

Report No. 83254-UZ

**The Inspection Panel** 

**Report and Recommendation**

**REPUBLIC OF UZBEKISTAN:  
Second Rural Enterprise Support  
Project (P109126) and Additional  
Financing for Second Rural  
Enterprise Support Project (P126962)**

**December 9, 2013**

# **The Inspection Panel**

## **Report and Recommendation On Request for Inspection**

### **REPUBLIC OF UZBEKISTAN: Second Rural Enterprise Support Project (P109126) and Additional Financing for Second Rural Enterprise Support Project (P126962)**

#### **A. Introduction**

1. In accordance with the Resolution (hereinafter “the Resolution”)<sup>1</sup> establishing the Inspection Panel (hereinafter “the Panel”), the purpose of this Report and Recommendation on Request for Inspection (hereinafter “the Report”) is to make a recommendation to the Board of Executive Directors as to whether the Panel should investigate the matters alleged in the Request for Inspection (hereinafter “the Request”).<sup>2</sup> The Panel’s recommendation is based on its confirmation of the technical eligibility of the Request and its assessment of other factors as stipulated in the Resolution.
2. This Report begins with a description of the Project, which is the subject of the Request (Section B) and continues with summaries of the written Request as received by the Panel (Section C) and of the Management Response to the Request (Section D). Section E contains the Panel’s review of the Request and Management Response. It begins with the determination of the technical eligibility of the Request, in accordance with the 1999 Clarification,<sup>3</sup> in subsection E (1). Subsection E (2) summarizes the Panel’s observations pertaining to other factors considered in making the Panel’s recommendation to the Board. Finally, the Panel’s recommendation is presented in Section F.
3. On September 5, 2013, the Inspection Panel received a Request related to the Uzbekistan: Second Rural Enterprise Support Project (RESP-II) and its Additional Financing (hereinafter both referred to as “the Project”). The Request was submitted by three representatives: Ms. Inoyatova Vasila Akhmedjanovna, Chair of the Human Rights Society of Uzbekistan “Ezgulik”, Ms. Nadezhda Ataeva, President of the Association of

---

<sup>1</sup> International Bank for Reconstruction and Development (Resolution IBRD 93-10) and International Development Association (Resolution 93-6), “The World Bank Inspection Panel”, September 22, 1993 (hereinafter “the Resolution”), para 19. Available at:

<http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/ResolutionMarch2005.pdf>.

<sup>2</sup> The original Request is in Arabic and was translated by the Inspection Panel into English. The Request includes several attachments.

<sup>3</sup> 1999 Clarification of the Board’s Second Review of the Inspection Panel”, April 1999. Available at:

<http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/1999ClarificationoftheBoard.pdf>.

Human Rights in Central Asia, and Ms. Umida Niyazova, Head of the Uzbek-German Forum for Human Rights, on their behalf and on behalf of the signatories to the Request who requested the Inspection Panel to keep their identities confidential “*due to concern related to [their] personal safety*” (hereinafter “the Requesters”). The Requesters state that they are “*farmers, children, university students, public-sector workers, private-sector workers and parents*” who live in Andijon Region, Bukhara Region, Fergana Region, Kashkadarya Region, Samarkand Region, Syrdarya Region, and Tashkent Region of Uzbekistan and who claim to be impacted by the Project.

4. The Panel registered the Request on September 23, 2013 and Management’s Response was received on November 6, 2013.

## **B. The Project**

5. On June 12, 2008, the Board of Executive Directors approved RESP-II, a Specific Investment Credit of SDR 41.3 million (US\$68 million equivalent). On September 11, 2012 the Board approved an Additional Financing of SDR 26.4 million (US\$40 million equivalent) for RESP-II to support the scaling up of the sub-loans to beneficiaries. The Additional Financing for RESP-II has “*not yet been signed by the Borrower.*”<sup>4</sup> Sub-loans are provided through selected Participating Financial Institutions (PFIs).<sup>5</sup>
6. According to the Project Appraisal Document (hereinafter “the PAD”), the Project is intended to increase the productivity and financial and environmental sustainability of agriculture and the profitability of agribusiness in the project area. This would be achieved through the provision of financial and capacity building support to farmers and agribusinesses and improved irrigation service delivery through rehabilitation of irrigation and drainage infrastructure and strengthening of water user associations in seven districts within seven regions of Uzbekistan.<sup>6</sup>
7. The May 2008 PAD states that agriculture is an important sector of the Uzbek economy. Two main types of farms exist in Uzbekistan: first: dekhan (household plots with an average size of about 0.2 ha), and second: the much larger commercial farms (average size of 25.0 ha). The latter, which are private farms, “*cover 90 percent of arable land, produce 40 percent of gross agricultural output (the remainder is produced by subsistence dekhan farms), including 100 percent of total raw cotton output and 83*

---

<sup>4</sup> Management Response to Request for Inspection Panel Review of the Republic of Uzbekistan: Rural Enterprise Support Project - Phase II (P109126) and Additional Financing for Second Rural Enterprise Support Project (P126962), (hereinafter the “Management Response”), Executive Summary, p. iii para. iii.

<sup>5</sup> Management Response lists the following banks as the six participating financial institutions (PFIs): Agrobank, Hamkorbank, Mikrokredit Bank, Qishloq Qurilish Bank, Turon Bank and Uzpromstroibank. See Management Response p. 8 para. 28 (i).

<sup>6</sup> See Project Appraisal Document, Rural Enterprise Support Project Phase II, May 8, 2008, Report No: 43479-UZ (hereinafter the “PAD”), p. 4 para. 18. The PAD states that the Project will provide financial and capacity building support to farmers and agribusinesses in seven regions. These are identified as: Andijan (Ulugnor district), Bukhara (Alat district), Kashkadarya (Mirishkor district), Samarkand (Pastdargom district), Syrdarya (Bayavut), Tashkent (Buka district), and Fergana (Yazyavan district).

*percent of grain crops.*<sup>7</sup> Cotton and wheat are the main crops in each of the seven districts of the RESP-II Project area.

8. According to the PAD, the Project includes four Components as follows:
  - a. **Rural Finance**, which aims to enhance access to commercial financial services by the newly independent farmers and small/medium size rural enterprises, and provide assistance to the potential recipients on business planning and improving the sector-specific lending skills of the staff of the commercial lenders through training;
  - b. **Irrigation and Drainage**, aims to improve water management of irrigated areas in these seven districts, through investments in the rehabilitation of critical inter-farm and on-farm I&D infrastructure, strengthening Water Users Associations and investments in demonstration plots for modern irrigation techniques;
  - c. **Rural Training and Advisory Services**, aims to provide training and advisory services to newly independent farmers in various farm management skills; and,
  - d. **Project Management**, aims to cover overall management, monitoring and evaluation of Project implementation.<sup>8</sup>
9. The Project is environmentally categorized as “B” and the World Bank’s policies on Environmental Assessment (OP/BP 4.01) and Projects on International Waters (OP/BP 7.50) have been triggered. The PAD explains that the Project is environmentally categorized as “B” because it “*is not expected to have any significant or irreversible environmental impacts.*”<sup>9</sup> In addition, the 2012 Project Paper for the Additional Financing triggers the Financial Intermediary Lending Policy (OP/BP 8.30).
10. The implementing agency for the Project is the Rural Restructuring Agency. The Financing Agreement requires the Government to ensure that Participating Financial Institutions, Micro-Finance Institutions, and Lease Companies, which are financial intermediaries in this Project, base each sub-financing agreement on terms and conditions set in the “*Rural Enterprise Investment Guidelines.*” The Financing Agreement also requires that the “*Rural Enterprise Investment Guidelines*” include a provision stating that the Project’s beneficiaries<sup>10</sup> carry out sub-projects “*pursuant to the national legislation on child labor.*”<sup>11</sup>

---

<sup>7</sup> PAD, p. 19 para. 3.

