44. In addition, agriculture production investments that provide an incentive framework and source of financing for improved climate change adaptation and land management will contribute to sustainability of rural investments and reducing vulnerability to climate risks. The use of community-driven development is also expected to contribute to generating long-term benefits. Whether as a village community, pasture user group, or water user association, farmers and villagers will be key decision-makers on what investments to implement and the distribution of financial resources, thus building ownership. Proposals for these investments and plans will require that participants consider economic factors, climate change risks, environmental and social/institutional sustainability, working with existing community or resource-based institutions, to support long-term operations. Villagers will also be responsible for financial management of and procurement for investments. Furthermore, the requirement of beneficiary contributions will help build ownership and also contribute to the sustainability of these investments. Institutional sustainability will be addressed through capacity building of the participating rural population, community-based organizations, participating NGOs, and relevant line ministries. Through field-based implementation and collaboration with facilitating organizations and others on how to better support communities in coping with climate risks, it is expected that national coordination units will be better equipped to mainstream these approaches in regional and national programs and planning exercises.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

Table 2: Risk Ratings Summary

Risk Categories	Rating (H, S, M or L)
1. Political and governance	H
2. Macroeconomic	M
3. Sector strategies and policies	S
4. Technical design of program	S
5. Institutional capacity for implementation and sustainability	H
6. Fiduciary	H
7. Environmental and social	M
8. Stakeholders	H
9. Other	n/a
<b>Overall</b>	<b>H</b>

Risk Ratings: H = High; S = Substantial; M = Moderate; L = Low

45. The overall risk rating for implementation is High. Key risks and mitigation measures include:

- *Political and Governance.* Balancing the interests of each country and each sector involved will be an important outcome under the Program. However, countries may resist collaboration due to national vested interests and agendas, with potentially differing priorities, which may delay decision making and hinder the collaborative process. The Program itself is a mitigating measure for this risk, as it seeks to quickly build on an area of expressed intent for cooperation among the countries of Central Asia. The Bank team is working closely with the client countries to assess and demonstrate benefits from collaboration. CAMP4ASB is designed to make the best progress in areas where cooperation is well accepted (e.g., around knowledge and capacity building, where benefits of a regional approach are well established). In addition, the Program design has been agreed by a broad range of stakeholders, including national agency counterparts and TWG members.
- *Sector Strategies and Policies.* Participating countries are at different stages in mainstreaming climate change considerations into sectoral strategies and investment plans. For instance, agriculture and water management policies in participating countries – although broadly supportive of the kind of technological innovation and adoption of climate-smart practices CAMP4ASB will help pilot – are still in transition and some areas critical for climate action are still in need of further reform, such as water recovery fees, production and export quotas, land ownership and subleasing. A similar diagnostic could be drawn in the energy sector.
- *Technical Design of Program.* The Program in this initial phase will support national climate investments in two countries. Given that countries' implementation capacities are not uniform, there is a risk that some countries' implementation may lag behind. The RCU will play an important role in monitoring the implementation of national climate

investments, and will provide technical support, as needed, to facilitate investment implementation.

- *Institutional Capacity for Implementation.* Given that a regional implementation coordination mechanism (the RCU supporting EC-IFAS) is to be strengthened, there is a risk that appointment of key staff will be delayed and that there may be lack of capacity in fulfilling managerial and technical requirements, which could delay implementation. A work plan to help ensure that World Bank readiness requirements for implementation can be met has been prepared, including the appointment of key staff prior to program effectiveness.
- *Institutional Capacity for Sustainability.* While having an NGO, CAREC, as regional coordination unit will facilitate citizen engagement and gender dimensions under the Program, potential future budget support for CAREC to continue its climate knowledge service functions post-project implementation is still uncertain. Given that the Program's sustainability will depend in large part on participating country budget support, Program sustainability will be flagged as a high risk. In addition, during implementation, an assessment of potential future budget support will be conducted.
- *Fiduciary.* Similarly, given that fiduciary staff (e.g., procurement and financial management) are yet to be appointed, there is also a risk that there will be a delay in the appointment of these key staff and that once appointed, these staff may lack experience with World Bank procurement and financial management requirements. A fiduciary assessment for the CAMP4ASB Program was conducted. Based on its findings and recommendations, financial management and procurement functions will be strengthened as needed, so that systems and reporting mechanisms are in place to comply with Bank requirements in a timely manner.
- *Stakeholders.* CAMP4ASB results from an inclusive engagement process during preparation that has brought together a broad cross section of Central Asian stakeholders, and capitalizing on this engagement will be critical for the Program's success. The Program's design encompasses several mechanisms/entry points to achieve this goal, including facilitating cross-country dialogue and cooperation through Component 1 activities, such as holding annual climate fora or supporting climate networks; as well as encouraging citizen engagement through the wider use of publicly available information, consultative processes, and feedback mechanisms to strengthen the Project's implementation, build ownership, and thus contribute to long-term sustainability and better outcomes.

## VI. APPRAISAL SUMMARY

### A. Economic Analysis

46. The focus of CAMP4ASB is on creating a public good: fostering regional dialogue and collaboration to address the common and shared challenges of climate change in Central Asia. The Program's development impact is to strengthen regional and national institutions in addressing climate change. The scale of the interventions in this Program and the benefits of climate action justify public sector financing. The Program is expected to generate a wide variety of benefits not all of which can be quantified. For Component 1 (Regional Climate Knowledge Services) benefits

are significant and expected to include: (i) systematic assessment and region-wide sharing of lessons from implementing CAMP4ASB-funded climate investments, that could then be incorporated into countries' strategies and programs for scaling up, based on improved knowledge and understanding of technologies and practices, their costs and outcomes; (ii) fostering climate networks engaging stakeholders (academia, NGOs, technical specialists, youth and communities, etc.) to catalyze information and knowledge exchange, collaboration around initiatives, and the emergence of action-oriented communities and citizen feedback; and (iii) establishing/improving information systems as-well as knowledge and capacity base for climate-related monitoring and decision-making.

47. For Component 2 (Regional Climate Investment Facility) key benefits include increased productivity in rural areas, resulting in improved livelihood, greater household financial capital and contributions to national-level economic growth, and improved capacities and knowledge in green and resilient agricultural practices and natural resource management. This will be primarily achieved through a variety of farm/household- and village/natural resource user community-level interventions. For example, eligible investments under the Regional Climate Investment Facility are expected to primarily contribute to: (a) crop diversification, climate-resilient seed varieties, and seed system support measures, (b) on-farm water resource management and efficiency improvement measures, (c) rehabilitation of degraded lands and land degradation control through agro-forestry and rangeland management measures, (d) promotion of stability and sustainability of mountain ecosystems and livelihoods, (e) conservation agriculture, (f) livestock production improvements; (g) agro-products processing; (h) energy efficiency improvements (e.g., insulation, lighting, etc.), and (i) expansion of renewable energy sources, particularly for those communities in remote rural areas. Participating countries will provide this support through loans implemented by Participating Financial Institutions (PFIs). Beneficiaries will be incentivized to work within a fixed budget constraint and encouraged to prioritize investments yielding maximized marginal returns within a site-specific context. Along with these requirements, the participatory nature of including farmers in decision-making will lead to more environmentally-sound land management practices and ensure the sustainability of project outcomes.

48. Based on household/farm-level information from similar interventions in Tajikistan,<sup>8</sup> the Economic Analysis for the present Program assumes that farm productivity and land resource management investments are estimated to cost on average US\$150-US\$250 per household, with benefits in between US\$100-US\$500 per household. In the central case, the discount rate is set at 12 percent per annum. Participation of communities and related climate investments are considered to be phased-in progressively, with 60 percent of investments (in amount of expected financing) having started by end of Year 3. Given the assumptions of phasing beneficiaries and investments, the project is expected to reach full development in Year 14.<sup>9</sup> An attrition (dropout) rate of 20 percent by participating households and communities due to investment failure or for other reasons is assumed. In the central case, including all other project management, institutional support, and knowledge management costs, cumulated net discounted benefits vary from US\$1.1

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<sup>8</sup> Interventions undertaken during the Community Agricultural and Watershed Management Project (CAWMP, P077454) and the Environmental Land Management and Rural Livelihoods Project (ELMARL, P122694).

<sup>9</sup> This is because some horticultural products (i.e., trees) require 12 years to fully mature, and no benefits are assumed to accrue until year 3 (i.e., 12+2 years = 14 years).

to US\$85 million by Year 14, depending on the realized household-level benefit. The associated Internal Rate of Return (IRR) range from 0 to 44 percent per annum.

49. The sensitivity analysis indicates that varying the household-level benefit from US\$100 to US\$500 is the main driver of the results. For example, if Program costs were to rise 10 or 20 percent, this reduces net benefits in Year 14 by about 10 percent, and reduces the IRR by about 4 percent in the 10 percent cost increase case and 20 percent (IRR falls by 8 percent) in the 20 percent case (Table 11 in Annex 5). If Program delays were encountered, this would push benefit realization to outer years, making the project less feasible in early years. A one-year delay reduces cumulative net benefits by about 17-18 percent from the base case, but the IRR remains relatively unchanged. A two-year delay reduces net benefits by over 30 percent – but again, has little impact on the IRR. If costs were 20 percent higher and there was a two-year delay, this would basically halve net benefits and the IRR. From this, it appears that cost increases tend to affect the IRR more and time delays reduce net benefits since there is less time to recoup costs.

## **B. Technical**

50. CAMP4ASB will support access to improved climate change knowledge services (e.g., data, knowledge, tools, and capacity-building for climate assessment and decision-making) as well as support investments to improve productivity and livelihoods and address climate change in rural areas, by promoting adoption of technologies and practices for climate resilience and climate change mitigation in agricultural production, land management and other areas. The Program will also support the systematic evaluation of these climate investments and their dissemination to a broad range of stakeholders to facilitate learning, replication, and scaling-up of such climate good practices in the region.

51. The Regional Environmental Center for Central Asia (CAREC), which will serve as RCU and implement the Regional Climate Knowledge Services component (Component 1), has more than 10 years of experience in knowledge and capacity building in the field of sustainable environmental management and climate change that can be leveraged across the entire spectrum of activities promoted under Component 1. Some of CAREC's recent activities and results, which provide a solid base to build on, include: support to environmental monitoring (e.g., co-execution of the MONECA (Environmental monitoring in Central Asia) component of the EC-funded FLERMONECA (Forest and biodiversity governance including environmental monitoring) program across Central Asia); new research and assessment (e.g., on inclusive and resilient development in semi-arid areas, linking Central Asian and African countries through the international PRISE project); tools and methodologies (e.g., toolkit for basin-level integrated water resource management developed for Central Asian stakeholders); technical assistance (e.g., three Nationally Appropriate Mitigation Actions, or NAMAs, prepared and approved by the respective national governments); capacity building and leadership trainings (e.g., over the past two years, about 420 individuals from government, business, banks, universities, and civil society took part in training and capacity building sessions on low-emissions development, energy efficiency, and climate change); building regional networks (e.g., facilitating participation of Central Asian stakeholders in the Asia Pacific Adaptation Network, or APAN). Terms of reference and bidding documents will be prepared for Component 1 activities prior to effectiveness, with support from the Europe and Central Asia Capacity Development Trust Fund (ECADEVPTF), offering additional opportunities to maximize synergies with activities by other development partners, to

maximize complementarities, capture lessons learned (e.g., from Central Asia Hydromet Modernization Project) and incorporate knowledge and information (e.g., from studies and assessments supported by the Central Asia Energy Water Development Program).

52. With respect to Component 2 (Regional Climate Investment Facility), the Program will support improvements in productivity and livelihoods and address climate change in rural areas, by promoting adoption of technologies and practices for climate resilience and climate change mitigation in agricultural production, land management and other areas. Many of these are being demonstrated and shown to be effective in the region (e.g., through PPCR-supported projects), while others will reflect globally available good practice examples. Throughout, the Program will build on local knowledge and technologies, as well as relevant international good practice. For the small-scale infrastructure works, existing national standards will be applied and the selection of technologies will take into account the need for simple maintenance that groups of farmers or herders can undertake themselves. Thus no significant technical challenge is expected, but technical capacity to support widespread adoption and dissemination will need to be strengthened and increased.

53. The demand for credit line support for climate investments was assessed in both Tajikistan and Uzbekistan, where PFIs confirmed their strong interest as well as the interest of farmers. These assessments also indicated that actual demand will likely exceed supply. However, it should be noted that one of the objectives of the present credit lines is to test the actual demand for such investments and raise awareness of farmers to the most appropriate solutions to address climate risks. Other donors are expected to help scale-up these investments in the future, based on growing demand.

54. *Projects Involving Financial Intermediaries:* The proposed Credit Lines in Tajikistan and Uzbekistan were reviewed for compliance with the Bank's provisions for OP10.00, para 16, which governs projects involving Financial Intermediaries. The review found that the proposed Credit Lines are in line with OP10.00.

### **C. Financial Management**

55. Responsibility for national-level Program financial management (FM) arrangements will rest with the NCUs. These include existing units within the Rural Restructuring Agency (RRA) under the Ministry of Agriculture and Water Resources in Uzbekistan, the Committee on Environmental Protection (CEP) and existing PMU at the Ministry of Finance in Tajikistan (Tajik MOF PMU). The NCUs (and Tajik MOF PMU) will maintain satisfactory project accounting systems, capable of tracking all project resources and expenditures and generating regular financial statements. The EC-IFAS through CAREC, located in Almaty, will act as the Regional Coordination Center (RCU) and be responsible for Program financial management functions at the Regional level. The financial management arrangements of RCU, CEP/Tajik MOF PMU and RRA have been assessed to determine if these arrangements, including budgeting, accounting, reporting, internal controls, staffing, and funds flow and external audit are satisfactory to the Bank.

56. Financial management arrangements for RCU, EC-IFAS were found to be overall adequate and satisfactory to the Bank. CAREC is implementing various projects financed by the Asian Development Bank (ADB), European Union, and the Organization for Security and Co-operation

in Europe (OCSE). The FM staffing capacity is also considered to be sufficient both in terms of numbers and skills. CAREC has automated accounting software that can be easily modified to include the accounting and reporting requirements of the Program. CAREC prepares interim unaudited reports for the donors as well as annual financial statements that are subject to audit. CAREC's detailed Financial Management Manual will need to be revised to include the Program.

57. Tajik CEP shall have overall responsibility for financial management and disbursement functions, including consolidation and submission of the IFRs and audit reports, while the MOF PMU, through its financial and accounting unit, shall have overall responsibility for financial management of Subcomponents 2.1, 2.2 and (jointly with CEP) 3.2, and provide information to the CEP for consolidation. The Tajik MOF PMU will be responsible for financial management arrangements for the credit lines with the Chief Accountant of the PMU bearing overall responsibility for those. The MOF PMU is quite new to implementing the World Bank projects as it was established to implement the Agricultural Commercialization Project that became effective in February 2015 only. In light of this, the FM assessment recommended to contract dedicated FM consultant for project financial management and disbursement functions. Strengthening of FM arrangements to implement the proposed Project will be realized by modification of existing accounting system, including generation of the IFRs, and development of a manual of financial procedures as part of the Project Operational Manual (POM). Project financial statements will be subject to independent audit by auditors satisfactory to the World Bank, with CEP responsible for this.

58. Uzbek RRA will be responsible for implementation of the FM function of the Program in Uzbekistan. The RRA has extensive prior experience in the implementation of the Bank-financed projects. The FM arrangements at RRA have been reviewed periodically as part of supervision of existing projects and have been found satisfactory. Based on the FM assessment, it was established that the RRA has overall acceptable FM arrangements in place. In order to adapt those arrangements to the proposed project and for capacity building purposes, the existing accounting software will need to be modified within 30 days after the project's effectiveness to accommodate the projects reporting and accounting requirements, including capacity to generate Interim Unaudited Financial Statements (IFRs). While the capacity in terms of staffing is adequate and there is no immediate need to hire additional FM staff, it may be required later as the project's activities pick up. Thus, the Project should provide for such need.

59. In addition, a manual of financial procedures should be developed as part of the POM and within the timeline of the POM covering all Implementing Agencies.

60. For the project there will be three separate audits for the regional activities as well as the country-level activities in Tajikistan and Uzbekistan. 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 Credit/Grant funds.

#### **D. Procurement**

61. Procurement for the Program will be carried out in accordance with World Bank Guidelines. Specifically, procurement will be carried out in accordance with: (i) "Guidelines: Procurement of Goods, Works, and Non-Consultancy Services under IBRD Loans and IDA



Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014; (ii) “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014; and (iii) the provisions stipulated in the Credit Agreements. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised on January 2011, will also apply.

62. An assessment of the procurement arrangements for the Program has been conducted, to provide guidance and help ensure that the proposed arrangements for the Program meet the necessary procurement requirements. This assessment found that the NCUs have sufficient capacity and recommended that the RCU hire one additional procurement specialist to manage procurement at regional level and provide adequate support to national procurement staff. The overall procurement risk for the project is rated as High. The risk rating is based on experience from the past and ongoing Bank-financed projects in the countries, the general public procurement environment and current capacity of proposed implementing agencies in administering international procurement. The procurement plans for each country as well as Component 1 activities covering the initial 18 months of project implementation have been developed and agreed upon by the Bank.

#### **E. Social (including Safeguards)**

63. The overall social impacts of the Program are expected to be positive. CAMP4ASB will facilitate greater cooperation and dialogue among institutional stakeholders in the region to deepen the understanding of, and act upon, the social dimensions of climate change, in particular its differentiated impact on vulnerable groups (e.g., poor farmers, female-headed rural households, etc.). The Program’s Climate Investment Facility will directly benefit vulnerable rural communities, including farmers (Dekhan<sup>10</sup> and commercial farmers), farmer groups, water user associations, pasture management and/or user groups, as well as private companies. Village communities, and other community groups and beneficiaries, will take responsibility for the choice, design, and management of rural investments and resource management plans to address climate change. The demand-driven Climate Investment Facility will also provide capacity building to communities, through contracted facilitating organizations, supporting them in the preparation and implementation of rural investments. Facilitating organizations will be required to have expertise in working on gender issues and with vulnerable and marginal groups, as well as in using participatory techniques.

64. *Gender Dimensions.* Women in Central Asia tend to have unequal access to and control over resources, particularly in rural areas. In Tajikistan and Uzbekistan, women carry out at least half of the agricultural labor, however relatively few have meaningful decision-making power. This makes them more vulnerable to poverty and climate change will exacerbate these existing problems, in particular on food/nutrition, energy, and livelihoods. The Program will pay particular attention to gender dimensions. Specific knowledge management activities will be supported and monitored through the Results Framework to ensure awareness on these issues is increased among CAMP4ASB stakeholders. The Program will also ensure that men and women benefit equally from its interventions by requiring a minimum percentage of women as beneficiaries. The results

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<sup>10</sup> Privatized mid-size commercial farms.

of these interventions will be monitored, using gender-disaggregated data based on capacity and participation intermediary indicators included in the Results Framework. In terms of voice, the Program will ensure that women are provided with an opportunity to have their voices heard and influence decision-making, by (i) requiring a minimum representation of women participants in consultations; (ii) undertaking outreach efforts that pay attention to different ways in which information is disseminated at the community level; and (iii) carrying out community mobilization activities using mechanisms that will help ensure active participation of women, e.g., women-only sessions, ensuring meetings are held at times of the day when women can participate, etc. Different demands and expectations of male and female beneficiaries will also be considered as part of the beneficiary feedback mechanisms. Specific implementation mechanisms are further detailed in the project operational manual and progress will be monitored during implementation.

65. *Citizen Engagement.* The Program explicitly seeks to support engagement of stakeholders and beneficiaries through the wider use of publicly available information, consultative processes, and feedback mechanisms to strengthen CAMP4ASB design, build ownership and thus contribute to sustainability and better project outcomes. Feedback mechanisms have been developed in the project design to ensure transparency and a continuous dialogue with stakeholders and beneficiaries. Particular attention will be given during implementation to the capacity of the implementation partners to close the feedback loop and report on action taken in this regards. The specific elements of the framework for citizen engagement include: (a) access to climate information and exchange platforms (data, ICT, workshops, etc.) for Program stakeholders (institutions and communities) to be supported at both the regional and national levels. Percentage of users satisfied with the Program's climate information platform will be monitored; (b) information campaigns on climate change and awareness-raising activities targeting national agencies, CSOs, academia, local governments, media and local communities, and consultations with program stakeholders through the Technical Working Group and the regional Climate Forum involving CSOs; (c) community participation will be a core feature of the project investments as the Regional Climate investment Facility will support community engagement in determining local investment needs to ensure local communities participation and ownership in these climate investments; (d) a feedback mechanism will be designed to process complaints, concerns, and questions from stakeholders at different levels (regional to local), with a view to resolving 100% of these concerns and questions within stipulated service standards (to be monitored in the Results Framework); and (e) specific third-party monitoring of Program activities will be supported annually to ensure transparency and feedback on these activities. The protocol and mechanisms for elements of this citizen engagement framework will be detailed in the Project Operational Manual. Quality of its implementation and progress will be monitored both at regional and national levels through supervision and dialogue with the CSOs forum.

66. *Other Social Issues.* Additionally, child and forced labor remains a concern in the agriculture sector of some of the countries participating in the Program (such as Uzbekistan and Tajikistan), particularly in cotton production. CAMP4ASB will explicitly engage only in subprojects where child and forced labor issues are not present and will not engage in cotton-related activities. To mitigate any residual risk and avoid any potential cross linkage with cotton production, the Program will include awareness raising and training of beneficiaries on the applicable legislation and regulations on child and forced labor. Supervision missions will closely monitor the communication and implementation of the forced labor screening measures by

reviewing the sub-projects at community level. In addition, the Program will adopt the following measures and screening protocol:

- (i) Any sub-financing (as defined in the Financing Agreement) will include provisions that require the relevant beneficiary to comply with any applicable law and regulation on forced and child labor. The activities of all potential Program beneficiaries will be pre-screened and regularly monitored to ensure that they are not related in any form to child or forced labor. Should child or forced labor cases be found, the right of the beneficiary to use the proceeds of the sub-financing may be suspended and terminated, and declared to be immediately due and payable to the PFI, for financing provided through loans, which will subsequently return the funds to the NCU. Such amounts will be cancelled from the IDA credit. In addition, the PFI may be disqualified from providing sub-financing under the Program, in accordance with the relevant criteria and provisions established in the Program Operational Manual;
- (ii) PFIs and NCUs will monitor, and allow monitoring, as applicable, in connection with child and/or forced labor in accordance with the relevant terms established in the Financing Agreement. Any use of child and/or forced labor may result in remedies as prescribed in the Financing Agreement.
- (iii) Sub-financing will not be provided for investments in cotton production.

67. In Uzbekistan, the project is subject to the Third Party Monitoring (TPM) and Feedback Mechanism (FBM), financed through a separate Trust Fund that focuses on child and forced labor issues.<sup>11</sup> With an aim to address the issue of child and forced labor, the World Bank and Government of Uzbekistan have agreed on an initial list of projects which would be subject to TPM and FBM and CAMP4ASB is one of them. The TPM will focus on child and forced labor issues in connection with the Program activities or within the Program areas. Feedback will be collected from both Program beneficiaries and other credible stakeholders in connection with the Program activities or within the Program area. An independent FBM will be established, that is dedicated to collecting reports on potential evidence on matters of alleged occurrences or evidences of child and/or forced labor that might be related to the proposed Program. TPM/FBM will be carried out by an international organization with expertise in labor issues. The World Bank has been working in close collaboration with the International Labor Organization (ILO), a UN agency that specializes in labor issues. In October 2014, the ILO and WB signed a Memorandum of Understanding stipulating that the ILO will carry out TPM/FBM in the specific project areas during 2015-2016 (with the possibility of extension thereafter). The monitoring envisions the undertaking of the following three general activities: (i) capacity building; (ii) awareness raising; and (iii) monitoring of child and forced adult labor. The first two activities are expected to be accomplished through mainstreaming and tailoring them to the Program activities.

68. In Tajikistan, close coordination with International Organization of Migration (IOM) will be established to ensure participating districts are monitored by IOM and awareness raising is promoted.

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<sup>11</sup> The Trust Fund has been established in FY15. The World Bank has an ongoing dialogue with bilateral donors on this agenda and there is wide support for the approach that the Bank has adopted for addressing the issue of child and forced labor in connection with relevant Bank operations.

69. *Social Safeguards.* The Program will not finance activities that result in involuntary resettlement impacts as per OP 4.12 and therefore the policy on involuntary resettlement is not triggered. Activities to be financed under Component 2 are expected either to be own-farm investments and/or investments on community land. Any activities that result in impacts as those anticipated under OP 4.12, including impacts on livelihoods, will be screened out and not financed by the Program. The Program will not finance any activities that result in limitations to access to legally designated parks and protected areas which result in adverse impacts on livelihoods. Land donation will not be allowed under the Program unless it meets the guidelines on voluntary land donation which will be detailed in the Project Operational Manual.

