



# Uzbekistan: Horticulture Value Chain Development Project

Project Name	Horticulture Value Chain Development Project								
Project Number	47305-002								
Country / Economy	Uzbekistan								
Project Status	Closed								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table border="1"><tr><td colspan="2">Loan 3471-UZB: Horticulture Value Chain Development Project (Formerly: Innovations for Agriculture Modernization Project)</td></tr><tr><td>Asian Development Fund</td><td>US\$ 154.00 million</td></tr><tr><td colspan="2">Loan 3673-UZB: Horticulture Value Chain Development Project (Additional Financing)</td></tr><tr><td>Concessional ordinary capital resources lending</td><td>US\$ 198.00 million</td></tr></table>	Loan 3471-UZB: Horticulture Value Chain Development Project (Formerly: Innovations for Agriculture Modernization Project)		Asian Development Fund	US\$ 154.00 million	Loan 3673-UZB: Horticulture Value Chain Development Project (Additional Financing)		Concessional ordinary capital resources lending	US\$ 198.00 million
Loan 3471-UZB: Horticulture Value Chain Development Project (Formerly: Innovations for Agriculture Modernization Project)									
Asian Development Fund	US\$ 154.00 million								
Loan 3673-UZB: Horticulture Value Chain Development Project (Additional Financing)									
Concessional ordinary capital resources lending	US\$ 198.00 million								
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth								
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development Knowledge solutions Partnerships Private sector development								
Sector / Subsector	Agriculture, natural resources and rural development / Agricultural policy, institutional and capacity development - Agro-industry, marketing, and trade - Land-based natural resources management Finance / Small and medium enterprise finance and leasing								
Gender	Effective gender mainstreaming								
Description	<p>The project will provide a loan to the Republic of Uzbekistan to channel through qualified participating financial institutions (PFI's) who will on-lend to horticulture-related farmers and businesses for fixed asset investments such as intensive orchards, cold storages, processing and packaging equipment. The project will address the critical constraint lack of long term resources in the Uzbekistan banking system. Since horticulture sector has high value produces, the project will contribute significantly to creating sustainable enterprises, increasing employment, and improving household income. Key lessons learnt from previous and ongoing projects financed by ADB and development partners are taken into account in the project design: (i) there needs be a dedicated project management office, other than the Ministry of Finance, to monitor the PFIs' lending activities and safeguards compliance; and (ii) terms and conditions of PFIs' subloans must be business- and demand-based without any government interventions.</p>								
Project Rationale and Linkage to Country/Regional Strategy	<p>Agricultural gross domestic product (GDP) grew at an annual average rate of 9.8% over the period 2010-2013. In spite of its decline during the past 10 years as a reflection of the strong growth in other sectors, agriculture still plays an important role in employment creation and as major source of cash income and wellbeing. During the period 2005-2015, the horticulture sector has witnessed dramatic change and increased importance to the economy. Production areas have increased significantly (vegetable by 41%, melons (and watermelons) by 53%; fruits and berries by 28%). The government aims to enhance the horticulture value chain to increase export of horticulture produces from 0.6 million tons in 2015 to 2.2 million by 2020. It is estimated that this effort will require a budget of approximately \$500 million to finance farmers and enterprises to improve and/or set up intensive orchards, cold storages, processing and packaging equipment.</p> <p>As part of the export promotion strategy, a farm size optimization program targeting horticulture sector announced in December 2015 has resulted in more registered farmers an increase of 57,969 farmers in the horticulture sector alone. Under this program, numbers of registered horticulture and grape producers increased by 196% while for farmers registered as producing fruits and vegetables, the change in numbers was increased by 86%. This program addresses inequities in rural employment and to bring more unemployed people into the workforce as registered farmers.</p> <p>However, small farm sizes bear risks of inability to attract credit because of issues with levels of fluctuating profitability, available cash flow, lack of suitable levels of security and collateral to access finance as well as inefficiencies of scale. Although bank credit outside the capital city represents about 65% of total credit, universal access to finance for private individuals and small businesses in rural areas is constrained by weak rural branch networks and limited mobile banking services. Also, most available bank loans carry a short tenor of up to one year, which do not match farm cash flows generated by the typical multiyear agricultural product cycles. Farmers and small businesses have limited business sophistication and skills, which impede their growth, with surveys indicating that they lack access to information on market opportunities, suppliers, competitors, technology, and banking products. Low financial literacy of small businesses and low-income households, many of which are led by women, limit their access to financial services and their ability to invest and grow.</p> <p>Significant cost of funding, perceived risks, and administrative costs associated with lending require banks to charge interest rates that range from 11% to 25% for local currency and 6% to 15% for foreign currency loans. Especially individuals and small businesses borrow at higher rates. Traditional bank credit processes restrict the use of cash flow-based lending and emphasize recourse to collateral. Insufficient collateral limits the size of loans, thus restricting small businesses from borrowing.</p> <p>The financial system is dominated by banks, which control 94% of finance sector assets. Eight state-owned banks control 75% of banking assets and provide the bulk of credit to state-owned entities. During 2011-2015, bank credit to small businesses substantially increased from 4.5% to 7.1% of GDP, reflecting a compound annual growth rate (CAGR) of 34.1%. However, lending to small businesses still represents less than one-third of overall bank credit, which is insufficient given their economic significance. Eighty percent of small businesses are still being funded by family and friends and informal resources. Access to finance remains a key constraint for private business growth.</p>								
Impact	Contribution of horticulture sector to inclusive economic growth and rural employment improved (Presidential Decree UP-4707)								
<b>Project Outcome</b>									
Description of Outcome	Production and marketing of horticultural products increased								
Progress Toward Outcome	Good progress. All targets are expected to be achieved by 2022.								
<b>Implementation Progress</b>									

