

Ex-Ante Evaluation

Central Asia and the Caucasus Division, East and Central Asia Department, Japan

International Cooperation Agency (JICA)

1. Basic Information

Country Name: The Republic of Uzbekistan (Uzbekistan)

Project Name: Horticulture Value Chain Promotion Project

L/A signing date: December 19, 2019

2. Background and Necessity of the Project

(1) Current State and Issues of the Agriculture (Horticulture) Sector in Uzbekistan and Purposes of this Project

Agriculture in Uzbekistan, especially cotton production, has been developed since the former Soviet Union era. At present, approximately 30% of the population engage in the agriculture sector, producing 28.8% of GDP (in 2018, the World Bank) and accounting for 20% of the nation's total exports. Cotton is the main product of this primary industry, occupying approximately 30% of the crop production area in the country (both the volumes of production and export ranked 8th in the world in 2017, statistics by Food and Agriculture Organization of the United Nations). As cotton-dependent agriculture is vulnerable to fluctuations in international market prices and the weather risk, the Government of Uzbekistan has been striving lately to diversify its agricultural products and expand its export capacity by shifting to horticulture products including vegetables (potatoes, tomatoes, etc.) and fruits (apples, grapes, etc.) and strengthening associated industries from production to processing and distributing (horticulture value chain). As a result, the volume of horticulture product production increased from 5.27 million tons in 2000 to 18.3 million tons in 2017 (the statistics mentioned above). The volume of exports including processed horticulture products to neighboring countries, such as Russia and Kazakhstan, is also increasing. In addition, as horticulture product production generates a wide variety of employments over a year along with its value chain (the required labor per unit area is three- to five-fold as large as that for cotton or wheat production, the World Bank), it contributes to local economies as a source of employment.

Meanwhile, the agriculture (horticulture) sector has been facing issues in (1) production, namely, a lack of agricultural equipment suitable for horticulture production, a delay in the development of greenhouses and drip irrigation facilities, and an absence of advanced production technologies including those for water saving and biological agrochemical utilization, (2) manufacturing and processing, namely, a lack of modern facilities and aging of existing facilities and a delay in the development of quality assurance system, and (3) distribution, that is, a lack of distribution facilities and aging of existing facilities. Delays in the development of associated facilities due to a shortage of funding, particularly, is the major bottleneck in strengthening the value chain. Commercial loans

usually are on high interest (the average interest on short-term loans in the local currency is 19 to 24%) and for short term (loans for 5 years or shorter) and thus mid- to long-term loans that fit the cashflow of enterprises comprising the horticulture production value chain are in short. Furthermore, a lack of knowledge about the agricultural business among bankers is making them hard to address risks inherent to the agriculture sector, such as price fluctuations along with the market condition and production risk, which in turn is making them difficult to judge whether to provide a loan or not to agricultural enterprises. Consequently, loans available to strengthen the horticulture production value chain are insufficient.

Although multiple donor organizations have been supporting the two-step loan scheme, which provides capital investments and working capitals to horticultural farms and associated enterprises through commercial banks, the brisk demand for funding (2,642.7 million dollars for 2019 to 2021, as of April 2019, the Government of Uzbekistan) is going beyond these efforts at present.

Under such situation, the Government of Uzbekistan listed not only "employment promotion" and "further diversification of agriculture" but also the "introduction of efficient agricultural machinery" and "acceleration of infrastructure development for storage, transport, and sales of agricultural products" in the Presidential decree announced in February 2017, the "Five-Area Development Strategy for 2017-2021." Accordingly, the "Horticulture Value Chain Promotion Project" (hereinafter referred to as "the Project") is positioned as a high priority project.

