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IDA/R2017-0348/1

November 28, 2017

**Closing Date: Friday, December 15, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Tajikistan - Agriculture Commercialization Project

Additional Financing

Project Paper

Attached is the Project Paper regarding a proposed restructuring, an additional credit and a grant to Tajikistan for an Agriculture Commercialization Project (IDA/R2017-0348), which is being processed on an absence-of-objection basis.

Distribution:

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Report No: PAD1901

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF US\$7.5 MILLION

AND PROPOSED GRANT

IN THE AMOUNT OF SDR 5.4 MILLION
(US\$7.5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TAJIKISTAN

AND RESTRUCTURING OF THE

AGRICULTURE COMMERCIALIZATION PROJECT

November 22, 2017

Agriculture Global Practice
EUROPE AND CENTRAL ASIA

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CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2017)

Currency Unit = Tajikistan Somoni
TJS 8.7986 = US\$1.00
US\$1.405 = SDR 1.00

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACP	Agriculture Commercialization Project
ADB	Asian Development Bank
AED PMU	Agricultural Entrepreneurship Development Project Management Unit
AF	Additional Financing
BDS	Business Development Services
CPS	Country Partnership Strategy
EC	Evaluation Committee
ECA	Europe and Central Asia
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plans
FA	Financing Agreement
FIL	Financial Intermediary Lending
FIRR	Financial Internal Rates of Return
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
LLI	Leadership, Learning and Innovation
M&E	Monitoring and Evaluation
MFI	Micro-finance Institution
MGP	Matching Grant Program
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MSME	Micro-, Small- And Medium-Sized Enterprise
NBT	National Bank of Tajikistan
NGO	Non-Governmental Organization
NPV	Net Present Value
PDO	Project Development Objective
PFI	Participating Financial Institution

PIU	Project Implementation Unit
POM	Project Operational Manual
PWD	Persons With Disabilities
RISP	Rural Investment and Services Program
SA	Social Assessment
SLA	Subsidiary Loan Agreement
TA	Technical Assistance
USAID	United States Agency for International Development
USD	United States Dollars

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**REPUBLIC OF TAJIKISTAN
AGRICULTURE COMMERCIALIZATION PROJECT**

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ADDITIONAL FINANCING DATA SHEET

Tajikistan

Agriculture Commercialization Project Additional Financing (P158499)

EUROPE AND CENTRAL ASIA

Basic Information – Parent									
Parent Project ID:	P132652	Original EA Category:	B - Partial Assessment						
Current Closing Date:	30-Jun-2021								
Basic Information – Additional Financing (AF)									
Project ID:	P158499	Additional Financing Type (from AUS):	Restructuring						
Regional Vice President:	Cyril E Muller	Proposed EA Category:	B – Partial Assessment						
Country Director:	Lilia Burunciuc	Expected Effectiveness Date:	30-Mar-2018						
Senior Global Practice Director:	Juergen Voegelé	Expected Closing Date:	30-Jun-2022						
Practice Manager/Manager:	Julian A. Lampietti	Report No:	PAD1901						
Team Leader(s):	Sandra Broka, Bobojon Yatimov								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
REPUBLIC OF TAJIKISTAN	Abdusalom Qurboniyon	Minister of Finance	(992 37) 2211417	investdiv@mail.ru					
Project Financing Data - Parent (TAJIKISTAN AGRICULTURE COMMERCIALIZATION PROJECT-P132652) (in USD Million)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P132652	IDA-H9640	Effective	10-Jun-2014	30-Jul-2014	27-Feb-2015	30-Jun-2021	30-Jun-2021		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P132652	IDA-H9640	Effective	XDR	14.30	14.30	0.00	5.23	9.01	36.56

Project Financing Data - Additional Financing ACP Additional Financing (P158499) (in USD Million)				
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input checked="" type="checkbox"/> IDA Grant
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/> Other
Total Project Cost:		15.00	Total Bank Financing: 15.00	
Financing Gap:		0.00		
Financing Source – Additional Financing (AF)				Amount
BORROWER/RECIPIENT				0.00
International Development Association (IDA)				15.00
Total				15.00
Policy Waivers				
Does the project depart from the CAS in content or in other significant respects?				No
Explanation				
Does the project require any policy waiver(s)?				No
Explanation				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
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Bobojon Yatimov	Team Leader	Senior Agriculture Specialist	Senior Agriculture Specialist	GFA03
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Name		Title		Location	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Tajikistan	Viloyati Sughd	Viloyati Sughd	X		
Tajikistan	Khatlon	Viloyati Khatlon	X		
Tajikistan	Region of Republican Subordination	Region of Republican Subordination	X		
Institutional Data					
Parent (TAJIKISTAN AGRICULTURE COMMERCIALIZATION PROJECT-P132652)					
Practice Area (Lead)					

Agriculture
Contributing Practice Areas
Additional Financing ACP Additional Financing (P158499)
Practice Area (Lead)
Agriculture
Contributing Practice Areas
Finance & Markets, Social Protection & Labor, Trade & Competitiveness
Consultants (Will be disclosed in the Monthly Operational Summary)
Consultants Required ?

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors for provision of additional credit in the amount of US\$7.5 million equivalent and additional grant in an amount of SDR5.4 million (US\$7.5 million equivalent) to the Republic of Tajikistan, and restructuring of the Agriculture Commercialization Project (ACP; P132652), Grant Number H964-TJ.
2. The additional financing would help finance the costs associated with new activities proposed to be included in the project in response to needs identified as urgent and complementary, during the implementation of ACP. The proposed Additional Financing (AF) will finance activities critical to consolidate and expand project impacts, and assist the Government of Tajikistan to achieve broader impacts on jobs and micro-, small- and medium-sized enterprise (MSME) development.
3. The AF will finance new additional project activities in view of the expanded scope of the project. The project restructuring will, therefore, include: (i) a reformulation of the Project Development Objective (PDO); (ii) revisions to the project components, activities, and costs; and (iii) modification to the Results Framework. The restructuring will also include revisions to the Financing Agreement of the original ACP to reflect the changes to the PDO and the revised title of the Component 2. To implement the expanded project, the Borrower has requested an AF to cover investment needs in the amount of US\$15 million.

II. Background and Rationale for Additional Financing

A. Country Context

4. Tajikistan's economy grew at a robust average of 7.9 percent per year during 2000-2014 before slowing down to still robust 6.0 percent in 2015 and 6.9 percent in 2016. Until 2009, growth was supported by rising export revenues and strong remittance inflows as both the global and regional economies expanded rapidly. However, exports of aluminum and cotton (key export commodities) declined sharply in the wake of the global financial crisis and Tajikistan's economy became increasingly dependent on remittances, which peaked at over 50 percent of the GDP in 2013. High growth rates produced lower poverty rates, falling from over 80 percent to about 32 percent of the total population. With a gross national income per capita of US\$1,240¹ it remains one of the low-income countries in the Europe and Central Asia Region.
5. The stark decrease in remittances and return of large numbers of migrants, combined with limited domestic employment creation and the continued rising of prices have been limiting the growth of household consumption and could jeopardize the sustainability of gains in poverty reduction. Remittances represent a very high share of the country's GDP, amounting to 29 percent of the GDP in 2015.² The 2015-2016 slowdown of the economy in Russia (Russia is source of about 80 percent of remittance inflows in Tajikistan), coupled with tighter regulations on labor migrants, has resulted in a dramatic fall in remittances. According to the estimates of the Government of Tajikistan and the National Bank of Tajikistan (NBT), the value of remittance

¹ World Bank, Atlas Method (current US\$), 2015.

² World Bank.

inflows fell by about 60 percent between 2014 and 2016. Coupled with a weakened global demand and a significant drop of prices for the country's keys export commodities, forecasts reflect significant downside risks.

B. Sector Context

6. Rapid economic growth in the last decade has not translated into robust job creation in the country. Years of strong economic and income growth did not produce significant improvements in the availability and quality of jobs, incentivizing emigration. Due in part to limited employment opportunities in the domestic labor market, about one million Tajikistani citizens (including one-third of men aged 20-39) have left the country in search of better jobs. Over the past few years, however, the worsening economic situation in Russia, and the imposition of more stringent migration policies by the Russian authorities have encouraged the return of Tajikistani migrants, intensifying pressure on the domestic labor market.

7. The significant decline in remittances, the second most important source of household income, has impacted the growth of household consumption – the drop in purchasing power was over 10 percent in 2015.³ Coupled with the lack of well-targeted social programs, households are vulnerable to economic shocks and forced to cut non-priority expenditures (such as education and health). The increasing return of unemployed young men to an economy that offers limited availability of jobs has been creating further social and economic pressures.

8. Primary agriculture remains the main provider of employment, with about 50 percent of all jobs (accounting for 75 percent of women's employment compared to 41 percent of men's)⁴ with many of the jobs seasonal, informal, or supporting subsistence farming. However, primary agriculture cannot continue providing half of the employment in the country going forward. Improving agricultural productivity is key to improving livelihoods, however, it would also result in less labor in primary production. The shift of jobs from primary agriculture to other sectors has lagged behind other countries in the region.

9. Although development of supply chains will create new opportunities, it may not fully compensate for the jobs lost in primary agriculture, given the high percentage of population engaged in the sector. Therefore, improved employment opportunities in Tajikistan's domestic markets will sustain progress on poverty reduction and shared prosperity. This includes generation of new jobs and opportunities in rural non-farm sectors (services and manufacturing). The importance of development of non-farm rural economy has also been underscored in a recent Independent Evaluation Group (IEG) report which highlights that rural non-farm sector can, and often does, contribute to economic growth, rural employment, poverty reduction, and a more spatially balanced population distribution. There is also increasing evidence that rural diversification and secondary town development leads to faster poverty reduction and more inclusive growth patterns.⁵

³ World Bank Group. 2015. Tajikistan Economic Update, Fall 2015: A Moderate Slowdown in Economic Growth Coupled with a Sharp Decline in Household Purchasing Power. Tajikistan economic update No. 2: World Bank, Washington, DC.

⁴ CPS

⁵ Approach paper: Growing the Rural Non-Farm Economy to Alleviate Poverty, IEG, 2015.

10. Empirical studies have shown that MSMEs employ about 50 percent of workers in developing countries.⁶ There is significant entrepreneurial potential in Tajikistan which is not being fully utilized. Survey data suggests that the slow business creation is not a result of the lack of desire among Tajiks to become entrepreneurs: almost 40 percent of the labor force has a preference for self-employment.⁷ However, only about 55 percent of those who attempt to start a business succeed, compared to almost 64 percent in Europe and Central Asia (ECA) region as a whole, pointing to significant barriers to entrepreneurs in Tajikistan.

11. Access to finance is important to support MSME development and job creation,⁸ yet MSMEs face more constraints than large firms do. In the latest Doing Business Report (2016), Tajikistan ranked 109th out of 189 countries in terms of access to credit. Moreover, access to finance remains unequal: only 15.1 percent of small firms (5-19 employees) and 11.2 percent of medium size firms (20-99 employees) have a bank loan/line of credit, compared to 28.5 percent of large firms (more than 100 employees). Access to credit is more limited in rural areas.⁹ A recent study also shows that in addition to access to capital, access to information is important for decision making (market access and prices, innovation in business and production) and training opportunities. As discussions with the market participants have shown, business start-ups, women-led, youth, and Persons With Disability (PWD)¹⁰ owned enterprises find it particularly difficult to access financing and support services.

12. Business support to entrepreneurs and MSMEs is needed to improve the impact of access to credit for more sustainable business and employment creation. The capacity building of MSMEs is also important in improving their formal financial access and includes providing technical and business support services such as training, business development services, assistance in formalizing financial statements, and loan application preparation. Evidence shows that firms with better business practices tend to perform better (they have higher sales, profits, and productivity).¹¹

13. Tajikistan's financial sector is relatively small, comprised of 17 commercial banks which cover around 80 percent of financial sector assets (and 82 percent of outstanding loans) and around 120 non-bank financial institutions, principally Micro-Finance Institutions (MFIs) that hold the remaining 20 percent of financial sector assets (and 18 percent of outstanding loans). Some of the MFIs are among the best in Central Asia. Tajikistan's financial sector is currently experiencing difficulties such as long-term liquidity shortages and worsening quality of the loan portfolio (due to loan repayments falling past due as a result of inability of local entrepreneurs to repay their dollar-denominated loans which have become more expensive following the devaluation of the

⁶ Ayyagari, Demirgüç-Kunt, and Maksimovic 2014.

⁷ Strokova and Ajwad, Tajikistan Jobs Diagnostic and Strategy.

⁸ A recent cross-country study of 50,000 firms across 70 developing countries found that increased access to finance results in higher employment growth, especially among MSMEs. Ayyagari et al., 2016.

⁹ A survey conducted by the Institute of Public Policy and Administration (IPPA) at the University of Central Asia found that while 45 percent of respondents in urban areas reported using credit, only about a quarter of rural respondents reported having credit obligations (See Tilekeyev, Kanat (2014) Micro-, Small and Medium Enterprises in Tajikistan: Drivers of and Barriers to Growth. University of Central Asia).

¹⁰ Certain regions of the country are characterized by pockets of high percentage of population with disabilities, predominantly as a result of inter-family marriages and/or poor early childhood nutrition.

¹¹ Bloom, Van Reenen & coauthors; McKenzie and Woodruff.

local currency against the US dollar). The top six commercial banks (which represent about 80 percent of the banking sector assets) are most affected. It should be noted that none of the top six commercial banks participate in the implementation of the ACP credit line. However, difficulties, such as operational losses and worsening portfolio quality, have affected also some of the participating financial institutions of the ACP, and only four Participating Financial Institutions (PFIs) are active under the project at this time (Eskhata Bank, Micro-deposit Organization (MDO) Arvand, MDO Humo, and MDO Imon International). Further strengthening of the micro-finance sector is, therefore, one of the priorities of the government.

C. The Agriculture Commercialization Project – Original IDA Grant

14. The ACP was approved on June 10, 2015, in the amount of an US\$22 million International Development Association (IDA) grant. The project development objective is to increase the commercialization of farm and agribusiness products, by improving the performance of selected value-chains and productive partnerships through increased access to finance and strengthened capacity of project beneficiaries. Direct beneficiaries include: (i) commercially-oriented producer associations and farmers, agro-processors, agri-business enterprises and agro-input dealers engaged in the value-chains and productive linkages supported by the project; (ii) participating financial institutions; and, (iii) public and academic institutions. The current project closing date is June 30, 2021.