<sup>8</sup> PAD, Project description *Ref. PAD B.3.A-D, Technical Annex 4*, p iv. See also PAD, pp. 5-9 paras. 19-39.

<sup>9</sup> PAD, p. 17 para. 77.

<sup>10</sup> Defined in the Financing Agreement as: “*any individual, private enterprise, farmer or farmers’ association who is either engaged in or intends to engage with support of Investment and Working Capital Sub-loan or Lease Financing or Micro Sub-loan in any agribusiness activity in a rural area (...), to which a PFI or an MFI, proposes to make or has made an Investment and Working Capital Sub-loan or a Lease Financing or a Micro Sub-loan.*” See Financing Agreement, Second Rural Enterprise Support Project between Republic of Uzbekistan and the International Development Association, dated October 8, 2008, Credit Number 4433-UZ (hereinafter the “Financing Agreement”), Appendix, Definitions, p. 20 para. 3.

<sup>11</sup> Financing Agreement, Schedule 2, Project Execution, Section I - Implementation Arrangements, Part D - Sub-financing, paras 2(f)(ii)(A).

11. At the time of the receipt of the Request, RESP-II (Credit No. 44330-UZ) was 67.75% disbursed. According to the Management Response, the credit line of the Rural Finance Component “has disbursed US\$35.8 million or 99 percent of the total amount allocated.”<sup>12</sup> The Additional Financing (Credit No. 51520-UZ) was approved by the Board but had “not yet been signed by the Borrower.”<sup>13</sup> The Closing Date for the Project is now set for December 31, 2016.

### C. Summary of the Request

12. Below is a summary of the issues raised in the Request for Inspection. The Request and its Annexes are attached to this Report as Annex I.
13. **Perpetuation of forced and child labor.** The Requesters consider that the Project’s lack of adequate measures to prevent Bank funds from being used for agricultural lands where forced labor is practiced, contributes to the Government’s policy of organizing forced labor. In turn, this harms the broader communities they represent.
14. The Requesters state that the Bank failed to adequately identify the problem of forced labor in the Social Assessment carried out prior to the Project. They add that no serious consideration or analysis was undertaken to assess if and how the Project could contribute to this problem. Instead, the Bank described the labor situation as one in which child labor is only sometimes used. The Requesters also add that the Bank rather than addressing the system of forced labor, only considered organizing training for farmers to prevent the use of child labor. They further add that because of this “*glaring omission*”, the Social Assessment misrepresents the risks and the nature of the problem and thus prevents the Bank from taking the steps necessary to avoid contributing to the problem of child labor and forced labor in the country. The necessary steps, according to the Requesters, should go beyond the training of farmers.
15. The Requesters further claim that although the Project is designed to support “*newly independent farmers*,” the Government forces children and adults to work in the cotton sector. They add that the cotton and irrigation systems serve as patronage systems, ensuring loyalty of regional and district authorities to the national administration. At the regional and district level, authorities extort citizens by withholding wages, asking for payments for unfulfilled quotas, or issuing fines for insufficient contributions to the cotton harvest. The Requesters state that in this climate, any investment in the agricultural sector merely sustains the actual system and the forced and child labor policy underpinning it.
16. **Impacts on the provision of public services (Education and Health).** The Requesters claim that, one of the direct harms from the perpetuation of the system of forced and child labor is the strain on public services (including essential medical care and education). They claim that systemic usage of forced labor hinders the quality and

---

<sup>12</sup> Management Response, p. 8 para. 28(i).

<sup>13</sup> Management Response, Executive Summary, p. iii para. iii.

delivery of such services. They add that the impacts on the “*youth and next generation cannot be overstated.*”

17. The Requesters claim that each year community members suffer from deaths, physical hardship, debts, deprivation from education of their children, and strained health care services.<sup>14</sup> The Requesters state that in 2012, in Tashkent, approximately 11,000 nurses and doctors from hospitals and clinics and an estimated 60% of school teachers were sent to the fields during the cotton harvest. They state that even when younger school children were not mobilized for the harvest, the mobilization of teachers, parents and older school children negatively affects the quality of education delivered. Some primary school students received partial lessons for two and a half months. The teachers that are not used in the cotton harvesting have to manage combined classes of 50 to 60 children. They add that high-school and university students do not have access to education during the cotton harvesting period.
18. The Requesters state that a work day in the cotton fields lasts for 10 to 12 hours. According to the Request, adult workers are generally not paid for their labor in the cotton fields. Children and university students can be paid only 20 cents USD per day (after the cost of food and transportation is deducted) for picking the daily quota of 60 kilograms. Conditions for the men, women and children are unsafe, unsanitary and unhygienic. Observers photographed tractors spraying agrochemicals in fields, immediately beside people picking cotton.
19. The Requesters state that they have complained to the Bank about these issues on several occasions. The Requesters claim that Management’s attitude towards NGOs demonstrates that it does not welcome constructive engagement from civil society with respect to this project.
20. The Requesters provide contextual information to help understand their claims. This is summarized below.
21. *Organization of Land and Quota System.* The Requesters argue that despite the Bank’s reference to “independent farmers” in Project documents, all farms in Uzbekistan are tied to the state cotton harvesting system and its use of forced labor. According to the Requesters, each spring the governmental agricultural agency (*Uzpxtasanomat*) sets the cotton production target for each region and district. The plan is then announced publicly and regional *hokims* (governors) are convened to establish the cotton harvesting quotas.
22. According to the Requesters, the *hokims* are responsible for making sure that the cotton quotas are met and, in that context, organize the forced and child mobilization of labor.

---

<sup>14</sup> The Requesters list three different examples, from 2012, of incidents leading to deaths, which they attributed to the enforced system of cotton harvesting. The incidents are: 19-year-old Navruz Muysinov died on his return home early from the cotton fields in Shakhrisabz district of Kashkadarya region. He was stopped by the police, beaten and died thereafter: - Igor Yachkevskiy, a 55-year old resident of Tashkent city, died of a heart attack while picking cotton in Okkurgon district, Tashkent region; and, - Umid, a third year student of the Bukhara Engineering Institute of High Technologies, in Bukhara region, died after he was hit by a tractor on his way from the field after dark.

Farmers have to meet state-ordered cotton production quotas in order to retain their land leases, and their livelihood. The Requesters add that during the harvest *hokims* closely monitor production rates. They also add that during the 2012 harvest, approximately 50% of each farm plot was dedicated to cotton. That year, farmers around the country were required to fulfill an average quota of 3,000 kg of cotton produced.