## **F. Environment (including Safeguards)**

70. The Program's environmental impact is expected to be largely positive and no major environmental impacts are anticipated. The activities to be financed would increase the adoption of effective agricultural, land, and water management practices and technologies, and thus contribute to soil and water conservation, and building climate resilience. The potential adverse environmental impacts of proposed types of Climate Investment Facility subprojects might be summarized as follows: (a) agricultural production: soil erosion, loss of soil productive capacity, soil compaction, soil pollution, surface and underground water pollution, loss of biodiversity; (b) small scale construction and/or rehabilitation of the existing premises: soil and air pollution, acoustic nuisance, construction wastes; (iii) on-farm irrigation and water management: increased soil erosion and water table rise, construction-related impacts; (iv) pasture and rangeland management: soil erosion and soil compacting through extensive use, loss of native fodder species; (v) sloping land horticulture: soil erosion and soil movement; (vi) participatory forestry and agro-forestry: soil erosion, loss of biodiversity; and (vii) off-grid renewable energy production: reduction of downstream flows, water table fluctuations, land erosion, etc. All these impacts will be mostly site-specific and temporary and can be mitigated and managed through good projects design and implementation practices.

71. It is expected none of the activities or sub-loans to be supported under the Program will cause significant environmental impacts which may fall under the Category A projects and for which a full Environmental Impact Assessment (EIA) would be required (such sub-projects will be supported under the proposed Climate Investment Facility investments). However, many of them might cause some level of environmental impacts that would fall under the Category B projects (small-scale agriculture and horticulture improvements; small-scale rehabilitation and maintenance of rangelands and off-grid renewable energy activities, plantation of new agro-forestry and orchards, etc.), for which the Bank requires a simple and/or a partial Environmental Assessment and/or preparing an Environmental Management Plan. It is also expected that many of the Program's sub-projects will not have environmental impacts and will fall under the Category C in accordance with OP/BP 4.01 (especially those related to purchasing of new agricultural machinery, small farm infrastructure, water management, rehabilitation of agricultural lands, etc.). Furthermore, it is expected the selected Climate Investment Facility will not include any investment in dams, and construction of new canals or head works that will increase water extraction from main sources. The Program area will not include parks or sanctuaries or other areas of high biodiversity significance. As confirmed by the Borrowers, the selected sub-projects will not be located in protected zones, critical habitats or culturally- or socially-sensitive areas.

This will be ensured during the sub-projects screening and EA, excluding them from the program financing.

72. Taking into consideration these impacts would be not significant or irreversible, in accordance with the Bank's safeguard policies the project is classified as Category B. Since it was not possible to identify which subprojects will be financed before Appraisal, an Environmental Management Framework (EMF) has been designed to guide the sub-projects' Environmental Assessment (EA). The document outlines EA procedures and mitigation requirements in line with both national and World Bank policies for the sub-projects financed under Component 1 (linked to installation of climate-related monitoring equipment) and Sub-component 2.1. It provides details on procedures, criteria and responsibilities for sub-project EA, including, screening, review and approval, implementing, monitoring, supervision and reporting. The document also includes environmental guidelines for different types of proposed sub-projects providing analysis of potential impacts and generic mitigation measures to be undertaken for subprojects in key support sectors at all stages - from identification and selection, through the design and implementation phase, to the monitoring and evaluation of results.

73. The Program will support more systematic adoption of Integrated Pest Management (IPM) as elements of rural production investments. However, investments supported by the Program could lead to agricultural intensification and increased production of high-value crops, which can trigger an increased use of agrochemicals, including pesticides. The Program will reduce the application of harmful pesticides by focusing on knowledge and skills building with field trainings on innovative and effective practices. The EMF includes a special section on pest management-related environmental risks.

74. The project also triggers OP 7.50 (Projects on International Waterways), because project activities will use water from 'international waterways', and in particular, the two main river basins in Central Asia - the Amu Darya and the Syr Darya or their tributaries. However, the activities to be financed would be limited to rehabilitation, modifications and minor additions or alterations to existing schemes in ways which would not increase the amount of water abstracted or lead to appreciable impact on the water sources or local hydrological regime. Therefore, an exception to notifying riparian states was approved by ECA's Regional Vice President on May 15, 2015.

## **G. World Bank Grievance Redress**

75. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit [www.worldbank.org/grs](http://www.worldbank.org/grs). For

information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**Annex 1: Results Framework and Monitoring**

**CENTRAL ASIA**

**Climate Adaptation & Mitigation Program for Aral Sea Basin (CAMP4ASB) (P151363)**

**Results Framework**

**Project Development Objectives**

PDO Statement

The Project Development Objective (PDO) is to enhance regionally coordinated access to improved climate change knowledge services for key stakeholders (e.g., policy makers, communities, and civil society) in participating Central Asian countries, as well as to increased investments and capacity building that, combined, will address climate challenges common to these countries.

**These results are at** | Program Level

**Project Development Objective Indicators**

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
Proportion of users reporting satisfaction with Climate Knowledge Services provided by Program (Percentage)	0.00	0%	0%	30%	30%	60%	60%
Number of country-led plans and programs that draw on	0.00	0.00	0.00	0.00	1.00	3.00	3.00

Program's climate knowledge services, including lessons from climate investments (Number)							
Cooperative action resulting in the financing of investments that require collaboration across countries. This collaborative action could be supporting action in a transboundary geographical area or could include explicit coordination actions across countries to maximize synergies to better adapt to climate change in relevant national policies. (Number)	0.00	0.00	0.00	0.00	1.00	2.00	2.00



Additional resources mobilized for knowledge, capacity, and investment for regional climate/green actions through increased Program-led coordination between Central Asian countries and development community. (Amount (USD))	0.00	0.00	0.00	20,000,000	30,000,000	40,000,000	40,000,000
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### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values					
		YR1	YR2	YR3	YR4	YR5	End Target
User Perception of Quality of (Information Technology) Public Services (%) (Percentage) - (Core)	0.00	0.00	0.00	42.00	42.00	75.00	75.00

Total number of transactions of the main public service targeted by the project (Number - Sub-Type: Supplemental) - (Core)	0.00	0.00	0.00	4,000.00	4,000.00	9,000.00	9,000.00
Direct project beneficiaries (Number) - (Core)	0.00	0.00	0.00	144,000	144,000	240,000	240,000
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0.00	0.00	15%	25%	25%	35%	35%
Number of hectares in project area covered by effective agricultural, land and water management practices suited to local agro-ecological conditions, which can address climate change (Hectare(Ha))	0.00	0.00	0.00	26,800	26,800	40,000.00	40,000.00

Number of multi-country climate coordination networks supported under program, enabling intra-governmental, sectoral, NGO, etc. cooperation (Number)	0.00	0.00	1.00	1.00	2.00	3.00	3.00
Improved understanding of gender-specific implications of climate change among key stakeholders and implementation of key activities (Number of Knowledge Product events on gender issues, cumulative)	0.00	1.00	3.00	5.00	8.00	10.00	10.00
Feedback/grievances resolved within the stipulated service standards for	0.00	0.00	70%	70%	80%	100%	100%

response times (Percentage)							
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### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Proportion of users reporting satisfaction with Climate Knowledge Services provided by Program (Percentage)		Baseline; midterm; end of project	Field and online surveys; interviews; participatory appraisals	Contracted specialists; National Coordination Units; Regional Coordination Unit
Number of country-led plans and programs that draw on Program's climate knowledge services, including lessons from climate investments (Number)		Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	Regional Steering Committee; EC-IFAS; Regional Coordination Unit; and National Coordination Units
Cooperative action resulting in the financing of investments that require collaboration across countries. This collaborative action could be supporting action in a transboundary geographical area or could include explicit coordination actions across countries to maximize synergies to better adapt to		Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit and Quarterly reports of National Coordination Units	Regional Steering Committee; EC-IFAS; Regional Coordination Unit; National Coordination Units

climate change in relevant national policies. (Number)				
Additional resources mobilized for knowledge, capacity, and investment for regional climate/green actions through increased Program-led coordination between Central Asian countries and development community. (Amount, US\$)		Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	Regional Steering Committee; EC-IFAS; Regional Coordination Unit; National Coordination Units

### Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
User Perception of Quality of (Information Technology) Public Services (Percentage)	It measures the degree of users' satisfaction with the overall quality of transaction processing for the main public service targeted by the project. Required Supplemental data: In addition to the percentage, the TTL should provide the total number of transactions of the main public service targeted by the project in order to make aggregation across projects feasible. Guidance: This indicator should be calculated as the average score among transactions, divided by the number of digits in the scale. For example, if a survey after each vehicle registration transaction asks users to rank from 1= unsatisfied, to 5= highly satisfied, then the indicator will be the	Baseline; end of project	Survey of user satisfaction with climate assessment IT platform	EC-IFAS; Regional Coordination Unit; National Coordination Units

	average score divided by 5 and multiplied by 100. Surveys asking whether the user is satisfied (yes/no) cannot be used to calculate this indicators as these do not indicate the "degree" of satisfaction. Examples of public service transactions include issuance of business registration, payment for public utility services, registration of driver's license, etc. The main service targeted by the project should be chosen based on the allocated project costs. The category of this service should be specified in the comments. With baseline data, this indicator shows improvements in the user perception of quality of public service targeted by the project. Data is collected through user survey. A user survey can be included at the end of each transaction or conducted periodically.			
Total number of transactions of the main public service targeted by the project (Number)	Examples of public service transactions include issuance of business registration, payment for public utility services, registration of driver's license, etc.	Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units
Direct project beneficiaries (Number)	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires	Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit; and Quarterly reports of	EC-IFAS; Regional Coordination Unit; National Coordination Units; and Facilitating Organizations

	supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.		National Coordination Units	
Female beneficiaries (Percentage)	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units; and Facilitating Organizations
Number of hectares in project area covered by effective agricultural, land and water management practices suited to local agro-ecological conditions, which can address climate change (Hectare(Ha))		Annually; bi-annually; and quarterly	Annual Reports of Regional Steering Committee; bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units; and Facilitating Organizations
Number of multi-country climate coordination networks supported under program, enabling intra-governmental, sectoral, NGO, etc. cooperation (Number)		Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; Bi-annual reports for Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units

Improved understanding of gender-specific implications of climate change among key stakeholders and implementation of key activities (Number of Knowledge Product events on gender issues, cumulative)	This indicator will monitor the number of targeted training and knowledge products/events supported under Component 1, related to the gender dimension in the region. Knowledge exchange activities and products are likely to raise awareness on this topic among stakeholders and ensure gender issues are taken into consideration.	Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units
Feedback/Grievances responded and/or resolved within the stipulated service standards for response times (Percentage)	This indicator will monitor the percentage of feedback responses answered in a stipulated services standards timeframe. It will ensure program feedback loops are operating and their efficiency monitored.	Annually; bi-annually; and quarterly	Annual reports of Regional Steering Committee; bi-annual reports of Regional Coordination Unit; and Quarterly reports of National Coordination Units	EC-IFAS; Regional Coordination Unit; National Coordination Units



## Annex 2: Detailed Project Description

### CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin

#### Component 1. Regional Climate Knowledge Services (US\$12.5 million in IDA grant financing)

1. This component will provide technical assistance, as well as minor civil works, goods (including software and equipment), and training, at both the regional and national levels, to develop a unified, integrated regional analytical platform for climate-resilient and low emission development, with improved data, information, knowledge, and decision-support tools. Although this information platform will be managed at the regional level, national agencies and other stakeholders (e.g., academia, civil society organizations) in each participating country will also have access to this system. In addition to providing an improved data and information platform, this component will also develop a mechanism to assess the results and lessons of the climate investments implemented under the Program (under Component 2) in order to ensure that these lessons and results are systematically evaluated and disseminated to support Central Asian countries in their planning processes and lead to greater scale-up of climate action in the region. This dissemination and regional capacity building will be further supported under the component via an annual climate change forum, regional training and e-learning events, as well as climate networks.

2. Component activities will seek to maximize synergies with other knowledge and capacity initiatives in Central Asia (including exploring cost-sharing opportunities). The scope of the component will cover both climate resilience and green growth/low emissions development. Particular attention will also be paid to ensuring close linkages with Component 2 (e.g., providing data, knowledge, and tools to inform the design and implementation of sub-projects under the Regional Climate Investment Facility; evaluating systematically and disseminating widely lessons from these sub-projects, nationally and regionally, to facilitate replication and scaling up under separate sectoral investment programs).

3. The component's climate knowledge services will include:

- ***Strengthening the information platform for Central Asia.*** This activity will support the development of an open information platform to facilitate public-domain collection, sharing, and maintenance of datasets relevant for climate assessment and decision-making. This platform will build on existing systems to collate, analyze, disseminate, and use climate-change relevant data. The Platform (including supporting ICT hardware, software, connectivity, datasets, access to expertise, and training) will facilitate data computerization (e.g., data rescue exercises), collation of comprehensive spatial (e.g., GIS, remote sensing) and temporal datasets from global, regional, and local sources, including in real time (e.g., including from earth observation and hydromet systems, crowdsourcing information). The Platform will also offer interfaces and tools for data visualization, contextualization, and interpretation, such as GIS to layer data and map risks and hotspots, screening and modeling tools to support analysis for climate adaptation and mitigation. The Platform will make available comprehensive and up-to-date datasets, which could be shared and leveraged through public-domain access platforms and the creation of a range of

knowledge products and services (such as a *Central Asia Climate Change Atlas*). The platform will be designed following open data practices, starting from publicly available datasets (and building on on-going initiative, such as the World Bank *Spatial Agent App*) and promoting further information sharing. It will be managed by an Information Technology/Data Specialist within the Regional Coordination Unit, working in tandem with each participating country's TWG and National Coordination Unit to improve awareness of the growing collection of high-quality, global public-domain datasets relevant for climate assessments, facilitate data acquisition and curation, as well as build capacity at national level on data management and analysis. The Sub-component will cover consulting services, non-consulting services, and goods to design the Platform (e.g., survey of datasets and other relevant sources of information; data management solutions; development of apps and interfaces such as GIS layering, screening tools, indicator building; community features), develop and grow the platform (e.g., data rescue, GIS and screening tools software, development of user-friendly apps and interfaces, IT equipment, webhosting services). This Sub-component will be supported with approximately US\$2.4 million.

- ***Targeted upgrading of climate-related monitoring systems.*** This activity will provide improved monitoring systems and data series to support project activities (e.g., snow, permafrost, and glacier/cryosphere – whose improved monitoring could help anticipate glacier lake outburst as well as better understand cryosphere dynamics and improve projections of water resources in the region under a changing climate; or agricultural and forest systems - for instance to monitor state and health of forests and pastures for informed management interventions, better emissions inventories and other reporting under international commitments, and identification of areas at risk of extreme events – such as, fires). If conclusive, such investments could then be scaled up under other national and regional investments (including the forthcoming CAWaRM Program). The sub-component will combine piloting different field/ground monitoring approaches/systems (for calibration) with remote sensing (for scale), especially satellite imagery and analysis (where there are now cheaper options available). It will provide for consulting services, non-consulting services, and goods for surveying/ground truthing, equipment for monitoring innovations (e.g., snow-pillows), and equipment for telemetry and for aggregation, management, analysis of data. In consultation with participating countries (leveraging the TWG and the Regional Steering Committee), CAMP4ASB's Regional Coordination Unit will be responsible for the implementation of this sub-component, including overseeing procurement of goods and services. This activity will be supported with approximately US\$4.3 million.
- ***Developing methodologies, approaches, and tools for decision support.*** This activity will include developing climate screening tools for specific sectors, climate impact assessment and management tools, and support for climate-related decision making (e.g., robust-decision making) and development of climate investments (e.g., review of climate strategies and development of investment programs) at the national level. These approaches and tools will be developed in conjunction with other regional and national programs. The Regional Coordination Unit will be in charge of preparing the program of activities for this sub-component, based on priority needs identified through consultations

with TWG in participating countries as well as broader set of Central Asia stakeholders during the Program's annual Climate Change Forum, and discussion with the Regional Steering Committee. This activity will be supported with approximately US\$1 million.

- ***Developing knowledge products***, under a broad range of support such as web portals, mobile apps, publications, specialized analytical work, including periodic *Central Asia Climate Change Atlas*, on trends and indicators in the region for climate as well as environmental and socio-economic impacts; deep dive on climate risks and vulnerability for specific region or sector; strategy papers to inform future orientations for Climate Knowledge Services and Climate Investment Facility - in the form of roadmaps, with concrete recommendations on information generation and dissemination, institutional capacity building, policy reform, investment in infrastructure, covering such topics as (i) modernization of systems for the provision of seeds and cultivars (since more diverse and adapted species can enhance resilience); (ii) provision to farmers of agrometeorological information that matters (looking at needs and options in the chain monitoring systems and weather forecasting, climate change models, knowledge and skills, communication channels with farmers, options available to farmers); and (iii) regional risk-sharing mechanisms for the agricultural sector (including agricultural insurance scheme). Technical experts and Communications specialist with the Regional Coordination Unit will be in charge of implementing sub-component. This activity will be supported with approximately US\$1.3 million.
- ***Building capacity*** (approximately US\$1.5 million in financing), including activities related to training and study tours or engaging young professionals via internship programs, as follows:
  - *Distance learning* (e.g., using video conference/online systems, webinars, etc.) as well as face-to-face training and discussion sessions and fora. Special hands-on courses (e.g., data sources, using GIS, models, online services, Apps) will be designed and delivered on a regular basis using computer training rooms at regional/national level. It is expected that this will help access, and contribute to, global good practices, build professional networks, and improve the capacity to mainstream climate change considerations into policy, investment, and livelihood decisions.
  - *Field trips and workshops* for knowledge exchange and cross-learning, with a special focus on cross-sectoral and cross-regional learning (e.g., bringing together technical staff from several countries' agriculture and environment ministries to share lessons from pilots and to discuss common approaches; making available international expertise on a specific topic of interest to a group of countries in the region).
  - *Internship/Visiting Expert Program*: An innovative effort under CAMP4ASB will be to develop mechanisms to engage young professionals (e.g., pursuing graduate studies in relevant fields) from Central Asia countries to work together on developing the knowledge base as well as knowledge and communication products on climate action. This is intended not only to insource valuable cutting-edge skills to help address climate challenges, but also to develop professional networking among the next generation of specialists in the region. Efforts will also be made to facilitate a program of professional exchanges through short-term re-deployment and staff-exchanges in the region, as well as to improve professional networking within Central Asia as well as

- with global expertise through facilitating membership in professional organizations, professional journal subscriptions, and participation in professional meetings.
- *Technical Helpdesk:* The Regional Coordination Unit will also seek to develop a mechanism, including via CAMP4ASB web portal, to institutionalize regional and national helpdesk functions to facilitate access to climate-related data, maps, tools, knowledge base, presentation and training material, reports and other knowledge products, and expertise.
- ***Setting up a Climate Investment Assessment Mechanism.*** This activity will support the systematic evaluation of climate investments under Component 2. CAMP4ASB's Assessment Mechanism will rely on a regional pool of experts, comprising national TWG members from the five Central Asian countries, Regional Coordination Unit technical experts, and additional experts as appropriate. Approximately six to ten climate investments, at an advanced implementation stage, will be selected each year following criteria such as: use of an innovative climate technology or practice, or addressing a climate risk specific to a particular agro-ecological zone, etc. For each of these selected investments, two to three members from the expert pool, including from Central Asian countries other than that of the climate investment location, will evaluate the climate investment and will draw lessons based on a pre-established assessment methodology. These evaluations will be available for public dissemination, including for presentation and discussion at events such as the Annual Climate Forum or through CAMP4ASB web portal. These evaluations will also be inputs toward CAMP4ASB-funded knowledge products, e.g., strategy and sectoral policy papers. In the longer term, this material would constitute a regional repository of climate-smart solutions to inspire, inform, and foster transformation. Contingent upon availability of additional resources, this mechanism could also in future cover flagship climate investments, funded by the countries themselves or with support of development partners, to further enhance this smart-lessons database established under CAMP4ASB. This sub-component will cover costs associated with the preparation of an evaluation template, with methodological guidelines (drawing for instance on IEG/ICR/CIF/GEF) for smart-lessons covering project description, challenges, lessons on costs, indicators, etc., recommendations for scaling-up including prospective geographic areas, as well as suggestions for cataloguing and indexation in digital database (to be consulted via CAMP4ASB website for instance). The sub-component will also cover necessary travel for pool experts and preparation of dissemination material. All other climate investments will be assessed following the template, albeit in a lighter fashion, with costs for this assessment covered by the NCUs. This activity will be supported with approximately US\$387,000.
  - ***Outreach and coalition building*** (approximately US\$1.6 million in financing), including holding an annual Climate Knowledge Forum (for engagement of Central Asia stakeholders around the Program's results and its future orientations) and fostering climate networks:
    - *Annual Climate Change Forum*, as a continuing annual event for knowledge and experience sharing across a broad cross-section of stakeholders (e.g., representatives from Central Asia governments, regional organizations, civil society organizations, national and regional knowledge and learning institutions, and development partners

- active in the region). The Forum, where the five Central Asia countries called for the CAMP4ASB Program in May 2014, is expected to become a key regional platform for regular knowledge exchange and collaboration, including for engagement and consultations around CAMP4ASB's results, opportunities for scaling up successful pilot investments with development partners and other interested stakeholders, and CAMP4ASB's future directions.
- *Climate Networks and Multi-stakeholder Engagement*, to catalyze information and knowledge exchange, collaboration around specific initiatives, and the emergence of action-oriented communities and citizen feedback. This will be facilitated by the CAMP4ASB web portal, apps, and other online knowledge networking tools. This will also build on communities of practice such as the Water-Energy-Climate Knowledge Network, initiated under CAEWDP, and the Central Asia Climate Resilience Community, a grouping of Civil Society Organizations set up following the May 2014 Climate Forum. These networks will be used to help design and implement a massive outreach campaign, for awareness-raising and consensus on climate action. In addition to media channels, this campaign could include “*apathons*” or other such competitions (e.g., Innovation Marketplace) to effectively engage the next generation in contributing to climate innovations.
  - *Design and Implementation of an Effective Communications and Public Engagement Strategy*, to support knowledge dissemination, public outreach, and coalition building: stakeholder mapping and public opinion research; developing protocols for external and internal communications; providing communications support for the Climate Knowledge Forum and workshops; and engaging with media and building their capacity.

## **Component 2. Regional Climate Investment Facility (US\$21.4 million in IDA financing and US\$6.8 million in beneficiary contribution)**

4. This component will provide financing (via sub-loans) to rural communities<sup>12</sup> for investments to address climate change in areas considered by participating Central Asian countries as priority for scaled-up climate action. In addition, it will provide technical assistance and facilitation support for rural communities to plan, implement, and manage climate investments.

5. ***Sub-component 2.1. Investment Financing (US\$20.4 million in IDA financing and US\$6.8 million in beneficiary contribution)***. This sub-component aims to improve productivity and livelihoods and address climate change, by providing sub-loans to promote the adoption of technologies and practices for climate resilience and climate change mitigation in agricultural production, land management and other areas.

6. **Project area:** The Regional Climate Investment Facility will provide financing in selected rural areas of participating countries that are vulnerable to climate change. These areas are expected to include each of the major agro-ecological systems in Central Asia (mountains,

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<sup>12</sup> Including vulnerable rural communities, including farmers (Dekhan farmers and commercial farmers), farmer groups, water user associations, pasture management and/or user groups, other resource user groups, villagers, village communities, as well as private companies.

foothills, rangelands, irrigated, and arid) in order to maximize learning potential among participating countries. The final selection of these areas will be made at program outset, at the intersection of the two criteria below:

- Located in climate-vulnerable areas of Central Asia, based on the extent of land and vegetation degradation, expected water shortages, and predicted increase in temperature (alternative: extreme events, such as floods and droughts); and
- Show good complementarity with government- or donor-funder initiatives on the ground.

7. **Eligible activities:** Eligible investments will include those that meet criteria agreed upon by all participating countries that reflect regional priority areas where climate action must be scaled-up. These investments are expected to primarily contribute to: (a) crop diversification, climate-resilient seed varieties, and seed system support measures; (b) on-farm water resource management and efficiency improvement measures; (c) rehabilitation of degraded lands and land degradation control through agro-forestry and rangeland management measures; (d) promotion of stability and sustainability of mountain ecosystems and livelihoods; (e) conservation agriculture; (f) livestock production improvements; (g) agro-products processing; (h) energy efficiency improvements (e.g., insulation, lighting, etc.); and (i) expansion of renewable energy sources, particularly for those communities in remote rural areas. Other climate investment types could be considered at a later stage of implementation, based upon new priorities identified and commonly agreed by participating countries.