15. The project aims to increase the commercialization of agricultural products using a coherent and complementary approach by: increasing the capacity of farmers, traders, agri-businesses and agro-processors to engage in agricultural markets through access to knowledge and technical assistance; improving access to finance; and strengthening critical elements of the institutional framework and the sector's academic knowledge base required to support commercial activity. Particular emphasis has been given to strengthening the ability of the new generation of small-scale, private farmers to engage in market activity.

16. The project has the following components:

(i) Component I: Improvement of Technical Knowledge and Skills in Support of Commercialization (US\$6.70 million, all IDA). This component aims to improve the technical knowledge and skills of participants in key agricultural value chains and productive partnerships. Support will be provided in the form of group-based interventions (training) and individual technical assistance (advisory services).

(ii) Component II: Access to Finance for Agribusiness Enterprises and Small-Scale Commercial Farms (US\$15.32 million, including US\$11.4 million IDA) supports the commercialization of agricultural products by improving access to medium-term finance for the larger agri-business enterprises (US\$8 million IDA), providing start-up capital in the form of grants for small-scale farms involved in productive partnerships (total funding US\$3.0 million IDA), and by ensuring the availability of financing for value chain support. Investments include: improved on-farm technology, storage, processing, new products, marketing, quality enhancement and food safety.

(iii) Component III: Institutional Capacity Building and Project Management (US\$3.90 million, all IDA). This component strengthens the critical elements of the institutional framework and the sector's academic knowledge base required to support commercial activity: (i) support to the educational establishments in the agriculture sector; (ii) market information system for farmers and agribusinesses; (iii) support for policy and regulatory reform – strengthen the Ministry of Agriculture's (MOA) capacity for policy and regulatory reform by funding selected studies on critical issues relevant to the commercialization of agriculture; and well as (iv) project management. The project is implemented by two Project Implementation Units (PIUs): the Agricultural Entrepreneurship Development Project Management Unit (AED PMU) reporting to the Ministry of Agriculture; and the Project Management Unit for Access to Green and Rural Development Finance set up under the auspices of the Ministry of Finance (MOF PMU).

17. The project supports the twin goals of the World Bank to reduce poverty and promote shared prosperity by (i) contributing to poverty reduction through increased farm incomes and employment generation; (ii) setting up systems (i.e. improved technological capacity in the productive and agro-processing sector, market information system, new financial products in the financial sector, etc.), which are expected to bring benefits to new beneficiaries after the project closes; and, (iii) targeting the people in rural areas, the major locus of poverty in Tajikistan, with providing access to the wider range of farming, business and employment opportunities generated by increased agricultural commercialization, raising incomes and reducing poverty. The project focuses on small and medium-sized farms, and has a special support window for very small farmers. The project is expected to reach roughly 16,000 beneficiaries, of which no less than 30 percent are expected to be women.

D. Summary of Project Progress

18. The project underwent a difficult start-up period during the first 15 months of its implementation, however, the challenges have been resolved, and all project activities are moderately satisfactory. Disbursements under the project stand at 36 percent. Given the positive developments under the project for the past 18 months. Value chain development activities have already started (fresh and dried apricot, and dairy, have been selected as the first two value chains for support), and over 4,500 farmers have already been trained under the project in improved production technologies. A total of 6,600 beneficiaries (including the sub-borrowers) have been reached with project activities, including 2,400 women.

19. Under the credit line, US\$3.77 million equivalent has been disbursed in 1,365 sub-loans by the four active PFIs (another PFI, which also has a portfolio of project sub-loans has been suspended given the worsening financial situation). Disbursements under the credit line have been moving very well, attesting to the significant demand for resources. Disbursements represent 41 percent of the total funds available for the credit line. Of the financed sub-loans, less than 25 percent have maturity up to 12 months; most loans have maturity above 12 months, and up to 48 months. Average sub-loan is about US\$2,800 equivalent, indicating a significant demand for small loans and the fact that most of the active PFIs are micro-finance institutions with specific micro- and small clients. The share of sub-loans allocated to women represent about 13 percent. Training of the staff of the participating financial institutions (PFIs) has been completed, exceeding the target: 171 actual trained loan officers and branch manager versus the original estimate of 150.

20. Institutional capacity building activities to support the agricultural education establishments and the National Statistics Agency (TAJSTATCOM) are moving quite well. Both project management units are fully staffed and their capacity has been strengthened.

E. Lesson Learned

21. The ACP is still in fairly early stage of implementation, therefore it is difficult to draw lessons from it. However, the team has drawn on lessons from other projects in the Region, in particular the Moldova Rural Investment and Services Program (RISP), which similarly supported non-farm businesses along with farm businesses, as well as experience of other donors, such as United States Agency for International Development (USAID). The lessons learned to date include:

- (i) The RISP program demonstrated that financial support to rural entrepreneurs and farmers is more sustainable when delivered with advisory and business development services. While investment decisions to pursue commercial opportunities rest with private farmers and rural entrepreneurs, access to knowledge, information, and customized business advice are important to minimize the risk for failure and to maximize chance for success. This approach ensured that the rural businesses supported by the RISP had a first-year survival rate of more than 95 percent.
- (ii) A similar, although more gender-specific lesson is highlighted in the ADB's [Tajikistan Country Gender Assessment](#) regarding women's entrepreneurial activities. It states that "There are many initiatives in Tajikistan to empower women economically; most focus on increasing women's entrepreneurial activities through business training and, in some cases, small grants. The most effective initiatives combine basic business training with comprehensive assistance in developing business plans, followed by grants or credit lines that enable them to launch a business. Sustained support in the form of specialized training and information on marketing, legislation, taxation, regulations, and social fund payments, as well as mentoring, business incubators, small business support centers, and concessional loans, were also mentioned as aides for women growing their businesses."
- (iii) If the credit line is to contain a grant portion, the project should ensure that there is clarity and consensus about the constraint that the grant is designed to address. Identification of such specific constraint helps ensure that the grant program is sufficiently tailored to address it, but also that the project can objectively measure its effectiveness. The detailed approach to the grant program implementation is then stipulated in the project operational manual.
- (iv) Training and advisory services for farmers and enterprises were found to be most effective when they were "flexible and demand-driven" (such as under Armenia Community Agriculture Resource Management and Competitiveness Project). The demand-driven nature of the interventions to support the growth and development of the agro-processing companies (the Kyrgyz Republic Agribusiness and Marketing Project) was a key success factor for the project's achievements.

F. Rationale for Additional Financing

22. The proposed additional financing supports the government’s agenda of promoting private sector development, including a pathway to creating income and employment opportunities for the returning migrants, as well as other budding entrepreneurs (including women, youth, and PWD). Given the dire incomes and jobs situation for the rural population, the concepts developed under the original ACP would be expanded to other types of rural sub-sectors and businesses interested in creating employment. These could be business, income generation and employment creation opportunities as auxiliary products and services for agricultural value chains, off-farm opportunities, as well as other rural businesses. It should be noted that “rural” is defined as the entire country, except for the capital Dushanbe.

23. The additional financing instrument allows for a shorter response time to the government priorities, and will allow for scaling up and expanding the concepts already used in the ACP. There are also significant economies of scale in terms project management and implementation utilizing an existing line of credit under ACP.

24. The AF will consolidate and expand impacts of the ACP in terms of increasing the rate of commercialization of goods and services, covering not just agriculture, but also other rural products and services. The AF would thus enhance the impact of the original project, while improving the overall sustainability of knowledge service and investments. The AF will also build the “Tajikistan Jobs Diagnostic and Strategy” (World Bank, 2017) which provides the analytical background for this proposed operation; the ongoing World Bank-financed Strengthening the Financial Sector Project, which has done extensive household training in financial literacy matters, the Private Sector Competitiveness Project, which significantly eased the process of business registration, as well as other IFC-led efforts to improve the business environment, and the Leadership, Learning and Innovation’s (LLI) Youth Empowerment & Entrepreneurship Development, which has provided basic entrepreneurship training to 4,000 youth around the country, as well as the entrepreneurship awareness campaign.

G. Scope of Additional Financing

25. **Expected Beneficiaries.** Consistent with the Government priorities to amplify support for MSME growth¹² and investment opportunities, the project will focus on rural business development, covering underserved areas outside the capital city. MSMEs supported under the project will include individual entrepreneurs and micro-, small and medium size enterprises operating in a diverse array of sectors of the economy, including agricultural production, food processing, small-scale manufacturing, services, trade, and transport, among others. The AF will enable expansion of sectors covered as well as broaden coverage of the project, resulting in development outcomes of improved productivity and better jobs. The proposed expansion of access to credit for MSMEs is especially important during a time of constrained financing due to the economic downturn affecting an underdeveloped rural finance sector. The AF aims to increase access to more affordable lending products (complemented by matching grants) and advisory

¹² Private sector development plays an important role in the country’s new National Development Strategy 2016-2030.

services to support rural investments, growth among MSMEs, productivity enhancements, and job creation.

26. **Project activities and components** will largely remain the same as in the original project design, with the suitable activities expanded to reach the broader rural beneficiaries. The specific changes to the components are described in the Proposed Changes Section below.

III. Proposed Changes

Summary of Proposed Changes	
The proposed restructuring and AF will scale up the impact of ACP and respond more quickly to support the government's priorities of private sector development and job creation. The restructuring and AF will comprise: (i) reformulation of the PDO; (ii) revisions to the Results Framework; (iii) revisions to components and costs; and (iv) revisions to the original ACP FA to reflect the revised PDO, changes to the title of the Component II and description of the credit line beneficiaries, as well as changes to other sections to the original FA in accordance with an Amendment Letter.	
Change in Implementing Agency	Yes [] No [X]
Change in Project's Development Objectives	Yes [X] No []
Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [] No [X]
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [] No [X]
Change in Loan Closing Date(s)	Yes [] No [X]
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [] No [X]
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [] No [X]
Change in Financial Management	Yes [] No [X]
Change in Procurement	Yes [] No [X]
Change in Implementation Schedule	Yes [] No [X]
Other Change(s)	Yes [] No [X]

Development Objective/Results

Project's Development Objectives

Original PDO
 The project development objective (PDO) is to increase the commercialization of farm and agri-business products, by improving the performance of selected value chains and productive partnerships through increased access to finance and strengthened capacity of project beneficiaries.

Change in Project's Development Objectives

Explanation:
 The AF is to consolidate and expand impacts of the ACP in terms of increasing the rate of commercialization of goods and services, covering not just agriculture, but also other rural products and services. The PDO will be modified to adjust the coverage of beneficiaries.

Proposed New PDO - Additional Financing (AF)

The project development objective is to increase the commercialization of farm and agribusiness products and to support micro-, small and medium enterprise development in project areas by providing better access to finance and strengthened capacity of project beneficiaries.

Change in Results Framework

Explanation:
 Project outcome indicators will be expanded and/or adjusted to reflect the modified PDO as well as the changes of the Access to Finance component and the new Component IV.

Other Changes

Explanation:
 The Financing Agreement of the main ACP will be amended to reflect the following proposed changes: (i) the revised wording of the PDO, which will read: "The project development objective is to increase the commercialization of farm and agribusiness products and to support micro-, small and medium enterprise development in project areas by providing better access to finance and strengthened capacity of project beneficiaries."; (ii) to change the title of the Component II to "Access to Finance" in view of the broadened group of the potential sub-borrowers; (iii) reflect the broadened group of potential sub-borrowers in the Component II description; and (iv) introduce several smaller changes through an Amendment Letter.

Compliance

Covenants - Additional Financing (ACP Additional Financing - P158499)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.A	The Recipient shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the POM and the ESMF and shall not amend, suspend, abrogate or waive any provisions of the POM or		<input type="checkbox"/>		New

		the ESMF without prior written approval of the Association.				
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.A	The Recipient shall cause the MOF and MOA to maintain, until completion of the Project, arrangements, satisfactory to the Association, to ensure full compliance of the Recipient with its safeguard related responsibilities set forth in Section I.E of Schedule 2 to this Agreement utilizing the capacity of the AED PMU.		<input type="checkbox"/>		New
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.A	The Recipient shall, until completion of the Project, maintain the MOF-PMU and shall ensure that it 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, and acceptable to the Association.		<input type="checkbox"/>		New
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.B	For the purposes of Component II.A of the Project, the Recipient shall ensure that eligible PFIs are selected, and Subsidiary Loans and Sub-loans are made in accordance with the criteria and procedures and on terms and conditions set forth in the Line of Credit Operational Manual and in Section I. C of the Original Financing Agreement.		<input type="checkbox"/>		New
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.B	For the purposes of Component II.D of the Project, the Recipient shall ensure that eligible Sub-borrowers are selected, and Matching Grants are made in accordance with the criteria		<input type="checkbox"/>		New

		and procedures and on terms and conditions set forth in the Matching Grant Program Manual.				
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.C	The Recipient shall not undertake any Project activities that involve land acquisition or resettlement of people or loss of assets or income.		<input type="checkbox"/>		New
IDA	Institutional Arrangements, Schedule 2 of the FA, Section I.C	The Recipient shall: (a) ensure that the Project is implemented in compliance with applicable national legislation on child and forced labor, including ensuring such compliance by the PFIs, Sub-borrowers and Grant Beneficiaries; (b) prepare, prior to commencement of any works under Component II of the Project, a Sub-project-specific EMP, and, where required, PMP, in accordance with the ESMF.		<input type="checkbox"/>		New

Covenants - Parent (TAJIKISTAN AGRICULTURE COMMERCIALIZATION PROJECT - P132652)

Ln/Cr/TF	Finance Agreement Reference	Description of Covenants	Date Due	Status	Recurrent	Frequency	Action
IDA-H9640	Institutional Arrangements, Schedule 2 of the FA, Section I.A.	The Recipient shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the POM and the	CONTINUOUS	Complied with	<input type="checkbox"/>		No Change