(2) Japan and JICA's Cooperation Policy for the Agriculture Sector and Priority of the Project

Japan's development cooperation policy for Uzbekistan (2012) is built on the concept of "implementation of supports to promote economic growth and alleviate disparities," and stipulates "support to reconstruct the social sector" as a priority. Under the policy, Japan is supporting the agricultural sector of Uzbekistan, the primary industry of its rural areas. JICA country analysis paper for Uzbekistan (December 2014) also pointed out "an improvement in income and enrichment of healthcare and education in rural areas" as a priority. The Project conforms to these policy and analysis. To the agriculture sector of Uzbekistan, JICA has implemented multiple projects including an ODA Loan "Amu-Bukhara Irrigation System Rehabilitation Project (L/A signed in 2015)," a JICA partnership program "Technology improvement of fruit growing project in Tashkent and Samarkand regions (March 2011 to March 2013)," and a JICA partnership program "Enhancement of Uzbekistan farmers' income through applying modern apple growing technology (March 2015 to March 2017)." The Project conforms to the development policy and direction of the Government of Uzbekistan and the cooperation policy and analysis of the Government of Japan and JICA, and will contribute to inclusive, sustainable economic growth and employment promotion in Uzbekistan as well as Goal 8 of SDGs (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all). Therefore, the necessity to support the implementation of the Project is high.

(3) Other donors' activities

The Asian Development Bank, the World Bank, and the International Fund for Agricultural Development had implemented two-step loan projects in all the 13 provinces (150 million dollars), nine provinces (22 million dollars), and Surxondaryo Province (154 million dollars), respectively, for farmers and agricultural enterprises engaging in the horticulture value chain-associated industry and completed the disbursement process. At present, the World Bank is providing an additional loan of 500 million dollars for all regions and the Asian Development Bank is implementing the Phase II project of 198 million dollars to address the rigorous demand for financial resources.

3. Project description

(1) Project objectives

The objective of the Project is to support the improvement of financial access and the strengthening of the horticultural value chain by/through supplying funds to horticulture crop growers and agro-related companies (end-users) through accredited participating financial institutions, and by providing technical assistance for improvements to the capacity of the participating financial institutions, end-users and others, thereby contributing to the development of the agriculture sector through a strengthening of the export capacity of horticulture crops together with the promotion of employment.

(2) Project site/Target area: Throughout the country

(3) Project components

1) Two-step Loans: Provision of mid- and long-term funds to horticulture crop growers and agro-related companies engaging in production or processing of horticulture products. End-users who satisfy the following conditions are eligible for sub-loans from participating financial institutions.

(i) Objects of sub-loan: Capital investment for facilities associated with the horticulture value chain and accompanying working capital (up to 20% of the total sub-loan)

(ii) Currency: US dollar or Uzbekistani so‘m

(iii) Maximum sub-loan amount: 3 million dollars or equivalent in Uzbekistani so‘m

(iv) Interest: the estimated interest on sub-loans to end-users is approximately 7% (US dollar) or 19% (Uzbekistani so‘m) at present

(v) Repayment period/Grace period: 10 years at maximum (including up to 5-year grace period)

2) Consulting service: To support participating financial institutions in building their capacities and to help end-users in managing their agricultural businesses, etc.

(4) Total project cost: 23,514 million yen (of which 23,023 million yen are covered by the yen Loan)

(5) Project period

From December 2019 to March 2025 (64 months in total). The Project completion is defined as the completion of the disbursement of the two-step loans (scheduled to be in March 2025).

(6) Project implementation structure

1) Borrower: The Government of the Republic of Uzbekistan

2) Guarantor: None

3) Executing agency: Agency for implementation of projects in the field of agroindustry and food security (Hereinafter referred to as "UZAIFFSA")

4) Operation and maintenance organization: As same as above

(7) Collaboration and role sharing with other projects/donors

1) Japan's assistance activities

In the scope of the grassroots technical cooperation "Apple growing technology improvement and its diffusion to farms" (From October 2019 to March 2022), instructions regarding apple growing technologies (selection, fruit-picking, etc.) are planned to be provided to stakeholders in Tashkent State Agrarian University and Samarkand Agricultural Institute and local farmers. Therefore, collaborations with this project will be considered as a part of the consulting service of the Project. In addition, human resource training for various businesses implemented under the "technical cooperation project for capacity development of business persons and networking through Uzbekistan–Japan Center for Human Resource Development" (December 2015 to November 2020) will be introduced and considered for the utilization of its outcomes to help strengthen end-users' business management skills through the consulting service of the Project.

2) Assistance activities by other donors

Under the Project, regular consultations with other donors implementing similar cooperation projects and field visits to advanced areas together with end-users and other stakeholders of two-step loan projects provided by these donors are planned with the aim of formulating countermeasures, such as an improvement in the sub-loan screening method, by referring to lessons learned through similar cooperation projects and improving the components of the Project.