8. **Eligible investments**<sup>13</sup> will support activities in the agricultural sector as listed below, but will be required to have a climate resilience element. For instance, climate-resilient seeds instead of standard seeds, energy-efficient pumps, biological pest control, fruit and nut-tree based agro-forestry on degraded mountain slopes:

- a) Improving productivity of field and horticultural crops, by crop diversification, climate-resilient seed/sapling variety and seed-system support measures adopting new and appropriate technologies:
  - Establishing low cost green houses
  - Fodder seed (both pulses and grass) production
  - Private nurseries
  - Vineyards and orchards
  - Improved cropping systems, such as crop diversification
  - Improved crop and tree varieties (wood lots)
  - Improved seed varieties (e.g., more tolerant to drought, pest, disease and salinity).
- b) On-farm water resource management and efficiency improvement measures
  - Drip and plastic tube irrigation
  - Land levelling
  - Planting shelter belts
  - Irrigation scheduling
  - Alternate furrow irrigation
  - Drainage rehabilitation and improvement.
- c) Land degradation control through agro-forestry and rangeland management measures
  - Infrastructure to access and use remote pastures

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<sup>13</sup> Technical advisors (such as ICARDA or similar experienced organizations) will be available to provide advice on how to make on-farm investments more climate-resilient.

- Small machinery to produce and harvest fodder
- Rehabilitation measures for degraded areas.
- d) Pest and disease control
  - Biological controls
  - Integrated pest management (with use of bio-pesticides only).
- e) Conservation agriculture
- f) Livestock production improvements
  - Livestock farming
  - Poultry farming
  - Apiculture.
- g) Agro-product processing
- h) Energy efficiency improvements (e.g., insulation, lighting, water pumps, etc.)
- i) Expansion of renewable energy sources, particularly for those communities in remote rural areas.

9. **Financing instruments:** The Facility will provide sub-loans through Participating Financial Institutions (PFIs) supported by a credit line.<sup>14</sup> These PFIs will provide financing through loans, leasing transactions and micro-finance (e.g., in the case of very small businesses). Maximum financing will not exceed US\$500,000 per beneficiary, with a minimum 20 percent required co-financing by the sub-borrower (in cash or in-kind). In Tajikistan, US\$7.7 million (US\$3.7 million in national IDA and US\$4 million in regional IDA financing) will be made available for sub-project loans and in Uzbekistan, US\$12.6 million (US\$8.6 million in national IDA and US\$4 million in regional IDA financing) will support these loans. Beneficiary matching contributions are expected to reach US\$2.6 million and US\$4.2 million, respectively.

10. **Selection criteria for sub-projects:** PFIs/Lease Companies will carry out the detailed sub-project appraisal based on their internal procedures for such appraisal, including their internal requirements for collateral. However, the following aspects of the proposed sub-project should be covered by the PFI/Lease Company appraisal as a minimum:

- (i) Located in the project area;
- (ii) Is included in the list of eligible types of investment;
- (iii) Demonstrates gender focus;
- (iv) Sub-borrower has provided the required contribution;
- (v) Technical feasibility and financial viability of the proposed sub-project, including:
  - a. the rate of return on the proposed investment should be, at minimum, equivalent to the interest rate on the sub-loan/lease;
  - b. the Debt Service Coverage (DSC) Ratio should be minimum of 1.3, calculated annually, on the basis of the sub-borrower's total debts;
- (vi) An evaluation of the sub-borrower's ownership structure, financial position, and creditworthiness, operational success, organization and management structure;
- (vii) Assurance that the sub-borrower has the technical staff, know-how and all other resources available for successful implementation of the sub-project;

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<sup>14</sup> Sub-grants are under consideration in some other Central Asian countries (to be decided when these countries' participation in the Program is formally processed). In addition, contingent upon resources from the Green Climate Fund (GCF), sub-grants could be also deployed in Tajikistan and Uzbekistan along with sub-loans, thereby reaching the poorest and most climate-vulnerable populations.

- (viii) Compliance with the relevant health and safety standards, and other laws and regulations (including any applicable national and international law and regulation on forced and child labor) in effect in the country;
- (ix) Compliance with the environmental and procurement guidelines of IDA in effect at the time of the sub-project appraisal.

11. **On lending terms:** The funds will be available both in local currency and US Dollars. The tentatively proposed interest rate to the PFIs (to be finalized in negotiations with the Ministry of Finance and to be acceptable to the World Bank) is:

#### **In Uzbekistan**

- (i) The interest rate for Subsidiary Loans denominated in US Dollars shall be equivalent to the base rate, which will be the prevailing interest rate at which the Borrower shall have received loan proceeds from the World Bank plus a spread of not less than 2 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for the administrative costs associated with the Subsidiary Loan;
- (ii) The interest rate for Subsidiary Loans denominated in UZ Soums shall be equivalent to the base rate, which will be the prevailing interest rate at which the Borrower shall have received loan proceeds from the World Bank plus a spread of not less than 7 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for: (i) the administrative costs associated with the Subsidiary Loan; and (ii) provide a small premium to compensate for the risks associated with currency exchange.

#### **In Tajikistan**

- (i) The interest rate for Subsidiary Loans denominated in US Dollars shall be equivalent to 6-months Libor plus a spread of not less than 3 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for the administrative costs associated with the Subsidiary Loan. The rate shall be reviewed semi-annually, as necessary.
- (ii) The interest rate for Subsidiary Loans denominated in local currency shall be equivalent to the refinancing rate of the National Bank of Tajikistan. This will be the final rate to the PFIs, which will include: (i) the administrative costs of the Borrower associated with the Subsidiary Loan; and (ii) a small premium to compensate for the risks associated with currency exchange. The rate shall be reviewed semi-annually, as necessary.

12. Maturity of the Credit Line proceeds. Credit line funds will be provided to the PFIs for up to 20 years, inclusive of a grace period of 5 years, in Uzbekistan; and initially for up to 5 years, including a four-year grace period, extendable upon agreement with the Ministry of Finance, subject to the PFI's satisfactory performance, in Tajikistan. Upon expiration of the grace period, the principal shall be repaid in three equal semi-annual payments, starting at the end of the fourth year of the loan term.

13. In Uzbekistan, each subsidiary loan agreement with the PFIs will be signed for a specific amount, based on the estimated demand, whereas in Tajikistan the credit line will be available on a first-come, first-served basis, within the exposure limits established for the PFIs, which will ensure that the most active PFIs have access to the necessary financing. Given the likelihood that



a number of PFIs will qualify for participation, it will help ensure the competitive environment necessary for the sub-borrowers to benefit from competitive terms and financing conditions.

14. Reflow of credit line during project implementation. MOF PMU will reflow interest and principal payments made by PFIs back to the same or other eligible PFIs to enable them to offer additional loans.

15. The maximum loan/lease size will be up to US\$500,000; the loans are expected to be mostly for investment. The maximum maturity of the sub-loans/leases will not exceed 7 years or the amortization period of the asset, whichever is shorter. The actual size and maturity of the loans/leases will depend on the type of investment financed, profitability of the activity, cash-flows generated, collateral, and other banking considerations.

16. Maximum financing share: The project will finance up to 80 percent of the sub-loans/leases, and no co-financing by the PFIs will be required. The sub-borrowers will be required to contribute 20 percent of the sub-project financing.

17. Sub-loan/lease interest rate: Except as the Borrower determines the rate charged by the PFI to be unreasonable, in light of established sound lending policies and procedures, the PFIs will set their own interest rates and repayment terms to final sub-loans/lease beneficiaries based on their banking considerations. The PFIs will carry out full appraisal of sub-loans/leases and sub-borrowers based on the agreed criteria, and will bear the full risk of subsidiary loan repayment.

18. The Credit Line beneficiaries will have to comply with the national legislation on child and forced labor, per provisions of the operational manual.

19. Withdrawals from the Credit Line: Periodically, as agreed between the PFIs and the NCUs, PFIs will prepare Statements of Expenditure (SOEs), in the agreed format, listing already financed sub-loans/leases, as well as sub-loans/leases approved by its Credit Committee but not yet financed<sup>15</sup>. The SOE will be submitted together with the one-page Sub-loan Information Sheet for each sub-loan/lease. The Sub-loan Information Sheet will contain the key terms and conditions of the proposed sub-loan. The PMU will review the list of sub-loans and the one page summaries for every sub-loan to check the eligibility of the sub-loan against the criteria under the project (it is only a "technical" review by the PMU, the financial appraisal of the sub-loan/lease, loan structuring and all banking considerations lie with the PFI). Upon approval, the funds will be transferred to the PFI.

20. Technical prior review of sub-loans/lease applications by the World Bank will be carried out for the first three Climate Investment sub-project proposals received by each qualified PFI, irrespective of the amount of the proposed sub-loan/lease, received by each qualified PFI.

21. **Implementation arrangements:** In Tajikistan, the credit line is expected to be implemented by the Project Management Unit for Access to Green and Rural Development

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<sup>15</sup> In cases when the PFI does not have an opportunity to extend financing due to the short maturity of the available financing or other considerations.

Finance under the Ministry of Finance (MOF PMU). In Uzbekistan, the credit line is expected to be implemented by the Rural Restructuring Agency (RRA). Both MOF PMU and RRA have prior experience in implementing and managing credit lines. Both PMUs will be responsible for all aspects of the credit line implementation, including ensuring the compliance of sub-loans/leases with the eligibility criteria, monitoring of the sub-loan/lease files, and the PFI compliance with the eligibility criteria. Regular visits to PFI branches to review the loan files for completeness and visits to borrower sites are two key components of the monitoring of credit line implementation. The PMUs will prepare progress reports for the governments and the World Bank based on agreed Monitoring and Evaluation formats, which will track both the physical implementation and impacts of the credit line. Detailed responsibilities of the units implementing the credit line will be described in the Line of Credit Operational Manual.

22. **Eligibility criteria for participating financial institutions (PFIs).** In order to become a Participating Financial Institution (PFI), commercial banks and other financial institutions (such as microfinance organizations or leasing companies) have to qualify under a due diligence procedure in accordance with a set of operational, financial and management criteria indicated below (separate criteria for commercial banks and leasing companies), and have to sign a Subsidiary Loan Agreement (SLA) with the MOF PMU or RRA. In order to maintain its eligibility as a PFI, the commercial banks, microfinance institutions and leasing companies have to meet the said criteria at all times.

23. Potential PFIs (commercial banks and leasing companies) will be individually appraised, through a due diligence procedure, by an experienced consultant with international experience specializing in due diligence of financial institutions, together with the RRA/MOF PMU and not objected by the World Bank.<sup>16</sup> During the detailed due diligence assessment, particular attention will be given to the overall lending capabilities, and financial and portfolio performance. The PFI must have satisfactory financial and management structure, a satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, and the organization, management and technical staff and other resources required for the efficient carrying out of the operations. Further information on eligibility criteria is provided in Annex 7 (“Financial Intermediary Financing Policy Compliance Note”).

24. **Monitoring.** The compliance of sub-loans/leases with the eligibility criteria, monitoring of the sub-loan/lease files, and the PFI compliance with the eligibility criteria will be ensured by the PMUs (MOF-PMU and RRA, respectively). Regular visits to PFI branches to review the loan files for completeness and visits to borrower sites are two key components of the monitoring of credit line implementation. Based on the agreed procedure, on-site visits to the sub-loan/lease sites are carried out not later than within four months from the disbursement of the sub-loan/lease. Monitoring and Evaluation forms (as part of the operational manual to be developed) will be used to 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 for the project, covering also the credit line activities, will be done from time to time.

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<sup>16</sup> The due diligence for participating financial institutions in Uzbekistan was carried out in April-May 2014; and is expected to be carried out in early 2016 in Tajikistan.

25. Progress reports will be produced quarterly, which will also include reports on monitoring of the financial status of the PFIs, including key performance indicators, such as portfolio quality, liquidity ratios, etc. The MOF PMU or RRA, respectively will also ensure timely collection of the audited reports of the PFIs, in compliance with the provisions of the Subsidiary Loan Agreement. An Environmental Specialist will carry out screening of the proposed sub-loans from the environmental point of view. In addition, continued PFI compliance with the eligibility criteria will be verified by the Bank's team on annual basis, based on the review of the audited statements of the PFIs and other due diligence procedures, as required.

26. The following results from sub-loan implementation will be tracked as part of the Climate Investment Assessment Mechanism:

- Number of types of climate resilient investments piloted
- Number of financial sector staff (loan officers and branch managers) trained and supporting investments in climate resilience
- Number of Sub-loans/leases provided under the credit line
- Volume of Bank Support: Lines of Credit – SME (core indicator)
- Volume of Bank Support: Institutional Development – SME (core indicator)
- Portfolio at Risk (SME) - percent.

27. **Arrangements after CAMP4ASB closing.** In Uzbekistan, in accordance with the practice so far, the 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. After the end of the 20-year period, the MOF may choose to on-lend the money back in the banking sector for an extended period of time under a separate legal arrangement. In Tajikistan, the PMU will ensure that the funds are re-extended to the PFIs (subject to continued satisfactory performance) after the project closes, similar to arrangements agreed under another World Bank-financed credit line. 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 the World Bank. 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.

28. **Sub-component 2.2. Capacity Building and Community Support (US\$1.0 million in IDA financing).** This sub-component includes financing for awareness raising, participatory planning, and implementation support of climate investment plans at the community level. This “facilitation package” is expected to raise interest of potential beneficiary communities for climate investment opportunities under the Program, improve the quality of the funding proposals prepared by these communities, and enhance the likelihood of these investments' success. This activity will be supported with US\$0.3 million in Tajikistan and US\$0.7 million in Uzbekistan, respectively.

29. Trainers-consultants will carry out public awareness campaigns in the project areas, to sensitize the potential target population of the expected climate change impacts, as well as inform the target population of the types of different technologies and practices to adapt to and mitigate climate change. Among other things, the potential target beneficiaries will be informed of the sub-loan/lease opportunities from the Regional Climate Investment Facility through this awareness campaign, which will include information dissemination on both training activities and investment funding. Information will also be disseminated through local authorities and local

NGOs and other organizations. Use of female interlocutors targeting potential female beneficiaries will also be explored.

30. In addition, these contracted NGOs and other organizations will help beneficiaries assess and understand climate threats and impacts for their area/locality/community/farm, and factor in the potential impact of climate change on livelihoods and vulnerability to disaster by using local and scientific knowledge of climate variability and its likely effects. Local knowledge will include information about trends and changes experienced by the communities themselves and strategies they have used in the past to cope with similar shocks or gradual climate changes, or to mitigate threats and impacts. The contracted organizations will then support community-level participatory appraisals and community action plans, which promote fairness, equity, and transparency. These facilitating organizations will assist beneficiaries to identify and design appropriate investment plans that show clear linkages to the findings of the climate change appraisals. These organizations will also help build the technical and organizational capacities of communities to manage and implement their investments. For communities and enterprises seeking credit line support, preparation of business plans could also be supported by the facilitating package. Local governments will be associated to this process, to check alignment of proposed investment plans with local priorities already identified and existing local development plans, as well as to raise awareness of local decision-makers on climate risks and solutions and on tools and approaches to integrate climate-considerations in planning.

31. ***Capacity building in financial intermediaries.*** Technical assistance will also be provided to the PFIs to improve their skills in assessing climate investment proposals in the range of eligible activities considered, broadly covering land, water, agriculture, and energy sectors. In addition, the National Coordination Units, set up to facilitate implementation of the Technical Assistance portions of the project, will provide relevant technical advice to the PFIs to facilitate appraisal of sub-loans/leases.

32. This technical assistance will cover basic concepts of appraisal, risk assessment and monitoring of investment projects, and those aspects, such as the seasonality, exposure to weather risks and commodity price volatility risks. In addition, the PFI staff will also be trained in environmental awareness and environmental impact assessment and mitigation, to ensure that the activities financed under the Credit Line are implemented in accordance with the project EMF.

### **Component 3: Regional and National Coordination (US\$3.9 million in IDA financing)**

33. ***Sub-component 3.1 Regional Coordination (US\$2.5 million in IDA grant financing).*** This sub-component will finance the operating costs of the Regional Coordination Unit (RCU) to be established under the regional host institution (EC-IFAS), responsible for regional coordination and implementation. Support will be provided to the RCU for procurement, financial management, regional coordination, reporting, and monitoring and evaluation. Support will be provided to the RCU for procurement, financial management, regional coordination, reporting, and monitoring and evaluation. In addition, to strengthen EC-IFAS's technical capacity and facilitate day-to-day liaison with the RCU, two technical experts will be financed under this sub-component. This is in addition to the RCU implementation personnel in Almaty and these two experts will be under the direct authority of EC-IFAS. When EC-IFAS

chairmanship rotates to a new Central Asian country, these experts will relocate to that country or be replaced by newly-hired experts in the country.

34. ***Sub-component 3.2 National Coordination (US\$1.4 million in IDA financing (US\$0.7 million per country))***. This sub-component will support the operating costs of the National Coordination Units (NCUs), responsible for national investment oversight, in each of the participating countries. Support will also be provided to the NCUs for national-level coordination, procurement, financial management, reporting, safeguards oversight, and monitoring and evaluation.

35. Financing will be provided for fixed and or short-term specialists in procurement, financial management, disbursements, monitoring and evaluation, and technical assistance in climate/environmental management, social development, information technology, and in other areas as per approved work and procurement plans. The program will support participation and contributions to programmatic monitoring and evaluation and knowledge management. The program will support office furniture and equipment, incremental operating expenses (including travel), and partial operating costs for the RCU and participating NCUs.

### **Annex 3: Implementation Arrangements**

#### **CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin**

##### **Project Institutional and Implementation Arrangements**

1. The Program's proposed institutional and implementation arrangements will ensure a balance between regional coordination and national ownership. At the regional level, EC-IFAS will serve as the implementing agency for the Program's regional, cross-cutting activities given its mandate to coordinate cooperation in order to improve the environmental and socio-economic situation in the Aral Sea Basin, as well as use existing water resources more effectively.

2. A Regional Coordination Unit (RCU) will support EC-IFAS in the implementation of Regional Climate Knowledge Services (Component 1) as well as in Regional Coordination (Sub-component 3.1). This RCU, the Regional Environmental Center for Central Asia (CAREC), is an independent, international organization, founded by all five Central Asian countries as well as the European Commission and the United Nations Development Programme, headquartered in Almaty (Kazakhstan) with country offices in all Central Asian capitals. The RCU will provide general Program oversight, oversee implementation of activities implemented at the regional level (including liaising regularly with the NCUs to seek inputs and facilitate consensus on proposed regional activities as well as to receive feedback on their implementation), provide as needed technical support/guidance to the NCUs, review bi-annually a sample of national climate investments to ensure their consistency with guiding investment priorities set by the Regional Steering Committee, organize reviews with country TWG members to assess lessons learned from investments, and ensure lessons and results from Program activities are systematically disseminated to support participating country planning processes. The RCU will also oversee, together with the NCUs, the Program's Feedback/Grievance Redress Mechanism. The RCU will support arrangements for the Regional Steering Committee meetings.

3. National Coordination Units (NCUs), in each participating country, will be responsible for the implementation of the Climate Investment Facility (Component 2), together with Participating Financing Institutions, as well as ensuring overall National Coordination (Sub-component 3.2). These NCUs include CEP together with MOF PMU in Tajikistan as well as RRA in Uzbekistan. NCUs will operate under the supervision of a national focal point and the national Technical Working Group, will be responsible for overseeing the implementation of the country's Climate Investment Facility, ensuring awareness-raising and outreach of investment opportunities, providing training for climate investment proposal preparation. The NCUs will also monitor investment implementation and ensure compliance with Bank safeguards and fiduciary requirements. Participating Financing Institutions (PFIs) will be responsible for identifying prospective sub-borrowers, have full autonomy in sub-project approval and determination of lending terms (such as the interest rate and repayment and grace periods) and will bear the lending risks.

4. A Regional Steering Committee, comprised of representatives from the national and regional coordination agencies, their respective coordination units, and Chairmen of EC-IFAS and ICSD, will meet biannually to review program progress and recommend program priorities. The Regional Steering Committee will provide advisory support, define annual climate investment

priority areas, recommend future Program directions, ensure country coordination and facilitate sharing of status update in each country, monitor Program progress on a bi-annual basis, report to stakeholders and be responsible for high-level outreach, as well as settle controversies that might arise during implementation.

5. The Program will be implemented based on a Program Operational Manual (POM), which will be fully prepared by effectiveness. The POM will include: (i) the Program's overall operating, fiduciary, and decision making procedures; (ii) the credit line investment guidelines; and (iii) guide to project monitoring and evaluation.

## **Financial Management, Disbursements and Procurement**

### *Financial Management and Disbursements*

6. Financial management support for the Project at a national level will be provided by the National Coordination Units at the CEP (jointly with the existing PMU at the Ministry of Finance in Tajikistan, Tajik MOF PMU), and at the Rural Restructuring Agency (RRA) under the Ministry of Agriculture and Water Resources in Uzbekistan. The EC-IFAS through CAREC acting as an RCU will be responsible for the Program implementation at the Regional level. It is expected that the RCU and NCU (incl. Tajik MOF PMU) staff will handle financial management and disbursement activities of the project, managing project funds, maintain accounts, and have the accounts audited.

7. **Financial Management.** The overall project financial management arrangements for the Program, including budgeting and planning, accounting, reporting, internal controls, funds flow and audit, have been assessed to determine whether these are satisfactory to the Bank.

8. Financial management arrangements for RCU, EC-IFAS were found to be overall adequate and satisfactory to the Bank. CAREC is implementing various projects financed by ADB, the European Union, and OCSE. The FM staffing capacity is also considered to be sufficient both in terms of numbers and skills. CAREC has automated accounting software that can be easily modified to include the accounting and reporting requirements of the Program. CAREC prepares interim unaudited reports for the donors as well as annual financial statements that are subject to audit. CAREC's detailed Financial Management Manual will need to be revised to include the Program.

9. Tajik CEP shall have overall responsibility for financial management and disbursement functions, including consolidation and submission of the Interim Unaudited Financial Statements (IFRs) and audit reports, while the MOF PMU, through its financial and accounting unit, shall have overall responsibility for financial management of Subcomponent 2.1, 2.2 and (jointly with CEP) 3.2, and provide information to the CEP for consolidation. The Tajik MOF PMU will be responsible for financial management arrangements for the credit lines with the Chief Accountant of the PMU bearing overall responsibility for those. The MOF PMU is quite new to implementing the World Bank projects as it was established to implement the Agricultural Commercialization Project that became effective in February 2015 only. In light of this, the FM assessment recommended to contract dedicated FM consultant for project financial management and

disbursement functions. Strengthening of FM arrangements to implement the proposed Project will be realized by modification of existing accounting system, including generation of the IFRs, and development of a manual of financial procedures as part of the POM. Project financial statements will be subject to independent audit by auditors satisfactory to the World Bank, with CEP responsible for this.

10. Uzbek RRA will be responsible for implementation of the FM function of the Program in Uzbekistan. The RRA has extensive prior experience in the implementation of the Bank-financed projects. The FM arrangements at RRA have been reviewed periodically as part of supervision of existing projects and have been found satisfactory. Based on the FM assessment, it was established that the RRA has overall acceptable FM arrangements in place. In order to adapt those arrangements to the proposed project and for capacity building purposes, the existing accounting software will need to be modified within 30 days after the project’s effectiveness to accommodate the projects reporting and accounting requirements, including capacity to generate Interim Unaudited Financial Statements (IFRs). While the capacity in terms of staffing is adequate and there is no immediate need to hire additional FM staff, it may be required later as the project’s activities pick up. Thus, the Project should provide for such need.

11. Table 3 below lists the actions required to ensure satisfactory financial management system by effectiveness.

**Table 3: Action Steps for Satisfactory Financial Management Systems by Effectiveness**

<b>Recommended Action</b>	<b>Responsibility</b>	<b>Deadline</b>
POM to be developed, to include financial management chapters, including project accounting and reporting, funds flow, audit arrangements, disbursement procedures, etc.	RCU, EC-IFAS/ Tajik CEP and MOF PMU/Uzbek RRA	Before Effectiveness
Install or modify automated accounting system with capacity to generate IFRs	RCU, EC-IFAS / Tajik MOF PMU / Uzbek RRA	Within 30 days (EC-IFAS and UZ RRA) and 45 days (TJ MOF PMU) after effectiveness
Recruitment of financial management consultants responsible for project financial management and disbursement functions at the country and regional levels	Tajik MOF PMU	Before Effectiveness
Training of financial management staff on financial management and disbursement procedures of the World Bank	World Bank	Project Launch and during implementation

12. **Budgeting and Planning:** Project budgets, prepared annually will form the basis for allocating funds to project activities. The budgets will be prepared in enough detail, by activities and account codes, and broken down by quarters. Annual budgets should be agreed with IDA before final approval, and approved annual budgets will then be entered into the accounting system and used for periodic comparison with actual results as part of the interim financial reporting.