		ESMF and shall not amend, suspend, abrogate or waive any provisions of the POM or the ESMF without prior written approval of the World Bank.					
IDA-H9640	Institutional Arrangements, Schedule 2 of the FA, Section I.A.	The Recipient shall, until completion of the Project, maintain the AED MU and MOF-PMU, and shall ensure that the AEDMU and MOF-PMU 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.	CONTINUOUS	Complied with	<input type="checkbox"/>		No Change
IDA-H9640	Institutional Arrangements	The Recipient shall establish and thereafter	16-Feb-2015	Complied with	<input type="checkbox"/>		No Change

	ents, Schedule 2 of the FA, Section I.A.	maintain, a Steering Committee to provide strategic guidance for Project implementation. The mechanism and composition of the Steering Committee will be decided by the Government at the time of the establishment of the Steering Committee.					
IDA-H9640	Institutional Arrangements, Schedule 2 of the FA, Section I.A.	The Recipient shall establish and thereafter maintain, an Evaluation Committee (EC) for the purpose of appraising and evaluating Sub-projects eligible for Commercialization Grants, in accordance with the criteria set forth in the POM. Membership and composition of the EC shall be acceptable to the Association, and shall include a representative	31-Mar-2015	Complied with	<input type="checkbox"/>		No Change

		of the consulting firm retained under Component I.					
IDA-H9640	Provision of Line of Credit, Schedule 2 of the FA, Section I.C	For the purposes of Component II.A of the Project, the Recipient shall ensure that eligible PFIs are selected, and Subsidiary Loans and Sub-loans are made 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.	CONTINUOUS	Complied with	<input type="checkbox"/>		No Change
IDA-H9640	Provision of Line of Credit, Schedule 2 of the FA, Section I.C.	The Recipient shall make Subsidiary Loans to eligible PFIs under Subsidiary Loan Agreements to be entered into between the Recipient and each eligible PFI. E the Association shall otherwise agree, the Recipient shall	CONTINUOUS	Complied with	<input type="checkbox"/>		No Change

		not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.					
IDA-H9640	Provision of Commercialization Grants, Schedule 2 of the FA, Section I.D	For the purpose of carrying out Component II.B of the Project, the Recipient, through the AED PMU, shall make Commercialization Grants to Grant Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Association.	CONTINUOUS	Not yet due	<input type="checkbox"/>		No Change
IDA-H9640	Safeguards, Schedule 2 of the FA, Section I.E	The Recipient shall not undertake any Project activities that involve land acquisition or resettlement of people or loss of assets or income, or cotton production.	Semi-annual	Complied with	<input type="checkbox"/>		No Change
IDA-H9640	Implementation Arrangements, Schedule 2 of the	The Recipient shall install and adopt the 1C accounting software for project	31-Dec-2014	Complied with	<input type="checkbox"/>		No Change

	FA, Section I.A.	accounting, budgeting and reporting within MOF-PMU, and ensure that the MOF-PMU's accounting staff and Financial Management consultant are fully trained on the adopted program.					
IDA-H9640	Implementation Arrangements, Schedule 2 of the FA, Section I.A.	The Recipient shall, in consultation with project stakeholders and beneficiaries, establish and maintain a Grievance Redress Mechanism, in accordance with procedures and guidelines set forth in the POM, and acceptable to the Association.	27-July-2015	Complied with	<input type="checkbox"/>		No Change

Conditions

Source Of Funds	Name	Type
IDA	Effectiveness; Termination, Article IV of FA, 4.01a	Effectiveness

Description of Condition

The Original Project Operational Manual has been updated by the Recipient for the purposes of the Additional Financing in a way satisfactory to the Association.

Source Of Funds	Name	Type
IDA	Effectiveness; Termination, Article IV of FA, 4.01b	Effectiveness

Description of Condition

The MOF and the MOA has entered into arrangements, satisfactory to the Association, to ensure full compliance of the Recipient with its safeguard related responsibilities set forth in Section I.A.3 of Schedule 2 to this Agreement utilizing the capacity of the AED PMU.

Risk										
Risk Category						Rating (H, S, M, L)				
1. Political and Governance						Substantial				
2. Macroeconomic						Substantial				
3. Sector Strategies and Policies						Substantial				
4. Technical Design of Project or Program						Moderate				
5. Institutional Capacity for Implementation and Sustainability						Substantial				
6. Fiduciary						Substantial				
7. Environment and Social						Moderate				
8. Stakeholders						Moderate				
9. Other										
OVERALL						Substantial				
Finance										
Loan Closing Date - Additional Financing (ACP Additional Financing - P158499)										
Source of Funds						Proposed Additional Financing Loan Closing Date				
International Development Association (IDA)						30-Jun-2022				
Expected Disbursements (in USD Million) (including all Sources of Financing)										
Fiscal Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual	1.50	3.50	4.00	4.00	2.00	0.00	0.00	0.00	0.00	0.00
Cumulative	1.50	5.00	9.00	13.00	15.00	0.00	0.00	0.00	0.00	0.00
Allocations - Additional Financing (ACP Additional Financing - P158499)										
Source of Fund	Currency	Category of Expenditure	IDA Grant Allocation, SDR				IDA Credit Allocation, US\$			
			Proposed Amount	Disbursement %	Proposed Amount	Disbursement %				
IDA		(1) Sub-loans under Component II.A of the Project	1,090,000	100% of the approved Sub-loans with the maturity of two (2) years or more,	7,500,000	100% of the approved Sub-loans with the maturity of two (2) years or more,				

				80% of the approved Sub-loans with the maturity less than two (2) years		80% of the approved Sub-loans with the maturity less than two (2) years
IDA		(2) Matching Grants under Component II.D of the Project	1,800,000	100%	0.00	n/a
IDA		(3) Goods, works, non-consulting services, consultants' services, Training and Operating Costs for Components III.E, III.F and IV of the Project	2,510,000	100%	0.00	n/a
		Total:	5,400,000		7,500,000	

Components

Change to Components and Cost

The activity and cost of component II will be amended, to broaden the scope of the project beneficiaries to and provide access to finance to rural micro- and small businesses. The cost of component III will be increased to manage the scaled-up project, and the technical assistance to the participating financial institutions will be revised in terms of budget and training content. A new component IV will be introduced to provide technical assistance to emerging start-ups and other eligible beneficiary companies, to enable them to access the credit line under the project. The project will operate in the entire country, except the municipal borders of the city of Dushanbe.

Component II: Access to Finance (original financing - US\$15.32 million, including US\$11.4 million IDA, proposed amount under the AF – US\$13.2 million, including US\$11.5 million IDA).

Activity 1: Credit Line. The proposed AF will allow for increasing the amount of the credit line (by US\$9.0 million) and expand its scope to include a wide range of rural business activities outside the municipal borders of Dushanbe. The beneficiaries of the credit line are expected to have undergone training and received technical assistance under the Component IV before accessing the

credit line. Similar to the original ACP credit line, it will be disbursed through eligible PFIs (commercial banks and micro-finance institutions), with the PFIs responsible for selecting eligible beneficiaries, setting the on-lending rates, as well as assuming full credit risk. The terms and conditions of the credit line are expected to be largely similar to those under ACP, subject to incorporating the new modalities (such as the matching grant scheme described below) proposed under this AF below.

Activity 2: Matching Grant Program (US\$2.5 million, all IDA) for start-up target groups will introduce a matching grant program (MGP), which will complement the credit line, in support of new enterprise and job creation (including self-employment) for targeted groups: starts-ups among youth (up to 30 years of age), women and PWD. The matching grants will form a portion of the sub-loans provided under the project to provide incentives for these target groups to access the financing (since a portion of the sub-loan will become non-repayable under certain conditions), and for the PFIs to serve these beneficiaries, as prior experience with similar programs has shown that it improves the repayment discipline. Under the MGP, sub-borrowers will receive 100 percent of the required financing from the PFIs, which will be coming from two sources of funds: the first 50 percent will be on-lent credit line resources, and the second up to 50 percent of the financing will be provided from the MGP. The beneficiaries will be required to repay the sub-loan portion (first 50 percent) of the financing due to the PFI to “trigger” the grant portion, which will be offset against the remaining 50 percent of the sub-loan principal. Thus, the beneficiary will only repay 50 percent of the sub-financing (sub-loan plus matching grant) received, provided they repay in full the 50 percent due first. The MGP is expected to improve the repayment discipline of borrowers, and the appetite of the financial institutions to lend to such enterprises.

Component III: Institutional Capacity Building and Project Management (US\$3.90 million, all IDA, proposed amount under the AF – US\$1.0 million).

Activity 1: Capacity Building for financial intermediaries (US\$0.5 million, all IDA). Capacity building to financial intermediaries will be provided in two main areas: (i) Training to PFIs on start-up business financing modalities, including risk identification and appraisal, and structuring of the repayment. The training will also include key environmental safeguards associated with rural business financing. (ii) Capacity building support to selected smaller micro-finance institutions with good potential to grow and expand the opportunities for access to finance, in particular for small rural and agricultural businesses. The project will support around five such smaller MFIs, to strengthen their operations, develop new financial products and expand outreach. The specific nature of the TA to be provided will be determined upon selection of the micro-finance institutions following a call for proposals, and identification of areas for improvement of the selected group of MFIs.

Activity 2: Project Management (US\$0.5 million, all IDA) will be allocated for project management expenses for implementation of the proposed additional activities financed under the additional financing. The PMU MOF will be responsible for the relevant procurement, financial management and Monitoring and Evaluation (M&E) activities, including the baseline and results assessment studies for the project. The AED PMU under the MOA will be responsible for Social and Environmental safeguards.

Component IV: Entrepreneurship Training and Business Development Services to MSMEs (NEW, proposed amount under the AF - US\$2.5 million).

A new component will be added to support potential target groups of entrepreneurs with entrepreneurship training, business development services and start-up support, as well as pilot to innovative approaches to promote entrepreneurship and job creation. The component will aim to address the following key issues faced by entrepreneurs: lack of access to appropriate business services, lack of market knowledge, lack of access to networks and lack of access to appropriate financing products.

Activity 1: Entrepreneurship training and business development services (US\$1.5 million, all IDA) to start-ups with more intensive focus on youth-led, women-led enterprises and enterprises led by/employing PWDs. The project will finance basic entrepreneurship training to a wide group of potential beneficiaries and more complex business development services¹³ (BDS) to select start-ups. The entrepreneurship training and business consulting services will aim to help prepare borrowers to take advantage of the credit line (including business plan preparation) and other services (accounting, financial planning, and marketing) to improve the likelihood of utilizing the loans successfully and generating jobs. Youth-led, women-led and enterprises led by and/or employing PWDs are expected to receive a higher share of resources.

Activity 2: Entrepreneurship Hub (US\$1.0 million, all IDA). Piloting innovative approaches to promote start-up growth and job creation, including business incubation, business mentoring and training programs. The project will consider different models of entrepreneurship hubs, including NGO-led, public-private partnerships, private-led, etc. The project will assist with opening an Entrepreneurship Hub with business incubation services in Kurgan Tybe (Khatlon Oblast) for select companies, as well as scale up some of the good business mentoring and training services to support start-ups more generally. It is expected that the pilot would contribute towards development of an ‘entrepreneurship ecosystem’ in the region, as early entrepreneurship support infrastructure (such as incubators, hubs, etc.) plays an important role in developing the innovation and entrepreneurship ecosystem by fostering dialogue and cooperation among providers of business and financial support, policy makers, and entrepreneurs.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
	Component IV: Technical Assistance and Capacity Building to the Emerging and Existing Entrepreneurs	0.00	2.50	New

¹³ Business development services are defined as those non-financial services and products offered to entrepreneurs at various stages of their business needs. These services are primarily aimed at skills transfer or business advice (IFC).

Component I: Improvement of Technical Knowledge and Skills in Support of Commercialization	Component I: Improvement of Technical Knowledge and Skills in Support of Commercialization	6.70	6.70	No change
Component II: Access to Finance for Agri-Business Enterprises and Small-Scale Commercial Farms	Component II: Access to Finance	11.40	22.90	Revised
Component III: Institutional Capacity Building and Project Management	Component III: Institutional Capacity Building and Project Management	3.90	4.90	Revised
	Total:	22.00	37.00	

Appraisal Summary

Economic and Financial Analysis

Support for small and medium-scale rural business activities will provide additional income opportunities for rural households and generate non-farm employment in rural areas. Evidence from other countries indicates that increased rural incomes also have a wider impact on rural economies, with a multiplier effect of 1.5-1.8. Project support for rural businesses will include: a US\$13.2 million extension of the existing project credit line for investment; a 50 percent matching grant to further support start-ups by youth (up to 30 years of age), women and the PWD; and the provision of entrepreneurship training and business development services.

While these project inputs will provide critical resources and services for business development, they will not target specific types of businesses. The choice of business activity will be decided by project beneficiaries according to their objectives, skills and resources. As this choice cannot be determined ex-ante, it is not feasible to calculate an overall economic or financial return for this project component. The diverse nature of rural business activities (tailors, mobile phone repair shops, brick-makers, veterinary services, agro-input shops etc), and their wider, indirect multiplier effects further complicates any attempt to aggregate the impact of these activities and calculate an overall economic or financial rate of return.

The economic and financial analysis is based on the calculation of financial internal rates of return (FIRR) for a representative sample of small and medium-scale rural enterprises, thus demonstrating their viability. The sample includes six small-scale enterprises suited to youth, women and PWDs – which would be eligible for both credit and matching grants; and two medium-scale enterprises, which would be eligible for credit only.

Projected FIRRs from this representative sample were between 28 and 40 percent, consistent with the observed growth of business activity in rural areas. Further sensitivity analysis showed that, in most cases, these returns were robust in the face of income falls of 10 percent or cost increases of

10 percent. Due to the high interest rate (28 percent) on project credit, projected profitability and viability were higher for enterprises with lower capital requirements and lower consequent loan requirements. A higher equity contribution from the owner also improves profitability and viability, by further reducing loan size. As the high interest rate limits the benefits conferred by extending the loan term or grace period, the analysis assumes that loans are repaid as quickly as possible – without compromising underlying viability.

A summary of the financial analyses for the sample of rural business enterprises considered suitable for finance is presented in Annex 4. All have a positive net present value (NPV), with FIRR values ranging from 28 percent - 40 percent, as mentioned above. Please see Annex 4 for full details.

Technical Analysis

The proposed additional financing supports the private sector development agenda, including creating income and employment opportunities for the returning migrants and other budding entrepreneurs (including women, youth, and PWD). It proposes a complementary approach, providing access to knowledge and financing. The concepts developed (and to some extent, tested) under the original ACP (such as access to business support/extension services, access to finance and markets) will be expanded, beyond agriculture and agribusiness, to other types of rural sub-sectors and businesses, interested in creating self-employment as well as providing job opportunities for others. These could be business, income generation and employment creation opportunities as auxiliary products and services for agricultural value chains, off-farm opportunities, as well as other rural businesses.