(8) Environmental and social consideration/cross-cutting issue/gender category

1) Environmental and social consideration

(i) Category: FI

(ii) Reason for categorization: In accordance with the "JICA guidelines for environmental and social considerations" (issued in April 2010), sub-projects of the Project cannot be identified before loan approval by JICA, and sub-projects may have environmental impact.

(iii) Other/Monitoring: Under the Project, participating financial institutions/the executing agency will categorize each sub-project based on the legislation of Uzbekistan and the "JICA guidelines for environmental and social considerations" and take countermeasures for each sub-project category while receiving support from consultants employed with the Yen loan fund. No Category A project will be included in the sub-projects.

2) Cross-cutting issue: None

3) Gender category: [Gender Project] ■ Gender Informed (Significant) (Gender activity integrated project)

<Activity/Reason for categorization>

Existing female farm managers (accounting for 5 to 10 % of the total farm managers) are positioned as beneficiaries of the two-step loans provided under the Project from the viewpoint of gender mainstreaming. As part of the consulting services, learning and sharing of lessons learned towards gender mainstreaming will be promoted among participating financial institutions through technical assistance to them. In addition, support to female farm managers who are highly-motivated and can be a positive role model for other women will be provided not only to support them but also to change conventional awareness of male business managers. Therefore, the Project is categorized as a gender activity integrated project.

(9) Other important issues: None

4. Targeted Outcomes

(1) Quantitative effects

1) Outcomes (Operation and effect indicator)

| Indicators | Baseline (Actual results of 2019) | Target (2027) [2 years after project completion] |
|---|---|--|
| Number of sub-loans | 0 | 300 |
| Percentage growth of end-users' horticultural crop sales (%) | 0 | 10 |
| Percentage decrease of the End-users' post-harvest losses (%) | Check the actual performance of previous fiscal year upon sub-loan application | An increase from the baseline |
| Average non-performing loan ratio of Sub-loans of the Project at each PFI (%) | Check the non-performing loan ratio against all loans of previous fiscal year upon admission as a participating financial institution | Less than the target non-performing loan ratio against all loans |

(2) Qualitative effects

Improvements in each participating financial institution's capacities (credit screening capabilities, risk management capacities, etc.), productivity of horticulture products, and export capacity and increases in employment in sectors associated with the horticulture value chain, among others.

(3) Internal rate of return: Not calculated as sub-loan projects cannot be identified in advance.

5. Preconditions and External Factors

(1) Preconditions: None

(2) External factors: None

6. Lessons Learned from Past Projects and Their Application to the Project

The ex-post evaluation of the "Small- and Medium-sized Enterprise Development Project" in Malaysia (evaluated in Fiscal 1998) and other references have provided lessons that when multiple financial institutions are participating, it is important not to introduce uniform scales and conditions for sub-loans but to take flexible measures to satisfy end-users' demand for funding or in accordance with the scale of end-users considering that each participating financial institution has its business missions and characters. In addition, the ex-post evaluation of the "Poverty Alleviation Micro Finance Project" in Sri Lanka (evaluated in Fiscal 2008) and other references have highlighted the importance of the implementation of a series of capacity development efforts including awareness rising activities, training, and advising, in addition to funding, in realizing effects. The Project has been designed to be easy to utilize by participating financial institutions by leaving scales and conditions of sub-loans at their discretion. In addition, by implementing agricultural techniques training that will contribute to an improvement in agricultural productivity and crop diversification, the Project will encourage end-users to utilize the sub-loans effectively.

7. Evaluation Result

The Project conforms to the development issues and policy of the Government of Uzbekistan and the cooperation policy and analysis of the Government of Japan and JICA, and will contribute to inclusive, sustainable economic growth and employment promotion in Uzbekistan through promoting the development of horticulture value chain. Furthermore, it is considered to contribute towards Goal 8 of SDGs "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all." Therefore, the necessity to support the implementation of the Project is high.

8. Plan for Further Evaluation

(1) Indicators to be used in future evaluations

As in 4. (1) to (3).

(2) Timing of next evaluation

Ex-post evaluation: Two years after project completion

End