13. **Accounting and Records:** The project accounting will be maintained on the cash basis, with supporting documentation maintained in files in accordance with existing government financial regulations and standards acceptable to the Bank. In all the agencies automated accounting systems, based on suitable accounting software, will be used for project accounting reporting and other activities, including payroll. The agencies will need to either install suitable or modify existing accounting software to support project accounting and reporting.

14. **Project Financial Reporting:** All the agencies will need accounting systems with capacity to generate the reports required by the Bank. The respective Implementing Agencies will be responsible for submission of interim un-audited financial reports (IFRs) that will be generated by the accounting system based on formats agreed with the World Bank. The reports, to include Statement of Sources and Uses of Funds, Uses of Funds by Project activities (Components & Expenditure Categories) and Statement of Designated Account (DA), will be submitted to the World Bank within 45 days of the end of each quarter, with the first reports under the proposed Project being submitted after the end of the first full quarter following initial disbursement. In Tajikistan CEP will be responsible for preparation and submission of the consolidated IFRs, including sub-component implemented by the MOF PMU.

15. **Internal Control and Internal Audit:** The Project Operational Manual (POM) will be developed for the Project, incorporating financial procedures specific for the Project as well as procedures for the credit line program. Internal control procedures, including expenditure and payment approvals, timely and complete recording of transactions, regular reconciliation of accounts and balances, segregation of duties, safeguard of data and assets, as well as regular reporting and audits, will be described in detail in the Project Operational Manual (POM).

16. **External Audit:** Audit of the proposed project will be conducted (i) by independent auditors acceptable to the Bank on terms of reference acceptable to the Bank; and (ii) in accordance with International Standards on Audit (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC).

17. For the project there will be three separate audits, for the regional activities as well as the country-level activities in Tajikistan<sup>17</sup> and Uzbekistan. Audit of the project will include the project financial statements, SOEs, and DA Statement. 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 Credit/Grant funds. Table 4 below identifies the audit reports that will be required to be submitted by the State Audit together with the due date of submission. Audited project financial statements will be publicly disclosed in accordance with the Bank's Access to Information (AI) Policy.

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<sup>17</sup> In Tajikistan, the NCU at CEP will be responsible for consolidation of financial statements and subsequent audit that will also include credit lines.

**Table 4: Audit Report – Scope and Periodicity**

<b>Audit Report</b>	<b>Due Date</b>
Separate Project financial statements (PFSs) for RCU, EC-IFAS, Uzbek RRA and Tajik CEP (the audit for Tajikistan will include the FS for sub-component implemented by MOF PMU.) The PFSs to include Statement of Sources and Uses of Funds, Uses of Funds by Project Activity, SOE Withdrawal Schedule, DA Statement and Notes to the financial statements.	Within six months of the end of each fiscal year and also within 6 months after the closing of the project.

18. **Disbursements.** The proceeds of the credit/grant will be disbursed over a period of five years or for such longer period as will be agreed with the Bank. Credit/grant funds will flow through Direct Payment and via disbursements to the Designated Accounts (DA), each maintained by the RCU, EC-IFAS, Uzbek RRA and Tajik CEP and MOF PMU, respectively. The project will follow transaction-based disbursement procedures (payments through the DA, reimbursement, direct payments, and special commitments). Withdrawals from the Credit/Grant Accounts will be requested in accordance with the guidance to be given in the Disbursement Letter.

19. **Designated Account.** To facilitate timely disbursements for eligible expenditures on works, goods, services, loans and grants, the Borrower/Recipient will open and operate, under terms and conditions acceptable to the Bank, Designated Accounts in US dollars in commercial banks acceptable to the World Bank. All agencies will be responsible for the appropriate accounting of the funds deposited into the designated accounts, for reporting on the use of these funds and for ensuring that they are included in the audits of the financial statements. Ceiling of the Designated Accounts and the Minimum Application size for Direct Payment or Special Commitment will be communicated in the Disbursement Letter.

*Procurement*

**General**

20. Procurement for the proposed Program will be carried out in accordance with World Bank Guidelines. Specifically, procurement will be carried out in accordance with: (i) “Guidelines: Procurement of Goods, Works, and Non-Consultancy Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014; (ii) “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” dated January 2011 and revised July 2014; and (iii) the provisions stipulated in the Credit Agreements. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised on January 2011, will also apply. For each contract to be financed by the Grant/Credit, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame is reflected in the Procurement Plans which has been developed and agreed upon by the Bank.

21. Responsibility for national-level procurement will rest with the NCUs, including the Rural

Restructuring Agency under the Ministry of Agriculture and Water Resources (RRA), and the PMUs at the Committee for Environmental Protection in Tajikistan (Tajik CEP) and Ministry of Finance in Tajikistan (Tajik MOF PMU).

22. The EC-IFAS through CAREC acting as the RCU will be responsible for the procurement management at the regional level. CAREC has some experience in handling international and national procurement within the financing provided by various donor organizations. CAREC is staffed with a procurement expert (individual consultancy contract) who has the relevant experience in managing the procurement process. CAREC has developed its own procurement rules which are applicable for any purchase within CAREC financing. It is expected that CAREC will take a leading role in the preparation of the procurement documentation linked to the Program's regional activities and CAREC should hire one additional procurement specialist with the relevant international experience to manage the procurement at the regional level (and to provide adequate support to the national procurement staff). The initial procurement risk is rated as high due to lack of the experience of CAREC in handling procurement under the World Bank financed project and inadequate number of staff to conduct a large value of procurement activities.

### **Tajikistan**

23. The NCU at the Committee for Environmental Protection (CEP) will be the designated project implementation agency responsible for the overall project implementation (Tajikistan Component). The CEP will be responsible for the procurement of small contracts at the country level and will actively participate in the decision making process for the joint procurement packages at the regional level. For procurement under the credit lines, Tajik MOF PMU together with the CEP and/or the PFI will assist sub-borrowers in preparation of procurement plans and procurement activities.

24. *Procurement Capacity and Risk Assessment.* The assessment of the Tajik CEP capacity for implementation of project procurement activities was carried out in December 2014 and documented in the P-RAMS. The Tajik CEP currently is implementing a World Bank financed project. Performance of this operation is rated as satisfactory. Sufficient procurement capacity exists in the Tajik CEP. The Tajik CEP respective staff received training in conducting procurement of goods, works and services organized by the Central Asia Procurement Team in Tashkent (April 2014). As the MOF PMU will be responsible for implementation of credit line activities, they will receive support from the project's procurement consultant hired under the CEP. This staff will work closely with the PFIs to disseminate knowledge to PFIs credit officers so that they could explain benefits of use of competitive procurement methods to beneficiaries and provide guidance in all procurement related matters. The main procurement risk related to the Project would be potential delays due to internal coordination issues, procurement capacity, delayed evaluation and reduced accountability due to involvement of the State Investment Committee (SIC) as well as limited procurement experience of beneficiaries and insufficient knowledge of PFIs of procurement procedures. The overall risk for procurement is rated "High". After mitigation measures are implemented, the residual risk would be "Substantial".

### **Uzbekistan**

25. Rural Restructuring Agency under the Ministry of Agriculture and Water Resources (RRA)

will be the designated project implementation agency responsible for the overall project implementation (Uzbekistan Component), including the project’s fiduciary functions. The RRA will be solely responsible for the procurement of small contracts at the country level and will actively participate in the decision making process for the joint procurement packages at the regional level.

26. Procurement Capacity and Risk Assessment. The assessment of the RRA capacity for implementation of project procurement activities was carried out in December 2014 and documented in the P-RAMS. The overall risk for procurement is rated ‘High’. After mitigation measures are implemented, the residual risk would be ‘Substantial’.

27. Overall Summary of Risks and Risk Mitigation Measures for the RCU and NCUs: Procurement capacity and risks were assessed using the Procurement Risk Assessment and Management System (P-RAMS), and the Procurement Capacity Assessment Report has been filed in the P-RAMS. The key issues and risks concerning procurement for implementation of the project include: (i) potential risk of delays in the implementation of the project due to the complexity of procurement processes and decision-making that involve a number of beneficiaries; (ii) inadequate capacity of the proposed Implementing Agencies (IA) to conduct procurements based on World Bank Procurement and Consultant Guidelines; (iii) insufficient contract monitoring and management skills in each IA; (iv) inadequate accountability and oversight for procurement decisions in each country. Given the findings of the assessments, the initial overall procurement risk under the project is assessed as “High”.

28. To mitigate the identified procurement-related risks, the mitigation actions in Table 5 below are suggested. It is expected that, after the above measures have been taken, the risk would be reduced to “Substantial”.

**Table 5: Mitigation Actions Against Procurement Risk**

	<b>Actions</b>	<b>Deadline</b>
1.	Allocation of adequate human resources for the project’s fiduciary functions by each IA responsible for the day-to-day project coordination and procurement	Appraisal/ Negotiations
2.	CAREC should hire the additional procurement specialist(s) with the relevant international experience to manage the procurement at the regional level and to provide the adequate support to the national procurement staff	
2.	Training of staff involved in the project procurement activities in Bank’s Procurement and Consultant Guidelines	By Effectiveness
3.	Preparation of a project Operational Manual and Credit Line Program Procurement Handbook with a detailed chapter on procurement, including detailed description of procurement decision making processes and accountability for procurement decisions	By Effectiveness
4.	Preparation of a detailed procurement plan for the first 18 months of the project by each IA and submission of updates as required	Appraisal and agreed by Negotiations
5.	Preparation of the bidding documents, terms of references and	Negotiations/first

	<b>Actions</b>	<b>Deadline</b>
	draft request for proposals for the first year of project implementation to facilitate the initiation of procurement as per the agreed Procurement Plans	months of implementation
6.	Ensuring quality review of the both technical specifications/ terms of references, Bid Evaluation Reports and the final deliverables	Ongoing
7.	Putting in place an efficient contract monitoring mechanism designed to maximize overall value for money of contracting activities	Ongoing
9.	Regular procurement support during project implementation by Bank accredited procurement staff.	Ongoing

### **Procurement Implementation and Arrangements**

29. *Procurement of Goods.* Goods contracts above US\$500,000 equivalent will be procured under International Competitive Bidding (ICB) procedures using the Bank's Standard Bidding Documents for procurement of goods. The National Competitive Bidding (NCB) method will be applicable for procurement of goods contract with the estimated budget of less than US\$500,000. The ECA Sample NCB bidding documents shall be used, taking into account the NCB conditions set forth in the Financing Agreements. Goods contracts with an estimated budget less than US\$100,000 equivalent may be procured using Shopping procedures on the basis of at least three written price quotations obtained from qualified suppliers. The list of suppliers to be invited to submit quotations should be defined by an evaluation committee.

30. *Procurement of Works.* Works contracts below US\$1 million equivalent will be procured under NCB procedures. The ECA sample NCB bidding documents shall be used taking into account the NCB conditions set forth in the Financing Agreements. All bidding documents and contracts will include measures to minimize or mitigate environmental impact and will take into account recommendations from the EMPs. The sample NCB bidding documents shall be prior reviewed and agreed by the World Bank before launching the bidding process. Minor works contracts with an estimated budget less than US\$100,000 equivalent may be procured using Shopping procedures on the basis of at least three written price quotations obtained from qualified suppliers. The list of contractors to be invited to submit quotations should be defined by an evaluation committee.

31. *Selection of Consultants.* The methods for selection of consultants will include Quality and Cost Based Selection (QCBS), Quality Based Selection (QBS), Fixed Budget Selection (FBS), Least Cost Selection (LCS), Selection based on Consultants Qualifications (up to US\$300,000), Single Source Selection (SSS) in compliance with Paragraph 3.8 of the Bank's Consultant Guidelines, and Individual Consultants (IC). Contracts estimated to cost above US\$300,000 equivalent will be advertised through United Nations Development Business (UNDB), the Bank's website and local media (one newspaper of national circulation or the official gazette, and IA's website). Shortlists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants under the provisions of paragraph 2.7 of the Bank's Consultant Guidelines.

32. *Operating Costs.* The expenses of the IAs will include salaries of their staff who are not civil servants, cost of office and equipment maintenance and repair, office supplies, vehicles, vehicle maintenance and repair, fuel, local travel, communication, translation and interpretation, bank charges, Social Charges, and other miscellaneous costs directly associated with the Project. Such costs will be financed by the project based on the annual budget prior reviewed and agreed by the Bank. Purchases will be carried out in accordance with the implementing agency's internal administrative procedures. Operating costs will not include salaries or allowances of civil servants.
33. *Training and Study Tours.* Training and study tours will be carried out based on the annual training/study tours program and budget to be prepared by the IAs and reviewed and agreed by the Bank. The institutions for training/study tours will be selected considering the availability of such services, duration of training/study tour and reasonableness of cost.
34. *Governance and Anti-Corruption Action Plan (GAC).* The project will follow the Bank Group's Anti-Corruption policies as set forth in the "Guidelines: On Preventing and Combating Fraud and Corruption in Projects financed by IBRD Loans and IDA Credits and Grants" (current edition). The Bank team intends to maintain close oversight and will carry out prior review of all major contracts according to the thresholds that will be regularly reviewed and adjusted as needed in the procurement plan. The following measures will be carried out to mitigate corruption risk:
35. *Training of fiduciary staff* starting from project launch and periodically thereafter; training will be customized to the procedures and methods that would be required for the next 12 month periods. The relevant project staff shall attend the Central Asia Regional Procurement Workshops organized by the Bank on a regular basis.
36. *Prior review:* There will be close supervision by the Bank's procurement accredited staff. In addition, all contract amendments will be subject to prior approval by the Bank.
37. *Publication of Advertisements and Contracts:* All publications for advertisements and contract awards, including the results of the awards, will be done in accordance with the Procurement Guidelines and published in the Bank client connection system and on external websites, i.e., UNDB and Bank websites.
38. *Debarred Firms:* Appropriate attention will be given to ensuring that debarred firms or individuals (to be verified from the Bank's external website) are not given opportunities to compete for Bank-financed contracts.
39. *Temporarily suspended firms:* Appropriate attention will be given to ensuring that temporary suspended firms or individuals (to be verified through client connection) are not given opportunities to compete for Bank-financed contracts.
40. *Complaints:* All complaints by bidders will be diligently addressed and monitored in consultation with the Bank.
41. *Tender Committee:* If required, the Bank will review qualifications and experience of proposed members of the evaluation committee(s) with a view to avoiding nomination of unqualified or biased candidates. All members will be required to sign a confidentiality/impartiality form.

42. *Monitoring of contract awards:* All contracts are required to be signed within the validity of the bids/proposals and, in case of prior review contracts, promptly after the Bank’s “no objection” is issued. Procurement plan format shall include information on actual dates (of “no objections” and award) and will be monitored for cases of delay which will be looked at on a case-by-case basis to identify the reasons. The IA will maintain up-to-date procurement records available to the Bank staff and auditors.

43. *Monitoring of payment vs. physical progress:* Monitoring reports prepared for the Bank will be customized to include a form to monitor physical progress compared to payment installments to avoid upfront-loaded payments.

44. *Timeliness of payments:* The IA will maintain a system/database to ensure payments to the suppliers and contractors are paid without delay according to the conditions of the contract.

45. *Disclosure:* The following documents shall be disclosed on the IA website: (i) procurement plan and updates, (ii) invitation for bids for goods and works for all ICB and NCB contracts, (iii) request for expression of interest for selection/hiring of consulting services, (iv) contract awards of goods and works procured following ICB/NCB procedures, (v) list of contracts/purchase orders placed following shopping procedure on quarterly basis, (vi) short list of consultants, (vii) contract award of all consultancy services, (viii) list of contracts following DC or CQS or SSS on a quarterly basis, (ix) monthly physical and financial progress of all contracts and (x) action taken report on the complaints received on a quarterly basis.

#### **Procurement under credit-line sub-loans**

46. RRA in Uzbekistan and the MOF PMU (together with CEP) in Tajikistan will implement the credit lines for climate investments and assist sub-borrowers in preparation of procurement plans and procurement activities. Items estimated to cost up to US\$500,000 equivalent to be financed under sub-loans may be procured under commercial practices that shall be acceptable to IDA.

#### **Procurement Plan**

47. The Procurement Plans have been agreed between the RCU/NCUs and program team. After the Program is approved by the Board, they will be published on the Bank’s external website. The Procurement Plans will be updated in agreement with the Bank program team annually or as required to reflect actual project implementation needs and improvements in institutional capacity. The thresholds for methods of procurement and prior review limits are detailed in the Procurement Plan. In addition to the procurement methods listed above, the following methods can be used within the project upon prior agreement with the Bank: Force Account, Procurement from United Nations Agencies and Direct Contracting. A summary of the RCU/NCU Procurement Plans for the first 18 months of implementation is provided in Tables 6-8 below.

**Table 6: Procurement Plan Summary for Tajikistan (First 18 months of Implementation)**

**Goods and Works Contracts**

Package No.	Description/ Location	Procurement Method	Bank Review (Prior/Post)	Invitation Date	Expected Bid-Opening Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H
1	ICT and other equipment for NCU	Shopping	Prior	May-16	N/A	June-16	August-16
2	ICT and other equipment for MoF PMU	Shopping	Prior	May-16	N/A	June-16	August-16

**Consultancy Services**

Package No.	Description/Lo cation	Selection Method	Review by Bank (Prior/Post)	Advertisement EOI Date	Expected Proposal Submission Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H
1	NCU Annual Audit	LCS	Prior	April-16	June-16	July-16	April-21
2	Coordinator	IC	Prior	February-16	March-16	April-16	April-21
3	M&E Specialist (half-time, CEP)	IC	Post	April-16	May-16	June-16	April-21
4	M&E Specialist (full-time, MoF PMU)	IC	Post	April-16	May-16	June-16	April-21
5	Social/Gender Specialist (half-time)	IC	Post	April-16	May-16	June-16	April-21
6	Environmental Specialist (half-time)	IC	Post	April-16	May-16	June-16	April-21
7	Technical Specialists (4 contracts, part-time, phased)	IC	Post	April-16	May-16	June-16	April-21
8	Financial Mg't/Disbursement Specialist (half-time)	IC	Prior	February-16	March-16	April-16	April-21
9	Procurement Specialist (half-time, CEP)	IC	Prior	February-16	March-16	April-16	April-21
10	Procurement Specialist (half-time, MoF PMU)	IC	Prior	February-16	March-16	April-16	April-21
11	Credit Line Officer	IC	Prior	February-16	March-16	April-16	April-21
12	Administrative staff	IC	Post	April-16	April-16	May-16	April-21
13	Interpreter/Translator	IC	Post	April-16	April-16	May-16	April-21
14	Facilitating Organizations	QCBS	Prior	April-16	June-16	August-16	October-18
15	PFI training	CQS	Prior	April-16	June-16	August-16	October-18



**Table 7: Procurement Plan Summary for Uzbekistan (First 18 months of Implementation)**

**Goods and Works Contracts**

Package No.	Description/ Location	Procurement Method	Bank Review (Prior/Post)	Invitation Date	Expected Bid-Opening Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H
1	ICT and other equipment for NCU	Shopping	Prior	June-16	N/A	July-16	September-16
2	Vehicle for local office	Shopping	Prior	June-16	N/A	July-16	September-16

**Consultancy Services**

Package No.	Description/Lo cation	Selection Method	Review by Bank (Prior/Post)	Advertisement EOI Date	Expected Proposal Submission Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H
1	NCU Annual Audit	LCS	Post	April-16	June-16	August-16	April-21
2	Project Manager	IC	Prior	February-16	March-16	April-16	April-21
3	M&E Specialist	IC	Prior	April-16	May-16	June-16	April-21
4	Social/Gender Specialist	IC	Post	April-16	May-16	June-16	April-21
5	Environmental Specialist	IC	Post	April-16	May-16	June-16	April-21
6	Financial Mg't Specialist/Disbursement	IC	Prior	February-16	March-16	April-16	April-21
7	Interpreter/Translator	IC	Post	April-16	April-16	May-16	April-21
8	Head of Local Office	IC	Prior	February-16	March-16	April-16	April-21
9	2 Credit Line Officers	IC	Post	February-16	March-16	April-16	April-21
10	Facilitating Organizations	QCBS	Prior	April-16	June-16	August-16	July-18
11	PFI training	CQS	Prior	April-16	June-16	August-16	July-18

**Table 8: Procurement Plan Summary for Regional Coordination Unit (First 18 months of Implementation)**

**Goods and Works Contracts**

Package No.	Description/ Location	Procurement Method	Bank Review (Prior/Post)	Invitation Date	Expected Bid-Opening Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H

1	ICT and other equipment for NCU	Shopping	Prior	May-16	N/A	June-16	August-16
2	Webhosting services (e.g., Cloud)	Shopping	Post	February-17	N/A	March-17	April-21
3	Software acquisition and customization	ICB	Prior	March-17	June-17	August-17	August-18
4	Database development (Data Rescue, Data/Satellite Image Procurement/Processing)	Shopping	Post	March-17	N/A	June-17	August-18
5	Monitoring Data	ICB	Prior	June-16	August-16	October-16	October-18
6	Monitoring System Innovations	ICB	Prior	June-16	August-16	October-16	October-18
7	Laboratory Upgrading	ICB	Prior	June-16	August-16	October-16	October-18
8	Laboratory Upgrading	Shopping	Post	June-16	N/A	July-16	October-18
9	Design of Communication Material	Shopping	Post	September-16	N/A	October-16	October-18
10	Printing (reports, flyers etc.)	Shopping	Post	September-16	N/A	October-16	April-21

### Consultancy Services

Package No.	Description/Location	Selection Method	Review by Bank (Prior/Post)	Advertisement EOI Date	Expected Proposal Submission Date	Contract Award Date	Completion Date
A	B	C	D	E	F	G	H
1	RCU Annual Audit	CQS	Prior	April-16	June-16	July-16	April-21
2	RCU Coordinator	IC	Prior	February-16	March-16	April-16	April-21
3	Climate Change Specialist (familiar with Water and Ag)	IC	Prior	February-16	March-16	April-16	April-21
4	Data Mg't Specialist	IC	Prior	February-16	March-16	April-16	April-21
5	Knowledge Mg't Specialist	IC	Prior	April-16	May-16	June-16	April-21
6	Financial Mg't Specialist	IC	Prior	February-16	March-16	April-16	April-21
7	Procurement Specialist	IC	Prior	February-16	March-16	April-16	April-21
8	Disbursement Specialist	IC	Post	February-16	March-16	April-16	April-21
9	Administrative staff	IC	Post	March-16	April-16	May-16	April-21
10	Interpreter/Translator	IC	Post	March-16	April-16	May-16	April-21
11	2 Technical Experts with EC-IFAS	IC	Prior	February-16	March-16	April-16	April-21
12	Platform development	QCBS	Prior	May-16	October-16	November-16	May-18
13	Monitoring Support Consultancy	QCBS	Prior	July-16	November-16	December-16	April-19

14	Climate-Screening Tools and other Decision-Support Tools	QCBS	Prior	September-16	December-16	January-17	January-19
15	Flagship Knowledge Products	QCBS	Prior	August-16	September-16	November-16	January-21
16	Training and Capacity Building	CQS	Post	September-16	December-16	January-17	January-21
17	Stakeholder mapping/ public opinion research	CQS	Post	June-16	June-16	July-16	April-17
18	Translation (reports, etc.)	IC	Post	March-17	March-17	April-17	April-21
19	Design template for Climate Investment Assessment Mechanism	IC	Post	June-16	June-16	July-16	November-16

## Environmental and Social (including safeguards)<sup>18</sup>

### *Environment*

48. *National Coordination Units.* In each participating country, operating under the supervision of the TWG (Technical Working Group), an NCU will be responsible for ensuring awareness raising and outreach of credit line opportunities, providing training for sub-loan preparation, screening proposals, based on TWG and focal point recommendations, monitoring investment implementation, and ensuring compliance with Bank safeguards. The NCUs (as well as any other national/regional project entity as defined by the individual country implementation arrangements) will receive capacity building in environmental management as well as financial administration, procurement, and implementation of projects. The NCU will be responsible for performance in planning and implementing measures necessary to address safeguard policy issues to the satisfaction of the Bank. The NCU Environmental Officer will be overall responsible for projects safeguards issues.