23. *State-Sponsored Forced Labor.* The Requesters consider that forced labor in Uzbekistan's cotton sector is “*not the result of family poverty*”, but “*rigid*” control of all aspects of the cotton industry. According to the Requesters it is not the farmers, but the government, through the local administration, who forces children and adults to work in the cotton fields. The Requesters add that despite national laws and commitments to international conventions, the Government continues to forcibly mobilize children and adults to work in the cotton fields. The Requesters claim that there is a clear chain of command ensuring the mobilization of forced labor for the cotton harvest. After receiving the targets for cotton picking, the regional *hokims* assign individuals at the *hokimiyat* (governorates) who are responsible for the mobilization and directors of public institutions develop schedules and quotas for their staff. Each individual is assigned a daily cotton quota to be harvested. The individual quotas in 2012 ranged from 80 kilograms per day during the peak harvest to 30 kg per day (the minimum required to cover the cost of food and transportation for the pickers).
24. *Enforcement.* According to the Requesters, “*failure to meet the quota is not an option.*” The Requesters state that as with farmers, citizens who refuse to participate in the cotton harvest face punishment, including; loss of employment, disciplinary action at school or work, loss of welfare payments, fines, public humiliation, and/or verbal and physical abuse. During the 2012 cotton harvest, many examples of such enforcement conducted by the regional- and local-level authorities were reported.<sup>15</sup> The Requesters report a teacher from Kashkadarya Region as saying: “*In our school, children took part in the harvest. First were sent grades 7-9 after school. After some time they did not study, and went to the harvest directly from their houses. In the end, grades 4-5 were also sent (to pick cotton).*”
25. According to the Requesters, directors of schools, hospitals and other government entities also face potential punishment, including dismissal from their post, if they fail to comply with the requirements. The directors, therefore, assign a foreman of each group sent to the cotton field to oversee the harvesting. The Requesters relay the testimony of a school administrator who observed that, in the presence of three to four policemen, the district prosecutor meets with team leaders who are not fulfilling what is expected: “*The first time, one can get away with curses and threats, but the second time he can order one's arrest.*”

---

<sup>15</sup> The Requesters list different examples, including: i) police and national security service and prosecutor's office visiting a school and college directors to ensure their support for mobilizing teachers and students (aged 15-18) to pick cotton; ii) students with illnesses being denied medical exemptions; iii) nurses from different regions reported that they were threatened with the loss of their jobs for refusing to participate; iv) staff of medical clinics reported salary deductions for not meeting their daily quotas; v) students were threatened with expulsion and beaten by school staff, as coercion to meet their quotas; and, vi) a young mother reported that she had to pick cotton or lose child-care benefits.

*On March 1, I spent one night in the cell of the district police station. Next morning I was released. This is done in order to keep us in fear.”*

#### **D. Summary of the Management Response**

26. A summary of Management’s Response to the Request follows, and a full copy is attached to this Report as Annex II. On November 27, 2013, in response to a request for clarifications, Management submitted to the Panel an Addendum to the Management Response, which is attached to the Management Response and also available in Annex II.
27. In general, Management does not agree with the Requesters’ allegations that “*non-compliance with Bank policy has caused the harm alleged in the Request.*” Specifically, Management notes that “*any harm that may have stemmed from the incidents cited in the Request was not caused or aggravated by the Project, nor has the Project supported these incidents.*”<sup>16</sup> Management adds that it understands and agrees that the issues raised by the Requesters are a matter of serious concern. It states that it “*in no way condones or has ever condoned practices of forced labor of either adults or children and takes seriously the Requesters’ reports-both past and current-of abuse suffered in connection with such practices in the cotton production system of Uzbekistan.*”<sup>17</sup>
28. Management considers that “*the Country Partnership Strategy (CPS) for 2012-15 supports activities to improve the sustainability and competitiveness of the agricultural sector, including diversifying production into non-cotton higher value agricultural products.*” Management adds that the ongoing RESP II project aims to assist farmers and entrepreneurs to invest in and expand non-cotton related farming and agro-processing.<sup>18</sup>
29. Management highlights that the Project “*was carefully designed to include a range of mitigation measures and binding provisions (e.g., monitoring and training, loan covenants for credit line beneficiaries) to address and exclude child labor at the project level.*”<sup>19</sup> Management adds that the Requesters’ concerns of forced labor and child labor in cotton harvesting “*derive from Government practices in labor deployment for cotton harvesting*” that have to do with “*factors outside the scope of the project, and are therefore beyond the reach of Bank safeguards and other policies.*”<sup>20</sup>
30. According to Management, the credit line from the Project finances “*livestock, poultry business, agro-processing, orchards and vineyards, fish farming, greenhouses and vegetable farming, and farm machinery (grain harvesters and tractors).*” Management adds that this credit line is significantly more costly (11-20 percent interest rate) than the highly subsidized cotton production credits offered by the Government of Uzbekistan (3 percent interest rate), hence, it is unlikely that Project resources are used to support cotton

---

<sup>16</sup> Management Response, p. vi.

<sup>17</sup> Management Response, p. 10 para. 29.

<sup>18</sup> Management Response, p. 6 para. 21.

<sup>19</sup> Management Response, p. 11 para. 31.

<sup>20</sup> Management Response, p. 10 para. 30.



production. In addition, according to Management, agricultural enterprises borrowing through the project have a strong incentive to avoid using child labor in order to not risk a cancellation, and early repayment, of their loans.<sup>21</sup>

31. Management is of the view that the Project creates a strong motivation for agricultural enterprises not to engage in cotton production. However, Management acknowledges that a residual risk remains that participating farmers may become subject to labor deployments in connection with the cotton harvest and that equipment (namely tractors and tillers) financed under the credit line may potentially be used in cotton production.<sup>22</sup>
32. **Social Assessment (SA).** Management acknowledges “some shortcomings” in the preparation of the Project’s Social Assessment. Management states, however, that these shortcomings did not cause or exacerbate the occurrence of child and forced labor. According to Management, the Project supports moving away from cotton production and “*its associated contentious labor practices.*” Management states that it agrees that the SA “*was not sufficiently robust*” in its analysis of child labor and forced labor, stating that to inform project design it relied on complementary sources of information such as: reports by the Coalition Against Forced Labor in Uzbekistan, the Group of Human Rights Defenders and Journalists of Uzbekistan, and the Center of Social Research – ‘Tahlil,’ along with briefings from UNICEF.<sup>23</sup>
33. **Monitoring Compliance with the Project Legal Agreement.** Management states that the Project team has regarded child labor as one of the major social issues during its implementation support missions. It states that each Bank implementation support mission discussed the issue of child labor and the need to adhere to national child labor laws with the Ministry of Agriculture, Rural Restructuring Agency (RRA), and Participating Financial Institutions (PFIs). Management also states that each implementation support mission monitors Borrower and PFI compliance with their obligation to check for child labor and visits project sites to verify project performance and compliance by credit beneficiaries with project provisions. Management asserts that, “*to date, no child labor has been encountered by either the PFIs or the Bank missions.*”<sup>24</sup>
34. **Implementation Support.** Management states that the Project supports “*the modernization and diversification of the agricultural sector away from cotton production, and seeks to address key concerns raised in the Request relating to child and forced labor.*” According to Management, the Project supports “*high-value non-cotton production*”, offering “*cost-effective alternatives to the state-sponsored cotton industry.*” Management states that the Project contains a range of mitigation measures and binding provisions to avoid child labor in activities related to the project. According to Management, even though the original design of the project focused on the issue of child labor, rather than forced labor more generally as that was the primary focus of the donor community, going forward, the Project’s measures will be expanded to include adequate

---

<sup>21</sup> Management Response, p. 11 para. 33.

<sup>22</sup> Management Response, p. 11 para. 33.

<sup>23</sup> Management Response, p. 11-12 para. 33-34.