The AF is also expected to consolidate and expand impacts of the ACP in terms of increasing the rate of commercialization of goods and services, covering not just agriculture, but also other rural products and services. The AF would thus enhance the impact of the original project, while improving the overall sustainability of knowledge service and investments.

OP10.0 Financial Intermediary Financing. The proposed Credit Line was reviewed for compliance with the Bank's provisions for OP10.0 Financial Intermediary Financing, which governs the Bank's financial intermediary lending (FIL). The review found that the proposed Credit Line is in line with OP10.0 Financial Intermediary Financing guidelines.

Social Analysis

Citizen Engagement. The ongoing effort for engaging with citizens through the established Grievance Redress Mechanism (GRM) for the ACP will be sustained. The existing GRM ensures that the project beneficiaries are aware of the GRM and understand how they could reach out for resolution of their grievances. The efforts will be made to adjust modalities of the current system for an expanded scope of activities and further publicize the existence of the GRM, its procedures, details of those to whom grievances should be addressed through community outreach and public awareness raising. The project, in its turn would use the feedback received from beneficiaries to better target interventions in order to improve the project's outcome. To date, there have been no grievances filed under the project, most of the feedback is collected through project activities, such as training. The feedback collected then is used to improve the project activities. For instance, after

the excellent feedback the project received on its nutrition-improvement activities for women, it was decided to expand these activities. The project will also establish a citizen engagement indicator in its Monitoring & Evaluation system.

Child and Forced Labor. Child and forced labor (CFL) in agriculture is mainly associated with cotton production. In Tajikistan, child labor is broadly regarded as helping parents generate income for the family. Usually children work outside the school hours (without disturbing school attendance), and there is no pressure from the local authorities to use child labor in agricultural production. The project will continue in compliance with applicable national legislation on CFL. As in the case of the original project, the AF will not finance any interventions in the cotton sector. Mitigation measures that are in place to avert the risk of financing investments in which child and forced labor is utilized.¹⁴

Gender. The original project acknowledged that women relied heavily on agriculture for employment and income generation though their voice, decision-making power and/or earning capacity were limited. Findings of the updated Social Assessment (SA) further confirm the complex context which impacts women's participation in commercial/entrepreneurial activity in agriculture. Women, despite the proclaimed legal and social equality, do not enjoy equal access to land compared to men and especially in rural areas due to marriage patterns and customary norms. Rural women are not sufficiently aware of their economic rights, as well as legal rights to the use of land and face specific difficulty accessing finance due to poverty, lack of collateral, education, and knowledge. While engaged in almost all fields of the economy and mostly in agriculture, they continue to earn rather low wages. By some estimates, 48 percent of women are employed in agriculture, but the figure could be higher if all the unpaid women who work alongside their husbands or other male relatives were counted.

The project will ensure that women have better access to economic opportunities offered by the project and especially to those with low levels of knowledge of legal rights to land, financing, and skills to participate in its activities for income generation. Specifically, the project will strive to ensure:

- Gender- informed training (both in substance and delivery) at a community level on equal access of women to land to raise their awareness of the relevant legal documents, land reforms and procedures for establishing dehkan (commercial) farms and their management;
- Develop and deliver training modules for rural women with low levels of financial literacy to inform them on the project's financial programs and instruments as well as programs of other financial institutions and build their skills and capacity for entrepreneurship and commercial activities. It is expected that the training will also incorporate the elements of personal initiative to improve soft skills of women entrepreneurs;
- Project interventions that respond to women's needs based on assessment of their demands;
- Conduct advocacy programs on the role of women in land reform. Such programs shall cover women-farmers and rural women-leaders;
- Access to project's grievance redress mechanism.

¹⁴ The measures include screening out any investments related to the cotton sector, as well as regular field monitoring by the PFIs and PMU of the sub-projects financed.

OP 4.12 Involuntary Resettlement. The policy is not triggered under the project. All activities will take place on privately held land and the checklist of the Environmental Management Plan (EMP) used for the original project to screen out projects with OP 4.12 impacts will be continued.

Other Social Issues are covered in more details in Annex 3 and Annex 5.

Environmental Analysis

The proposed project restructuring and additional financing will not change the project category and not trigger new safeguards policies, however, the scope of access to financing will be broader, including also a wide range of new rural business activities (such as manufacturing; providing services to local population), outside of traditional agriculture and agribusiness. This required updating of the initial project Environmental and Social Management Framework (ESMF) by providing guidance on potential environmental and social impacts for the new types of business activities that would be financed, along with monitoring requirements and implementing arrangements.

The revised ESMF undertaken by the client also clarifies the procedures of the subprojects' Environmental Assessment (EA) and of preparing Environmental and Social Management Plans (ESMPs) for sub-projects to be financed, including for business incubators to be build or rehabilitated in Khatlon Region. The ESMF also proposes the curricular for the training which includes applicable safeguard requirements to address the impacts related to commercial agro-enterprises for Technical Assistance (TA) activities for the proposed under Component I Training and Advisory Services activities, as well as measures for EA capacity building for MFIs under the revised Component II. Any activities involving new construction and/or expansion of existing facilities that might trigger OP4.12 would be diligently screened out and not financed by the project. Any activities involving child and forced labor will also be screened out.

The revised ESMF was disclosed and consulted with all interested parties before Appraisal. Overall, the participants of all consultation meetings agreed with the proposed environmental safeguards arrangements, emphasizing the importance of training and information dissemination activities on sustainable water and soil use as well as on safety issues within pest management.

The Environmental and Social Specialists have the relevant capacity to implement environmental and social safeguards issues, - based on last WB implementation support missions (in 2016-2017), the project environmental and social performance is considered satisfactory.

Climate Risk Screening. The project was screened for climate risks. Given the nature of the project, only Storage and Processing sub-sector was included in the screening. It was assessed that the sub-sector is slightly exposed, with low potential impact and low risk, to extreme precipitation and flooding risk and drought risk.

Risk

The overall implementation risk is Substantial. Most of the risks are assessed as Substantial, except for the Technical Design, Environmental and Social, and Stakeholder risks, which are assessed as Moderate. The political and governance risks, as well as macroeconomic risks and sector strategies and policies would be mitigated through the Bank's dialogue with the Government of Tajikistan.

The Substantial risk for institutional capacity for implementation would be mitigated by engaging regional and international consultants to assist in project implementation, as well as capacity building of the PMU staff through advice and training. The fiduciary risks would be mitigated by close supervision and advice by the Bank's team, as well as capacity building of the fiduciary staff.

IV. World Bank Grievance Redress

27. 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 <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

TAJIKISTAN AGRICULTURE COMMERCIALIZATION PROJECT (P158499)

Additional Financing

Revisions to the Results Framework		Comments/ Rationale for Change
PDO		
<i>Current (PAD)</i>	<i>Proposed</i>	
To increase the commercialization of farm and agribusiness products, by improving the performance of selected value chains and productive partnerships through increased access to finance and strengthened capacity of project beneficiaries.	The project development objective is to increase the commercialization of farm and agribusiness products and to support micro-, small and medium enterprise development in rural areas by providing better access to finance and strengthened capacity of project beneficiaries.	The scope of the PDO was expanded to include the broader rural businesses, which will be supported under the additional financing.
PDO indicators		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
Number of small farmer beneficiaries with improved commercial activity.	Number of beneficiaries with improved commercial activity	The scope of the “beneficiary” is expanded, as additional financing is expected to reach (predominantly small) rural businesses in addition to the small farmers. Women, youth, and PWD beneficiaries will be tracked separately.
Marketed surplus of selected agricultural products by small (subsistence and semi-subsistence) farmers benefitting under the project.	Marketed surplus of selected agricultural products by small (subsistence and semi-subsistence) farmers benefitting under the project.	No change.
Sales value by commercial farms and agribusinesses benefitting under the project.	Increase in total sales value of beneficiaries.	The new indicator includes the new type of beneficiaries, i.e., rural businesses to be supported under the additional financing. Expressed as a percentage increase rather than an absolute number for more

		meaningful assessment of the project progress.
N/a	Firms benefitting from private sector initiatives (CRI)	The new indicator would measure the number of micro-and small enterprises supported by the additional financing.
Intermediate Results indicators		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
Portfolio at risk – SME	Continued, with no change in the end of project target value	Project-end target value remains at 5 percent.
Percentage of project-supported institutions that are reporting this indicator.	Continued, with no change in the end of project target value	Project-end target value remains at 100 percent.
Direct project beneficiaries	Farmers reached with agricultural assets and services (CRI)	The indicator has been re-worded to match the wording of the Corporate Results Indicator
Female beneficiaries	Female farmers reached with agricultural assets and services (CRI)	The indicator has been re-worded to match the wording of the Corporate Results Indicator.
Total investment mobilized in the agricultural sector under the Access to Finance component	Total investment mobilized in the agricultural and rural sectors under the credit lines	Continued with an expanded scope (including rural sector) and an increase in end-of-project target value.
Farmer group members benefitting from the access to commercialization grants	Continued, with no change in the end of project target value.	
N/A	Number of start-ups benefitting from the loan with a matching grant window	NEW; will measure the number of beneficiaries (start-up women-, youth and PWD-led businesses) that have benefitted from the loan with a matching grant
Farmers (new subscribers) subscribing to the Market Information System	Dropped from the RF	This indicator represents a small portion of funds in the enlarged project; will continue to be tracked outside the formal Results Framework
Financial sector staff (loan officers and branch managers) trained	Dropped from the RF	Training has been completed under ACP. New training in new relevant subjects will be carried out under the additional financing. This indicator represents a small portion of funds in the enlarged project;

		will continue to be tracked outside the formal Results Framework
Number of technical advisors trained	Continued, with no change in the end of project target value.	This indicator only refers to the original ACP-financed activities.
Productive partnerships established	Continued, with no change in the end of project target value.	This indicator only refers to the original ACP-financed activities
Proposal for curriculum change at the Agricultural University and Colleges developed	Dropped from the RF	The implementation of this work in underway. This indicator represents a small portion of funds in the enlarged project; will continue to be tracked outside the formal Results Framework.
Client days of training provided (number)	Continued, with an increase in the end of project target value	Training provided to the rural enterprises will also be included in the end of project target value.
Client days of training provided - Female (number)	Continued, with an increase in the end of project target value	Training provided to the rural enterprises will also be included in the end of project target value.
Farmers receiving advice, extension and training	Dropped from the RF	This indicator will be tracked as part of the “Farmers reached with agricultural assets and services (CRI)” indicator.
Volume of Bank Support: Institutional Development - SME	Dropped from the RF	Former CRI. Will be tracked as part of the “Total investment mobilized in the agricultural and rural sectors under the credit lines” indicator.
Volume of Bank Support: Lines of Credit - SME	Dropped from the RF	Former CRI. This indicator represents a small portion of funds in the enlarged project; will continue to be tracked outside the formal Results Framework
N/A	Percentage of project-supported enterprises still existing 12 months after establishment	Will measure the effectiveness of the technical assistance and access to finance provided under the project.
N/A	Percentage of MSMEs/farmers/beneficiaries reporting that project interventions met their needs (gender disaggregated)	An indicator to measure citizen engagement.
New Indicators		
PDO Level		

Number of beneficiaries with improved commercial activity	Number of small farmers (here, defined as up to 1Ha per shareholder) and micro- and small enterprises (as defined by the GOT) that have, as a result of benefiting from the project activities, started selling surplus production, or increased sales of their products.
Of which women	No description provided.
Of which youth	No description provided.
Of which PWD	No description provided.
Marketed surplus of selected agricultural products by small (subsistence and semi-subsistence) farmers benefitting under the project.	Increase (or decrease) in the value of marketed surplus by small farmers (here, defined as up to 1Ha per shareholder) and micro- and small enterprises benefitting from the project activities. [This indicator predominantly applies to ACP beneficiaries.]
Increase in total sales value of beneficiaries.	Increase (or decrease) in the value of sales by commercial farms, agribusinesses and any other enterprises benefitting from the project activities.
Firms benefitting from private sector initiatives	Number of micro- and small enterprises supported by the project
Intermediate Indicators	
Portfolio at risk – SME	Portfolio at Risk = Outstanding (or not yet repaid) balance of all loans where payment is late by > 90 days / Gross outstanding loan portfolio. Report the Portfolio at Risk (PAR) for the PFI's entire SME portfolio. Do not report on the PAR for just the Bank-funded portion. Loans that have been rescheduled or renegotiated should also be included in the numerator of the PAR. Weight each institution's PAR by its outstanding SME portfolio to calculate the average PAR for the project. The optional "breakdown" tab can be used to report by institution.
Percentage of project-supported institutions that are reporting this indicator.	No description provided.
Farmers reached with agricultural assets and services (CRI)	Farmers that have benefitted from financing, knowledge, training or any other services or assets under the project.
Total investment mobilized in the agricultural and rural sectors under the credit lines	Volume of the credit line + volume of the grant funding +beneficiary co-financing for sub-loans/leases and grants +PFI co-financing.
Farmer group members benefitting from the access to commercialization grants	Total number of members of farmer groups benefitting from the commercialization grants.
Number of start-ups benefitting from the loan with a matching grant window	Total number of start-ups benefitting from the loan with a matching grant window.
Number of technical advisors trained	Number of technical advisors trained under components 1 and 3.
Productive partnerships established	Number of technical advisors trained under components 1 and 3.
Client days of training provided (number)	This indicator measures the number of client days of training provided i.e. the number of clients who completed training multiplied by the duration of training expressed in days.

Percentage of project-supported enterprises existing 12 months after establishment.	Number of project-supported enterprises still existing 12 months after their establishment, as a percentage of total supported enterprises under the project. This indicator refers to the beneficiaries of additional financing-supported activities.
Percentage of MSMEs/farmers/beneficiaries reporting that project interventions met their needs (gender disaggregated)	An indicator to measure citizen engagement.