49. *Major responsibilities of the NCU Environmental Officer.* The NCU Environmental Officer will ensure that the project activities are being assessed from an environmental point of view and that the EMPs are adequately implemented. In this regard, the officers will be responsible for: (a) coordination of environmental and EA related issues; (b) monitoring of the environmental impacts within the overall monitoring of the implementation of sub-loan investments (under Sub-component 2.1) as well as investments under Component 1 (linked to installation of climate-related monitoring equipment); (c) communication with the national EIA competent authority; and (d) ensuring linkages between the EIA and CAMP4ASB investments, i.e., to support the proper implementation of the conditions given by the EIA within the credit line investments realization or Component 1 investments (as relevant). In particular, the Environmental Officer will conduct the following: (a) environmental screening of Credit Line Investment and as relevant, any

<sup>18</sup> Safeguard documents were disclosed on May 14, 2015 at the World Bank's InfoShop.

Component 1 investment (climate-related monitoring equipment); (b) carry out the evaluation of the sub-loan investment's eligibility from an environmental point of view; (c) provide necessary information on the environmental issues to sub-loan investment applicants (in particular, to inform them about the environmental criteria to be used, explain all obligations regarding the EIA procedures, etc.). Additionally the NCU Environmental Officer will be also responsible for supervising independently or jointly with the National Environmental Agencies the mitigation and environmental protection measures stipulated in Environmental Management Plans.

50. *Integration of the EMPs into project documents.* The EMF and particular EMP provisions will form part of the design documents for the project, and will be included in construction contracts for proposed activities, both into specifications and bills of quantities. Respectively the Contractors will be required to include the cost of EMP requirements in their financial bids and required to comply with them while implementing the project activities. The bidding documents for selecting the contractors will include specifications that would ensure effective implementation of environmental, health and safety performance criteria.

51. *Prior review by the Bank.* The EA documentation for the first three Category B subprojects from each NCU will be subject to prior review and approval by the World Bank.

52. *EA institutional capacities to perform environmental safeguards.* The capacity of the Government's involved agencies – NCUs, associated Government agencies, and potential sub-project beneficiaries will be enhanced through project implementation. There is need for additional capacity building activities to perform the EA-related activities and to implement the EMF provisions. In this regard, the EMF will support additional information dissemination and training activities to ensure the environmental requirements and the environmental management provisions would be fully implemented. Special attention will be paid to training of sub-project beneficiaries, their consultants, and contractors, as they play a major role in ensuring safeguard compliance during sub-project implementation. NCU Environmental Officers will be responsible for the smooth and effective conduct of safeguards training. NCUs will periodically organize both general awareness and safeguards implementation training for the sub-project beneficiaries and the contractors/consultants associated with the sub-project.

53. In particular, it is proposed that prior to commencement of the investment credit line programs, the RCU under EC-IFAS will organize environmental safeguard training for all participating countries to ensure that the respective country environmental safeguard specialists are trained and capable of managing the environmental safeguard review and approval process for the climate investment sub-loans (and as relevant, Component 1 investments). This regional training will be contracted to a selected environmental NGO or a design institute with EA experience. The regional EIA training will broadly consists of the following topics: (i) Concept of EIA with relation to sustainable development framework; (ii) theory and practice of EIA; (iii) purpose, benefits, and justification of EIA in the context of development; (iv) EIA in project cycle; (v) introduction to EIA process, including screening, scoping, preparation of TORs and work plans, EIA study and reporting; impact analysis and prediction, etc. (vi) EIA review process and decision making process; (vii) post EIA monitoring, supervision and reporting, etc. The contract for the training will also include the preparation of an Environmental Impact Training Resource Manual that could be used by the respective NCU environmental safeguard specialists for in-country training.

54. Subsequently, in-country training will be carried out by the individual NCU environmental safeguard specialist. Depending on the specific implementation arrangements instituted within each country, training on safeguards could be extended to regional or sector staff, as appropriate.

55. *Environmental Review and Approval Process.* The proposed types of sub-loan (and Component 1 investments, as relevant) are anticipated to have insignificant impacts and in most cases the EIAs and EMPs will be reviewed and approved by the NCUs. In rare cases, when impacts are expected to be significant, the review and approval of the EIA and EMPs will be undertaken by the State Ecological Expertise of the respective countries. No activity will be permitted to start (re)construction until a favorable official written approval is received.

56. *Supervision and monitoring activities.* During sub-project implementation NCUs will have overall supervision responsibility for assuring that the measures indicated in the EMPs are being properly performed. Independently, or in collaboration with the national environmental authorities, they will perform the climate investment environmental supervision (and Component 1 investments, as relevant) during both construction and operation phases as specified in the monitoring plan of the EMP.

57. *Reporting.* Regular sub-loan investment progress reports should include a section entitled “Environmental Management.” The section should be as brief as possible, providing a condensed description of the monitoring activities, any issues identified and how they were or are planned to be resolved.

58. *Contractors’ responsibilities.* The actual sub-project implementation will be carried out by its beneficiary or the contractors selected on behalf of the beneficiary. They have to operate in full compliance with national environmental legislation and with the EMP requirements. Further, the sub-project beneficiaries are obliged to follow regulative requirements of the national law related to occupational health and safety as well as environmental protection. They will also be requested to designate a person in charge of environmental and safety issues and for implementing the EMP.

59. *Funding for EMPs implementation.* During the (re)construction/implementation phase, the EMP implementation will be funded by the project beneficiaries. All (re)construction and installation activities will be provided by the beneficiaries.

### *Social*

60. The overall social impacts of the project are expected to be positive. The project will facilitate greater cooperation and dialogue across the region among the institutional stakeholders to deepen the understanding of the social dimensions of climate change, in particular its impact on vulnerable groups (poor farmers, female-headed rural households, etc.). The Program’s Climate Investment Facility will directly benefit vulnerable rural communities including farmers, farmer groups, private companies, water user associations, pasture management and/or user groups, and other private business representatives. The demand-driven Climate Investment Facility will

provide both capacity building activities and financing. Village communities and other community groups will take responsibility for the identification, design, and management of rural investments and resource management plans.

61. **Gender dimensions.** Women in Central Asia tend to have unequal access to resources and control over resources particularly in rural areas. In Tajikistan and Uzbekistan, women carry out at least half of the agricultural labor, however relatively few have meaningful decision-making power. This makes women more vulnerable to poverty. Climate change will exacerbate these existing problems. There is extensive documentation on the gender-variable impacts of climate change on food/nutrition, energy and livelihoods. Women are also notably at greater risk of adverse impacts from natural disasters than men. An analysis of the gender dimensions of climate change in Central Asia was conducted during the project preparation to inform the project design. The project will pay particular attention to gender dimensions. Specific knowledge management activities will be supported and monitored through the result framework to ensure awareness on these issues is increased among the project stakeholders. The project will also ensure that men and women benefit equally from its interventions. The results of these interventions will be monitored, using gender-disaggregated data at regional and national levels.

62. Facilitating organizations will be required to have expertise working on gender issues and with vulnerable and marginal groups, as well as in using participatory techniques. Community mobilization activities will use mechanisms that will help ensure participation, e.g., women only sessions, hold meetings when women, the elderly, etc., can participate. Participatory rural appraisal will include tools that identify and describe the status and extent of marginal groups. Local organizations and groups will also be appraised for gender and their inclusion of women and the poor, and possible actions identified to address inequities. Where inequitable arrangements are found that exclude or marginalize vulnerable groups, opportunities will be sought where possible to address these inequities, e.g., targeting a proportion of certain types of production investments to groups of vulnerable households. The choice of rural investments will build on the skills, interests and motivation of marginal groups including women, e.g., roles in water management, decisions on crop choices. Rural investment design will take into account women's roles and responsibilities, including establishing women only groups if appropriate. The choice of training methods will take into account the preferred methods of learning of women and others, e.g., single-sex groups, women-to-women exchanges. The Program will also explore mechanisms, such as financial incentives, to encourage female participation in the management of resource user groups.

63. **Citizen engagement and feedback.** In Central Asia, the closed nature of the policies and limited trust on the part of citizens in their ability to affect change has typically resulted in relatively low levels of citizen engagement. In the context of this programmatic climate change initiative, citizen engagement is integral to the program design and a key activity that leads to the fulfillment of the program development objective. Accordingly, the citizen engagement strategy in the Program has been formulated to ensure dialogue with a range of stakeholders. Transparency, consultations, community engagement and third party monitoring and feedback mechanisms will be a central element of this Program to ensure full participation and feedback from beneficiaries and other stakeholders. Access to information and exchange platforms (data, ICT, forum, etc.) for project stakeholders (institutions and communities) will be supported at both the regional and

national levels and percentage of users satisfied with climate assessment IT platform will be monitored regularly. Several information campaigns on climate change and project activities will be targeting national agencies, CSOs, academic, local governments, media and local communities to raise their awareness about climate change issues and project progress. Consultations with project stakeholders will regularly take place through the Technical Working Groups and the Regional Climate Change Forum involving CSOs to ensure information exchange, feedback and participation. Community participation will be a core feature of the project investments as the Climate Investment Facility will support community engagement in determining local investment needs to ensure local communities participation and ownership in the pilot investments. In addition, a feedback mechanism operating at both national and regional levels will allow project beneficiaries to provide feedback on project activities. Feedback/grievances responded and/or resolved within the stipulated service standards for response times will be monitored. Finally, specific third party monitoring of project activities will be supported annually to ensure transparency and feedback on project progress. Standard operating procedures and flowcharts that codify how grievances will be redressed at all stages of the process and grievance redress responsibilities assignment will be develop in the POM.

64. **Participatory monitoring and evaluation.** At the village and community level, monitoring and evaluation will include all relevant stakeholders and make use of participatory techniques to help define indicators, as well as in data collection and analysis. Resources will be allocated at the national levels to provide technical assistance to oversee and monitor social development aspects of the Program. Gender disaggregated data will be collected and analyzed regarding project beneficiaries, and representation in participating community-based organizations. This information will be available at both national and regional levels.

65. The project will not finance activities that result in involuntary resettlement impacts as per OP 4.12 and therefore the policy on involuntary resettlement is not triggered. Activities to be financed under Component 2 are expected either to be own-farm investments and/or investments on community land. Any activities that result in impacts as those anticipated under OP 4.12, including impacts on livelihoods will be screened out and not financed by the project. The project will not finance any activities that result in limitations to access to legally designated parks and protected areas which result in adverse impacts on livelihoods. Land donation will not be allowed under the project unless it meets the guidelines on voluntary land donation which will be detailed in the Project Operational Manual.

66. **Forced and child labor.** Given the risks of child and forced labor associated with agriculture in some areas, specific social risks analyses were carried out for Uzbekistan and Tajikistan and specific mitigation measures are proposed. The program will explicitly engage only in subprojects where child and forced labor issues are not present and will not engage in cotton-related activities. To mitigate any residual risk and avoid any potential cross linkage with cotton production, the Program will include awareness raising and training of beneficiaries on the applicable legislation and regulations on child and forced labor. Supervision missions will closely monitor the communication and implementation of the forced labor screening measures by reviewing the sub-projects at community level. In addition, the Project will adopt the following measures:

(i) Any Sub-financing (as defined in the Financing Agreement) will include provisions that require the relevant beneficiary to comply with any applicable law and regulation on forced and child labor. The activities of all potential Program beneficiaries will be pre-screened and regularly monitored to ensure that they are not related in any form to child or forced labor. Should child or forced labor cases be found, the right of the beneficiary to use the proceeds of the sub-financing will be suspended and terminated, and declared to be immediately due and payable to the Participating Financing Institution (PFI), which will subsequently return the funds to the National Coordination Unit (NCU). Such amounts will be cancelled from the IDA credit. In addition, the PFI may be disqualified from providing sub-financing under the Program, in accordance with the relevant criteria and provisions established in the Program Operational Manual;

(ii) PFIs and NCUs will monitor, and allow monitoring, as applicable, in connection with child and/or forced labor in accordance with the relevant terms established in the financing Agreement. Any use of child and/or forced labor may result in remedies as prescribed in the Financing Agreement.

(iii) Sub-financing will not be provided for investments in cotton production.

(iv) In Uzbekistan, the Program is subject to the Third Party Monitoring (TPM) and Feedback Mechanism (FBM), financed through a separate Trust Fund that focuses on child and forced labor issues.

71. In Tajikistan, close coordination with International Organization of Migration (IOM) will be established to ensure participating districts are monitored by IOM and awareness raising is promoted.

## **Monitoring and Evaluation**

72. The program's M&E system will involve EC-IFAS's Regional Coordination Unit (RCU), National Coordination Units (NCUs), facilitating organizations, community-based organizations, and participating financing institutions. The M&E system will highlight the roles of different project stakeholders in collecting, processing, and disseminating program data and results. Data collection and reporting formats for country field-based partners will aim to capture essential information while being straightforward to implement. Outcome monitoring and project impact assessments will make use of the data collected by field-based partners, as well as specialized data collection and analyses conducted with external technical assistance as needed. At the community level, monitoring should focus on the range of issues relevant to sub-project sustainability, including environmental, social, and economic. Facilitating organizations will need to actively build community capacities to monitor these aspects and to adapt to changing conditions. For example, the community/beneficiary group as a whole should assemble, at least on a bi-annual basis, to review progress and impacts of all the rural investments, make adjustments in proposed allocations in the community investment plan where necessary, and provide feedback to the facilitators. NCUs will be responsible for collecting and assessing this information, and sharing results and lessons learned with other national and regional stakeholders. The RCU will also



ensure these results and lessons are shared among regional program stakeholders at annual climate knowledge forum and in climate knowledge collaborative networks.

73. A detailed guide for program monitoring and evaluation is being developed as part of the Program's Operational Manual to be finalized prior to Effectiveness. The document will provide guidance on the roles and responsibilities of program beneficiaries and stakeholders, in collecting, analyzing, and disseminating program data and results.

## **Annex 4: Implementation Support Plan**

### **CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin**

#### **Strategy and Approach for Implementation Support**

1. In order to facilitate the achievement of the PDO, the partnership between the Governments, the World Bank, EC-IFAS and other stakeholders (e.g., civil society organizations or development partners) requires systematic and sustained implementation support, covering fiduciary, technical, and analytical aspects as well as coordination needs. Additionally, implementation support will have a strong focus on mitigation measures to address key risks identified.

2. Given the diversity of activities that the Program supports, the task team will require a corresponding range of skills covering climate institutions/environment management, information technology (including climate-related monitoring systems), sustainable land management, general agriculture, market development, water resource management, and social development. The expertise should have sufficient versatility to cover operational and technical aspects of project activities, as well as related policy issues. The team will also require periodic expertise in communications to support program dissemination activities. The team will additionally need to support the EC-IFAS/CAREC as well the NCUs in monitoring and evaluation of results, both in design and implementation and making adjustments as needed. Further, the multitude of activities by other partners on climate change across participating countries will necessitate frequent dialogue to maximize complementarities, capture lessons learned from investments, incorporate knowledge and information from analytical work, and continue resource mobilization efforts. Enhanced implementation support will be critical during the first 18 months of implementation, with commensurate resources required. The team will visit participating countries on a quarterly basis, at least for the first 18 months of implementation, to review implementation progress, provide recommendation and guidance, and agree on the action plan/next steps. More frequent interaction will take place in-between through regular follow up with CAMP4ASB focal points in each World Bank Country Office as well as videoconferences as needed (perhaps on a monthly basis in the kick-off phase of the Program).

3. The project's implementation arrangements as well as current capacity gaps identified in the SORT and in the appraisal summary necessitate support from the Bank team on the fiduciary aspects of the project. The team will work with the RCU and NCUs to have appropriate financial management specialists and systems in place in a timely manner. In order to ensure that the Climate Investment Facility in each country can start operations as early as possible, the Bank team of fiduciary and technical specialists will work closely with the RCU and NCUs to provide guidance on procedures and feedback on the preparation of TORs and contracts for facilitation support. As part of its project implementation support mission, the World Bank's Financial Management Specialist (FMS) will conduct risk-based financial management supervision within six months of effectiveness, and then at appropriate intervals. During implementation, the Bank will supervise the Program's financial management arrangements in the following ways: (a) review the program's semiannual Interim Financial Reports and annual audited financial statements together with auditor's Management Letter and remedial actions recommended in the auditor's Management Letter; and (b) during the Bank's on-site supervision missions, review the

following key areas: (i) project accounting and internal control systems; (ii) budgeting and financial planning arrangements; (iii) disbursement management and financial flows, including counterpart funds, as applicable; and (iv) any incidences of corrupt practices involving project resources.

4. With respect to Procurement, the Bank will undertake supervision through a combination of prior and post reviews. A dedicated Procurement Specialist will work with clients (and PFIs, where relevant) on a regular basis in the first year to ensure understanding of procurement arrangements under the Program and of the Bank's procurement guidelines and procedures. Implementation support missions will be geared towards: (i) providing training to relevant staff of implementing agencies; (ii) reviewing procurement documents; (iii) providing detailed guidance on the Bank's Procurement Guidelines; and (iv) monitoring procurement progress against the detailed Procurement Plan and discussing changes to the Procurement Plan as needs arise.

5. On safeguard compliance, the team will provide support to ensure proper implementation and monitoring of the program's EMF and other requirements related to social aspects. On environmental issues the Bank team's Environment Specialist will ensure that environment specialists with the NCUs and the PFIs have full understanding of (and access to training opportunities on) national and World Bank requirements for environmental assessments, screening and scoping procedures including checklists of potential environmental and social impacts for the types of sub-projects to be financed under Component 2.1, main provisions of environmental management plans for proposed sub-projects, including mitigation and monitoring requirements. The Specialist will also ensure that these skills to recognize and assess potential negative environmental impacts and set of measures to mitigate those are properly put in practice and in compliance with the EMF and the POM. The team will also provide support to ensure proper implementation of the social aspects (gender, citizen engagement, forced labor). Social development specialists will be hired under the NCUs to work on those aspects and operate several mechanisms (e.g., TPM, GRM, etc.). Regular monitoring will be done both at country and regional levels by the Bank's Social Development Specialist.

6. The underpinnings of the support strategy outlined above will essentially ensure the implementation of the mitigation measures reflected in the SORT, particularly for higher-rated risks such as political and governance risks and institutional capacity.

### **Implementation Support Plan**

7. The Implementation Support Plan (see Table 9) will be reviewed at least once a year to ensure that it continues to meet the implementation support needs of the Program (for instance, need for technical skills in a new domain should a new type of climate investments be agreed upon by participating countries).

**Table 9: Implementation Support Plan**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>	<b>Partner Roles</b>
First twelve months	<ul style="list-style-type: none"> <li>- Project Launch Workshop</li> <li>- Financial Management: functioning accounting systems, training, ensuring fund flow arrangements for CDD/credit line</li> <li>- Procurement: contracting facilitation support, training</li> <li>- establishing M&amp;E system (incl. baseline survey)</li> </ul>	<ul style="list-style-type: none"> <li>- Financial management and procurement with experience of CDD/credit lines</li> <li>- Climate institutions/environment management, information technology, sustainable land management, general agriculture, social development and participatory processes, environmental safeguards, communications, monitoring and evaluation</li> </ul>	US\$350,000	
12 to 36 months	<ul style="list-style-type: none"> <li>- Project Implementation</li> <li>- Procurement</li> <li>- Financial Management</li> <li>- Safeguards compliance</li> <li>- M&amp;E</li> <li>- Mid-Term Review</li> </ul>	<ul style="list-style-type: none"> <li>- Climate institutions/environment management, information technology, sustainable land management, general agriculture and rural development, social development and participatory processes, market development, environmental safeguards, communications, monitoring and evaluation</li> <li>- Financial management and procurement with experience of CDD/credit lines</li> </ul>	US\$450,000	
36 months to completion	<ul style="list-style-type: none"> <li>- Project Implementation</li> <li>- Procurement</li> <li>- Financial Management</li> <li>- Safeguards compliance</li> <li>- M&amp;E</li> <li>- Implementation Completion Report</li> </ul>	<ul style="list-style-type: none"> <li>- Climate institutions/environment management, information technology, sustainable land management, general agriculture and rural development, social development and participatory processes, market development, environmental safeguards,</li> </ul>	US\$525,000	

		communications, monitoring and evaluation - Financial management and procurement with experience of CDD/credit lines		
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## Annex 5: Economic Analysis

### CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin

1. **Project Context.** The economic analysis of the project is challenging due to the nature of expected outcomes at regional level (e.g., improved regional dialogue and collaboration on climate issues, strengthened knowledge and capacity base, broader stakeholder engagement) and the process of sub-national climate investment selection and design (given the demand-driven design of the Regional Climate Investment Facility). The nature and composition of Program activities in which farmers/households and villages/natural resource user communities engage will only be known as implementation proceeds. Due to the participatory nature of these types of investment, it is difficult to predict beforehand the number of investments and combinations of activities within investments. However, similar interventions have taken place in two other projects in Tajikistan<sup>19</sup> and offer some guidance as to what types of costs and benefits can be anticipated. The main difference between Tajikistan's project experience and the present program is scale. CAMP4ASB is intended to undertake much larger interventions that may otherwise be uneconomical at a household or farm-plot level. For this reason, some measures will be taken at a village or community level where there are a greater number of beneficiaries.

2. Current agricultural productivity levels are generally low in Central Asian countries and the Program would expect to generate productivity changes in major cropping systems and corresponding increases in gross revenues as a result of investments for participating farms and village communities. Similar interventions in Tajikistan and Uzbekistan have shown that small investments can increase productivity dramatically. For the purposes of the cost-benefit analysis, the quantifiable benefits considered are from expected increases in agricultural productivity as a result of investments in on-farm production, pasture and water management and horticulture, and user-cost savings from rural infrastructure.

3. **Incentive Framework.** The Program recognizes the need to combine direct support for rural economic production (through sub-loans) with activities that increase communities' awareness and knowledge of environmental transformations that can be embedded in their decision-making processes and institutions. Benefits will be sustained through farmers, villages, and natural resource user groups acquiring the knowledge and capacity to transform their practices and through widespread provision of incentives linking economic returns to environmentally sound land management, and usufruct rights with stewardship responsibilities. Experience elsewhere shows that a community-linked approach engenders cost-effective investment, local ownership, improved operations and management, and sustainability. In this Program, investment viability is further strengthened through the preparation and screening process that takes into account economic and financial considerations as well as the inclusion of vulnerable groups in public-good investments and other technical, environmental and social criteria. Beneficiaries are incentivized to work within a fixed budget constraint and are encouraged to prioritize investments yielding maximized marginal returns within a site-specific context.

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<sup>19</sup> Interventions undertaken during the Community Agricultural and Watershed Management Project (CAWMP, P077454) and the Environmental Land Management and Rural Livelihoods Project (ELMARL, P122694).

4. **Public Participation and the World Bank's Value-added.** The World Bank has financed activities in each of these countries – and specifically in the agriculture, water and rural development sectors. Through these projects the World Bank has been able to offer a transparent and more equitable approach to rural development while increasing the capacities of its beneficiaries. These projects have also largely fostered bottom-up, participatory approaches in local areas that, in the past, tended to be less inclusive. One example of how farmers were included in the decision-making process is through the Uzbekistan Horticultural Development Project (P133703) - which is providing support to as many as 8,000 farmers involved in horticulture – and through their ideas of how to increase productivity. Calculated internal rates of return for apples, cherries and grapes were found to be quite high in the study regions, at 19 to 20 percent for cherries and grapes in Fergana, and 34 to 35 percent for apples in Samarkand and Zangiata.<sup>20</sup> Experiences from these interventions will help shape local activities in CAMP4ASB.

5. **Changes in Rural Productivity.** The Program is expected to generate a variety of benefits not all of which can be quantified. Key quantifiable benefits will include increased agricultural productivity resulting in greater financial capital for households/communities and contributions to national level economic growth. The following productivity changes were found as an outcome of the recently completed Tajikistan Community Agricultural and Watershed Management Project, CAWMP (see Table 10), which had a similar bottom-up participatory and investment approach. Productivity and resulting households revenue increases were expected for:

- *Rainfed Systems* – Wheat, barley, potato and forage are major rainfed crops in project areas. In addition to the incremental production of these crops under the Program, there will likely be some diversification or intensification of other rain-fed crops. Based on data from CAWMP, incremental revenues from these types of investments were about US\$300/per household (HH) per year at full development in four years and one-time investment costs ranged from US\$250- US\$300/HH.
- *Irrigated Systems* – Grains (mainly wheat), non-forage legumes, and vegetables were the major irrigated crops in project areas. Increases in yield were primarily from improved water and soil management, minor irrigation system rehabilitation, and changes in cropping systems and production practices. In lowland systems, household revenues increased by about US\$250 per year as a result of yield increases at full development in approximately four years, and in upland/middle hills by about US\$300/HH per year at full development. One-time investments of measures to achieve these results were in the range of US\$250-US\$300/HH.
- *Livestock* – Increases in the production of livestock herds were anticipated mainly through improvements in grazing management, animal feeding, and veterinary services. Investments in livestock management and expected benefits were also assessed for their environmental sustainability. Revenues from the sale of livestock products increased by US\$200-US\$300/HH per year for on-time investment costs ranging from US\$170-US\$250/HH depending on the nature of the investment. Benefit realization ranged from one to three years.