<sup>24</sup> Management Response, p. 12 para. 37.

measures against all forms of forced labor. Management lists the different mitigation measures and binding provisions under the Project.<sup>25</sup>

35. **Third-Party Monitoring (TPM).** Management states that the Project aims to support “*third-party social monitoring to check for, among other social development issues, child labor during the cotton harvesting season.*”<sup>26</sup> However, Management also acknowledges delay in the implementation of third-party social monitoring. Nevertheless, Management states that it intends to use the remaining lifespan of the project to bolster project support to address child and forced labor, including through the implementation of third-party monitoring (the third-party monitoring will comprise monitoring of child and forced labor across the Bank’s portfolio.) and the expansion of provisions to address forced labor alongside those for child labor.<sup>27</sup>
36. **Sector Dialogue with Government and Engagement with NGOs.** Management considers that the Requesters are correct to note that “*project-level measures alone cannot completely prevent coercion.*” It adds that the Bank has been addressing the issues of child and forced labor at the sectoral and Government levels and the Country Partnership Strategy for FY2012-2015 encourages a gradual shift away from the extensive state controlled cotton system towards a more liberal and diversified agricultural sector. Management adds that close collaboration with international development partners (including the United Nations Children's Fund (UNICEF) and the International Labour Organization (ILO)) to convince the Government to comply with its international obligations on child and forced labor also exhibits its commitment to this issue.
37. Furthermore, Management states that it has engaged with a number of NGOs on the issues related to child and forced labor in Uzbekistan (including with two of the Requesters: the Human Rights Society of Uzbekistan (Ezgulik) and the Uzbek German Forum for Human Rights). Management states that, in all meetings, it systematically conveyed the Bank’s views on child and forced labor, emphasizing that: (a) the Bank does not condone child or forced labor in any form; (b) the Bank recognizes the importance and complexity of the forced labor situation in Uzbekistan; and (c) the most effective way to address the issue is a holistic approach through policy dialogue, collaboration with other international organizations, and mitigation measures and binding provisions at the project level.<sup>28</sup>
38. **Going Forward.** Management states that it is committed to robust implementation support and monitoring of measures to address child and forced labor issues. Management will review, and modify where appropriate, key implementation arrangements to take into account ILO's feedback from its monitoring mission. In addition, the Rural Enterprise Investment Regulations, the subsidiary loan agreement, the project implementation plan, and the sub-loan agreements will be amended to include

---

<sup>25</sup> Management Response, p. 13-15 para. 39-41.

<sup>26</sup> Management Response, p. 15 para. 42.

<sup>27</sup> Management Response, p. 11 para. 34.

<sup>28</sup> Management Response, p. 16 para. 44-46.

provisions requiring compliance with the applicable laws and regulations on both forced and child labor. According to Management, the credit line project documents will include a clause requiring compliance with the applicable international and national laws and regulations on forced labor in addition to child labor, including in the Rural Enterprise Investment Regulations, Participating Financial Institutions (PFIs) sub-loan agreements and Subsidiary Loan Agreements between Ministry of Finance, RRA and PFIs. The PFIs have agreed to these changes as documented in signed minutes. These amendments will come into force when the RESP-II Additional Financing becomes effective, since the original credit line for the Rural Finance Component is fully disbursed. See Addendum to Management Response, attached to Annex II.<sup>29</sup>

39. Management adds that a project level grievance redress mechanism (GRM) will be introduced in addition to the third-party social monitoring. Furthermore, the training component will be revised and expanded to include a module that raises awareness about both forced and child labor laws and regulations.<sup>30</sup>
40. In conclusion, Management states that it does not agree with the Requesters' allegations that non-compliance with Bank policy has caused the harm alleged in the Request. Management adds that any such harm was not caused or aggravated by the Project, nor has the Project supported these incidents. Management considers that the Bank has followed the policies and procedures applicable to the matters raised in the Request and concludes that the Requesters' rights or interests have not been nor will they be directly and adversely affected by the project or by a failure of the Bank to implement its policies and procedures. Management states that the Project contributes to the country's diversification away from cotton, the cultivation of which in many regions of Uzbekistan is associated with severe adverse social impacts including those raised in the Request.<sup>31</sup>

#### **E. Panel Review of the Request and Management Response**

41. As part of this review, Panel Member Zeinab Elbakri together with Executive Secretary Peter Lallas and Senior Operations Officer Serge Selwan visited Uzbekistan from November 13-18, 2013. During this visit, the Panel was able to meet with a wide section of Government representatives including at the highest levels from the Ministries of Agriculture, Labor and Social Protection, Economy, Finance, and the Rural Restructuring Agency (the project's implementing body). The Panel team also met with representatives of two of the financial intermediaries/Banks involved in providing credit to farmers under the Project, namely, Khamkorbank and Kishlok Kurilish Bank. In addition, the Panel held meetings with requesters and several project affected persons, farmers and representatives of civil society, and with several development partners to Uzbekistan.
42. The Panel also visited two farms at the invitation of the government. One of these was a fruit and vegetable farm, where the farmer expressed appreciation for the project,

---

<sup>29</sup> Management Response, Addendum, p. 5.

<sup>30</sup> Management Response, p. 17 para. 47-50.

<sup>31</sup> Management Response, p. 17 para. 51.

particularly in supporting the purpose of large refrigeration and storage equipment for apples. The other was a farm growing grapes (to be processed into raisins) and other activities, where the farmer again expressed appreciation for the support of the project.

43. The Panel wishes to express its appreciation to all mentioned above for sharing their views and exchanging information and insights with the Panel. The Panel wishes to thank the Government of Uzbekistan and Deputy Prime Minister Mr. Rustom Azimov for meeting with the Panel team, and in arranging meetings with relevant ministries, and PFIs and in arranging a visit to Samarkand. The Panel also extends its thanks to the Requesters and affected people for meeting with the Panel team, discussing the issues and providing relevant information. Additionally, the Panel wishes to express its appreciation to the Country Director and Country Office for being instrumental in their assistance with logistical arrangements and to staff within the office of the Executive Director covering Uzbekistan at World Bank Headquarters for their professional and timely logistical support in arranging for the visit. Finally, the Panel wishes to thank the UNICEF representative for the opportunity to meet in Tashkent as well as ILO representatives with whom it met in Washington prior to its visit, and via telephone conference in Geneva, in addition to bilateral partners who provided valuable insights.

#### **1) Determination of Technical Eligibility**

44. The Panel is satisfied that the Request meets all six technical eligibility criteria provided for in paragraph 9 of the 1999 Clarifications.
45. The Panel notes that its confirmation of technical eligibility, which is a set of verifiable facts focusing to a large extent on the content of the Request as articulated by the Requesters, does not involve the Panel's assessment of the substance of the claims made in the Request. It follows that determination of technical eligibility in and of itself would not constitute a sufficient basis for recommending an investigation.
46. Criterion (a): "*The affected party consists of any two or more persons with common interests or concerns and who are in the borrower's territory.*" The Panel confirms that one of the Requesters' representatives and all the signatories of the Request live in the borrower's territory and share interests that may be affected by Project activities. The Panel considers the requirement of paragraph 9(a) as met.
47. Criterion (b): "*The request does assert in substance that a serious violation by the Bank of its operational policies and procedures has or is likely to have a material adverse effect on the requester.*" The Requesters allege serious harms relating to the use of child and forced adult labor in the cotton harvesting system, and further allege that the Project and Management have not adequately identified risks associated with those practices, or taken measures to prevent Bank funds from being used for agricultural lands where such practices are occurring. Among other things, they allege that the Bank has not properly complied with its safeguard policies, including with respect to the Project's Social Assessment, and with Bank supervision policy. They contend that the lack of adequate measures to address Project risks has contributed to the perpetuation of child and forced

labor in the cotton fields. The Panel is thus satisfied that the requirement of paragraph 9(b) is met.