Description of Project Outputs	Finance to the horticulture sector increased
Status of Implementation Progress (Outputs, Activities, and Issues)	<p>Loan 3471-UZB (original loan). The cumulative: (a) disbursement is \$152.9 million, accounting for 99% of total loan proceeds; and (b) commitment (liquidation) is \$152.4. Funds released to PFIs for sub loan financing is \$151.4 million, of which \$151.2 million has been disbursed by PFIs to sub borrowers. The remaining \$0.2 million has also been committed to eligible subprojects. The average size of the sub-loan is \$0.9 million. The project has supported 166 horticulture subprojects through sub loans. Of the subprojects financed to-date, 74 with a sub loan value of \$88.1 million have been for production, and 92 with a sub loan value of \$63.3 million have been for post-harvest storage and processing. The project has helped to establish 3,509 hectares (ha) of intensive orchards and 136.6 ha of water- and energy-saving greenhouses and increased refrigerated storage capacity by 69,400 tons, post-harvest processing capacity by 122,291 tons, packaging material manufacture of 13.5 million m<sup>2</sup>, and procurement of 179 units of agricultural machinery. Given the nature of subprojects financed, in both production and post-harvest activities, the project will have a positive effect on the production and marketing of horticultural produce. During the implementation of these subprojects, 3,558 new jobs have been created, of which 2,272 are for men and 1,286 for women (36%).</p> <p>Loan 3673-UZB (additional financing). The cumulative: (a) disbursement is \$187.8 million (95%); and (b) commitment (liquidation) is \$138.5 (70%). Funds released to PFIs for sub loan financing is \$187.8 million, of which \$186.3 million has been disbursed by PFIs to sub borrowers. The project has supported 177 horticulture subprojects through sub loans. Of the subprojects financed to-date, 131 with a sub loan value of \$141.9 million have been for greenhouses, 18 with a sub loan value of \$22.2 million have been for processing, 18 with a sub loan value of \$17.3 million have been for cold storage, 2 with a sub loan value of \$2.7 million have been for packaging, 7 with a sub loan value of \$1.5 million have been for intensive orchards and 1 with a sub loan value of \$0.5 million have been for agricultural machinery. The project has provided financing to establish 399.1 hectares (ha) of water- and energy-saving greenhouses, increased refrigerated storage capacity by 35,100 tons, post-harvest processing capacity by 97,437 tons, packaging material manufacture of 7.5 million m<sup>2</sup>. During the implementation of these subprojects, 3,978 new jobs have been created, of which 2,502 are for men and 1,464 for women (36.8%).</p>
Geographical Location	Nation-wide