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<sup>20</sup> The internal rates of return for pome fruits was 21.7%, stone fruits 25%, table grapes 36.9%, tomatoes 152.7% and melons 68.6%.

**Table 10: Examples of Incremental Increases in Annual Household Revenues in Years 3 and 4 from CAWMP (2011) (farm-gate prices)**

Rural Investment Activity	Annual Increased Production Value/HH in US\$
Forage Production	250 – 300
Grazing Management (animal shelter and rotational grazing)	200 – 300 (increased value of livestock in herd)
Potatoes and Forage	250 – 300
Beekeeping	150 – 500
Poultry	300 – 350
Livestock production	200 – 400

- *Horticultural Crops and Viticulture* – A range of nuts and fruits, and vines were the primary products in project areas. In some locations horticulture replaced annual crops on sloping lands for stability purposes or conducted on fallow land. In other locations, orchards were restocked. Apples and walnuts were taken to represent horticulture, with apples yielding 45kg/tree (9 years) and walnuts 30kg/tree (12 years) at full development. Investment costs ranged from US\$160- US\$250 with benefits ranging from US\$200- US\$500/HH per year.

6. Off-farm and secondary benefits included:

- *Improved Water and Energy Supply* – Time savings from water and fuel collection was achieved through investments in water and renewable energy supply. The benefit per household was calculated by multiplying the time saved by the opportunity cost of rural labor.<sup>21</sup> Assuming a two hour savings in collection – this would yield a per-household benefit of around US\$100- US\$150 per year. This does not include the potential health savings from improved water quality or from better air quality from burning less fuel wood. The investment cost per household ranged from US\$50- US\$100 per measure through increasing access to water to green initiatives such as solar energy. On average, benefits were realized within 2 years of implementation depending on the intervention.

7. Other anticipated productivity changes are given below. The results from CAWMP indicate the benefits from these activities are comparable to those associated with investments in cropping systems and horticulture in crop yields, respectively:

- *Agro-forestry* – Primary products were fuel wood and timber, which were often in demand. Benefits were realized from woodlots as well as shelterbelts and fencing.
- *Other activities* – Benefits from the establishment of activities such as apiculture (i.e., beekeeping).

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<sup>21</sup> The opportunity cost of time in rural Tajikistan is quite low compared to other countries. Average annual wages can be as low as US\$100- US\$350 per year depending on which sector you derive your main income.



8. **Underlying Assumptions.** The following key assumptions underlie the analysis:

- For the purposes of the analysis, farm productivity and land resource management investments are estimated to cost in the range of US\$150-US\$250 per household, with an upper limit of about US\$100,000 per community (assuming approximately 220 households per community);
- An attrition (dropout) rate of 20 percent by participating households and communities due to investment failure or for other reasons;
- Annual incremental household benefits from the investments are assumed to be between US\$100-US\$500 per household;
- A discount rate of 12 percent per annum;
- Farm productivity, soil, and water conservation and pasture management investments are expected to reach full development in four years, orchards in nine years, and rural infrastructure in two years;
- There is phased implementation of rural investments over the five years of the Program;
- The Participating Financial Institutions (PFIs) are assumed to on-lend credit proceeds to beneficiaries at a rate slightly higher than the IDA lending rate, plus a spread of 3 percent.

9. **Project Performance Analysis.** The total Program cost for the Regional Climate Investment Facility is US\$27.1 million over a period of five years (inclusive of the US\$6.8 beneficiary contribution). Participation of communities and related climate investments will be phased-in progressively, with 60 percent of investments (in amount of expected financing) having started by end of Year 3. Given the assumptions of phasing beneficiaries and investments, the project is expected to reach full development in Year 14.<sup>22</sup> Table 11 summarizes the results. In the base case, including all other project management, institutional support, and knowledge management costs, cumulated net discounted benefits vary from US\$1.1 to 85 million by Year 14, depending on the realized household-level benefit. The associated Internal Rate of Return (IRR) range from 0 to 44 percent per annum.

10. **Sensitivity Analysis.** Varying the household-level benefit from US\$100 to US\$500 is the main driver of the results. For example, if Program costs were to rise 10 or 20 percent, this reduces net benefits in Year 14 by about 10 percent, and reduces the IRR by about 4 percent in the 10 percent cost increase case and 20 percent (IRR falls by 8 percent) in the 20 percent case (Table 11). If Program delays were encountered, this would push benefit realization to outer years, making the project less feasible in early years. A one-year delay reduces cumulative net benefits by about 17-18 percent from the base case, but the IRR remains relatively unchanged. A two-year delay reduces net benefits by over 30 percent – but again, has little impact on the IRR. If costs

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<sup>22</sup> This is because some horticultural products (i.e., trees) require 12 years to fully mature, and no benefits are assumed to accrue until year 3 (i.e., 12+2 years = 14 years).

were 20 percent higher and there was a two-year delay, this would basically halve net benefits and the IRR. From this, it appears that cost increases tend to affect the IRR more and time delays reduce net benefits since there is less time to recoup costs.

11. **Demand for Interventions.** The estimated number of households and communities required to participate in the Program may appear large without understanding the context of similar projects in these countries. In the previously mentioned projects<sup>23</sup> - all had similar magnitudes of demand. For example, ELMARL has a target of supporting 21,000 households, CAWMP improved the livelihoods of over 3,800 households, and the Uzbek Horticultural Development Project is expected to positively contribute to the income of 8,000 farmers and 600 agribusinesses.

12. **Non-quantified Benefits.** The Program is expected to generate various benefits that are not quantified in the analysis. These include knowledge gains from sharing experience and other environmental benefits discussed below:

- *Knowledge spillovers from greater sharing of experiences* – Shared experiences among the five Central Asian countries are expected to result in the better design of climate investments. These experiences can result in tremendous cost savings from learning by doing and by centralizing this experience - farmers and communities will have a valuable knowledge base from which to learn.
- *Food Security* – Experience with CAWMP indicates that benefits may arise for non-project participants since villagers have a practice of sharing surplus produce with vulnerable and less well-off households and individuals.
- *Environment and Climate Benefits* – The Program will have a positive impact on the environment and natural resource base in the five Central Asian countries, with benefits that include: increase in vegetative cover and soil and water conservation. Investment in the country's pastures builds the basis for these areas to provide critical ecosystem services to many millions of downstream populations across Central Asian countries that depend on irrigation, drinking water, hydropower and other benefits. Program investments are also expected to contribute to carbon sequestration for which estimations will be carried out.

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<sup>23</sup> CAWMP, ELMARL, the Uzbek Rural Enterprise Support Project and the Uzbekistan Horticultural Development Project.

**Table 11. Cumulative net discounted Program benefits and IRR associated with alternative household-level benefits**

Household-level benefits	Base case		Cost increase				Delay				Cost increase (20%) + delay (2 years)	
			10%		20%		1 year		2 years			
	Cumulative net discounted benefits (US\$ million)	IRR (percent)	Cumulative net discounted benefits (US\$ million)	IRR (percent)	Cumulative net discounted benefits (US\$ million)	IRR (percent)	Cumulative net discounted benefits (US\$ million)	IRR (percent)	Cumulative net discounted benefits (US\$ million)	IRR (percent)	Cumulative net discounted benefits (US\$ million)	IRR (percent)
US\$100	1.1	-	-0.8	-	-2.4	-	-0.1	-	-1.1	-	-3.5	-
US\$200	22.1	6%	18.3	2%	15.1	-3%	17.6	2%	13.6	-2%	8.7	-13%
US\$300	43.1	22%	37.3	19%	32.6	15%	35.2	20%	28.2	17%	20.9	9%
US\$400	64.0	34%	56.4	30%	50.0	27%	52.8	33%	42.9	31%	33.1	22%
US\$500	85.0	44%	75.5	40%	67.5	36%	70.5	43%	57.6	42%	45.3	33%

## **Annex 6: Social Note on Child and Forced Labor**

### **CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin**

1. The overall social impacts of the Program are expected to be positive. The Program's Climate Investment Facility will directly benefit vulnerable rural communities, including farmers (Dekhan farmers and commercial farmers), farmer groups, water user associations, pasture management and/or user groups, as well as private companies. Village communities, and other community groups and beneficiaries, will take responsibility for the choice, design, and management of rural investments and resource management plans to address climate change. The demand-driven Climate Investment Facility will also provide capacity building to communities, through contracted facilitating organizations, supporting them in the preparation and implementation of rural investments. Eligible investments under the Facility are expected to primarily contribute to: (a) crop diversification, climate-resilient seed varieties, and seed system support measures, (b) on-farm water resource management and efficiency improvement measures, (c) rehabilitation of degraded lands and land degradation control through agro-forestry and rangeland management measures, (d) promotion of stability and sustainability of mountain ecosystems and livelihoods, (e) conservation agriculture, (f) livestock production improvements; (g) agro-products processing; (h) energy efficiency improvements (e.g., insulation, lighting, etc.), and (i) expansion of renewable energy sources, particularly for those communities in remote rural areas. In deploying this investment financing, the Program will pay particular attention to gender dimensions, child and forced labor and beneficiary feedback. Given the risks of child and forced labor associated with agriculture in some areas, specific social risks analyses were carried out for Uzbekistan and Tajikistan and specific mitigation measures are proposed.

2. CAMP4ASB will explicitly engage only in subproject types where child and forced labor issues are not present and will not engage in cotton-related activities. To mitigate any residual risk and avoid any potential cross linkage with cotton production, the Program will include awareness raising and training of beneficiaries on the applicable legislation and regulations on child and forced labor. In addition, the Project will adopt the following measures:

(i) Any Sub-financing (as defined in the Financing Agreement) will include provisions that require the relevant beneficiary to comply with any applicable law and regulation on forced and child labor. The activities of all potential Program beneficiaries will be pre-screened and regularly monitored to ensure that they are not related in any form to child or forced labor. Should child or forced labor cases be found, the right of the beneficiary to use the proceeds of the sub-financing will be suspended and terminated, and declared to be immediately due and payable to a) the Participating Financing Institution (PFI), for financing provided through loans, which will subsequently return the funds to the National Coordination Unit (NCU). Such amounts will be cancelled from the IDA credit. In addition, the PFI may be disqualified from providing sub-financing under the Program, in accordance with the relevant criteria and provisions established in the Program Operational Manual;

(ii) PFIs and NCUs will monitor, and allow monitoring, as applicable, in connection with child and/or forced labor in accordance with the relevant terms established in the financing

Agreement. Any use of child and/or forced labor may result in remedies as prescribed in the Financing Agreement.

(iii) Sub-financing will not be provided for investments in cotton production.

(iv) In Uzbekistan, the Program is subject to the Third Party Monitoring (TPM) and Feedback Mechanism (FBM), financed through a separate Trust Fund that focuses on child and forced labor issues.

## **Uzbekistan**

3. This social note draws on the results of the Social Assessments and research carried out in the context of the most recent agricultural projects in Uzbekistan, — the Horticulture Development Project (HDP), the South Karakalpakstan Water Resources Management Improvement Project (SKWRMIP), and the Second Rural Enterprise Support Project (RESP-II) — as well as the World Bank’s continuous engagement in Uzbekistan’s agricultural sector.

4. While Uzbekistan ratified ILO Conventions No. 138 and No. 182 on child labor, and No. 29 and No. 105 on forced labor, child and forced adult labor remains a concern in the agricultural sector in Uzbekistan, particularly in the cotton sector. Such labor practices are ostensibly driven by a combination of socio-economic factors and the specifics of agricultural production arrangements in Uzbekistan’s cotton sector. The issue of mobilization of child and forced labor is a symptom of much deeper structural problems in this sector. Farmers in cotton-growing areas are required to grow cotton and produce a set quota each year, in return for the right to lease land from the Government. Farmers can sell their cotton production only to the Government, which sets below-market prices. Farmers do see some benefit from subsidized credit and inputs, however in many cases they ultimately realize little to no revenue fulfilling their cotton quotas. As a result, they are often unable to attract sufficient seasonal workers to meet their peak labor demand during the cotton harvesting season. Faced with demanding state procurement quotas for cotton, the diminished size of the available labor force, little available liquidity (cash) to pay workers and insufficient incentives for workers to engage in cotton picking, farmers (largely with the support of local, regional, and national authorities) may have no choice but to resort to the use of state-mobilized labor. The entire system is centrally organized with instructions cascading down to the farm level. To provide the necessary labor local authorities often “compel” students, civil servants, and people from the private sector to participate in the harvest (and often other tasks as well).

5. Other crops, including horticulture, as well as poultry and livestock farms, which do not have imposed state procurement quotas, operate under different circumstances. While still facing potential labor shortage challenges, the demand for labor in horticulture is seasonal, albeit more evenly dispersed throughout the cultivation cycle. Driven by market conditions and an absence of procurement quotas, horticulture tends to be more profitable, and consequently may offer more competitive wages. Considering these factors, horticulture offers more appealing socio-economic incentives and has been able to attract enough voluntary labor.

6. On September 23, 2013, the World Bank’s Inspection Panel (IP) registered a Request for Inspection concerning the Uzbekistan: Rural Enterprise Support Project – Phase II (RESP II) and

its Additional Financing. The Requesters claimed that RESP II harmed those they represent and their communities through the inadequacy of the project's measures to prevent Bank funds from contributing to "Government orchestrated forced labor" in the cotton sector. In response to the Request, Bank Management did not agree with the allegations that non-compliance with Bank policy caused the harm alleged in the Request. Bank Management stated that RESP II contributes to the country's diversification away from cotton production, the cultivation of which in many regions of Uzbekistan is associated with severe adverse social impacts including those raised in the Request. The IP initially postponed its decision by one year and later decided not to launch a full investigation. A range of activities were designed and put in place by the Bank team to address labor concerns in the cotton sector.

7. Key among these activities was the establishment of Third Party Monitoring (TPM) and a Feedback Mechanism (FBM) set up by the World Bank for the agricultural portfolio in the country to focus on issues of child and forced adult labor in project areas in connection with the project activities. TPM / FBM will include three general activities: (i) capacity building; (ii) awareness raising on national legislation regarding child labor; and (iii) monitoring of child and forced adult labor. The first two activities are expected to be accomplished through mainstreaming and tailoring them to the project activities. The TPM/ FBM will be funded by a separate Trust Fund (TF). A number of donors have already contributed to the TF. In the event that insufficient funding is secured before project effectiveness, the World Bank's own administrative budget will be used.

8. The World Bank has been addressing child and forced labor issues in Uzbekistan for some time now and has been collaborating with government and development partners on these issues. The World Bank and the International Labor Organization (ILO), a UN agency that specializes in labor practices reached an agreement for the latter to implement TPM and FBM in the Bank-financed project areas. In 2013, the ILO conducted monitoring of child labor and lent its methodology for the national monitoring during the 2014 cotton harvest, as well as provided technical assistance to national monitors. In 2014, the ILO and the Government of Uzbekistan signed a Decent Work Country Program (DWCP) that aims to address labor practices in the country. The ILO's strong working relationship with the Social Partners (comprising Ministry of Labor and Social Services, Federation of Trade Unions and Chamber of Commerce, and Industry) proved to be a tremendous advantage for the Bank's activities on child and forced labor and the broader agenda of agricultural modernization. There is significant complementarity in the work that ILO is doing under the DWCP and the World Bank approach, and it was only logical for the two organizations to collaborate. Therefore the ILO and World Bank signed a Memorandum of Understanding in October 2014 under which the ILO will carry out TPM/FBM in specific project areas during the 2015-2016 (with the possibility of extension thereafter). The collaboration also extends to the assessment of labor recruitment practices in the agricultural sector and the social impact of mechanization. The Government of Uzbekistan has welcomed such cooperation and has no objections for the ILO to carry out TPM and FBM.

9. It has been widely acknowledged by the ILO, development organizations, Embassies and even NGOs (who first initiated the request for inspection to the Inspection Panel), that there has been significant progress achieved in regards to child labor. The systematic use of children in the cotton sector in Uzbekistan has been largely eliminated (although there were a few reports of local mobilization of school children at the end of the 2014 harvest). However, there are indications

that reduction of child labor may have contributed to the increase in mobilization of adult labor. Civil servants (teachers, doctors, nurses) and even employees of private firms are recruited to pick cotton during the cotton harvest season. Refusal to participate in the harvest may result in reprisal, fees, and even loss of employment.

10. Further details on cotton production, child and forced labor, the Inspection Panel Request, and the TPM/FBM (formerly identified as Grievance Redress Mechanism, or GRM) may be found in the annexes to the Project Appraisal Document for the South Karakalpakstan Water Resources Management Improvement Project that was approved by the World Bank Board on June 12, 2014 and became effective on April 8, 2015.

## **Tajikistan**

11. The use of child and forced labor has been a part of Tajikistan's agricultural landscape for decades. Closely linked to the cotton sector, the practice in part stemmed from a need to fill quotas on raw cotton production. Some local authorities coerced children and adults (mostly women, school children, and students) to participate in the cotton harvest. It is clear that: (i) the practice was accepted and common prior to independence; and that (ii) since independence the practice continued – there are reports detailing harsh work and living conditions up until ten years ago<sup>24</sup> – but in the very recent past its pervasiveness is generally reported to have declined likely due to a combination of factors including the collapse of the cotton sector, land reform, a reduction in the government's intervention in the sector<sup>25</sup> and changes in the acceptability of the practice.

12. Forced child and adult labor is against the laws of Tajikistan. Article 8 of the 1997 Labor Code prohibits forced labor. The Labor Code also sets the minimum age at which a child can be employed as well as the conditions under which children can work (Articles 113, 67, and 174). In addition Law No. 762 on Parents Responsibility for Children's Upbringing and Education, places parents as responsible to ensure that their children are not involved in heavy and hazardous work and that they are attending school. In addition, Tajikistan has ratified ILO Conventions to address child labor including: ILO Convention No138 on Minimum Age for Admission to Employment (26 November 1993); ILO Convention No.182 on Worst Forms of Child Labor (8 June 2005); and the UN Convention on the Rights of the Child CRC (25 November 1993).

13. Nevertheless, in recent years the practice appears to have persisted.<sup>26</sup> There have been reports of local-level authorities explicitly and implicitly coercing communities, households, and school children into forced labor. Forms of coercion include school closures or mobilization of

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<sup>24</sup> International Crisis Group (2005). *The Curse of Cotton: Central Asia's Destructive Monoculture*. Brussels: International Crisis Group; Eurasia.net (2009) "Tajikistan: Cotton Harvest Relies Heavily on Child Labor" retrieved from <http://www.eurasianet.org/departments/insightb/articles/eav110309.shtml>.

<sup>25</sup> Under the USSR cotton production quotas were set centrally and subsequent quotas at the local level were set by the Ministry of Agriculture. RT Resolution No111 of March 5, 2007: The Resolution specifically deals among other issues with that of termination of government interference in cotton production.

<sup>26</sup> Available reporting refers to the practice for the most part in regards to cotton production.

children for cotton harvesting by local government bodies and heads of *dekhan* farms.<sup>27</sup> More implicit forms have included links between children's participation in harvesting and their grades. In addition, poverty rates at the household level have been cited as factors contributing to forced child labor.<sup>28</sup> Forced labor has recently been reported in Khatlon, Sughd, and the RRS.<sup>29</sup>

14. However, the numbers appear to be declining. The International Organization of Migration (IOM) has undertaken three assessments in the past three years of children and student participation in the cotton harvest.<sup>30</sup> Its 2012 report states points to "significant improvements ... in limiting the use of child and forced labor in the cotton harvest" and notes an unwillingness at the institutional level (e.g., among school directors) to carry out the practice but the continued openness to the practice among parents. The US State Department *Trafficking in Persons* report also points to a decrease in forced labor during the harvest of 2012 as compared to that of 2011.<sup>31</sup> IOM calls for the further consolidation of this progress, continued independent monitoring of the cotton harvest, the investigation of labor violations by journalists and for parents to play a stronger role in reducing children's participation in the cotton harvest. It should be noted that one survey indicated that there are low levels of knowledge among local authorities and households on the illegality of forced and/or forced child labor.<sup>32</sup>

15. In light of this decline, IOM also calls for a need for additional focus on violations of adult labor rights. This recommendation is particularly pertinent for interventions in the agriculture sector where the Freedom to Farm reforms<sup>33</sup> as well as the elimination of cotton quotas may be seen as having eliminated the need to mobilize forced adult and child labor.

16. There appeared to have been some improvement in the enforcement of the legislation but more focus on the enforcement is encouraged. The cases of forced labor uncovered in the IOM 2012 assessment were reported to the Inter-Ministerial Commission for Combating Trafficking in Persons (IMCCTP). The US State Department also refers to fines levied on schools that coerced students into working in the harvest.

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<sup>27</sup> 2010. *Progress in Eliminating the Use of Forced Child Labour in the Cotton Harvests of Uzbekistan and Tajikistan*. Centre for Contemporary Central Asia and the Caucasus, School of Oriental and African Studies, University of London.

<sup>28</sup> International Organization of Migration (2011). *Monitoring of Child Labour Use in the Cotton Fields in Tajikistan*. International Organization of Migration, Tajikistan.

<sup>29</sup> International Organization for Migration (2013). *Children and Student Participation in Tajikistan's Cotton Harvest: Annual Assessment 2012*.

<sup>30</sup> International Organization for Migration (2013). *Children and Student Participation in Tajikistan's Cotton Harvest: Annual Assessment 2012*; International Organization for Migration (2012). *An Assessment of the Exploitation of Children and Students During the 2011 Cotton Harvest in Tajikistan*; International Organization for Migration (2011). *Monitoring of Child Labour Use in the Cotton Fields in Tajikistan*.

<sup>31</sup> US State Department (2013). *Trafficking in Persons Report*. Washington, DC.

<sup>32</sup> SOAS, *ibid*.

<sup>33</sup> "Freedom to Farm" reform has given individual families farming rights and encouraged a transition from cotton to food crops. As a result, farmers have had the freedom to grow crops of their own choice and there has been a reduction in the areas of land used for cotton growing.



**Annex 7: OP 10.00/Project Involving Financial Intermediaries Compliance Note**  
**CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin**

## **I. GENERAL PROJECT OVERVIEW**

### **1.1 Project Summary**

1. CAMP4ASB aims to strengthen regional dialogue and collaboration to enhance preparedness among Central Asia countries to the mounting challenges of climate change. **Component 1. Regional Climate Knowledge Services (US\$12.5 million; all IDA)** will ensure that participating countries are provided with equipment, software, minor civil works, and technical assistance for improved data, information, knowledge, and decision-support tools, laying the ground for a unified, regional analytical platform for climate assessment and decision-making in Central Asia. **Component 2. Regional Climate Investment Facility (US\$21.4 million in IDA financing and US\$6.8 million in beneficiary contribution)** will provide financing (via sub-loans) to rural communities<sup>34</sup> or investments to address climate change in thematic areas considered by participating Central Asian countries as priority for scaled-up climate action. In addition, it will provide technical assistance and facilitation support for rural communities to plan, implement, and manage climate investments. **Component 3: Regional and National Coordination (US\$3.9 million; all IDA)** will finance the operating costs of a Regional Coordination Unit (RCU) under the regional implementing agency, responsible for regional coordination and implementation support, as well as of the National Coordination Units (NCUs), responsible for national investment oversight, in each of the participating countries.

2. This Compliance Note pertains to the Regional Climate Investment Facility, which will provide funding for climate investments to communities in Tajikistan and Uzbekistan as sub-loans/leases through the formal financial sector. The expected size of credit lines is US\$12.6 million in Uzbekistan and US\$7.7 million in Tajikistan.

### **1.2 Objectives of the project**

3. The Project Development Objective (PDO) is to enhance regionally coordinated access to improved climate change knowledge services for key stakeholders (e.g., policy makers, communities, and civil society) in participating Central Asian countries, as well as to increased investments and capacity building that, combined, will address climate challenges common to these countries.

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<sup>34</sup> Including farmers (Dekhan farmers and commercial farmers), farmer groups, water user associations, pasture management and/or user groups, other resource user groups, villagers, village communities, as well as private companies.

### 1.3 Flow of funds

4. For the purposes of the Credit Line, the World Bank financing will be channeled through the Ministry of Finance (MOF) in both countries as the Borrower's representative. The implementation of the Regional Climate Investment Facility will be carried out by the Rural Restructuring Agency (RRA) in Uzbekistan and Project Implementation Unit for Access to Green and Rural Development Finance under the Ministry of Finance (MOF PMU) in Tajikistan, which both have prior experience in implementing credit lines under World Bank projects. The Ministry of Finance, representing the Borrower, the RRA/MOF PMU (depending on country), and each qualified Participating Financial Institution (PFI) will sign a Subsidiary Loan Agreement for the purposes of implementing the project's credit line. Separate Operational Manual for the Credit Line will determine the criteria, eligible activities, detailed withdrawal procedures, and responsibilities of all parties implementing the credit line. The PFIs will receive the credit line proceeds under the framework of the Subsidiary Loan Agreement and on-lend to eligible beneficiaries through sub-loans/-leases for implementation of eligible sub-projects in accordance with the Operational Manual, and their banking considerations.