48. Criterion (c): *“The request does assert that its subject matter has been brought to Management’s attention and that, in the Requester’s view, Management has failed to respond adequately demonstrating that it has followed or is taking steps to follow the Bank’s policies and procedures.”* The Requesters state they have complained to the Bank on six occasions; in person and in writing (some of the correspondence is attached to the Request). They list each of these instances. The Requesters state that they have received unsatisfactory responses. The Panel during its discussions with Management confirmed that the issues were known to Management at the time of the receipt of the Request. The Panel is satisfied that this criterion has been met.
49. Criterion (d): *“The matter is not related to procurement.”* The Panel is satisfied that the claims with respect to harm and non-compliance included in the Request for Inspection do not raise issues of procurement under the Project and hence this criterion is met.
50. Criterion (e): *“The related loan has not been closed or substantially disbursed.”* The Request for Inspection raises issues related to the Uzbekistan: Second Rural Enterprise Support Project (RESP-II) and its Additional Financing. At the time of the receipt of the Request, the initial credit (Credit No. 44330-UZ) was 67.75% disbursed and the Additional Financing credit (Credit No. 51520-UZ) was not yet signed. The closing date for the Project is now set for December 31, 2016. This criterion is thus met.
51. Criterion (f): *“The Panel has not previously made a recommendation on the subject matter or, if it has, that the request does assert that there is new evidence or circumstances not known at the time of the prior request.”* The Panel confirms that it has not previously made a recommendation on the subject matter of the Request.

## **2) Observations on other factors supporting the Panel’s Recommendations:**

52. The discussion below sets forth general considerations and factors supporting the Panel’s recommendation on next steps in its process.
53. The Panel recognizes the importance of the Project and its objective of supporting the Government of Uzbekistan in its pursuit of the goals of improved development and diversification of agriculture, as well as ensuring the latter’s financial and environmental sustainability. This was clearly stated by Government officials who emphasized the desire of the Government to diversify and modernize Uzbek agriculture adopting a gradual approach away from the current level of dependence on cotton.
54. The Panel also wishes to highlight that while the Request for Inspection raises significant issues and concerns, the Panel has ascertained great appreciation from a variety of stakeholders for the Project and the engagement of the World Bank in Uzbekistan’s agriculture sector, more widely. During its field visit, the Panel heard from farmers and others who indicated that they greatly appreciate the availability of World Bank financing

(through financial intermediaries) and other related technical, training and multiple forms of support for their work in agriculture. They mentioned that the good terms of the credit line, and the related capacity assistance and support, have been very helpful in their efforts to create jobs, improve incomes, and productivity.

55. In making its recommendation to the Board, the Panel takes into account whether the alleged harm and non-compliance potentially may be of a serious character and whether there is a plausible link between the harm alleged in the Request and the activities supported by the Project. In sections (i) and (ii) below, the Panel records its preliminary observations on these elements, noting that the Panel can only make a definitive assessment of the Bank's compliance with its policies and procedures, and any adverse material effect this may have caused, through an investigation. In making its recommendation, the Panel also takes into account statements of any remedial actions provided by Management, as noted in section (iii) below, to address the matters raised in the Request.

(i) *Allegations of harm*

56. In the Request for Inspection, and in meetings with the Panel team during its eligibility visit to Uzbekistan, the Requesters and other stakeholders alleged that the following harms have occurred in connection with cotton harvesting in Uzbekistan, and as a result of non-compliance by the World Bank with its operational policies and procedures.<sup>32</sup>
57. **Child labor.** The Requesters claim that in the early years of the Project, which began in 2008, there was widespread child labor, including forced child labor, in the cotton fields. The Panel heard direct accounts of how, during these earlier years, children were picked up by buses at schools at the beginning of the harvest season and sent to the fields, sometimes far from their homes, to live in dormitories or similar facilities for the two months of the harvesting season, approximately, from September to November.
58. The Panel heard accounts of many difficulties encountered by these children, including poor living and working conditions, extending to working in cold temperatures and for long hours, in addition to insufficient pay from which the cost of food was often deducted. The Panel heard that at least some children needed to meet certain daily quotas in order to receive their daily ration of food, and that pay was extremely low and probably much lower than what is indicated in the SA prepared for the Project. The Panel notes, in this regard, that the SA acknowledges the practice of child labor in cotton at the time the Project was presented to the Board of the World Bank for approval.

---

<sup>32</sup> The School of Oriental and African Studies of the University of London notes that “[a]lthough the mobilization of child labour for cotton harvests has its institutional and organizational roots in the Soviet command economy, its current persistence is best explained with reference to a combination of factors: a partial process of agrarian reform that continues to tie private farmers into compulsory crop-sowing and procurement quotas, a sharp decline in farm mechanization since independence and a short harvesting season that creates labour bottlenecks at peak times.” See *Invisible to the World? The Dynamics of Forced Child Labour in the Cotton Sector of Uzbekistan*, London, SOAS, 2008. Available at: <http://www.soas.ac.uk/ccac/events/cotton-sector-in-central-asia-2005/file49842.pdf>.

59. In terms of the overall numbers of child labor prior to the past two harvest seasons in Uzbekistan, a report of a Committee on the Application of Standards under the ILO, working with reference to Convention 182 on the Worst Forms of Child Labour, refers to unconfirmed data of the International Organisation of Employers (IOE) and the International Trade Union Confederation (IUTC) indicating *“that the Government forced schoolchildren (estimated at half a million to 1.5 million children of school age) to work in a national campaign for the cotton harvest for a period of about three months every year.”*<sup>33</sup> The Worker Members of the ILO noted, in this same Report, that *“several international bodies, including UNICEF, had observed first-hand in the autumn of 2011 that children between 11 and 17 years of age were working full-time in the cotton plantations, that their mobilization was organized by the public authorities and that, in some cases, the plantation owners themselves had made private arrangements with schools.”*<sup>34</sup>
60. At the same time, the Panel notes that important steps and actions have been taken in the past two years by the Government in addressing the core concern of child labor raised by the Request. During its meetings with Government, the Panel was informed that Uzbekistan put into place a major new law in March 2012 entitled *“About additional measures for the realization in 2012-2013 - the Forced Labour Convention and the Convention concerning Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour, ratified by the Republic of Uzbekistan.”*<sup>35</sup> The Panel was further informed by different levels in Government and representatives of the ILO and other international organizations and development partners of significant concrete initiatives with respect to this issue.
61. In respect to the age for defining child labor, the Panel notes that an ILO Committee of Experts, in its reports on the application of ILO Convention 182 on the Worst Forms of Child Labour, *“recalls that the prohibition on the worst forms of child labour, including forced labour and hazardous work, applies to all children under the age of 18.”*<sup>36</sup> The Committee also indicated that the Government of Uzbekistan, in national law, has identified the gathering of cotton by hand as hazardous work, and that *“the list of occupations with unfavourable working conditions in which it is forbidden to employ persons under 18 years of age’ prohibited children from watering and gathering cotton*

---

<sup>33</sup> See International Labour Organization, 102nd Session of the International Labour Conference, 5 - 20 June 2013, Reports and provisional records, Third item on the agenda: Information and reports on the application of Conventions and Recommendations - Report of the Committee on the Application of Standards - Part Two (ILC.102/PR/16-2(Rev.)) (hereinafter “ILO Provisional Record, 102<sup>nd</sup> Session, June 2013”), p. 16 Part II(Rev.)/128. Available at:

[http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_216456.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_216456.pdf).