Safeguard Categories	
Environment	FI
Involuntary Resettlement	FI-C
Indigenous Peoples	FI-C

Summary of Environmental and Social Aspects	
Environmental Aspects	The existing ESMS policy and procedures ensures project screening, categorization before subproject approval and monitoring/reporting for all environment category B subprojects. The screening procedures established under ESMS ensures that following subprojects are excluded from ADB financing (i) all subprojects included in the project Prohibited Investment Activities List (PIAL); (ii) all subprojects falling under category A or Classes 1 and 2 (UZB categorization by Decree No. 152/5); (iii) all subprojects with activities or significant risks as identified in the Environmental Exclusion Checklist and (iv) all subprojects with involuntary resettlement. The EA monitoring department conducts monitoring at the project sites once every six months. In line with the ESMS monitoring requirements the credit officer/ESMS coordinator conducts quarterly monitoring of environmental issues and risks as part of a general monitoring process.
Involuntary Resettlement	There were no land acquisition and involuntary resettlement identified.
Indigenous Peoples	There were no indigenous peoples impact identified.

Stakeholder Communication, Participation, and Consultation	
During Project Design	Consultations and meetings were held with all stakeholders and parties involved in the project.
During Project Implementation	Consultations with all related stakeholders are conducted on regular basis to address any issues related to project implementation.

Business Opportunities	
Consulting Services	Three (3) consulting services packages worth \$600,000 for the following: (i) technical advisory services for PFIs; (ii) capacity development for project beneficiaries, including gender development; and (iii) Uzagroexport capacity development. One (1) package for project financial audit worth \$150,000
Procurement	Shopping (goods) in five (5) contracts worth \$91,000 for the following: (i) motor vehicles for PMO's project monitoring; (ii) computers and printers for PMO; (iii) air-conditioners; (iv) office furniture; (v) accounting software

Responsible ADB Officer	Eshmatov, Sirojiddin K.
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Uzbekistan Resident Mission (URM)
Executing Agencies	<u>International Strategic Center for Agro-food Development (ISCAD) under Ministry of Agriculture</u>

Timetable	
Concept Clearance	26 Sep 2016
Fact Finding	19 Aug 2016 to 30 Aug 2016
MRM	07 Oct 2016
Approval	25 Nov 2016
Last Review Mission	-
Last PDS Update	30 Apr 2021

## Loan 3471-UZB

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
25 Nov 2016	03 Mar 2017	28 Apr 2017	30 Jun 2022	-	10 Oct 2022

Financing Plan	Loan Utilization
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	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	194.00	Cumulative Contract Awards			
ADB	154.00	16 Nov 2023	0.00	0.00	0%
Counterpart	40.00	Cumulative Disbursements			
Cofinancing	0.00	16 Nov 2023	0.00	0.00	0%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	Satisfactory	-	Unsatisfactory	-	Unsatisfactory

## Loan 3673-UZB

Milestones						
Approval	Signing Date	Effectivity Date	Closing			
			Original	Revised	Actual	
14 Jun 2018	05 Nov 2018	03 Dec 2018	30 Jun 2022	-	10 Oct 2022	

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage	
Project Cost	219.00	Cumulative Contract Awards				
ADB	198.00	16 Nov 2023	197.98	0.00	100%	
Counterpart	21.00	Cumulative Disbursements				
Cofinancing	0.00	16 Nov 2023	197.98	0.00	100%	

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	Satisfactory	-	Unsatisfactory	-	Unsatisfactory

Project Page <https://www.adb.org/projects/47305-002/main>

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