

Ex-Ante Evaluation
Central Asia and the Caucasus Division,
East and Central Asia and the Caucasus Department,
Japan International Cooperation Agency (JICA)

1. Name of the Project

- (1) Country Name: The Republic of Uzbekistan
- (2) Project Site/Target Region: Throughout the Republic of Uzbekistan
- (3) Project Name: Horticulture Value Chain Promotion Project (Phase 2)

L/A signing date: August 29, 2022

2. Background and Necessity of the Project

- (1) Current State of Issues of the Agriculture (Horticulture) Sector in Uzbekistan and the Priority of the Project in Uzbekistan

Agriculture is an important industry in the Republic of Uzbekistan, with agricultural sector workers accounting for about 27% of the total working population and about 27% of GDP (2021; Government Statistics). This sector has developed around the mono-production of cotton and wheat since the time of the former Soviet Union, but given that cotton agriculture is vulnerable to fluctuations in international market prices and weather risks, and because its cultivation requires a large amount of agricultural water, the government decided the conversion to horticultural crops such as vegetables and fruit trees by introduction of intensive orchard and greenhouse construction etc. Producing horticultural crops and promoting export contribute to doubling the incomes of farmers and to agricultural production growth (by at least 5% annually), according to the Presidential Decree “New Uzbekistan Development Strategy (2022-2026)” dated January, 2022. The “Agricultural Development Strategy 2019-2030” which was formulated in October 2019, also noted the need to strengthen the entire value chain for horticultural crops and improve agricultural finance to improve the environment for agribusiness. Through these activities along the strategies, horticultural crop production increased from 30.91 million tons in 2015 to 43.31 million tons in 2019 and exports have shown a stable upward trend (666 million dollars in 2017, 887 million dollars in 2018, 1,212 million dollars in 2019, and a similar trend after 2020; Government Statistics). While demand for horticultural crops is expected to grow domestically and globally (Russia etc.), labor productivity is still relatively low (4,045 dollars per person) compared to neighboring countries, and there is a significant need for investment such as greenhouse and refrigeration facilities. The promotion of

horticultural crops also creates a wide range of employment along the value chain year-round (for example, the labor force required per hectare is: for horticulture 0.8-2.1 people; for cotton 0.8 people; for wheat 0.2 people (2018; World Bank).), and contributes greatly as a source of employment in rural areas. Due to the spread of COVID-19, the unemployment rate rose from 9.0% in 2019 to 10.5% in 2020, while recovering to 9.6% in 2021 (Government Statistics) and 600,000-800,000 people enter the labor market every year. This fact makes the promotion of horticultural crops important from the perspective of securing employment for the poor in rural areas and providing stability for society and the economy.

The issues facing the horticulture sector are: (1) in the case of production, there is a shortage of agricultural machinery suitable for the production of horticultural crops, a lack of greenhouse and drip irrigation facility, and a shortage of water-saving technologies and biopesticide production technologies, etc.; (2) in the case of manufacturing and processing, there are many aging facilities and a lack of modern facilities etc., and underdeveloped quality assurance systems; and (3) in the case of distribution, there are also many aging facilities and a lack of distribution facilities etc. However, a lack of funds to modernize facilities is a major obstacle to strengthening the value chain as indicated by the fact that ordinary bank loans have a high interest rate with short-term loans (of 5 years or less). It means that there is a lack of medium to long-term funding that match the cash flows of industries related to the value chain for horticultural crops. Also, since the banks do not have sufficient knowledge or expertise regarding agriculture, it is difficult for them to handle risks unique to the agricultural sector, such as price fluctuation risks due to market situation and production risks, making it difficult to make financing decisions for agriculture-related businesses. Furthermore, the established lending condition of requiring real estate collateral equivalent to 125% to 130% of the amount of loans is also an obstacle to access to finance particularly for small- and medium-sized agriculture-related businesses. As a result the ratio of loans to agriculture remains low at 10.9% (May 2022; Central Bank Statistics).