<sup>34</sup> ILO Provisional Record, 102<sup>nd</sup> Session, June 2013, p. 16 Part II(Rev.)/130.

<sup>35</sup> See also ILO Provisional Record, 102<sup>nd</sup> Session, June 2013, p. 16 Part II(Rev.)/128.

<sup>36</sup> See International Labour Organization, Observation of the Committee of Experts on the Application of Conventions and Recommendations (CEACR) - adopted 2012, published 102nd ILC session (2013), Worst Forms of Child Labour Convention, 1999 (No. 182) - Uzbekistan (Ratification: 2008) (hereinafter the “ILO CEACR Uzbekistan (2013)”). Available at:

[http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:13100:0::NO::P13100\\_COMMENT\\_ID:3087350](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:13100:0::NO::P13100_COMMENT_ID:3087350).

by hand.”<sup>37</sup> In discussions with ILO, it has been confirmed to the Panel that ILO Convention 182, which specifies the age of under 18, is directly relevant to the picking of cotton by children in Uzbekistan.

62. These recent initiatives include, among others, the authorization by the Government and the implementation of an ILO quadripartite monitoring mission following ILO’s principles and practices, to monitor and inspect cotton fields during the 2013 harvest season (11 September and 31 October 2013) to verify the extent of the presence of child labor. Following its mission, the ILO made available an Information Note on Monitoring of Cotton Harvest in Uzbekistan outlining the key observations, dated 4 November 2013, which is attached to the Management Response. This Note is not the final report of the monitoring mission, which will be issued after consideration by the ILO Committee of Experts.
63. The ILO Information Note states, *inter alia*, as follows: “*In general terms, the monitoring observed wide spread awareness of national law and instructions not to allow the use of children under 18 years of age in the cotton harvest. Moreover, it would appear from the monitoring that there was no systematic recourse to forced child labor. While the law and practice are increasingly being applied, gaps remain in practice and child labor still has taken place during the cotton harvest to a limited extent. Where child labor was found, follow up action was taken to ensure that children were assisted and reintegrated into educational institutions. In some cases, those responsible were warned, reprimanded or fined.*”<sup>38</sup>
64. The Panel also notes that people with whom it met independently, including several local stakeholders who are knowledgeable about what is happening in the field and who otherwise have great concerns with aspects of the Project, affirmed that there have been some significant steps and progress on the question of child labor in the cotton fields. One person expressed to the Panel, “*thank God, the children (below 16) have not been sent to the fields in the past two years.*” In this regard the Panel also confirms from its discussions in the field that there remain concerns regarding the continued involvement of 16 and 17 year olds in the cotton harvesting period, in particular.
65. **Forced adult labor.** The Request also raises concerns about forced adult labor. The Requesters and others whom the Panel met, including cotton farmers and teachers, described examples of how this has been organized on the ground. They stated that prior to the cotton harvest season there is a process to identify required labor needs in the fields to meet quotas, and on this basis adults are identified and called upon by the authorities to work in the field, and are given no choice in the matter. In particular, the Panel team was told that they face severe consequences if they try to avoid this work, including the

---

<sup>37</sup> See ILO CEACR Uzbekistan (2013), which states that “*section 241 of the Labour Code [of Uzbekistan] prohibits the employment of persons under 18 years in hazardous work, and that the ‘list of occupations with unfavourable working conditions in which it is forbidden to employ persons under 18 years of age’ prohibited children from watering and gathering cotton by hand.*”

<sup>38</sup> See Management Response, Annex 9, entitled “*ILO Information Note, Monitoring of Cotton Harvest in Uzbekistan, November 4, 2013.*”



possibility of loss of job, loss of child benefits, and difficulties in receiving residence certificates and driver's permits. The Panel heard descriptions of how arrangements are made to transport workers to the field, and that this transportation was not always safe.

66. During its visit, the Panel heard serious concerns, including from development partners, about adults being “*substituted*” for child labor (which has increasingly been reduced) and forced to work in cotton fields during different times of the year, but especially during cotton picking. According to stakeholders with whom the Panel met, these workers are mainly but not exclusively government employees, including teachers and health workers, who are responsible for delivery of basic social services including health and education. The Panel was also told that private sector workers have been solicited through their superiors, and that the companies would have to pay for alternative workers if their own workers were not available.
67. **Poor living conditions of workers.** The Requesters and others with whom the Panel met also told the Panel about very difficult conditions facing workers who are forced to work in the cotton fields for extended periods, especially the two month period of the harvest. They described concerns relating to the length of the work day, poor accommodation and food provision, and in some cases serious health and safety risks. As noted previously, the Panel also heard accounts of extremely low pay, and the need to meet certain daily quotas in order to receive daily food rations.
68. **Impact on Social Services.** The Panel also heard concerns about the weakened provision of essential social services, especially in health and education due to the alleged forced involvement of social service workers (including doctors, nurses and teachers) in the picking of cotton. During its field visit, the Panel heard direct testimony of cases where school teachers were forced to abandon their duties to go pick cotton for two months during the school year in this year's cotton harvest. There is concern that the recent alleged trend of substituting forced adult labor for child labor is said to be aggravating these concerns, as more public sector workers may be forced to go to the fields.
69. **Information from Government.** On the issue of forced labor, the Panel was informed by the Ministry of Labor and Social Protection that the Government will continue to partner with ILO to develop an Uzbekistan Country Programme, a “*Decent Work Programme*”. This may include technical support from ILO towards comprehensive policy action and the campaign and recruitment of the labor force for the harvest season, the impact of mechanization on the labor market, and the realization of the fundamental rights of workers, including the effective implementation of ILO's Forced Labour Convention No. 105. A program is still under development and will depend on the results of the review of the Monitoring Report by the Committee of Experts. A programming mission by the ILO could then take place in the first quarter of next year.
70. **Panel review.** The Panel's review of the relevant documentation, the Panel team's observations in the field, and its discussions with Requesters, affected people and development partners, indicate that these harms as described above can indeed be characterized as serious. Both Requesters and Management also perceive them to be

serious but do not agree as to their linkage with the project. It is the Panel's view meanwhile that a plausible link does exist between the project and these alleged harms, as will be demonstrated below.

71. The Requesters claim that the Project's lack of adequate measures to prevent Bank funds from being used for agricultural lands where child labor and forced labor are practiced, contributes to the Government's policy of organizing child labor and forced labor. Management, on the other hand, while recognizing the seriousness of the issues raised by the Requesters, notes that "*any harm that may have stemmed from the incidents cited in the Request was not caused or aggravated by the Project, nor has the Project supported these incidents.*"<sup>39</sup> Management does recognize, however that the "*Requesters' concerns of forced labor and child labor in cotton harvesting derive from Government practices in labor deployment for cotton harvesting which have to do with factors outside the scope of the project (...).*"<sup>40</sup> It is noted that both Requesters and Management point to government systems as the direct cause of the labor practices and alleged harm.
72. The Project's development objective is to increase the productivity and sustainability of agriculture and agribusiness profitability in seven regions of Uzbekistan through four components.<sup>41</sup>
73. According to the Project Appraisal Document (PAD), the Project builds upon the successes of RESP I, rated satisfactory by the World Bank, Government of Uzbekistan and the Food and Agriculture Organization (FAO). After this first phase, it was determined that returns from cotton and wheat production were higher for all RESP beneficiaries than for the control group, and there was interest in "*scaling up*" the results of the first project "*as proven by the social assessment.*"<sup>42</sup>
74. According to the PAD, the Project supports, among other things, investments in agricultural machinery, equipment, storage, and other long term investments. The Project Paper for the Additional Financing notes that 61.3% of the sub-loans under RESP-II financed agricultural equipment and machinery.<sup>43</sup> The Project's second component supports rehabilitation of irrigation and drainage, and the PAD also highlights the Bank's experience in support of other types of contributions, including in the areas of rural finance, technical assistance and policy dialogue, and diversification.
75. The Panel has been informed by the Government that its current Strategy is to move away from cotton, diversifying into other agricultural subsectors such as horticulture, livestock and agribusiness. The Government also assured the Panel team of its intention to move into full mechanization of cotton production by 2016. This new Government orientation is also confirmed in the current Country Partnership Strategy 2012-2015.