Results Framework and Monitoring

Project Development Objective (PDO): The project development objective is to increase the commercialization of farm and agribusiness products and to support micro-, small and medium enterprise development in rural areas by providing better access to finance and strengthened capacity of project beneficiaries.													
PDO Level Results Indicators	Corporate Results Indicator	UOM	Baseline	Progress to Date	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2018	2019	2020	2021	2022				
Indicator One: Number of beneficiaries with improved commercial activity.	<input type="checkbox"/>	Number	2,245	TBC*		5,000	7,500	11,500	12,500	Annual	Progress/ Monitoring Reports	AED PMU, MOF PMU	The share of female participants will be measured under all feasible project activities
Of which female					1,750	2,625	4,025	4,375					
Of which youth					500	2,000	4,000	6,000					
Of which disabled					0	100	200	400					
Indicator Two: Marketed surplus of selected agricultural products by small (subsistence and semi-subsistence) farmers benefitting under the project.	<input type="checkbox"/>	Percentage	0	TBC*	10%	12%	15%	20%	20%	Annual	Progress/ Monitoring Reports	AED PMU, MOF PMU	
Indicator Three: Increase in total sales value of beneficiaries.	<input type="checkbox"/>	Percentage	0	TBC*	10%	12%	15%	18%	20%	Annual	Progress/ Monitoring Reports	AED PMU, MOF PMU	
Indicator Four: Firms benefitting from private sector initiatives.	<input type="checkbox"/>	Number	0	0	300	300	900	1,200	1,500	Annual	Progress/ Monitoring Reports	AED PMU, MOF PMU	

Intermediate Results and Indicators

Intermediate Results Indicators	Core	UOM	Baseline Original Project	Progress to Date	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2018	2019	2020	2021	2022				
<i>Intermediate Result Indicator 1: Portfolio at risk - SME</i>	<input type="checkbox"/>	Number	0	TBC**	5.00	5.00	5.00	5.00	5.00	Quarterly	Progress/ Monitoring Reports	MOF PMU	
<i>Intermediate Result Indicator 2: Percentage of project-supported institutions that are reporting this indicator</i>	<input type="checkbox"/>	Percentage	0	0.00**	100%	100%	100%	100%	100%	Quarterly	Progress/ Monitoring Reports	MOF PMU	
<i>Intermediate Result Indicator 3: Farmers reached with agricultural assets or services</i>	<input checked="" type="checkbox"/>	Number	0	4,026						Quarterly	Progress/ Monitoring Reports	AED PMU, MOF PMU	
Of which female	<input type="checkbox"/>		0	1,288									
<i>Intermediate Result Indicator 4: Total investment mobilized in the agricultural and rural sectors under the credit lines</i>	<input type="checkbox"/>	Number	0	4.7 million	7 mil	11 mil	15	18 mil	20 mil	Quarterly	Progress/ Monitoring Reports	MOF PMU	Includes PFI and beneficiary contribution
<i>Intermediate Result Indicator 5: Farmer group members benefitting from the access to commercialization grants</i>	<input type="checkbox"/>	Number	0	0	500	1,000	1,500	2,000	2,000	Quarterly	Progress/ Monitoring Reports	AED PMU	

<i>Intermediate Result Indicator 6: Number of start-ups benefitting from the loan with a matching grant window</i>	<input type="checkbox"/>	Number	0	0	0	200	400	600	800	Quarterly	Progress/ Monitoring Reports	MOF PMU	
<i>Intermediate Result Indicator 7: Number of technical advisors trained</i>	<input type="checkbox"/>	Number	0	42	56	65	80	80	80	Quarterly	Progress/ Monitoring Reports	AED PMU	
<i>Intermediate Result Indicator 8: Productive partnerships established</i>	<input type="checkbox"/>	Number	0	44	80	120	160	200	200	Quarterly	Progress/ Monitoring Reports	AED PMU	
<i>Intermediate Results Indicator 9: Client days of training provided (number)</i>	<input type="checkbox"/>	Number	0	8,670	12,000	14,000	16,000	18,000	18,500	Quarterly	Progress/ Monitoring Reports	AED PMU, MOF PMU	
<i>Intermediate Results Indicator 10: Percentage of project-supported enterprises existing 12 months after establishment.</i>	<input type="checkbox"/>	Percentage	0	0	0	0	10%	20%	40%	Quarterly	Progress/ Monitoring Reports	MOF PMU	
<i>Intermediate Results Indicator 11: Percentage of MSMEs/farmers/beneficiaries reporting that project interventions met their needs (gender disaggregated)</i>	<input type="checkbox"/>	Percentage	0	70%	75%	80%	85%	85%	85%	Quarterly	Progress/ Monitoring Reports	MOF PMU	

* Will be confirmed on the basis of the results of the agricultural season.

** Will be confirmed on the basis of the audited reports.

Annex 2: Tajikistan Agriculture Commercialization Project

Additional Financing

Detailed Project Description

A. The Proposed Revised Project Development Objective

1. The Proposed Revised Project Development Objective (PDO) is to increase the commercialization of farm and agribusiness products and to support micro-, small and medium enterprise development in project areas by providing better access to finance and strengthened capacity of project beneficiaries.

2. **The Project Outcome Indicators** have been expanded and/or adjusted to reflect the modified PDO as well as the changes of the Access to Finance component and the new proposed Component IV. The revised proposed PDO Indicators are as follows:

- *Number of beneficiaries with improved commercial activity (target value –12,500);*
- *Marketed surplus of selected agricultural products by small (subsistence and semi-subsistence) farmers benefitting under the project (target value – increase by 20 percent);*
- *Increase in total sales value of beneficiaries (target value – increase by 20 percent);*
- *Firms benefitting from private sector initiatives (target value – 1,500).*

3. **Project area.** The project area is defined as the entire country except the city of Dushanbe.

B. Detailed Component Description

Component II: Access to Finance (original financing - US\$15.32 million, including US\$11.4 million IDA, proposed amount under the AF – US\$13.2 million, including US\$11.5 million IDA).

4. **Activity 1: Credit Line.** The proposed AF will allow for increasing the amount of the credit line (by US\$9.0 million) and expand its scope to include a wide range of rural business activities outside the municipal borders of Dushanbe. Similarly to the original ACP credit line, it will be disbursed through eligible PFIs (commercial banks and micro-finance institutions), with the PFIs responsible for selecting eligible beneficiaries, setting the on-lending rates, as well as assuming full credit risk. The terms and conditions of the credit line are expected to be largely similar to those under ACP, subject to incorporating the new modalities (such as the matching grant scheme described below) proposed under this AF.

5. To contribute towards addressing the current market failures of (i) providing medium-term credit for investment in the rural space on the demand side; and (ii) encouraging commercial banks and micro-finance institutions to lend for micro-, small-and medium sized-business development, in particular, start-ups, a credit line will be provided through the commercial banking sector and micro-finance institutions ensure access to businesses developing in the rural space. Sub-loans will be available for start-ups, but also for entrepreneurs expanding their businesses and creating new jobs. With a view of continuing to promote private financial sector development, the project will

work with the smaller banks and micro-finance institutions. The credit line will extend the following *lending products*:

(i) Medium-term loans and leases for investment, expected for up to 7 years, with a maximum exposure per beneficiary of up to US\$100,000, to finance equipment, technologies, and other assets needed for business development in rural areas. Leasing would also be included, to allow for improved access to long-term finance for potential borrowers, especially small farmers, who do not have sufficient collateral and thus are excluded from borrowing from the financial sector.

(ii) Working capital loans for short-term financing needs with a maturity of up to two years. The same maximum loan amount of US\$100,000 would apply, but the maximum exposure to one sub-borrower should not exceed US\$100,000 under the credit line. PFIs will be required to co-finance the (portion of) sub-loans with maturities of up to 2 years in the amount of 20 percent of the sub-loan.

6. The funds will be available both in Somonis and US Dollars¹⁵, based on the demand of the sub-borrowers. The interest rate to PFIs will be (i) a six months US Dollar Libor + a minimum of 3 percent margin to cover administration costs for US Dollar resources, and (ii) the refinancing rate of the National Bank of Tajikistan (NBT) plus 1 percent margin to cover the risks associated with the currency exchange, or the reference rate which shall be equal to the average of annual inflation rate projected by the NBT for the current year and the actual inflation rate of the preceding year, plus a 1 percent margin to cover the risks associated with the currency exchange, whichever lower, for Somoni-denominated loans. Investment sub-loans will be expected to have a maturity of above 2 years, and conversely, the maturity of working capital loans shall not exceed 2 years. Sub-borrowers will be expected to contribute a minimum of 10 percent of the sub-project costs (in cash or in kind).

7. It is proposed that each tranche of the credit line proceeds is extended to the participating financial institutions for a period of 5 years, with a grace period of 4 years and 10 months. The PFIs structure the repayment of the sub-loan in a manner that is acceptable to the sub-borrowers and rely on the cashflows generated by the investment. Repayment of the funds by the PFIs to the Ministry of Finance will take place in accordance with detailed repayment schedule, upon the expiration of the grace period. The PFIs will collect repayments from the borrowers and pay the amounts due to the Ministry of Finance. The amounts collected from the borrowers and not needed for repayment to the Ministry of Finance, will be extended by the PFIs in new sub-loans meeting the project objectives. Such an arrangement will allow maximizing the benefits from this scarce long-term money, and the PFIs to finance sub-projects for the needed period, based on the projected cash-flows.

8. *Target Borrowers.* The project's credit line will be targeted at micro-, small and medium-sized businesses, including start-ups. These businesses could be individual entrepreneurs (including farmers) or legal entities with 100 percent private ownership and duly registered is

¹⁵ US Dollar loans are expected to be taken by sub-borrowers with foreign exchange income.

accordance with the laws of the Republic of Tajikistan, and who are engaged in or intending to engage in an eligible entrepreneurial activity as a result of financing from the credit line.

9. *Implementation mechanism.* The Ministry of Finance (MOF) will channel the funds through qualified commercial banks and non-bank financial institutions (jointly called the Participating Financial Institutions; PFIs), which are regulated by the National Bank of Tajikistan and selected through a due diligence process on the basis of a set of PFI Eligibility Criteria (there will be separate ones for commercial banks and micro-finance institutions). The criteria will be the same as those used under the ACP, and will be attached in the credit line guidelines. Any new PFIs will be selected (or the suspended ones allowed back into the credit line) on the basis of a due diligence process. The due diligence, which will be carried out by a financial sector specialist on behalf of the World Bank and the Borrower will include, but will not be limited to, the PFI's overall lending capabilities, and financial and portfolio performance. The PFI shall have a satisfactory financial and management structure, satisfactory risk-based capital adequacy, an acceptable asset quality and lending performance, adequate liquidity, majority private ownership, and the organization, management and technical staff and other resources required for the efficient carrying out of the operations. The same standards shall be used to constantly monitor the continued eligibility of a currently operating PFI.

10. The PFIs will sign Subsidiary Loan Agreement (SLA) with the MOF. A separate operational manual for the credit line, to be developed jointly by the World Bank and the Implementing Agency – will set forth the eligibility criteria for PFIs, sub-borrowers and sub-projects to be financed and the procedures for all parties involved in the implementation of the credit line. The compendium of these documents will contain all necessary provisions for the implementation of the credit line, including potential ways to secure the MOF's interest in the subsidiary loans. Sub-borrowers under credit line will not be able to benefit from the commercialization grants.

11. The PFIs will carry out full appraisal of loans, set interest rates and repayment terms to final beneficiaries based on prevailing market conditions and the type of investment financed, and bear the full risk of loan repayment. Except, each PFI will have to submit to the World Bank for a prior review first three sub-loans, providing more detailed information to substantiate their lending decision. This will allow assessment of the PFI staff lending skills. The Credit Line will be disbursed to PFIs 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 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.

12. Similarly to ACP credit line, the MOF PMU will continue the rigorous monitoring of the credit line implementation and the financial and operational status of the PFIs. The monitoring during the initial stages of the project will be done on monthly basis, switching to quarterly when the situation in the financial sector permits.

13. **Activity 2: Matching Grant Program** (US\$2.5 million, all IDA) for start-up target groups will introduce a matching grant program, which will complement the credit line, in support of new

enterprise and job creation (including self-employment) for targeted groups: starts-ups among youth (up to 30 years of age), women and PWD. The matching grants will co-finance sub-loans provided under the project to provide incentives for these target groups to access the financing (since a portion of the sub-loan will become non-repayable under certain conditions), and also for the PFIs to serve these beneficiaries, as prior experience with similar programs has shown that it improves the repayment discipline due to their structure. The matching grant mechanism is proposed as follows: the matching grants will be available together with a borrowing from the financial sector, in the amount of up to 50 percent of the financing needed by the enterprise. Grants will be provided as the last portion of the financing, and the beneficiaries will be required to repay the sub-loan portion of the financing due to the PFI before benefitting from the grant. For instance, in case an enterprise (borrower) requires US\$1,000, the grant portion would be US\$500. The grant portion will become non-repayable upon full and timely repayment of the sub-loan portion including any interest due on it. The Matching Grant Program (MGP) is expected to incentivize repayment by the borrowers, and also increase attractiveness of such borrowers to the financial institutions.

14. Whereas the same overall sub-loan size will apply to the sub-loans benefitting from a matching grant, it is expected that the maximum size of financing (sub-loans and matching grants) will be much lower under this window, up to US\$20,000 due to the start-up nature of the sub-borrowers. The matching grants will constitute 50 percent of the financing, but not more than US\$10,000 equivalent. The matching grants may only be received once, and the minimum maturity of the underlying sub-loan should be two years.

15. The participating financial institutions (PFIs) will receive Matching Grant financing from the PMU as an interest-free conditional loan. Similarly, the matching grant portion of the sub-loans will be provided by PFIs to beneficiaries also as a conditional loan. In case of the full repayment of the repayable portion of the financing (the 50 percent sub-loan, as explained above), the remaining 50 percent, i.e., the matching grant portion, will be “written off”. However, in cases when even one payment of the sub-loan is missed or late, the entire matching grant will become a repayable loan, with interest retroactively accrued on the grant portion from the day that the financing was issued. In such cases, the interest collected from the matching grant-turned sub-loan will be retained by the PFI. The collected matching grant principal will be used to co-finance new sub-loans.

16. MGP will only be provided for financially sound business proposals and will be part of the sub-loan package appraisal carried out by the PFI. A detailed manual for the MGP will set forth terms and conditions for selection of MGP beneficiaries, as well as the necessary formats for application for matching grants, safeguard requirements, and other necessary guidelines.

17. Rigorous monitoring of this activity will be carried out by the PMU to monitor jobs created (through robust baseline data collection) and their sustainability (i.e. long-term such as those lasting at least 12 months). The project’s M&E system will be enhanced to capture the different dimensions of jobs created, including wages/earnings.

Component III: Institutional Capacity Building and Project Management (US\$3.90 million, all IDA, proposed amount under the AF – US\$1.0 million).