### 1.4 Additional information

5. The five Central Asian countries are among the ECA Region's most vulnerable to climate change and building resilience to climate's mounting impacts is a priority for poverty reduction and shared prosperity in Central Asia. Average annual temperatures across the region have increased since the mid-20th century by 0.5°C in the south to 1.6°C in the north and impacts are already being observed, from melting glaciers in upland areas (where glaciers have lost one-third of their volume since the 1900s) to droughts and floods in the lowlands (where weather-related disasters are estimated to cause economic losses from 0.4 to 1.3 percent of Gross Domestic Product per annum for Tajikistan, Turkmenistan, and Kyrgyz Republic, for instance). Under current greenhouse gas trajectories, climate change is expected to intensify over the coming decades, increasing pressure on natural resources and assets such as water, land, biodiversity and ecosystems, with rising costs for key development sectors, such as agriculture, energy, and human health.

6. Agriculture, water resources and energy are the sectors most at risk from climate change. In agriculture, which is critical for the largely rural livelihoods in the region, cropping system productivity (including in both rain-fed and irrigated systems) is sensitive to variations in rainfall, hydrologic flows modulated by snow accumulation and melt, system storage, as well as evapotranspiration. Energy systems are sensitive to hydrologic changes (e.g., in the case of hydropower), demand changes (e.g., in warmer areas in summer), the impact of extreme events on transmission systems, as well as mitigation actions (e.g., in the case of fossil fuels).

7. **Approach.** CAMP4ASB will establish a mechanism to bring climate investments to the agricultural, water, and energy sectors. The entire program, including the credit line, is the first step of what is expected to become a much larger pool of climate investment financing available from other donors, following this first phase. The credit line is designed to support investments stemming from the awareness raising and capacity building activities under Sub-component 2.2 of the Program, and carried out by vulnerable communities, including farmers, water user

associations, pasture management groups, etc., provided they are duly registered as legal entities. A complementary training program has also been designed, to build PFI capacity in climate investment appraisal, to ensure that the PFIs have the knowledge and resources to appraise and manage climate lending.

8. **Rationale for Directed Credit.** As mentioned above, the five Central Asian countries are among the ECA Region's most vulnerable to climate change and building resilience to climate's mounting impacts is a priority for poverty reduction and shared prosperity in Central Asia. In fact, climate events are already negatively affecting the GDP. This credit line is expected to serve as a pilot to identify a sustainable way of financing "green" investments. However, such more sustainable way of financing green investments also requires beneficiaries with repayment capacity. Therefore, the credit line will be piloted with farmers, farmer groups and other rural communities engaged in productive activities, to ensure sufficient repayment capacity of these green investments. Given this scarcity of long-term resources in the financial sector in both countries, this credit line will provide additional lending resources for use by the participating financial institutions for on-lending to sub-borrowers willing to invest in "greening" their productive activities.

9. **Subsidies.** There are no subsidies envisaged under the credit line.

10. **Beneficiaries/Target groups.** Project beneficiaries will include farmers (Dekhan farmers and commercial farmers), farmer groups, water user associations, pasture management and/or user groups, other resource user groups, villagers, village communities, as well as private companies, interested in introducing climate measures (resilience or mitigation). These communities will particularly benefit from funding opportunities that enable them to implement necessary sub-projects that improve their own livelihoods while also demonstrating important climate change mitigation and/or adaptation efforts that can be ultimately shared across the region.

11. **Project Area.** The project area will be selected at the project outset, on the basis of the following: degree of climate vulnerability of the area, based on extent of land and vegetation degradation, expected water shortages, and predicted increase in temperature; and good complementarity with government- or donor-funder initiatives on the ground.

12. **Demand.** The demand for such credit line was discussed with the potential PFIs in Uzbekistan. They confirmed the interest in such investments by farmers (who are also interested in benefitting from a renewable energy and energy efficiency project under a GEF-financed activity). The expectation was that the credit line would be disbursed in full during the project period, but that the actual demand might exceed the available funds. However, it should be noted that one of the objectives of the present credit line is to test the actual demand for such investments, for a possible scale-up by other donors. In Tajikistan, the potential demand was discussed with the government and some potential beneficiaries (the due diligence has not been carried out yet and the PFIs have not yet been selected). These discussions indicated interest in such credit line, and the expectation is that the credit line will have demand.

13. **Implementation arrangements.** In Tajikistan, the credit line will be implemented by the Project Management Unit for Access to Green and Rural Development Finance under the Ministry

of Finance (MOF PMU). In Uzbekistan, the credit line will be implemented by the Rural Restructuring Agency (RRA). Both MOF PMU and RRA have prior experience in implementing and managing credit lines<sup>35</sup>. Both PMUs will be responsible for all aspects of the credit line implementation, including ensuring the compliance of sub-loans/leases with the eligibility criteria, monitoring of the sub-loan/lease files, and the PFI compliance with the eligibility criteria. Regular visits to PFI branches to review the loan files for completeness and visits to borrower sites are two key components of the monitoring of credit line implementation. The PMUs will prepare progress reports for the governments and the World Bank based on agreed Monitoring and Evaluation formats, which will track both the physical implementation and impacts of the credit line. Detailed responsibilities of the units implementing the credit line will be described in the Line of Credit Operational Manual.

14. **Support and training to the PFIs.** Technical assistance will also be provided to the PFIs to improve their skills in assessing climate investment proposals in the range of eligible activities considered, broadly covering land, water, agriculture, and energy sectors. In addition, the National Coordination Units, set up to facilitate implementation of the Technical Assistance portions of the project, will provide relevant technical advice to the PFIs to facilitate appraisal of sub-loans/leases.

## II. COORDINATION BETWEEN THE BANK AND IFC

### 2.1 Collaboration with IFC

15. Uzbekistan became a member of IFC in 1993. Since 1996, IFC invested US\$94 million to support 27 private sector projects in the financial, agribusiness and food sector. As of June 30 2013, IFC's portfolio in Uzbekistan stood at US\$9.4 million with investments in the financial and general manufacturing sectors. IFC strategy in Uzbekistan is mainly focused on the financial sector and agribusiness. Through a combination of investment and advisory services, IFC works to improve the business environment, promote public-private partnerships, improve tax administration, and develop credit information infrastructure.

16. Tajikistan has steadily recovered from the economic slowdown that followed the 2008 global financial crisis when GDP grew by only 3.9 percent in 2009. Economic activity has since accelerated the pace, growing by 7.5 percent in the first 10 months of 2013, and projected to grow at 6 percent in 2014. Growth has been buoyed by good performance in the mining industry (despite a slump in aluminum exports), growth in agriculture, as well as remittances from migrant workers. Because of the global economic recovery, especially in countries in which Tajikistan's over 1 million migrants work, remittances have rebounded, growing by 31 percent between 2001 (US\$2.9 billion) and 2012 (US\$3.8 billion), which corresponds to about 47 percent of GDP. This has in

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<sup>35</sup> The MOF PMU in Tajikistan has worked with an ADB credit line, and is the implementing agency for the credit line under the World Bank-financed Agriculture Commercialization project, which became effective at the end of February 2015. By the start of the CAMP4ASB credit line, it will have gained experience also in handling World Bank-financed project credit lines. The RRA in Uzbekistan has handled three World-Bank financed credit lines and has extensive experience in monitoring of PFIs, sub-loan monitoring, review of sub-loans applications and other functions required to be performed by the credit line PMU.

turn strengthened the recipients' purchasing power for consumer goods, thus creating opportunities for local businesses, including agribusinesses.

17. IFC representatives in Central Asia were informed of the project. Further discussions of IFC's potential interest to support the project's activities will be continued during the project implementation. At this time, IFC has no credit lines either in Uzbekistan or Tajikistan supporting similar beneficiaries (i.e., farmers), or types of investments in agricultural sector dealing with climate resilience improvements.

### **III. POLICY FRAMEWORK FOR FILs**

#### **UZBEKISTAN**

##### **3.1 Macroeconomic Environment**

18. Uzbekistan has a fast-growing economy with an average real growth rate of GDP at 8.4 percent between 2008 and 2013, real 7 percent in 2014, and projected to grow at 6.5 percent in 2015. Per capita income has more than doubled in real terms since 2004 (US\$1,510; 2011, Atlas Method). Poverty declined from 27.5 percent of the population in 2001 to 16.0 percent in 2011 due to rapid economic growth, large government investments in education, health and infrastructure development, increases in public sector salaries, and increased remittances. The country is an oil and gas exporter, and due to its isolation, has remained relatively shielded from global impacts (the high GDP growth rate during the most recent crisis period confirms that). 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, although the surplus has narrowed, estimated to 3 percent of GDP in 2013, on account of the drop in gold exports and lower cotton and food prices, and strong import supported by remittances and FDI. Based on Government information, the 2014 inflation was 7 percent.<sup>36</sup>

19. The Central Bank of Uzbekistan (CBU) has continued for the last several years the liquidity-mopping operations, to contain inflation by sterilizing the money in circulation. These measures have resulted in shortages of available cash for social payments and cash withdrawals from the banking sector (most of the disbursements take place by transfer to the supplier).<sup>37</sup> The foreign exchange rate is closely regulated and managed by the government. Aiming at improving competitiveness of the export sector, the UZ Soum has continued depreciating both against US Dollar and Euro.

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<sup>36</sup> Based on IMF estimates, the inflation has maintained double digits during the past years, e.g., it estimated that consumer prices increased by 10 percent in 2014.

<sup>37</sup> Based on IMF data, reserve and broad money have both decelerated considerably, from 27 and 52 percent respectively at the end of 2010, to 16 and 30 percent, respectively, through October 2012.

## 3.2 Financial Sector Framework

20. Uzbekistan's financial sector is comprised of 27 commercial banks and 28 very small microcredit institutions. Overall, the banking sector has performed well over the last several years. State-owned banks dominate the system, with their asset share reaching about 80 percent of the total bank assets (top five banks dominate the sector with 62.7 percent of the total assets). In 2011, the total assets of the banking system increased by 32.4 percent, and total loan portfolio by 35.6 percent. The banking sector is very isolated (which helped it navigate well through the recent economic crisis, as it had almost no impact on the banking sector development), since only 14.7 percent of the credits in 2012 were financed from non-country sources. The level of non-performing loans is low (as the Table 12 below of selected potential PFIs key data shows), even by alternative measures of the rating agencies which are assessing the banking subsystem as stable (such as Fitch Ratings in 2012). Through end-September 2012, banks' balance sheet capital increased by 24 percent year-on-year. Continuous capital injections in the banking sector by the government are facilitating the authorities' development programs.

21. Financial intermediation is relatively low, and the capital adequacy of banks is above 20 percent (24 percent in September 2012), which is high by international standards. Banks' credit policy is influenced by state-directed lending,<sup>38</sup> which, to some extent, impedes development of sound risk management. The non-core functions (such as tax administration) undermine trust in banks, hamper access to credit, and inhibit financial intermediation. At the same time, the bank branch outreach is 49.5 branches per every 100,000 persons. Almost all commercial banks (26 out of 28) have ratings by international agencies. The Central Bank of Uzbekistan (CBU) is taking measures to strengthen banking supervision methodology, prudential standards, and risk assessment practices,<sup>39</sup> which is a welcome development.

22. A Due diligence of PFIs in Uzbekistan was carried in April 2014, to qualify PFIs for participation in a credit line in the amount of US\$ 40 million of the Additional Financing of the Second Rural Enterprise Support Project (RESPII AF). An international consultant with experience in carrying out due diligence of commercial banks was hired by the project in spring 2014. Seven commercial banks underwent due diligence and were qualified for participation in the credit line implementation, namely: Hamkorbank, Ipak Yoli Bank, Ipoteka Bank, Qishloq Qurilish Bank, Turonbank, Uzpromstroybank, and Xalq Bank (see brief overview in Table 12). These banks have been also potentially qualified for participation in the implementation of a US\$110 million credit line under Horticulture Development Project, which was approved by the Bank's Board in June 2014. It is expected that these same qualified PFIs will participate in the implementation of this CAMP4ASB pilot credit line.

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<sup>38</sup> In particular, the government-subsidized credit to cotton and wheat producers, at 3 percent p.a., in form of agricultural inputs.

<sup>39</sup> This paragraph has been prepared with data from IMF Country Report and data of the CBU.

**Table 12. Brief Financial and Operational Results of the potential PFIs – current active PFIs of RESP II AF. Audited Data, as of December 31, 2013 (US\$ Millions<sup>40</sup>).**

	Name of the Bank	Total Assets	Net Loan Portfolio	Total Customer Accounts*	Equity	Provisions as a % of loan portfolio	All overdue loans as a % of portfolio <sup>41, 42</sup>	Ag. loans as a % of Total Loan Portfolio
	<b>Uzbekistan</b>							
1.	Hamkorbank	454.1	249.5	284.5	56.0	3.8%	0.12%	6.0%
2.	Ipak Yuli Bank							
3.	Ipoteka Bank							
4.	Qishloq Qurilish Bank	1,152.1	993.8	241.3	152.4	0.4%	0.2%	2.9%
5.	Turon Bank	296.9	194.0	210.7	30.7	0.49%	0%	7.7%
6.	Uzpromstroi Bank	3,181.6	2,231.8	928.6	200.5	3.1%	2.4%	0.9%
7.	Xalq Bank							
	<b>Total</b>	<b>5,413.6</b>	<b>3,925.5</b>	<b>1,768.1*</b>	<b>540.8</b>	<b>2.1%</b>	<b>1.4%</b>	<b>5.4%</b>

\* Demand deposits represent 73 percent of the total volume of customer account balances.

### 3.3. Interest Rates

#### *Deposit Rates*

23. Deposit rates continue to be very high in Uzbekistan. There is no major difference in the deposit interest rates depending on maturity. The interest rate on deposits in UZ Soums is 16-20 percent, and 6 – 10 percent in US Dollars. However, even the relatively high interest rates do not help mobilize long-term deposits, as the overwhelming share of deposits is demand deposits.

#### *Loan Rates*

24. 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 percent (such as the Savings Bank Foundation for International Cooperation) to LIBOR+4 percent / LIBOR+5 percent (such as EBRD and IFC). The average interest rates to the ultimate borrowers are around 10 percent in US Dollars and 14 percent in UZ Soums (8 percent - 12 percent on short-term loans and around 18 percent on long-term loans). Due to the strict

<sup>40</sup> Official exchange rate used: US\$ 1 = UZS 2,146.7 as of September 24, 2013.

<sup>41</sup> Loans overdue for one or more days.

<sup>42</sup> Includes also restructured loans.

regulation of foreign currency in Uzbekistan, banks can only lend foreign currency loans from donor funds.

#### *Other Rates*

25. The *Refinancing Rate* of the Central Bank of Uzbekistan has been steadily declining over the past several years, and has been set at 9 percent since January 1, 2015 (the previous adjustment was made as of January 1, 2014 when the refinancing rate was reduced from 12 percent to 10 percent).

#### *Other donors*

26. A number of IFIs are active in Uzbekistan, including ADB, the World Bank, Islamic Development Bank/Islamic Private Sector Development Corporation, KfW, Landesbank and IFC (which works with only two commercial banks in the sector). The cost of funds to qualified financial intermediaries from international lenders ranges between 0 percent, to LIBOR+4 percent / LIBOR+5 percent. Maturity of the funding to the banking sector varies between 5 years (such as the Islamic Private Sector Development Corporation) to 20 years (ADB and the World Bank). The margin of the Ministry of Finance (in cases when the funding flows through the government) is 2 percent. The typical margins of commercial banks vary between 2 percent and 4 percent.

## **TAJIKISTAN**

### **3.4. Macroeconomic Environment**

27. Tajikistan has steadily recovered from the economic slowdown that followed the 2008 global financial crisis when GDP grew by only 3.9 percent in 2009. Economic activity has since accelerated the pace, with real growth of the GDP at 7 percent in 2013 and 6 percent in 2014 (estimate for 2015 is also 6 percent). Growth has been buoyed by good performance in the mining industry (despite a slump in aluminum exports), growth in agriculture, as well as remittances from migrant workers. Because of the global economic recovery, especially in countries in which Tajikistan's over 1 million migrants work, remittances rebounded, growing by 31 percent between 2001 (US\$2.9 billion) and 2012 (US\$3.8 billion), which corresponds to about 47 percent of GDP. This in turn strengthened the recipients' purchasing power for consumer goods, thus creating opportunities for local businesses, including agribusinesses. In 2014, however, the remittances inflows have slowed down significantly, as a result of the economic slowdown in Russia, which is a main destination for Tajikistan's labor migrants.

28. This heavy dependence on remittances makes the country very vulnerable to external shocks. The country will need to diversify its economy, especially into industry and agriculture. Agriculture contributes about 23 percent to GDP, and is (directly and indirectly) a major source of livelihood to some 64 percent of the country's population that lives in rural areas. The sector employs about 48 percent of the country's labor force. Its prospects for continuing to serve as an engine of growth have been enhanced by the ongoing land reforms. Indeed, agriculture grew by 12.1 percent in the first half of 2013. However, as indicated earlier, this sector's continued growth



remains constrained by, among other things, investment capital to renew Soviet era equipment, innovate (e.g., use of green houses for certain high value crops), etc.

29. Inflation pressures have been trending downward over the past three years, from 9.3 percent in 2011, to 6.4 percent in 2012, and around 6 percent in 2014 (the final number is still under review). This has been coupled with a relatively stable exchange rate, which only modestly depreciated by about 8 percent in the past five years (i.e., from 4.37 somoni/1US\$ in December 2009 to 4.74 somoni/1US\$ in December 2013). However, depreciation accelerated in 2014, by about 15 percent, due to the downward stress on Russian ruble, and has continued through the early 2015.

### **3.5. Financial Sector Framework**

30. Tajikistan's financial sector is comprised of 17 commercial banks which cover around 80 percent of financial sector assets (and 82 percent of outstanding loans). The remaining 20 percent of financial sector assets (and 18 percent of outstanding loans) are held by 121 non-bank financial institutions, principally microfinance institutions.

31. There is significant concentration of banking sector assets and deposits in four banks, namely Agroinvestbank, Orionbank, Amonatbank and Tojiksodirotbank. These four banks hold about 76 percent of total bank assets, and 81 percent of bank deposits.

32. According to the National Bank of Tajikistan, the banking sector appears to be collectively well capitalized (on aggregate with a 20 percent capital adequacy ratio), although their asset quality is generally poor, with sub-standard loans reported at 21 percent of the total loan portfolio.<sup>43</sup> Portfolio quality among individual banks varies, and the situation is believed to be more severe among the large banks. Poor performance among the big banks has, in the past, been aggravated by imprudent lending practices, with instances of a significant amount of credit extended to particular clients upon instruction by the authorities, credits that later fell into default. Such poor lending practices have strained some of these banks, in one case even triggering a Government bailout.

33. However, there is strong growth and good performance among the smaller banks (e.g., Bank Eshkata and First Micro Finance Bank of Tajikistan) and the relatively large micro finance institutions (e.g., IMON International, Arvand, and Humo). This set of financial institutions had about US\$300 million in portfolio outstanding in October 2013 (see Table 13 below). Their portfolio quality is generally good, with portfolio at risk (PAR90) ranging from less than 1 percent to 4 percent. Although their agribusiness portfolios are generally small, these institutions have expressed interest to grow them, making them good candidates for the project.

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<sup>43</sup> National Bank of Tajikistan's data include in this classification all classified loans—substandard (1–30 days overdue) = 9.5 percent; doubtful (30–60 days) = 5.3 percent; dangerous (60–180 days) = 2.3 percent; and bad (180+ days) = 4.2 percent.

**Table 13: Small Banks and Large MFIs in Tajikistan – Portfolio Size and Institutional Performance Data**

	Capital, US\$ mil	Portfolio Outstanding Oct. 2013, US\$ mil	Portfolio Quality (PAR90) Dec. 2012	ROA Dec. 2012	ROE Dec. 2012	Capital/Assets Dec. 2012
Bank Eskhata	10.0	120	2.48%	7.36%	58.76%	13.94%
First Microfinance Bank of Tajikistan	5.8	35	4.04%	0.32%	3.00%	11.15%
IMON International	16.0	95	3.46%	5.87%	26.93%	19.62%
Arvand	3.5	27	0.76%	4.49%	29.67%	14.01%
Humo	5.0	27	1.29%	8.15%	38.57%	19.88%
<b>TOTAL</b>	<b>40.3</b>	<b>304</b>				

34. The due diligence for a US\$8 million credit line under the Agriculture Commercialization project will be carried out in the second half of 2015. It is expected that these same qualified PFIs will participate in the implementation of this CAMP4ASB pilot credit line. It must be emphasized, however, that any final selection of any financial institution to participate in the credit line would be made strictly on the basis of a thorough due diligence process that is yet to be carried out.

### 3.6. Interest Rates

#### *Deposit Rates*

35. As of October 2013, the overall, weighted average interest rate was about 8 percent on deposits, all currencies combined (about 33 percent of deposits are in the domestic currency, the rest in foreign currency). The weighted average interest rate on domestic currency deposits is about 6 percent, whereas foreign currency deposits attract a **weighted average rate of about 9 percent** (proportionately more foreign currency deposits are in time deposits that attract higher rates). Indeed, individual rates vary widely among the various categories of deposits, with a close to zero rate on demand deposits on the one hand, and as high as 17.4 percent on some domestic currency time deposits on the other. Despite promises of high rates for long term deposits, over two thirds of deposits remain less than 12 months, and overall deposits remain very low in Tajikistan, amounting to around 14 percent of GDP (much similar to 13.7 percent in 2013, 13.6 percent in 2012, and 14.7 percent in 2011). The low deposits are, in part, a reflection of the still low public trust in the banking system, and such attitudes take time to evolve. While ongoing reforms in the financial sector continue to take root, and banking penetration continues to grow, complementary resources, such as credit lines, especially for long term investment financing, remain important for undertaking critical investments needed to sustain high levels of economic growth.

#### *Loan Rates*

36. As of October 2013, the average interest rate on domestic currency loans was 24 percent, versus 23 percent on foreign currency loans, but some rates can go as high as 32 percent. Lending rates are generally high, reflecting a combination of factors including the cost of capital, large overheads, reliance on retained earnings to finance growth, etc.

## *Other Rates*

37. The *refinancing rate* of the National Bank of Tajikistan (NBT) was steadily declining over the past several years. From its peak of 16 percent in April 2008, it stood at 4.8 percent in January 2014, having averaged around 6.3 percent for most of 2013. Similarly, the average rate on NBT's *securities* stood at 4.7 percent in November 2013. However, the refinancing rate was increased to 8 percent at the beginning of 2015.

## **IV. ELIGIBILITY CRITERIA FOR PARTICIPATING FINANCIAL INSTITUTIONS (PFIs)**

38. In order to become a Participating Financial Institution (PFI), commercial banks and other financial institutions (such as microfinance organizations or leasing companies) have to qualify under a due diligence procedure in accordance with a set of operational, financial and management criteria indicated below (separate criteria for commercial banks and leasing companies), and have to sign a Subsidiary Loan Agreement (SLA) with MOF PMU or RRA, as relevant. In order to maintain its eligibility as a PFI, the commercial banks, microfinance institutions and leasing companies have to meet the said criteria at all times.

39. Potential PFIs (commercial banks and leasing companies) will be individually appraised, through a due diligence procedure, by an experienced consultant with international experience specializing in due diligence of financial institutions, together with the RRA/MOF PMU and no-objected by the World Bank.<sup>44</sup> During the detailed due diligence assessment, particular attention will be given to the overall lending capabilities, and financial and portfolio performance. The PFI must have satisfactory financial and management structure, a satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, and the organization, management and technical staff and other resources required for the efficient carrying out of the operations.

40. The criteria for the initial due diligence and continued maintenance of a PFI status are provided below. These criteria shall be used by MOF PMU and RRA, respectively, to monitor the continued eligibility of the PFIs operating under the Credit Line.

### **(a) Commercial Banks (Commercial Bank and Microfinance Institutions in Tajikistan)**

#### **A. General Standards:**

- (i) Be in compliance with all banking laws and prudential regulations of the Central Bank of Uzbekistan or the National Bank of Tajikistan, as appropriate.
- (ii) Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the CAMP4ASB.