---

<sup>39</sup> Management Response, p. vi para. xix, and p. 17 para. 51.

<sup>40</sup> Management Response, p. iv para. viii, and p. 10 para. 30.

<sup>41</sup> Management Response, p. iii para. ii.

<sup>42</sup> PAD, p. 3 para. 12.

<sup>43</sup> Project Paper, Proposed Additional Credit, Second Rural Enterprise Support Project, August 6, 2012, Report No: 67598-UZ, p. 2, para.7 (ii).

76. During its field visit, the Panel was informed by the RRA that the Participating Financial Intermediaries (PFIs) are not providing financial support to cotton farmers. The Panel visited two of these intermediaries, who confirmed that they did not provide such direct support to cotton production. The Panel team also was told by RRA that Bank Management recommended to the Government in late 2011 that the Project stop financial support for machinery, including tractors, due to the fact that this could have a dual purpose in supporting both cotton and other types of farming. However, Project authorities also informed the Panel team that they could not rule out that farmers receiving credit for non-cotton related agricultural and/or agricultural processing activities would not also be involved in cotton farming. The Requesters also claim that the provisions in the Financing Agreement requiring beneficiaries to carry out sub-projects pursuant to national legislation on child labor are difficult to enforce. In its Response, Management also *“acknowledges that a residual risk remains that participating farmers may become subject to labor deployments in connection with the cotton harvest and that equipment namely tractors and tillers financed under the credit line may potentially be used in cotton production.”*
77. The Panel notes that a listing of expenditure items supported by the sub-loans through PFIs that the Panel received during its visit, and subsequent information received from Management, identifies many instances of support for tractors and other machinery which, the Panel has learned, may be potentially used in cotton fields. The Panel also has heard from other stakeholders that all farms may be subject to cotton quotas, including farms receiving support under the Project, and heard of one alleged example. In addition, it cannot be excluded that activities under Component 2 of the project support cotton production, including through improved irrigation and drainage.
78. In addition, while the Project identified the use of child labor in the farms/enterprises supported by the Project as a risk, and introduced some mitigation measures, forced labor was not considered until recently, and mitigation measures will apply only to the Additional Financing.
79. In sum, in the early years of the Project, the Project documents (including the PAD and Social Assessment) appear to envision more direct support for cotton production at a time in which child labor and forced labor may have been used widely in the fields. Over time, World Bank support to the agriculture sector of Uzbekistan has evolved to include a greater emphasis on diversification, including in the Additional Financing. The Panel also recognizes and notes the important efforts to apply measures to mitigate or avoid such harms.
80. Nevertheless, it is the Panel’s view that as long as Bank financing is supporting in some measure cotton production and there is a residual possibility that there can be child/forced labor on farms receiving project support (since they do not allegedly have a choice of whether to accept child or forced labor), then it is plausible that the Project can contribute to perpetuating the harm of child and forced labor. The information reviewed by the Panel indicates that it cannot be ruled out that the project has and may still be supporting

cotton production either directly or indirectly through the different project components, including the credit line, and that this production may be using labor practices of concern to the Requesters. While the Panel cannot make definitive findings on these linkages at this stage in its process, the Panel considers that there is a plausible link between the Project and the harms alleged in the Request, and that the Bank's support through the Project may be contributing to a perpetuation of this alleged harm.

**(ii) Issues of Policy Compliance:**

81. The Request for Inspection, as elaborated upon during meetings in the field, raises several issues of policy compliance. These relate to the design, appraisal and implementation of the Project.
82. **Social Assessment (SA).** The first issue is the extent to which safeguard documents, including the Social Assessment prepared for RESP II, adequately considered and addressed the potential significant impacts and risks of child and forced labor in the agriculture sector in Uzbekistan. It should be noted that Management acknowledges in its response some shortcomings in the preparation of the SA, namely, that its analysis of child and force labor was not robust enough. Management also explains that since there was limited success in their effort to work with the Government to improve the SA, they relied on complementary sources of information to inform project design, especially mitigation measures against child labor.
83. The SA contains some description of the issue of child labor, but the Panel considers that this assessment may raise important issues of policy compliance. The SA includes one paragraph on child labor. It notes that the recent work of UNICEF and the SA showed the lack of the worst forms of child labor, but then adds that the labor of 12-18 year olds is used when districts/provinces cannot fulfill their plan of cotton picking. It concludes that “*women and schoolchildren believe that they can earn the most (...) when each can earn more than 7\$ per day and more than 300\$ per month, which many families badly need.*”<sup>44</sup> Further the PAD and SA are silent on the issue of forced labour. Management has recognized that SA was not robust enough on these issues.
84. **Project implementation.** The Financing Agreement for RESP-II requires that the “*Rural Enterprise Investment Guidelines*” include a provision stating that the Project’s beneficiaries<sup>1</sup> carry out sub-projects “*pursuant to the national legislation on child labor.*”<sup>1</sup> According to the PAD, the Project also includes financing of third-party social monitoring that will monitor the use of child labor and public awareness to inform farmers and the public about child labor issues and relevant legislation.
85. During its visit, the Panel also heard concerns from Requesters and others that there has been a lack of due diligence by the Bank in identifying and taking actions to address these concerns in the early years of the Project. The Panel was informed about the lack of

---

<sup>44</sup> PAD, Annex 12: Social Assessment, p. 74 para. 13.

effective monitoring in the early years of the project to identify and respond to these concerns.

86. **Issues at the time of Additional Financing.** The Panel also considers that there may be policy compliance issues relating to how the issues of child and forced labor were considered at the time of Additional Financing in 2011. The risk assessment for the Additional Financing identifies the following risk: “*External NGOs may continue raising child labor issue with the Bank*”, and ranks it as moderate.<sup>45</sup> In its Response, Management explains that this *was language mutually agreed with the Government so that the project could address this issue.* (MR p.32) The Requesters contend, however, that the issue goes well beyond the question of whether it is raised by “*external NGOs.*” The Panel’s review of harm above elaborated the link between the Project and residual risks of child and forced labour.
87. The Project Paper for the Additional Financing notes that “*to ensure that no child labor is used in any of the enterprises supported by the project*” will be one of the social issues that the Project will focus on. The Project Paper also notes the need of all beneficiaries to comply with the ratified ILO conventions and child labor regulations. The Project Paper states that on site supervision by the PFIs, RRA and Bank supervision mission will look into this issue as necessary.
88. The Management Response acknowledges that despite initial agreement and continuing efforts with the Government, there was no progress in implementation of third-party monitoring.
89. **Consultations.** In addition, people with whom the Panel met feel that there was a lack of consultations and dissemination of information during Project preparation and implementation. The Panel was told that in the very beginning stages of the Project, the Requesters sought to visit the Country Office and present their concerns, but that they were essentially “turned away.” The Requesters consider that such consultations and disclosure of information could very well have helped to flag critical issues relating to the connection between the Project and child and forced labor, as envisioned by Bank policy, but that this was not the case.
90. Management in turn, state that Bank staff have engaged with a number of NGOs on the issues related to child and forced labor in Uzbekistan listed as Annex 4 in MR. In particular, staff corresponded and held meetings with two of the Requesters: Management claims that they have “*systematically conveyed management’s views on child and forced labor*” in all these meetings.
91. **Panel review:** The Panel notes that OP 4.01 on Environmental Assessment requires that the Project assess potential significant social impacts and risks presented by a Project, and propose actions to avoid or mitigate such risks. OMS 2.20 on Project Appraisal similarly provides that Management must identify project risks during preparation and