18. **Activity 1: Capacity Building for financial intermediaries** (US\$0.5 million, all IDA). Capacity building to financial intermediaries will be provided in two main areas: (i) Training to PFIs on start-up business financing modalities, including risk identification and appraisal, and structuring of the repayment. The training will also include key environmental aspects associated with rural business financing. This training will be organized class-room style, and each session is expected to be 5 (five) days long. Separate training materials will be developed to present this training course. The training will be practical, based on realistic case studies and expected loan proposals; (ii) Capacity building support to selected smaller micro-finance institutions with good potential to grow and expand the opportunities for access to finance, in particular for small rural and agricultural businesses. The project will support around five such smaller MFIs, to allow them to strengthen their operations, develop new financial products and expand outreach. The specific nature of the TA to be provided will be determined upon selection of the micro-finance institutions following a call for proposals, and identification of areas for improvement of the selected group of MFIs.

19. **Activity 2: Project Management** (US\$0.5 million, all IDA) will be allocated for project management expenses for implementation of the proposed additional activities financed under the additional financing. The PMU MOF will be responsible for the relevant procurement, financial management and Monitoring and Evaluation (M&E) activities, including the baseline and results assessment studies for the project. The AED PMU under the MOA will be responsible for Social and Environmental safeguards.

Component IV: Entrepreneurship Training and Business Development Services to MSMEs (NEW, proposed amount under the AF - US\$2.5 million).

20. A new component will be added to support potential target groups of entrepreneurs with entrepreneurship training, business development services and start-up support, as well as pilot innovative approaches to promote entrepreneurship and job creation. The component will try to address the following identified market gaps:

- Lack of basic business skills and knowledge (legal, financial, taxation) was one of the key constraints potential and existing entrepreneurs face.
- Access to finance is critical as well, but it was noted that basic financial literacy is very low, and improving the skills and knowledge of potential entrepreneurs was necessary to improve outcomes.
- Other constraints mentioned include: lack of collateral to apply for loans (especially for women); high interest rates, excessive taxation.
- The entrepreneurship ecosystem is underdeveloped, i.e. the institutional support for start-ups and young businesses is generally lacking, especially in rural areas. There are no established business centers, incubators or ‘one stop’ shops which could provide services beyond registration, resulting in lack or limited access of entrepreneurs to such important services as access to market knowledge, business networks, personalized coaching and mentoring, etc.

21. As part of the AF, a new Component IV will be added to expand the scope of the ongoing project to provide entrepreneurship training and business development services to potential entrepreneurs and start-ups to promote entrepreneurship and job creation. The component is expected to consist of the following two main activities.

22. **Activity 1: Entrepreneurship training and business development services (BDS)** (US\$1.5 million, all IDA) to start-ups with more intensive focus on youth-led, women-led enterprises and enterprises led by/employing persons with disabilities. The project will finance basic entrepreneurship training to a wide group of potential beneficiaries and more complex business development services¹⁶ (BDS) to select start-ups. The entrepreneurship training and business consulting services will aim to help prepare borrowers to take advantage of the credit line (including business plan preparation) and other services (accounting, financial planning, and marketing) to improve the likelihood of utilizing the loans successfully and generating jobs. Youth-led, women-led and enterprises led by, or employing, persons with disabilities are expected to receive a higher share of resources.

23. Specifically, the component will finance the following:

- (i) Basic entrepreneurship skills training for start-ups, including youth, women and PWD.¹⁷ Training will be geared toward business plan preparation and developing fundamental skills on how to start a business, including basic financial literacy. The standard training package will be developed, but tailored for different groups of beneficiaries (youth, women, and people with disabilities).
- (ii) Business plan preparation and its implementation (post-creation) support focusing on improving business practices: graduates of the basic entrepreneurship skills training as well as other potential entrepreneurs may be eligible for more intensive one-on-one support including business plan preparation, assistance in loan application (through Credit Line Component II), and post-creation support of up to 12 months focusing on improving business practices. To maximize potential for job creation among resulting start-ups, this service will be provided to those who pass an entrepreneurship aptitude test¹⁸, which will be developed/adapted under this component, or other criteria to be developed and included in the Project Operational Manual (POM).

24. ***Implementation arrangements:***

- Basic entrepreneurship skills training (financial literacy, business skill development and business registration and management) to startups (including youth, women and PWD) will be provided by competitively selected providers, mostly expected to be non-governmental organizations (NGOs).

¹⁶ Business development services are defined as those non-financial services and products offered to entrepreneurs at various stages of their business needs. These services are primarily aimed at skills transfer or business advice (IFC).

¹⁷ The training will build, for instance, upon the modules developed by the Central Asia Youth Empowerment & Entrepreneurship Development team, which has been implemented in 2016-2017 with almost 4,000 youth.

¹⁸ The test would evaluate risk attitudes, personality, socio-emotional skills, information on past business or work experience, motivations and description of business idea.

- Awareness raising seminars will be organized throughout the project area to sensitize the potential beneficiaries regarding the business development opportunities provided by the project; particular attention will be paid to reach out to potential women beneficiaries through dedicated outreach strategy.
- The beneficiaries will be able to obtain assistance in business plan preparation to secure funding from a financial institution. Following the financing, the start-up entrepreneurs will be able to benefit from post-creation support services for a period of about 12 months on various aspects of business management.
- Business plan preparation and post-creation support services will also be delivered by competitively selected providers paid by results (such as successful loan application/repayment by a supported start-up, start-up survival and/or growth (in sales), etc.). This more complex assistance could be provided on the basis of passing an entrepreneurship aptitude test or other criteria developed by the project to assess the entrepreneurship motivation of the applicant.

25. **Activity 2: Entrepreneurship Hub (US\$1.0 million, all IDA).** Piloting innovative approaches to promote start-up growth and job creation, including business incubation services, business mentoring and training programs. The project will consider experience of implementing different models of entrepreneurship hubs, including NGO-led¹⁹, public-private partnerships, private-led, etc. The project will assist with opening of an Entrepreneurship Hub with business incubation services in Kurgan-Tybe, Khatlon, for select companies, as well as scale up some of the good business mentoring and training services to support start-ups more generally (with a particular focus on women, and youth-led, and PWD-led/employing enterprises). It is expected that the pilot would contribute towards development of an ‘entrepreneurship ecosystem’ in the region, as early-stage entrepreneurship support infrastructure (such as incubators, hubs, etc.) plays an important role in developing the innovation and entrepreneurship ecosystem by fostering dialogue and cooperation among providers of business and financial support, policy makers, and entrepreneurs.

26. Within the project scope, particular attention and TA will be provided to ensure development of realistic sustainability strategy for the Entrepreneurship Hub, including building strong value proposition to attract private sector and to support the Government priorities through entrepreneurship promotion, job creation and industry development. It is expected that strong linkages with all entrepreneurship ecosystem stakeholders as well as sound results will enable Hub to develop comprehensive proposition for external funding from the Governments both at local and national levels, other donors, and private sector partners. The Business Incubation²⁰ function of the Entrepreneurship Hub is aimed at supporting the development and scaling of growth-oriented, early-stage enterprises, to provide them with an enabling environment at the startup stage of enterprise development. This environment is expected to help reduce the cost of launching the enterprise, increase the confidence and capacity of the entrepreneur, and link the entrepreneur to resources required to start and scale up a competitive enterprise. It is expected that the enterprises would stay at the Business Incubator until an agreed upon milestone is reached, often measured in

¹⁹ For instance, Imon International has a lot of experience in supporting women entrepreneurs, as well as provision of business incubation services in Sughd.

²⁰ A recent study of 9 business incubators in 8 ECA countries across found that the incubators studied have generally been effective in fostering entrepreneurship and high quality job creation²⁰ (World Bank 2014).

terms of sales revenue or profitability. The Business Incubator²¹ is expected to ensure the following services to its members (please see the Table below):

Table A2.1: Key components of business incubation

Services	Benefits
Infrastructure (e.g. office space, meeting rooms, electricity, phone, internet, lab facilities, etc.)	Economies of scale decrease the cost of starting a business + benefits from a professional look and brand.
Business services (e.g. help with registration, licenses, accounting, strategy advice, market research, exporting facilitation, etc.)	Help with non-core business activities saves time and money
People connectivity (e.g. mentoring, coaching, and interaction with fellow entrepreneurs (a micro-cluster), market linkages)	Learning, exchange of ideas, psychological support, partnerships, business relationships

Source: World Bank (2014) Impact Assessment of Business Incubation Models in Eastern Europe & Central Asia. 2014. infoDev, Finance and Private Sector Development Department. Washington, DC: World Bank.

27. On the mentoring and training services side, the project will support existing and new business coaching/mentorship (start-up and early entrepreneurship development) opportunities implemented including business connect meetups for start-ups, public lectures by role models/mentors, and other competitively selected proposals to develop an ‘entrepreneurship ecosystem.’ An open call for proposals would be done at least twice a year, and the proposals would be evaluated by an independent panel based on criteria to be developed and reflected in the POM. Applications focusing on youth, women or PWD-led start-ups would be given priority.

28. Specifically, the component will finance the following:

- A pilot of a business incubator in Khatlon (or another region, based on demand): Based on lessons learned in other ECA countries and local experience (incubators in Khujand and Dushanbe), the Project will finance development and piloting of a business incubator. A feasibility study is underway to assess the specific needs of aspiring entrepreneurs or young enterprises in Khatlon Region, and the most suitable operational modalities for such a business incubator. It would also include a detailed plan for development of such incubator, and detailed costing. It is expected that the project would pay for refurbishment of the premises (if needed), equipping the business incubator, staff skill improvement, as well as operating costs.
- Competitive grants to existing and new business coaching/mentorships to support start-ups more generally (with a particular focus on women-, and youth-led, and PWD-led/employing enterprises): The Project will finance small grants (~US\$500 – US\$1,000) to support existing and new business coaching/mentorships opportunities implemented including business connect meetups for start-ups, public lectures by role models/mentors, and other competitively selected proposals to develop an ‘entrepreneurship ecosystem.’ The grant program will be done in collaboration with the Entrepreneurship Hub.

²¹ The financial services, which often form part of the services package at a business incubator will not be provided by the Business Incubator set up under the project.

29. ***Implementation arrangements:***

- A pilot of a business incubator will be implemented by a competitively selected service provider. Proposals including public-private partnership approaches (in collaboration with universities, business associations, and government agencies) will be prioritized in the selection.
- Competitive grants to existing and new business coaching/mentorships will be implemented by the Entrepreneurship Hub, NGOs, private sector associations. Further details will be provided in the Project Operational Manual.

Annex 3: Implementation and Fiduciary Arrangements

Project Implementation Arrangements

1. The MOF PMU is implementing the ACP's credit line and the related TA to PFIs under Component II. As most of the proposed project activities are more relevant to the activities currently being implemented by PMU MOF, it was agreed that MOF PMU will be the main implementing unit for the AF. Hence, the proposed additional activities under Component II and proposed new activities under the Component IV (as described above) will be implemented by the MOF PMU. The MOF PMU will also be responsible for the relevant procurement, financial management and Monitoring and Evaluation (M&E) activities, including the baseline studies/surveys for the project, as well as establishment and maintenance of the Grievance Redress Mechanism (GRM). Support to Environmental and Social aspects of the AF is expected to be provided by the Specialists of the AED PMU. Additional staff, as necessary, will be hired at MOF PMU.

2. The existing TACP's M&E system will be further enhanced to capture the jobs creation impact of the AF funded activities. A rigorous monitoring of this activity will be carried out by the MOF PMU to ensure that the jobs created as a result of loans/matching grants are new (through robust baseline data collection) and sustainable (i.e. long-term such as those lasting at least 12 months). Project's M&E system will be further enhanced to capture different dimensions of jobs created, including wages/earnings. It was also agreed that financial management and procurement capacity assessments will be carried out in the coming weeks to assess the current capacity of PMU MOF to implement the Project.

3. The Project Steering Committee was set up under the ACP to provide strategic guidance for project implementation, as well as ensure that key issues that need to be resolved are brought to the attention of the Government and their resolution facilitated. The Steering Committee consists of representatives of the Prime Minister's Office, Ministry of Agriculture, Ministry of Finance, Ministry of Economic Development and Trade, Ministry of Education, National Bank of Tajikistan, and private sector representatives. The ACP Steering Committee will provide strategic guidance also for the Additional Financing.

Environmental and Social Aspects

4. While the proposed project restructuring and additional financing will not change the project category and not trigger new safeguards policies, the scope of access to financing will be broader, including also a wide range of new rural business activities (such as manufacturing; providing services to local population; etc.), outside of traditional agriculture and agribusiness. This required updating of the initial project Environmental and Social Management Framework (ESMF) by providing guidance on potential environmental and social impacts for the new types of business activities that would be financed along with monitoring requirements and implementing arrangements. The revised ESMF done by the client also clarifies the procedures of the subprojects' Environmental Assessment (EA) and of preparing Environmental and Social Management Plans (ESMPs) for sub-projects to be financed, including for business incubators to

be build or rehabilitated in Khatlon region, considering the experience obtained implementing the ACP during 2015-2017. The ESMF also proposes the curricular for the training which includes applicable safeguard requirements to address the impacts related to commercial agro enterprises for TA activities for the proposed under Component 1 Training and Advisory Services activities, as well as measures for EA capacity building for micro-finance institutions (MFIs) under the revised Component 2. Any activities involving new construction and/or expansion of existing facilities that might trigger OP4.12 would be diligently screened out and not financed by the project. Any activities involving child and forced labor will also be screened out.

5. The revised ESMF have been disclosed and consulted with all interested parties before Appraisal. The Environmental and Social Specialists have the relevant capacity to implement environmental and social safeguards issues, - based on last WB implementation support missions (in 2016-2017), the project environmental and social performance is considered satisfactory.

Procurement

6. Procurement for the proposed AF will be carried out in accordance with both “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (revised July 2014) and “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers,” dated January 2011 (revised July 2014). The World Bank “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants” dated October 15, 2006 and revised in January 2011 and as of July 1, 2016, will also apply. For each contract to be financed by the Association, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between MOF PIU and the Association task team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect actual project implementation needs and improvements in institutional capacity.

7. The MOF PMU will be responsible for the project procurement. The MOF PMU is implementing several donor-financed projects with credit lines activities.