To solve these issues, the Japanese ODA loan “Horticulture Value Chain Promotion Project (L/A signed in December 2019) (hereinafter “Phase 1”) provides a two-step loan through participating financial institutions, promoting medium to long-term loans to agricultural businesses. By July 2022, funds were quickly provided to about 550 agriculture-related businesses through nine participating financial institutions for this project, reflecting a strong demand for funds. The government greatly appreciated the rapid response to Phase 1, and in order to meet

the further demand for funds, it decided to extend the “Horticulture Value Chain Promotion Project (Phase 2)” with the cooperation of Japan to meet the need for medium to long-term loans (including for small- and medium-sized agriculture-related businesses).

(2) Japan’s and JICA’s Cooperation Policy and Operations in the Agriculture (Horticulture) Sector

Under Japan’s Country Assistance Policy for the Republic of Uzbekistan (2017), it is the basic policy to “implement supports to promote economic growth and the alleviation of disparities,” and cooperation is being provided to the agricultural sector, the main industry in rural areas, under the priority area of this policy of “support to reconstruct the social sector.” Also, under the JICA Country Analysis Paper for Uzbekistan (2014), the “improvement of income and enrichment of healthcare and education in rural areas” is a priority area for analysis, and this project meets these policies and areas of analysis. In addition, this project is also consistent with JICA’s issue-based project strategy (Global Agenda) of “Agricultural and Rural Development (Sustainable Food Systems)” and meets the major initiative of “Building an inclusive Food Value Chain (FVC).”

(3) Other Donor’s Activities

The Asian Development Bank, the World Bank, and the International Fund for Agricultural Development (for Surxondaryo Province only) has implemented a two-step loan project (352 million dollars, 650 million dollars and 22 million dollars, respectively) aimed at enhancing the horticultural crop value chain, and lending has almost been completed. The International Fund for Agricultural Development (for the Fergana Valley only) and World Bank have also launched Phase 2 (46 million dollars and 500 million dollars, respectively), aiming for the improvement of productivity of horticultural crops and quality seed production, to meet the strong demand for funds.

3. Project Description

(1) Project Description

1) Project Objectives

This project aims to improve financial access and strengthen the value chain for horticultural products, contributing to the development of the agricultural sector with enhanced export capacity, increased incomes and the promotion of employment through the provision of two-step loans, via participating financial

institutions, to farmers and agriculture-related companies engaged in the production, processing and distribution of horticultural crops, by improving the capacity of participating financial institutions and by supporting the farm management of end users.

2) Project Components

I) Two-step Loans: Supplying mid- and long-term funding to farmers and agriculture-related companies engaged in the production, processing and distribution of horticultural crops. The conditions for financing for end users from participating financial institutions are as follows.

(i) Object of sub-loan: Capital investment into the value chain for horticultural crops and working capital associated with such investments (up to 20%)

(ii) Currency: Uzbekistan so‘m

(iii) Maximum sub-loan amount: Equivalent of 3 million dollars in Uzbekistan so‘m. 10-30% of the total loan amount will be allocated to for small-scale farmers with less than 1 ha of land to increase access to finance.

(iv) Interest: The refinancing rate of the Uzbekistan Central Bank plus about 3% (As of July 2022, the loan interest rate for end users is expected to be about 18%)

(v) Repayment/Grace period: Up to 15 years (with a grace period of up to 5 years)

II) Consulting services: Capacity-building support for participating financial institutions (including the enhancement of funding for small- and medium-sized enterprises), project monitoring support, end user farming support (fruit, vegetables and quality), formulation of agricultural promotion strategies, support for environmental and social considerations.

3) Project Beneficiaries (Target group)

Horticultural crop producers and horticulture and agriculture-related companies

(2) Estimated Project Cost

210.29 million dollars (Japanese ODA loan: 200 million U.S. dollars)

(3) Schedule

Planned for August 2022 – July 2028 (total of 72 months). The project will be completed when the two-step loans are exhausted (scheduled for July 2028).