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<sup>44</sup> The due diligence for participating financial institutions in Uzbekistan was carried out in April-May 2014; and is expected to be carried out in early 2016 in Tajikistan.

- (iii) Have or be willing to open branches or minibanks in the project rayons or ability to ensure other ways of servicing the potential borrowers in the project rayons.
- (iv) Undergo an annual audit that is conducted in accordance with International Standards of Auditing by an audit company acceptable to the World Bank for the purposes of audit of financial institutions, with an unqualified audit opinion.
- (v) Have the necessary staff, knowledge, physical and other resources to implement the credit facility under the Project.

**B. Financial Prudential Standards:**

**Uzbekistan:**

- (i) At all times, meet the prudential regulations issued by the Central Bank of Uzbekistan.
- (ii) Have a risk-weighted capital adequacy ratio of no less than 10 percent.
- (iii) Do not have exposure to any one borrower as a percentage of its IAS capital of more than 15 percent.
- (iv) Have aggregate exposure to insiders (defined as members of the Board of Directors and the Management Board of such PFI, employees in management position and shareholders with voting rights in excess of 10 percent) of no more than 100 percent of IAS capital.
- (v) Have a positive net income for the current and two immediately preceding financial years, as reflected in the financial statements audited in accordance with ISA.
- (vi) Have acceptable asset quality and quality management policies, procedures and skills.
- (vii) Have NPLs<sup>45</sup> not exceeding 5 percent of the total loan portfolio at any time.
- (viii) Have a positive Return on Assets and Return on Equity equivalent or greater than the inflation rate.
- (ix) The aggregate share of Sub-loan/Lease portfolio outstanding under all credit lines of the World Bank (RESP II and Additional Financing, and HDP) shall not exceed 75 percent of the PFI's IAS capital.

**Tajikistan:**

- (i) At all times, meet all the prudential regulations issued by the NBT, with a particular focus on the following:

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<sup>45</sup> NPLs are loans overdue by 90 days or more and have been placed in non-accrual status.

- a. Maintain at all times the required risk based capital adequacy ratio established by the NBT from time to time;
  - b. Meet the minimum capital requirements established by the NBT from time to time;
  - c. Maintain a level of loan loss provisions at all times at least equal to the minimum required according to the regulations of the NBT;
  - d. Be in full compliance with the legal reserve requirements of the NBT;
  - e. Limit its exposure to a single, related, connected borrower and insider parties to a percentage of the PFIs' total capital, as defined and prescribed by the NBT.
- (ii) Have a positive net income for the current and immediately preceding financial year, as reflected in the financial statements audited in accordance with IAS.
  - (iii) Have a positive Return on Assets and Return on Equity equivalent or greater than the inflation rate.
  - (iv) Have NPLs<sup>46</sup> not exceeding 5 percent of the total loan portfolio at any time.
  - (v) Project funding should not exceed 50 percent of the bank's total capital.

**C. Corporate Governance and Managerial Standards:**

- (i) Have a Board of Directors, responsible for setting the overall bank policy and perform appropriate oversight of the bank's operations.
- (ii) Have a qualified and capable management team.
- (iii) Have a sound business plan and appropriate budgeting and budget control procedures.
- (iv) Have sound lending policies and procedures, including in respect of the entire credit cycle, problem loan management, write-offs of assets, credit approval authority, etc.
- (vi) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors.
- (vi) Not be exposed to undue interest rate risk, as confirmed by annual audited financial statements.
- (vii) Have an internal reporting and management information system capable of providing sufficient information necessary for managing the bank's operations, performance and risks.

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<sup>46</sup> NPLs are loans overdue by 90 days or more and have been placed in non-accrual status.

**(b) Lease Companies**

**A. General Standards:**

- (i) Have the legal status permitting engagement in leasing operations.
- (ii) Be in compliance with the criteria and prudential regulations specified below, and operate in accordance with the applicable laws in effect in the Republic of Uzbekistan or the Republic of Tajikistan, as appropriate.
- (iii) Be interested and committed to servicing the range of clients, who are the intended beneficiaries of the CAMP4ASB, and ensure the capability of servicing clients in the project areas.
- (iv) Undergo an annual audit that is conducted in accordance with International Standards of Auditing by an audit company acceptable to the World Bank for the purposes of audit of financial institutions, with an unqualified audit opinion.
- (v) Provide financial reports at the frequency required by the supervisors under the supervision authority and arrangements set up for this purpose under the Project.

**B. Financial Prudential Standards:**

- (i) At all times, meet the following prudential regulations:
  - a. The leasing company's exposure to a single client will not exceed 25 percent of the company's net worth (the sum of its unimpaired capital, surpluses and free reserves, as determined at the close of the previous quarter);
  - b. Total commitment to any lessee shall not exceed 25 percent of the total assets of the lessee;
  - c. No new commitments shall be made to any sector or industry where the exposure of the leasing company exceeds 25 percent of its outstanding lease portfolio. Exposure to a sector or industry is permissible of up to 50 percent of the total outstanding lease portfolio, provided the leasing company has appropriate risk management measures in place;
  - d. Income from leasing activities shall account for no less than 65 percent of the total revenues of the leasing company;
  - e. The average weighted life to final maturity of the leasing company's outstanding borrowings will be substantially identical to or will exceed the average weighted life of the net receivable value of its lease portfolio;

- f. The leasing company's Long-term Debt to Equity ratio (including guarantees) shall not exceed 6:1 at any time;
  - g. Have acceptable asset quality, both on and off-balance sheet, with the bad lease portfolio not exceeding 5 percent of total lease portfolio, and acceptable quality management policies, procedures and skills;
  - h. In any three-month period, total maturities due and payable under all borrowings by the leasing company shall not exceed total lease receivables due and payable from its lessees unless covered by unutilized funding commitments or rollover facilities from bank loans customarily renewed on a periodic basis;
  - i. The loan loss reserve shall be formed consistent with the size and quality of the lease portfolio, however, minimum 5 percent of the customer leases outstanding;
  - j. The leasing company's dividend policy shall provide for a fair return to its shareholders, however, it shall provide for retained earnings and reserves at a rate that would sustain the growth of the leasing company;
  - k. Any collateral or other assets belonging to lessees acquired through enforcement proceedings in connection with leasing transactions shall be disposed of within three months after the asset takeover, however, avoiding significant price diminutions.
- (ii) Have a positive net income for the current and two immediately preceding financial years, or since the launch of the leasing company, as reflected in the financial statements audited in accordance with ISA.
  - (iii) Assets of the leasing company must be sufficiently and adequately insured in accordance with good business practices.

**C. Corporate Governance and Managerial Standards:**

- (i) Have a Board of Directors, responsible for setting the overall leasing company's policy and perform appropriate oversight of the leasing company's operations.
- (ii) Have a qualified and capable management team.
- (iii) Have a sound business plan and appropriate budgeting and budget control procedures.
- (iv) Have sound leasing policies and procedures, including in respect of the entire credit cycle, problem loan management, write-offs of assets, repossession procedures, credit approval authority, etc.

- (v) Have satisfactory internal control and audit procedures, including accounting principles and procedures, and financial documents, internal controls and reporting, and operational controls, confirmed by external auditors.
- (vii) Is not exposed to undue interest rate risk, as confirmed by annual audited financial statements.
- (viii) Have the necessary staff, knowledge, physical and other resources to implement the credit facility under the Project.

## V. ONLENDING TERMS<sup>47</sup>

42. **Eligible Investments** under the credit line program will be in the following main areas:<sup>48</sup>

- a) Improving productivity of field and horticultural crops, by crop diversification, climate-resilient seed/sapling variety and seed-system support measures adopting new and appropriate technologies:
  - Establishing low cost green houses
  - Fodder seed (both pulses and grass) production
  - Private nurseries
  - Vineyards and orchards
  - Improved cropping systems, such as crop diversification
  - Improved crop and tree varieties (wood lots)
  - Improved seed varieties (e.g., more tolerant to drought, pest, disease and salinity).
- b) On-farm water resource management and efficiency improvement measures
  - Drip and plastic tube irrigation
  - Land levelling
  - Planting shelter belts
  - Irrigation scheduling
  - Alternate furrow irrigation
  - Drainage rehabilitation and improvement.
- c) Land degradation control through agro-forestry and rangeland management measures
  - Infrastructure to access and use remote pastures
  - Small machinery to produce and harvest fodder
  - Rehabilitation measures for degraded areas.
- d) Pest and disease control
  - Biological controls
  - Integrated pest management (with use of bio-pesticides only).
- e) Conservation agriculture
- f) Livestock production improvements
  - Livestock farming
  - Poultry farming
  - Apiculture.

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<sup>47</sup> Sub-loans also include leases and micro-finance.

<sup>48</sup> Other climate investment types could be considered at a later stage, based upon new priorities identified and commonly agreed by participating countries.



- g) Agro-product processing
- h) Energy efficiency improvements (e.g., insulation, lighting, water pumps, etc.)
- i) Expansion of renewable energy sources, particularly for those communities in remote rural areas.

### **Eligibility Criteria for Investments<sup>49</sup>**

43. The PFIs/Lease Companies will carry out the detailed sub-project appraisal based on their internal procedures for such appraisal, including their internal requirements for collateral. However, the following aspects of the proposed sub-project should be covered by the PFI/Lease Company appraisal as a minimum:

- (i) Located in the project area;
- (ii) An eligible type of investment;
- (iii) Demonstrates gender focus;
- (iv) Sub-borrower has provided the required contribution;
- (v) Technical feasibility and financial viability of the proposed sub-project, including:
  - a. the rate of return on the proposed investment should be, at minimum, equivalent to the interest rate on the sub-loan/lease;
  - b. the Debt Service Coverage (DSC) Ratio should be minimum of 1.3, calculated annually, on the basis of the sub-borrower's total debts;
- (vi) An evaluation of the borrower's ownership structure, financial position, and creditworthiness, operational success, organization and management structure;
- (vii) Assurance that the sub-borrower has the technical staff, know-how and all other resources available for successful implementation of the sub-project;
- (viii) Compliance with the relevant health and safety standards, and other laws and regulations (including any applicable national and international law and regulation on forced and child labor) in effect in the country;
- (ix) Compliance with the environmental and procurement guidelines of IDA in effect at the time of the sub-project appraisal.

44. The funds will be available both in local currency and US Dollars. The tentatively proposed interest rate to the PFIs (to be finalized in negotiations with the Ministry of Finance and to be acceptable to the World Bank) is:

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<sup>49</sup> Mitigation co-benefit from the sub-projects will also need to be calculated, however, it will not be a formal eligibility requirement.

45. **In Uzbekistan:**

- (i) The interest rate for Subsidiary Loans denominated in US Dollars shall be equivalent to the base rate, which will be the prevailing interest rate at which the Borrower shall have received loan proceeds from the World Bank plus a spread of not less than 2 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for the administrative costs associated with the Subsidiary Loan;
- (ii) The interest rate for Subsidiary Loans denominated in UZ Soums shall be equivalent to the base rate, which will be the prevailing interest rate at which the Borrower shall have received loan proceeds from the World Bank plus a spread of not less than 7 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for: (i) the administrative costs associated with the Subsidiary Loan; and (ii) provide a small premium to compensate for the risks associated with currency exchange.

46. **In Tajikistan:**

- (i) The interest rate for Subsidiary Loans denominated in US Dollars shall be equivalent 6-months Libor plus a spread of not less than 3 percent set by the Borrower from time to time, and agreed to by the Bank, to compensate the Borrower for the administrative costs associated with the Subsidiary Loan. The rate shall be reviewed semi-annually, as necessary.
- (ii) The interest rate for Subsidiary Loans denominated in local currency shall be equivalent to the refinancing rate of the National Bank of Tajikistan. This will be the final rate to the PFIs, which will include: (i) the administrative costs of the Borrower associated with the Subsidiary Loan; and (ii) a small premium to compensate for the risks associated with currency exchange. The rate shall be reviewed semi-annually, as necessary.

47. Maturity of the Credit Line proceeds: Credit line funds will be provided to the PFIs for up to 20 years, inclusive of a grace period of 5 years, in Uzbekistan; and initially for up to 5 years, including a four year grace period, extendable upon agreement with the Ministry of Finance, subject to the PFI's satisfactory performance, in Tajikistan. Upon expiration of the grace period, the principal shall be repaid in three equal semi-annual payments, starting at the end of the fourth year of the loan term.

48. In Uzbekistan, each subsidiary loan agreement with the PFIs will be signed for a specific amount, based on the estimated demand, whereas in Tajikistan the credit line will be available on first-come, first-served basis, within the exposure limits established for the PFIs, which will ensure that the most active PFIs have access to the necessary financing. Given the likelihood that a number of the PFIs will qualify for participation, it will help ensuring the competitive environment necessary for the sub-borrowers to benefit from competitive terms and conditions of the financing.

49. Reflow of credit line during project implementation: MOF PMU will reflow interest and principal payments made by PFIs back to the same or other eligible PFIs to enable them to offer additional loans.

50. The maximum loan/lease size will be up to US\$500,000; the loans are expected to be mostly for investment. The maximum maturity of the sub-loans/leases will not exceed 7 years or the amortization period of the asset, whichever is shorter. The actual size and maturity of the loans/leases will depend on the type of investment financed, profitability of the activity, cash-flows generated, collateral, and other banking considerations.

51. Maximum financing share: The project will finance up to 100 percent of the sub-loans/leases, and no co-financing by the PFIs will be required. The sub-borrowers will be required to contribute 20 percent of the sub-project financing (in cash or in-kind).

52. Sub-loan/lease interest rate: Except as the Borrower determines the rate charged by the PFI to be unreasonable, in light of the established sound lending policies and procedures, the PFIs will set their own interest rates and repayment terms to final sub-loans/lease beneficiaries based on their banking considerations. The PFIs will carry out full appraisal of sub-loans/leases and sub-borrowers based on the agreed criteria, and will bear the full risk of subsidiary loan repayment.

53. The Credit Line beneficiaries will have to comply with the national legislation on child and forced labor, per provisions of the Project Operational Manual.

54. Withdrawals from the Credit Line. Periodically, as agreed between the PFIs and the PMUs, PFIs will prepare Statements of Expenditure (SOEs), in the agreed format, listing already financed sub-loans/leases, as well as sub-loans/leases approved by its Credit Committee but not yet financed.<sup>50</sup> The SOE will be submitted together with the one-page Sub-loan Information Sheet for each sub-loan/lease. The Sub-loan Information Sheet will contain the key terms and conditions of the proposed sub-loan. The PMU will review the list of sub-loans and the one page summaries for every sub-loan to check the eligibility of the sub-loan against the criteria under the project (it is only a "technical" review by the PMU; the financial appraisal of the sub-loan/lease, loan structuring and all banking considerations lie with the PFI). Upon approval, the money will be transferred to the PFI.

55. Technical prior review of sub-loans/lease applications by the World Bank will be carried out for the first three Climate Investment sub-project proposals received by each qualified PFI, irrespective of the amount of the proposed sub-loan/lease, and for any sub-loan in an amount exceeding US\$150,000 equivalent.

## **VI. MONITORING**

56. The compliance of sub-loans/leases with the eligibility criteria, monitoring of the sub-loan/lease files, and the PFI compliance with the eligibility criteria will be ensured by the MOF-PMU and RRA, respectively. Regular visits to PFI branches to review the loan files for completeness and visits to borrower sites are two key components of the monitoring of credit line implementation. Based on the agreed procedure, on-site visits to the sub-loan/lease sites are carried

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<sup>50</sup> In cases when the PFI does not have an opportunity to extend financing due to the short maturity of the available financing or other considerations.

out not later than within four months from the disbursement of the sub-loan/lease. Monitoring and Evaluation forms (as part of the operational manual to be developed) will be used to 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 for the project, covering also the credit line activities, will be done from time to time.

57. Progress reports will be produced quarterly, which will also include reports on monitoring of the financial status of the PFIs, including key performance indicators, such as portfolio quality, liquidity ratios, etc. The PMU will also ensure timely collection of the audited reports of the PFIs, in compliance with the provisions of the subsidiary loan agreement. An Environmental Specialist will carry out screening of the proposed sub-loans from the environmental point of view. In addition, continued PFI compliance with the eligibility criteria will be verified by the Bank's team on annual basis, based on the review of the audited statements of the PFIs and other due diligence procedures, as required.

58. The following results from sub-loan implementation will be tracked as part of the Climate Investment Assessment Mechanism:

- Number of types of climate resilient investments piloted
- Number of financial sector staff (loan officers and branch managers) trained and supporting investments in climate resilience
- Number of Sub-loans/leases provided under the credit line
- Volume of Bank Support: Lines of Credit – SME (core indicator)
- Volume of Bank Support: Institutional Development – SME (core indicator)
- Portfolio at Risk (SME) - percent.

## **VII. SUSTAINABILITY, BENEFITS AND RISKS**

59. **Arrangements after the CAMP4ASB closing.** In Uzbekistan, in accordance with the practice so far, the 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. After the end of the 20-year period, the MOF may choose to on-lend the money back in the banking sector for an extended period of time under a separate legal arrangement. In Tajikistan, the PMU will ensure that the funds are re-extended to the PFIs (subject to continued satisfactory performance) after the project closes, similar to arrangements agreed under another World Bank-financed credit line. 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 the World Bank. 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. It should also be noted that the Subsidiary Loan Agreements which each PFI signs with the respective Ministry of Finance and the credit line implementing unit, set forth that the reflows received from sub-borrowers and not needed for repayment to the Ministry of Finance should be used for similar sub-loans and supporting similar investments towards the project objective.

60. **Sustainability of the Operation.** The technical sustainability of the credit line will be ensured through provision of relevant training extended to the PFIs. In addition, the National

Coordination Units which will be responsible for implementation for the technical assistance components of the project, will be able to provide technical advice to the PFIs. The PFIs will be trained in assessment of investments leading to improved climate resilience. The sustainability of the funding that the PFIs will be receiving will be ensured by using the PMUs that have accumulated experience working with other World Bank-financed credit lines.

61. The **benefits** will accrue to PFIs in form of an expanded portfolio in the “green” rural/agricultural market niche, expanded skills of the staff in appraising such green investments, an a broadened menu of lending products, their clients. The benefits to farmers and agribusinesses will be in the form of improved access to “green” finance, which should lead to improved productivity, resulting from the investments, and improved resilience against climate variability. In addition, this operation will also contribute to the broader – public - objective of identifying sustainable options for delivering finance for climate resilience-improving investments.

62. **Risks. In Uzbekistan**, given the previous experience with the implementation of other Bank-financed credit lines, there seems to be only one risk related to the implementation of this Credit Line. The Government may not be willing to assume the foreign exchange risk on a portion of the credit line, to alleviate the additional risks related to the foreign exchange risk exposure for those borrowers who only operate in local currency. Since the government keeps the margin between the hard IDA cost of funds and the on-lending rate to the PFIs, and given the long-term maturity of the Bank’s financing, the government is in the best position to assume the foreign exchange risk. The most effective alleviation of this risk will be the engagement of the government in a structured policy dialogue and discussions.

63. **In Tajikistan**, the main risk identified is the recent government interference in the lending activities of commercial banks (directed lending), which has raised the risk of defaults. However, this is not a major risk. The project is expected to work with the smaller banks and microfinance institutions – often started by international donor organizations - which are of lesser “interest” to the government for the purposes of directed credit. Thus they have been successful in avoiding government interference and retaining adequate governance. In addition, these financial institutions will be the focus of rigorous due diligence as the basis for selecting partner financial institutions for the project.

## **Annex 8: Note on Agriculture Sector Policies in Tajikistan and Uzbekistan**

### **CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin**

1. Agriculture and water management policies in participating countries - although still in transition - allow for the kind of technological innovation and adoption of climate-smart practices that the Program will help pilot and scale up. Tajikistan and Uzbekistan are actively promoting agriculture diversification towards high value, water-efficient crops, reducing state intervention in production and marketing, and improving the quality and efficiency of extension and irrigation services. Although much work remains to be done for modernizing agriculture policies in Central Asian countries, the current framework rightly emphasizes the urgent need to adapt agriculture and water management to a changing climate and it recognizes the leading role played by farmers and water user associations in piloting and scaling up innovative climate -smart practices with support from public research institutions. It is expected that experience from sub-projects under Component 2 will also help underline policy areas requiring further reform, such as water recovery fees, production and export quotas, land ownership and subleasing, and provision of better seeds, seedlings, and animal breeds — hence fostering bottom-up multi-stakeholder policy debate.

2. A brief analysis of agriculture and water management policies relevant to the Program in each participating country is provided below:

#### ***Uzbekistan***

- Agriculture policies have undergone several important changes in the past years, to improve diversification and competitiveness of the sector. The on-going agriculture modernization is a key contributor to the sector’s competitiveness.
- Farm structure was reformed (the last reform wave took place during 2008-2009), with most agriculture land passing from collective use to a new class of individual farmers with long-term leases.
- State planning has been narrowed down to cotton and wheat. Production quota to be sold to Government were reduced in the meantime. All other crops are now subject to farmers’ choice (“freedom to farm”).
- Research and extension for new breeds and new technologies as well as the policy changes highlighted above have led to high productivity gains for most crops, especially fruits, vegetables, and wheat (over 50 percent), with the exception of cotton.
- Six percent of arable land was shifted to horticulture in 2010. Government provides technical and financial support to promote expansion of horticulture. As a result, export earnings are increasing rapidly. This should help avoid the past experience of horticulture product export bans, which were established to stabilize domestic prices on horticulture products. Horticulture is multiple times more water-efficient than cotton, and is an important element of climate-smart agriculture in Uzbekistan.
- Rural finance through state order is being reduced gradually, and rural finance is shifting to commercial banks on more commercial principles.
- Efficient use of natural resources – land and water in particular, is a priority. Irrigation is still very inefficient in many cases, although new technologies, such as drip irrigation, are being promoted and should result in more efficient use of irrigation water. Government is

actively promoting irrigation efficiency through a number of investment projects and also by subsidizing the costs of investment in technologies (including drip irrigation, laser levelling, etc.).

### ***Tajikistan***

- In recent years, Tajikistan has been undergoing a series of agricultural reforms. The overall objective of agricultural reform and the social development program in Tajikistan is to develop a productive, profitable, and sustainable employment-creating agricultural system, based on ecologically sound use and management of natural resources, making agriculture one of the main pillars of the Tajik economy.
- Land privatization and agriculture sector reforms have had the most influence on the improved sector performance. The farm structure in Tajikistan has markedly changed during the last 20 years, with the share of private/individual farming increasing dramatically. Small-scale, private dekhans have increased in number to 123,000 (2013).
- Private farmers now dominate agricultural production with 80 percent of arable land and 70 percent of agricultural land, and continue to grow in number. Farm productivity has increased significantly in response to this transformation, although it remains low relative to other countries in the region.
- Further improvements in sector performance were achieved through a comprehensive reform program launched in 2007, which helped to resolve the crippling cotton debt problem,<sup>51</sup> accelerated land reform, reduced government intervention in farming decisions (“freedom to farm”), and facilitated increased crop diversification, complemented by donor-financed programs. The sector has responded well with average annual growth of 5.5 percent in real terms from 2008-2012 – a strong performance during a period dominated by the global financial crisis.
- The following are the main policy and regulatory elements currently being implemented by the Government with support from donor communities:
  - Institutional reform of relevant ministries and agencies involved in agriculture and water sectors, with clear roles and responsibilities for state, private sector and farming communities;
  - Review and amendment of the legislative frameworks for agriculture, including land reform, mortgage, cooperatives, and dekhans farm law, harmonizing and aligning several contradictory legislative frameworks;
  - Review and reform of current taxation systems and mechanisms with special attention to agriculture, allowing for steady growth, easing the burden on farming communities, and contributing to more effective taxation;
  - Reform of collective dekhans farms promoting farmer associations and cooperatives, including private sector-based service cooperatives;
  - Enhance agricultural education, information, and research systems that would effectively respond to the growing needs of farming communities.
- Going forward, the overall objective of agricultural reform and the social development program in Tajikistan is to develop a productive, profitable, and sustainable employment-

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<sup>51</sup> The debts of farmers were written off; however, collection effort by the National Bank of Tajikistan has had limited success.

creating agricultural system, based on ecologically sound use and management of natural resources, making agriculture one of the main pillars of the Tajik economy, including:

- To enable farmers equitable and long-term access to land, based on gender equality principles;
- To ensure that farms have regular access to adequate irrigation, based on the principle of equity;
- To allow farms and farmers to develop their own organizations, associations, and cooperatives, and to freely choose what they want to grow and where they want to market their goods, without interference from national or local authorities;
- To developing financing mechanisms that are sustainable, affordable, and fair, based on free market principles.



## Annex 9: Map of Central Asia

### CENTRAL ASIA: Climate Adaptation and Mitigation Program for Aral Sea Basin