8. MOF PMU procurement capacity. The initial overall procurement risk under the project is currently assessed as Substantial. The key issues and risks concerning procurement include: (i) given the larger scale of the program, the PMU may not be able to cope with additional responsibilities assigned under the project; (ii) Beneficiaries of the credit lines and beneficiaries of the Grants may have limited procurement experience; participating financial institutions (PFIs) may not have knowledge of procedures to ensure acceptability of procurement methods used to the Bank; (iii) Limited contract monitoring and management skills and tools; and (iv) Overall high public procurement risk environment.

9. Given the above risks and based on the lessons learned from similar experiences, the following measures are proposed to strengthen MOF PMU’s capacity and ensure effective project implementation:

- Hiring of additional procurement staff;

- Arrangement for dissemination of procurement knowledge by PMU-MOF to PFIs credit officers. The PMU would update the existing procurement manual in part applicable to the Credit Lines. The PMU-MOF would deliver regular procurement training on the manual to the PFIs credit officers working with the Credit Lines target beneficiaries;
- Establishing contract management system; training of respective staff in appropriate areas related to procurement and contract management;
- Enforcement of public disclosure and transparency provisions of the Bank’s Guidelines; due diligence on winning bidders; close Bank’s implementation supervision.

Financial Management

10. The financial management responsibilities for the Additional Financing (P158499) to the Agriculture Commercialization Project would remain with the MOF PMU. The organizational structure is in place for the implementation of the Project. The MOF established internally a Project Management Unit (MOF PMU) responsible for fiduciary and technical support. The MOF PMU recruited the FM Consultant and Disbursement Consultant to provide support for all fiduciary aspects to the Chief Accountant of PMU, who is overall responsible for the financial management arrangements. The MOF PMU has gained required capacity in implementing donor funded projects, it is adequately staffed and appropriate controls and procedures have been instituted. The internal control system for projects at the PMU continues to be overall acceptable to the Bank. The Project Director approves all project expenditures and signs the payment orders along with the Chief Accountant of the PMU. The financial management arrangements for the Projects including accounting and reporting arrangements, internal control procedures, planning and budgeting, external audits, funds flow, organization and staffing arrangements are assessed as **moderately satisfactory**.

11. The MOF PMU submits quarterly IFRs on time and they are satisfactory to the Bank. The project audit for CY2016 was issued with unmodified opinion. The consolidated audit report and the accompanying project financial statements are acceptable to the World Bank.

12. To improve the financial management capacity, the MOF PMU should update the existing automated accounting system for the AF to cope with the rigorous requirement for project accounting and reporting, inbuilt controls and capacity to generate consolidated interim unaudited financial reports (IFRs), and update the existing FM chapter of the POM to enable to track the activities of the proposed project in proper manner.

13. **Financial management arrangements for the project are adequate.** However, the following action plan, as agreed with the MOF PMU, will need to be implemented to incorporate additional financial management requirements for the proposed project.

		Action	Responsibility	Completion Date/remarks
1	Revision of Financial Management part of the POM	Financial Management part of POM needs to be updated to reflect AF activities.	MOF PMU	Effectiveness
2	Accounting software implementation	Accounting software needs to be updated, including development of consolidated	MOF PMU	Within 30 days after

	reports.		Effectiveness
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14. The MOF PIU is recommended to open a DA in a commercial bank, acceptable to the WB for the portion of credit and grant funds allocated to it. The ceiling for the Designated Account and other disbursement details will be provided in the Disbursement and Financial Information Letter. However, the situation in TJ banking sector continues to be very problematic. The main issues are high NPLs, insufficient provisioning, liquidity issues (local currency as well as foreign currency), delays in processing transactions/payments and issuing bank statements, etc. the Bank will conduct a review of banks audited financial statements of 2016 to assess the current situation of local banks issues, due to capital deficiency and serious under provision for bad loans. Based on that the Bank will update its list of acceptable commercial banks for TJ. The Bank is discussing with the MOF this difficult situation and suggested to transfer all projects DAs currently held with local commercial banks into widely-known international commercial banks outside Tajikistan. Under the original project funds are inaccessible in DA account in Tojprombank (TPB) in amount of USD 257,194.83. As the TPB is in liquidation, World Bank’s preferred creditor status applies, and as soon as TPB assets will be sold, DA will be able to recoup losses from proceeds of sale.

15. The MOF PMU will submit quarterly consolidated interim un-audited financial reports (IFRs) that will be generated by the respective accounting software 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 DA, will be submit-ted 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.

16. The MOF PMU will submit the annual consolidated audited project financial statements within six months of the end of each fiscal year of the Client. Each such audit will include the project financial statements, SOEs and DA Statement. The cost of the audit will be financed from the project funds. Following the Bank’s formal receipt of the audited financial statements from the MOF PMU, the Bank will make them available to the public in accordance with the Bank’s Access to Information (AI) Policy through its website. In addition, the MOF PMU will publish the audit reports in a manner satisfactory to the Bank.

17. The overall residual FM risk of the project is **Substantial**.

Annex 4: Economic and Financial Analysis

1. Support for small and medium-scale rural business activities will provide additional income opportunities for rural households and generate non-farm employment in rural areas. Evidence from other countries indicates that increased rural incomes also have a wider, indirect impact on rural economies, with a multiplier effect of 1.5-1.8. Project support for rural businesses will include: a US\$13.2 million (including beneficiary contribution of US\$1.7 million equivalent) extension of the existing project credit line for investment; a 50 percent matching grant to further support start-ups by youth (up to 30 years of age), women and PWD; and the provision of entrepreneurship training and business development services.

2. While these project inputs will provide critical resources and services for business development, they will not target specific types of business enterprise. The choice of business activity will be decided by project beneficiaries according to their objectives, skills and resources. As this choice cannot be determined *ex-ante*, it is not feasible to calculate an overall economic or financial return for this project component. The diverse nature of rural business activities (tailors, mobile phone repair shops, brick-makers, veterinary services, agro-input shops etc), and their wider, indirect multiplier effects further complicates any attempt to aggregate the impact of these activities and calculate an overall economic or financial rate of return.

3. Economic and financial analysis is thus based on the calculation of financial internal rates of return (FIRR) for a representative sample of small and medium-scale rural enterprises, to demonstrate their viability. The sample includes six small-scale enterprises suited to youth, women and PWD – which would be eligible for both credit and matching grants; and two medium-scale enterprises, which would be eligible for credit only.

4. Projected FIRRs from this representative sample were high, consistent with the observed growth of business activity in rural areas. Further sensitivity analysis showed that, in most cases, these returns were robust in the face of income falls of 10 percent or cost increases of 10 percent. Due to the high interest rate (28 percent) on project credit, projected profitability and viability were higher for enterprises with lower capital requirements and lower consequent loan requirements. A higher equity contribution from the owner also improves profitability and viability, by further reducing loan size. As the high interest rate limits the benefits conferred by extending the loan term or grace period, the analysis assumes that loans are repaid as quickly as possible – without compromising underlying viability.

FIRR and Sensitivity Analysis for Representative Rural Business Enterprises

5. A summary of the financial analyses for the sample of rural business enterprises considered suitable for finance is presented below. All have a positive net present value (NPV), with FIRR values ranging from 28 percent - 40 percent.

6. All analyses were generated with the following assumptions:

- Calculated in somoni (TJS), with a discount rate of 12 percent;
- A beneficiary contribution of 20-30 percent of the total cost of the investment;
- A matching grant of 50 percent of the total cost for enterprises suited to youth, women and

PWD;

- Loan terms: 28 percent interest in TJS, with maturity at 2-5 years; and a grace period of 3-9 months;
- Taxes were based either on the “simplified tax” of 5 percent levied on small businesses employing staff, with a gross income less than one million TJS; or on a monthly, flat “patent tax” of 100-250 TJS/month (depending on the type of activity and size of business) for small businesses not employing staff.
- Payments for social welfare were calculated at 25 percent of salary costs, or 1 percent of total revenue.
- Wages were set at or above the current legal minimum wage rate of 800 TJS/month, with: 800-900 TJS/month for unskilled labor and 1,000-1,200 TJS/month for semi-skilled or skilled labor. Piece work rates were used for brick-making labor, consistent with current practices.

7. Detailed financial projections and calculations of the FIRR and sensitivity analyses are contained in the project files.

8. **Mobile Phone Repair Service:** The use of mobile phones is now widespread in Tajikistan, with subscription rates of 98.6/100 people in 2015 – up from 65.8/100 people in 2009 (World Bank Development Indicators). This creates a high demand for local mobile phone repair services.

9. Financial analysis assumes that the business is run by an owner-operator, with no staff employed. Start-up costs are low for people with the requisite skills and experience, with the main costs being: rented office space, basic furniture, a back-up power supply, tools, a computer, and a small stock of spare parts. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first 2 months. The loan assumes a grace period of 3 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	15,500	Loan Term	2.0 years	Investment Period	4 years
Working Capital	11,499	Interest Rate	28%	NPV	4,330 TJS
Total	26,999	Grace Period	3 months	FIRR	35%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	10,800			10% cost increase	17%
Matching Grant	10,800			10% revenue fall	13%
Owner Contribution 20%	5,400				

10. The enterprise has a high potential profitability, with an FIRR of 35 percent, an NPV of

4,330 TJS and the capacity to repay the loan in 2.0 years. Once the loan is repaid the enterprise will generate an estimated annual income of 19,240 TJS after tax, sufficient to cover the owner-operator's annual "salary" of 12,000 TJS plus a "profit" of 7,240 TJS. Sensitivity analysis shows that returns remain adequate in the face of a 10 percent cost increase or a 10 percent fall in revenue.

11. **Tailor Shop:** Per capita household expenditure grew by 22 percent in real terms from 2005-2013 (World Bank Development Indicators), with a consequent growth in consumption. Household demand for consumer goods such as clothes has grown in response, creating opportunities for small-scale tailor shops to thrive.

12. Financial analysis assumes a business run by an owner-operator, with four salaried staff. Start-up costs include: rented floor space, basic furniture, five sewing machines and other sundry equipment. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first 2 months. The loan assumes a grace period of 6 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	33,500	Loan Term	2.5 years	Investment Period	5 years
Working Capital	24,135	Interest Rate	28%	NPV	11,156 TJS
Total	57,635	Grace Period	6 months	FIRR	31%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	23,054			10% cost increase	15%
Matching Grant	23,054			10% revenue fall	13%
Owner Contribution 20%	11,527				

13. The enterprise has a strong potential profitability, with an FIRR of 31 percent, an NPV of 11,156 TJS and the capacity to repay the loan in 2.5 years. Once the loan is repaid the enterprise will generate an estimated annual income of 26,358 TJS after tax, sufficient to cover the owner-operator's annual "salary" of 12,000 TJS plus a "profit" of 14,358 TJS. The enterprise will also provide full-time employment for four people. Sensitivity analysis shows that returns remain adequate in the face of a 10 percent cost increase or a 10 percent fall in revenue.

14. **Agro-Input Shop:** The demand for agricultural inputs continues to grow in Tajikistan, driven by the expansion of livestock, fruit and vegetable production. Fruit production has increased by more than 120 percent since 2005 and vegetable production by more than 145 percent. This has boosted the demand for seeds, seedlings, agricultural chemicals and fertilizer; and suppliers who can provide informed advice on how best to use these farm inputs. Similar growth in the livestock sector has increased the demand for animal feed (see discussion of veterinary service enterprise).

15. Analysis of the returns to an agro-input shop assumes a small business run by an owner-operator, who also supplies other goods such as construction materials to improve viability and cash flow. Start-up costs are relatively low, with the main costs being: the rent of storage and retail space, office furniture, construction of a small greenhouse for seedling production, and a small stock of seeds, chemicals, fertilizer, animal feed and tools. As the sale of these products is highly seasonal, the analysis assumes that the enterprise sells crop products for 6 months and livestock products for the other 6 months of the year. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first month. The loan assumes a grace period of 6 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	13,000	Loan Term	2.5 years	Investment Period	4 years
Working Capital	13,925	Interest Rate	28%	NPV	3,210 TJS
Total	26,925	Grace Period	6 months	FIRR	28%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	10,770			10% cost increase	20%
Matching Grant	10,770			10% revenue fall	16%
Owner Contribution 20%	5,385				

16. The enterprise has a strong potential profitability, with an FIRR of 28 percent, an NPV of 3,210 TJS and the capacity to repay the loan in 2.5 years. Once the loan is repaid the agro-input shop will generate an estimated annual income of 19,232 TJS after tax, sufficient to cover the owner-operator's "salary" of 12,000 TJS plus a "profit" of 7,232 TJS. The agro-input shop also provides an essential private sector service for agriculture. Sensitivity analysis shows that returns remain high in the face of a 10 percent cost increase or a 10 percent fall in revenue.

17. **Private Veterinary Service:** The strong continued growth of the livestock sector creates a strong demand for veterinary services. Cattle numbers have increased by more than 60 percent since 2005, sheep and goat numbers by more than 80 percent, and the gross value of livestock production has more than tripled (FAOSTAT). Increasing returns to livestock production have also raised farmers ability to pay for private veterinary services.

18. Analysis of the returns to a veterinary clinic assumes a business run by a qualified veterinarian. No staff are employed. Low start-up costs include the rental of office space, purchase of a motorbike for transport, a refrigerator for storing medicines and a small stock of livestock medicine. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first 2 months. The loan assumes a grace period of 6 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	18,000	Loan Term	2.5 years	Investment Period	5 years
Working Capital	9,637	Interest Rate	28%	NPV	6,279 TJS
Total	27,637	Grace Period	6 months	FIRR	31%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	11,005			10% cost increase	16%
Matching Grant	11,005			10% revenue fall	12%
Owner Contribution 20%	5,527				

19. The enterprise has a strong potential profitability, with an FIRR of 31 percent, an NPV of 6,279 TJS and the capacity to repay the loan in 2.5 years. Once the loan is repaid the clinic will generate an estimated annual income of 22,452 TJS after tax, sufficient to cover the owner-operator’s “salary” of 14,400 TJS plus a “profit” of 8,052 TJS. The enterprise also provides an essential private sector service for agriculture. Sensitivity analysis shows that returns remain adequate in the face of a 10 percent cost increase or a 10 percent fall in revenue.

20. **Small-Scale Poultry Farm (Eggs):** Domestic egg production in Tajikistan has tripled since 2005 (FAOSTAT) in response to growing consumer demand. Low start-up costs and the ability to scale-up easily mean that small-scale egg producers can benefit from this growth in demand. Small-scale egg production farms are also relatively easy to manage in association with other income earning or household activities, and so well suited to women, youth and PWD.