(4) Project Implementation Structure

1) Borrower: The Government of the Republic of Uzbekistan

- 2) Guarantor: None
 - 3) Executing Agency: International Center for Food and Agriculture Strategic Development and Research under the Ministry of Agriculture: I-SCAD
 - 4) Operation and Maintenance System: As above
- (5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity

Phase 1 of this project is being implemented. In addition, Technical Cooperation such as the Knowledge Co-creation Program "Irrigation Water Management for Central Asia and Caucasus Countries" and the SATREPS "The Project for Development of Innovative Climate Resilient Technologies for Monitoring and Controlling of Water Use Efficiency and Impact of Salinization on Crop Productivity and Livelihood in Aral Sea Region" (2022-2027), and ODA Loan support for the "Amu-Bukhara Irrigation System Rehabilitation Project" (L/A signed in 2015), Grassroots Technical Cooperation "Technology Improvement of Fruit Growing Project in Tashkent and Samarkand Regions" (2011-2013) and Grassroots Technical Cooperation "Enhancement of Uzbekistan Farmers' Income through Applying Modern Apple Growing Technology" (2015-2017) etc.

2) Other Donors' Activity

Based on the lessons learned through similar cooperation described in 2. (3) (improved access to funds for small- and medium-sized farmers, etc.), this project will review the approach periodically and aims to link the lessons to policy recommendations for the future development of the horticultural sector in Uzbekistan.

(6) Environmental and Social Considerations

1) Environmental and social considerations

- ① Category: FI
- ② Reason for Categorization: Under the "JICA Guidelines for Environmental and Social Consideration" (published in April 2010), sub-projects cannot be identified prior to JICA loan approval, and it is assumed that such sub-projects will have an impact on the environment.
- ③ Other/Monitoring: Under this project, participating financial institutions and the executing agency will receive support from consultants employed under the ODA loan, and will categorize each sub-project and take necessary measures for the relevant categories, based on the domestic legal system and the "JICA Guidelines for Environmental and Social Consideration." The executing agency has already agreed that Category A projects will not be

included within the sub-projects.

- (7) Cross-Sectoral Issue: None
- (8) Gender Category: ■ Gender Informed (Significant) (Gender activity integrated project)
 <Activity/Reason for categorization> The two-step loans in this project target existing female farmers (5-10% of all farmers) for gender mainstreaming, and aims to share lessons and learnings on gender mainstreaming with each participating financial institution through consulting services and technical support particularly for participating financial institutions, and to support highly motivated female business owners who can serve as models for other women and change the awareness of male business owners.
- (9) Other Important Issues: None

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicators	Baseline (Actual value in 2022)	Target (2030) [2 years after project completion]
Number of sub-loans (cases)	0	More than 250
Number of which for small-scale farmers (cases)	0	More than 200
Average non-performing loan ratio of sub-loans (%)	Check the non-performing loan ratio against all loans of previous fiscal year at the time of selection of participating financial institutions	Not higher than PFI's all loans' non-performing loan ratio at the time of PFIs selection and the target year
End-user horticultural crop production and handling volume (tons/year)	Check the previous year's results when applying for a sub-loan	Increase from the baseline
Percentage growth of sales of end-user horticultural crops (%)	Check the actual performance of previous fiscal year upon sub-loan application	10%
Distribution volume of horticultural crops for export (tons/year)	Check the actual performance of previous fiscal year upon sub-loan	7.1% or more of all sub-loan production and handling volumes

	application	
Percentage decrease in end-user post-harvest losses (%)	Check the actual performance of previous fiscal year upon sub-loan application	Increase from the baseline
Promotion of employment in end-users (people)	Check the actual performance of previous fiscal year upon sub-loan application	Increase from the baseline

(2) Qualitative Effects: Building the capabilities of participating financial institutions (screening and risk management capabilities etc.), improving the incomes of end users, improving the productivity of horticultural crops, enhancing export capacity and promoting gender equality (improving the recognition of female managers in the industry and changing the awareness of men, etc.) etc.

(3) Internal Rate of Return

Not calculated as sub-loan projects cannot be identified in advance.

5. External Factors and Risk Control

(1) Preconditions: None

(2) External Factors: No deterioration in macroeconomic conditions.