---

<sup>45</sup> Project Paper, Proposed Additional Credit, Second Rural Enterprise Support Project, August 6, 2012, Report No: 67598-UZ, Annex 2 Operational Risk Assessment Framework (ORAF) p. 19.

appraisal of projects, and report to the Board on actions to address these risks. OP 13.05 on Project Supervision requires the Bank to identify and report on key issues and risks that may arise during Project implementation.

92. In addition, the Panel takes note of a Bank publication on child labor which indicates that “*within the context of its country assistance strategies (CAS), [the Bank] can systematically integrate child labor considerations into its programs (...). In addition, the Bank should undertake the following actions on child labor: Design and introduce new projects or project components to reduce the harmful effects of child work (...); Introduce child labor concerns in social assessments for projects where relevant.*” The document further elaborates that “*to ensure that Bank-financed projects do not contribute to the problem, the Bank’s operational practices should allow that, in countries where there is a serious risk, Bank loan agreements can include appropriate safeguards.*”<sup>46</sup>

93. The Panel considers that the Request for Inspection raises significant issues of policy compliance. While the Panel does not make definitive findings at this stage in its process, the Panel observes that, in the early years of the project, there may have been insufficient due diligence in addressing the concerns about harm and related issues of policy compliance raised in the Request within the framework of Bank policies, including at the time of Project approval.

**(iii) Remedial actions**

94. At the same time, the Panel notes and appreciates that the Management Response to the Request has acknowledged some of these issues and concerns. Among other things, the Response acknowledges that the SA was not sufficiently robust, that the issue of forced labor has been overlooked, and that there is a critical need to establish effective third-party monitoring (TPM) to examine and integrate these concerns.

95. The Management Response also indicates that the condition in financing agreements between farmers and Financial Intermediaries prohibiting the use of child labor (in accordance with national laws) will be extended to forced adult labor. Specifically, this will require compliance with the applicable international and national laws and regulations on forced labor, including in credits under the rural enterprise Investment regulations, Participating Financial Institutions (PFI) sub-loan agreements and Subsidiary Loan Agreements between Ministry of Finance, RRA and PFIs. The PFIs have agreed to these changes as documented in signed minutes. According to Management, “*these amendments will come into force when the RESPII credit Line Additional Financing becomes effective.*”<sup>47</sup>

96. The Panel has noted Management’s efforts to ensure implementation of third-party monitoring (TPM) of RESP II and “*across the Bank portfolio.*” Third-party monitoring is expected to cover a broad set of social issues with a particular emphasis on child and

---

<sup>46</sup> See “Child labor: issues and directions for the World Bank”, Peter Fallon and Zafiris Tzannatos, 1998, Executive Summary, pp. vi-viii.

<sup>47</sup> Management Response, Addendum, p. 5.

forced labor. The Requesters and other persons with whom the Panel met also highlighted to the Panel team that effective and independent third-party monitoring to ensure the elimination of child labor and forced adult labor is critical, and should include civil society participation. For its part, the authorities informed the Panel that they are quite open to such independent third-party monitoring, but added that it will be important to provide funding to support it.

97. According to Management, the discussion with the Government on TPM for RESP II is “well advanced.” Management further adds “*recognizing the seriousness of child and forced labor issues in the country, the additional implementation of TPM in other projects in the portfolio and its integration in future Bank operations, following a risk-based approach, is now part of the plan and discussion with Government are well advanced to move with the implementation.*” Management also adds that “*the Bank is currently in discussion with the government on the operational modalities for the TPM and GRM, which will be implemented by a recognized international consulting firm under terms of reference approved by the Bank. Agreement on these operational modalities is expected to be completed by the end of the year.*”<sup>48</sup>
98. Management has indicated to the Panel that draft terms of reference have been shared with the Government, and that the TPM and GRM will include awareness building of project beneficiaries with a particular focus on child and forced labor issues, as well as periodic site visits and in-depth interviews with local stakeholders and detailed reporting of the findings of the site visits.<sup>49</sup> This exercise will be funded through the proceeds of a project under implementation.
99. In discussions in the field and with development partners, the Panel heard a number of important perspectives expressed on elements needed to support successful TPM. These include strong capability, reliability and independence of the body selected to undertake such monitoring. Requesters and others also highlighted the importance of meaningful engagement of civil society in the process.
100. More broadly, Management indicates in its Response to the Request that it will continue to encourage the Government to adhere to national labor laws, while strengthening project level provisions against the use of forced and child labor. The Response indicates that Management will engage constructively in dialogue in partnership with the government to build on important progress in addressing these concerns, including in the context of ongoing and new initiatives from the ILO. Management also indicates its commitment to continue to provide adequate support to the Government in addressing many of the concerns related to its system of cotton production, given the significant environmental and social impact the cotton sector has on the country and its development.<sup>50</sup> The Requesters have also indicated that the issue of forced child and adult labor can only be dealt with through measures that go beyond the farm level.

---

<sup>48</sup> Management Response, Addendum, pp. 6-7.

<sup>49</sup> Management Response, Addendum, p. 7.

<sup>50</sup> Management Response, p. 17-18 para. 52.

## **F. Recommendation**

101. As indicated above, the Panel considers that the Project is plausibly linked to the harms alleged in the Request, and that the Request raises important issues of harm and policy non-compliance. The Panel has also determined that the Request meets the technical eligibility criteria for an investigation.
102. At the same time, the Panel recognizes and appreciates that significant positive trends have emerged with respect to the critical issue of child labor. These include important actions already taken and further commitments and intentions on the part of Government and its partners, as indicated in the Management Response to the Request, and in discussions during the Panel's eligibility visit with a wide range of stakeholders, to take additional actions, including the implementation of effective third-party monitoring on both child and forced labor, and to continue the constructive dialogue with the ILO and other development partners on these key issues and concerns. As noted above, the Requesters have emphasized the importance of including civil society as a partner in such independent third-party monitoring going forward.
103. In light of the foregoing, and the important potential for further positive developments, the Panel has determined that it should defer its recommendation on whether to investigate the matters raised by the Request in order to provide a sufficient opportunity for these developments and actions to evolve. The Panel notes that Management's efforts are focused both at project level, but also at the higher level of providing adequate support to the Government in addressing many of the concerns related to the system of cotton production, more generally. The Panel notes the importance of these efforts by Management in addressing the concerns raised in the Request.
104. If the Board so agrees, the Panel will report back to the Board within 12 months on whether a full investigation is warranted, taking into account the following: (i) positive result of the proposed third-party monitoring of child and forced labor in Project-financed activities (ii) progress in the dialogue between the Bank and Government on the concerns characterizing the current system of cotton production. The Panel will then make a final recommendation once it has evaluated the above factors.