21. Analysis is based on a 300 layer business run by an owner-operator, with family labour. Start-up costs include: simple housing, equipment (ventilators, cages, incubators), a back-up power generator, 300 laying hens and poultry feed. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first 3 months. The loan assumes a grace period of 6 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	42,000	Loan Term	2.0 years	Investment Period	5 years
Working Capital	9,278	Interest Rate	28%	NPV	17,707 TJS
Total	51,278	Grace Period	6 months	FIRR	39%

<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	20,511			10% cost increase	19%
Matching Grant	20,511			10% revenue fall	11%
Owner Contribution 20%	10,256				

22. The enterprise has a strong potential profitability, with an FIRR of 39 percent, an NPV of 17,707 TJS and the capacity to repay the loan in 2.0 years. Once the loan is repaid the enterprise will generate an estimated annual income of 39,487 TJS after tax, sufficient to cover the owner-operator’s “salary” of 10,800 TJS plus a “profit” of 17,477 TJS. Sensitivity analysis shows that returns remain high in the face of a 10 percent cost increase or a 10 percent fall in revenue.

23. **Small-Scale Brick Production Business:** Construction is a continuous source of economic activity in Tajikistan, as businesses expand and modernize and households seek to improve their living conditions. This continuous demand creates opportunities for enterprises that produce low-cost construction materials such as bricks.

24. Analysis of the return to small-scale brick production assumes a business run by an owner-operator, with four staff working on piece-rates (based on the number of bricks produced). Equipment costs raise start-up costs but the reliance on piece-work employment makes this enterprise flexible in the face of changes in demand and so quite resilient. The enterprise is assumed to operate for 8 months of the year. Total borrowing is based on the need to finance 80 percent of capital costs plus working capital to cover operating costs for the first 3 months. The loan assumes a grace period of 6 months.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	74,000	Loan Term	2.5 years	Investment Period	6 years
Working Capital	44,404	Interest Rate	28%	NPV	37,974 TJS
Total	118,404	Grace Period	6 months	FIRR	35%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	44,401			10% cost increase	19%
Matching Grant	44,401			10% revenue fall	11%

Owner Contribution 20%	29,601				
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25. The enterprise has a strong potential profitability, with an FIRR of 35 percent, an NPV of 37,974 TJS and the capacity to repay the loan in 2.5 years. Once the loan is repaid the enterprise will generate an estimated annual income of 39,513 TJS after tax, sufficient to cover the owner-operator's "salary" of 9,600 TJS (for 8 months) plus a "profit" of 31,513 TJS. The enterprise will also provide employment for four people for 8 months/year. Sensitivity analysis shows that returns remain high in the face of a 10 percent cost increase or a 10 percent fall in revenue.

26. **Medium-Scale Poultry Farm (Eggs): No Matching Grant.** Analysis of a medium-scale poultry farm is based on a 500 layer business run by an owner-operator, with one employee plus family labor. Start-up costs include: housing, equipment (ventilators, cages, incubators), a back-up power generator, 500 laying hens and poultry feed. Total borrowing is based on the need to finance 70 percent of capital costs plus working capital to cover operating costs for the first 3 months. The loan assumes a grace period of 6 months. The enterprise is not eligible for a matching grant.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	58,000	Loan Term	3.0 years	Investment Period	5 years
Working Capital	15,857	Interest Rate	28%	NPV	22,059 TJS
Total	73,857	Grace Period	6 months	FIRR	33%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	51,700			10% cost increase	13%
Matching Grant	0			10% revenue fall	10%
Equity Finance (30%)	22,157				

27. The enterprise has a strong potential profitability, with an FIRR of 33 percent, an NPV of 22,059 TJS and the capacity to repay the loan in 3.0 years. Once the loan is repaid the enterprise will generate an estimated annual income of 39,304 TJS after tax, sufficient to cover the owner-operator's "salary" of 12,000 TJS plus a "profit" of 27,304 TJS. The enterprise also provides full time employment for one employee. Sensitivity analysis shows that returns remain adequate in the face of a 10 percent cost increase or a 10 percent fall in revenue.

28. **Medium-Scale Brick Production Business: No Matching Grant**

29. Analysis of the return to a medium-scale brick production enterprise assumes a business run by an owner-operator, with six staff working on piece-rates (based on the number of bricks

produced). Equipment costs raise start-up costs but the reliance on piece-work employment makes this enterprise flexible in the face of changes in demand. The enterprise is assumed to operate for 8 months of the year. Total borrowing is based on the need to finance 70 percent of capital costs plus working capital to cover operating costs for the first 3 months. The loan assumes a grace period of 9 months. The enterprise is not eligible for a matching grant.

Investment Requirement (TJS)		Loan Terms		Financial Indicators	
Assets	83,000	Loan Term	4.0 years	Investment Period	6 years
Working Capital	69,369	Interest Rate	28%	NPV	118,612 TJS
Total	152,369	Grace Period	9 months	FIRR	40%
<i>Of Which</i>				<i>Sensitivity Analysis</i>	<i>FIRR</i>
Loan	106,658			5% cost increase	16%
Matching Grant	0			5% revenue fall	15%
Equity Contribution 30%	45,711				

30. The enterprise has a strong potential profitability, with an FIRR of 40 percent, an NPV of 118,612 TJS and the capacity to repay the loan in 4.0 years. Once the loan is repaid the enterprise will generate an estimated annual income of 59,598 TJS after tax, sufficient to cover the owner-operator's "salary" of 9,600 TJS (for 8 months) plus a "profit" of 49,998 TJS. The enterprise also provides employment for six people for 8 months/year. Sensitivity analysis shows that returns remain high in the face of a 5 percent cost increase or a 5 percent fall in revenue, but the large loan required and high consequent repayment costs limit sustainability when profitability falls by more than 5 percent.

Annex 5: Social Issues in the AF to Agriculture Commercialization Project

1. The borrower has updated a Social Assessment (SA) prepared for the original ACP project, which along with the Environmental Assessment (EA) is included within a single Environmental and Social Management Framework (ESMF) for the expanded scope of activities under the AF. Guided by the project's expanded scope, the SA aimed, therefore, to focus on the social context in which additional beneficiaries including vulnerable groups like women, youth, returning migrants of both genders and PWD cope with livelihood challenges. The SA was prepared in consultation with and inputs from a range of stakeholders including local government authorities, community (jamoat, mahalla) leaders, non-government organizations and community members (men and women), returning migrants and PWD. The draft SA was disclosed in-country in May 2017 and public consultations were held in three potential project sites. Consultations were well attended and included a broad range of stakeholders. This Annex provides details on the specific elements of the AF design.

Gender

2. The original project acknowledged that women heavily relied on agriculture for employment and income generation though their voice, decision -making power and/or earning capacity were limited. The constraints to higher incomes from agriculture were significant in rural areas where women face cultural and structural barriers. Few women hold use rights to lands and even in cases where opportunities for de facto ownership persist women have limited voice in decision making. Access to information by women female laborers and farmers in most cases was limited and informed by cultural norms.

3. Findings of the updated Social assessment further confirm this as well as conclusions from other sources²² about a complex context which impacts women's participation in commercial/entrepreneurial activity in agriculture. Women, despite the proclaimed legal and social equality, do not enjoy an equal access to land compared to men and especially in rural areas due to marriage patterns and customary norms. Rural women are not adequately aware of their economic rights, as well as legal rights to the use of land and face specific difficulty accessing finance due to poverty, lack of collateral, education, and knowledge. While engaged in almost all fields of the economy and mostly in agriculture, they continue to earn rather low wages. By some estimates, 48 percent of women are employed in agriculture, but the figure could be higher if all the unpaid women who work alongside their husbands or other male relatives were counted.

4. The project will factor in the above constraints and will ensure that women have better access to economic opportunities offered by the project and especially to those with low levels of knowledge of legal rights to land, finances, and lacking basic skills to participate in its activities for income generation. Specifically, the project will strive to ensure:

- Gender- informed training (both in substance and delivery) at a community level on equal access of women to land to raise their awareness of the relevant legal documents, land reforms and procedures for establishing dehkan (commercial) farms and their management;

²² Tajikistan CPS for FY15-18
Tajikistan Country gender Assessment. ADB. 2016

- Develop and deliver training modules for rural women with low levels of financial literacy to inform them on the project’s financial programs and instruments as well as programs of other financial institutions and build their skills and capacity for entrepreneurship and commercial activities;
- Project interventions that respond to women’s needs based on assessment of their demands;
- Conduct advocacy programs on the role of women in land reform. Such programs shall cover women-farmers and rural women-leaders;
- Access to project’s grievance redress mechanism.

5. These elements of the project design will also be consistent with most recent strategic initiatives in Tajikistan in this regard. Namely, the private sector-led growth pillar in the CSP Tajikistan which focuses on improving women’s access to economic opportunities, building their capacity and skills, and providing access to land rights and finance leading to higher productivity especially in the low paid agriculture sector. The support for women’s entrepreneurship is also a goal of the National Strategy for Enhancing the Role of Women in the Republic of Tajikistan for 2011–2020.

Persons with disabilities

6. In accordance with the RT Constitution (1994, amended in 2003), every individual, including persons with disabilities, shall be treated equally and has the right to all services guaranteed by the Government. The Law on Social Protection of Persons with Disabilities, approved in December 2010, represents a significant advance on the 1991 law with the same title and lays the basic foundations for compliance with the Convention on the Rights of Persons with Disabilities. The Law states that it “shall determine the legal, economic and organizational basis for ensuring the social protection of PWD and provide them with equal opportunities for vital activity and integration into society”²³

7. It is obvious that persons with disabilities (PWD) are granted specific rights under Tajik legislation. However, while some parts of legislation are fully designed to suit persons with disabilities, most of these rights are defined in subsections and articles. Despite a body of law that has the potential to define the rights of persons with disabilities adequately, this fragmentation constitutes a major barrier to the implementation of a coherent system of services.²⁴ Moreover, due to the economic situation in the country funding to implement programs to socially support PWD appears to be curtailed.

8. Persons with disabilities in Tajikistan, like in any other developing country, face a multitude of barriers to securing a decent livelihood. Difficulty in identification of suitable jobs, accessibility, negative attitudes and lack of education and skills are among major factors that affect their livelihoods. With poverty levels still noteworthy, especially in rural areas the exact number of PWD who live in poverty can hardly be determined for the lack of sufficient and accurate data. Empirical analysis suggests that most of PWDs in Tajikistan do not have opportunities for

²³ Situational Analysis State of rehabilitation in Tajikistan. Disability and Rehabilitation Program. Breaking Barriers to Include All. WHO. 2015

²⁴ Ibid

employment. The unemployment rates among them might be very high though no accurate data are available.

9. The SA notes that PWDs tend to use their legal right to access to land. Most of those who have own land plots (shares) at dehkan farms usually involve their family members and close relatives (wife, children), if they do not have a physical ability to garden own land plots. However, PWDs are not entitled to any special/additional privileges related to access to land, financial resources (loans) and other services. Likewise, PWDs and parents of children with disabilities do not receive any targeted financial or any other in-kind support (in the form of seeds, seedlings, equipment, etc.) either from government or donors for agricultural production.

10. Within agricultural associations there is no specialized support for farms led by persons with disabilities. Due to specifics of rural environment, the accessibility to places where the agricultural farms are located is a most common challenge for PWDs. At a community level, transportation for people with minor impairments (claudication, poor eyesight and hearing, paralyzed arm and other physical limitations) is non-existent. The need for specialized wheelchairs, self-propelled carts and other support for PWDs is acute to enable their commute especially when exposed to cold and heat when they need to work in the field.

11. The project will effort to include PWDs in its activities through:

- Special trainings organized for PWD, business owners employing them, local authorities responsible for social protection to increase awareness of the PWD legal rights, types of social assistance available, ways to empower them through education and employment;
- Monitoring participation of the PWD in project activities;
- Considering options for concessional loans/ grants for employers of PWD.
- Develop programs to support self-employed PWD in rural areas where unavailability of the necessary resources as well as lack of supportive environment for livelihood opportunity are absent.

Returning migrants

12. The economic downturn as well as rigid measures taken in Russia to curb outside labor migration during the past few years has forced many young men and women to return to their homeland. With limited opportunities to be employed in urban areas many of them now seek employment opportunities in agriculture. Returning migrants do not have any barriers with to access to land, some even possess own shares at dehkan farms. However, many of them lack a basic knowledge of how to run a business in agriculture. The state employment agencies do not provide them with any specialized or business courses or any agricultural programs. In addition, local authorities do not keep a record of returning migrants employed in agricultural sector.

13. Majority of this target group have some or very limited experience in participating in financial programs (mainly loans) for agriculture. At the time of the survey and consultations they believed they could benefit from such programs in future if offered. However, many cautioned on the risks involved that a lack of knowledge or poor financial literacy might lead to non-purposeful use of financial resources and inability to repay duly loans and interests.

14. In building capacity of this target group the project will aim not only to enhance its formal access to finance, but also access to technical and financial services aimed at supporting entrepreneurship. Such assistance will include, but not limited to, training, advisory and business extension services, assistance in drafting financial statements and preparing loan/credit applications. While young women from this group will also benefit from other trainings and programs designed for women.

15. The overall approach will be to aim to form long-lasting partnerships among participants of the value chain. Workshops bringing together different parties in the chain will be provided where they will have an opportunity to engage and share information with each other and discuss specific problems within the value chain. Such approach will enhance trust among different players.

Child and Forced Labor

16. Child and forced labor in agriculture is mainly associated with cotton production in general. Currently, child labor is broadly regarded as a support to parents off school hours without disturbing school attendance while there is no pressure from the local authorities to use child labor in agricultural production. The project will continue its implementation in compliance with applicable national legislation on child and forced labor. As in the case of the original project, the AF will not finance any interventions in the cotton sector. Mitigation measures that are in place to avert the risk of financing investments in which child and forced labor is utilized will be further sustained for the AF.

OP 4.12 Involuntary Resettlement

17. The policy is not triggered under the project. All activities will take place on privately held land and the checklist of the EMP used for the original project to screen out projects with OP 4.12 impacts will be continued.

Grievance Redress Mechanism

18. The Grievance Redress Mechanism (GRM) established for the original project will be modified to include the expanded activities and newly targeted beneficiaries. The management of current GRM will, therefore, be assessed. Any shortcomings of the existing system and the extent to which satisfactory outcomes can be enhanced will be examined. Furthermore, it will continue to be used as a vehicle for continued engagement with different stakeholders participating in project activities.