6. Lessons Learned from Past Projects

From the ex-post evaluation of the Malaysia “Small- and Medium-sized Enterprise Development Project (evaluated in 1998), it was learned that it is effective for sub-loan sizes and conditions to not be uniform, and to be flexible depending on the financial needs and scale of end users targeted by each institution when multiple financial institutions are participating together, since each participating financial institution has its own business objectives and characteristics. Also, from the ex-post evaluation of the Sri Lanka “Poverty Alleviation Micro Finance Project” (evaluated in 2008) it was learned that it is important and effective to not only provide financing but also to build capabilities through various awareness activities, training and advice etc. In this project, the size of sub-loans and the setting of financing conditions are left to the judgement of participating financial institutions, making it easier for them to participate, and this project also will conduct agricultural technology training to improve agricultural productivity and diversification of crops, in order for end users to make the most effective use of sub-loans.

7. Evaluation Results

This 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 by promoting the development of the horticulture value chain. Furthermore, it is considered to contribute towards Goal 8 of the 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 this Project is high.

8. Plan for Future Evaluation

(1) Indicators to be Used

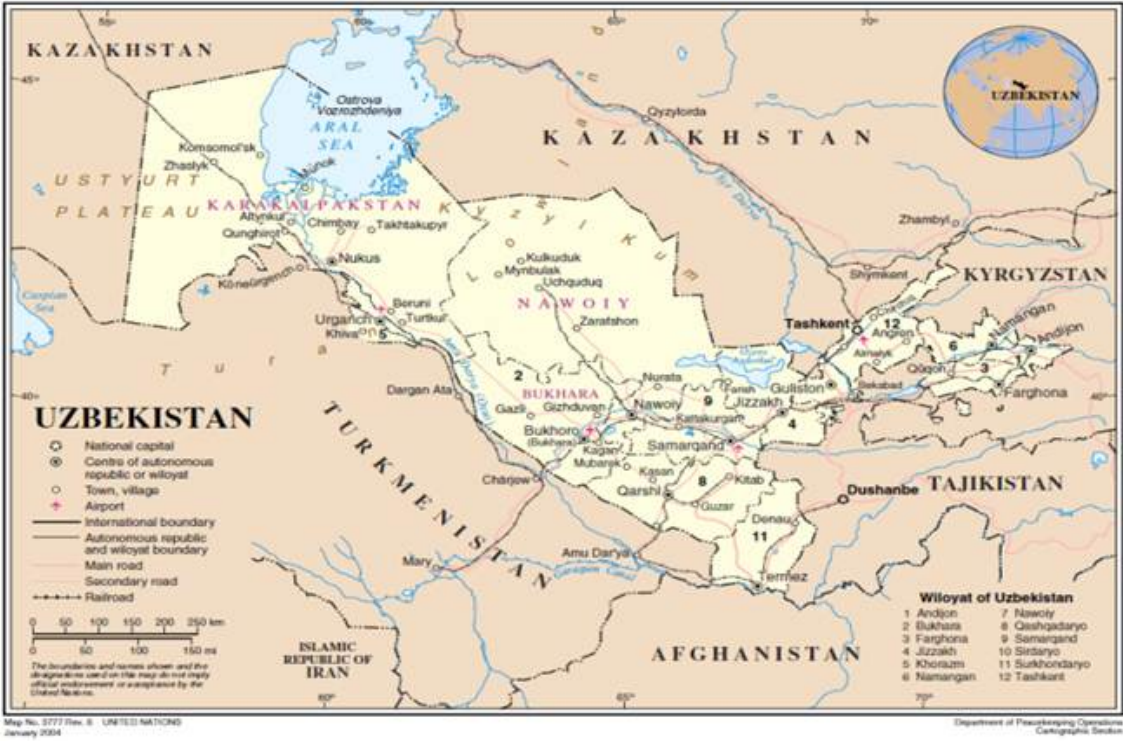
As indicated in Section 4.

(2) Future Evaluation Schedule

Ex-post evaluation: Two years after the project completion

End

Attachment: Horticulture Value Chain Promotion Project (Phase 2) Map



Source: United Nations, Cartographic Section, Department of Field Support