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Investing in rural people

Republic of Uzbekistan

Country strategic opportunities programme

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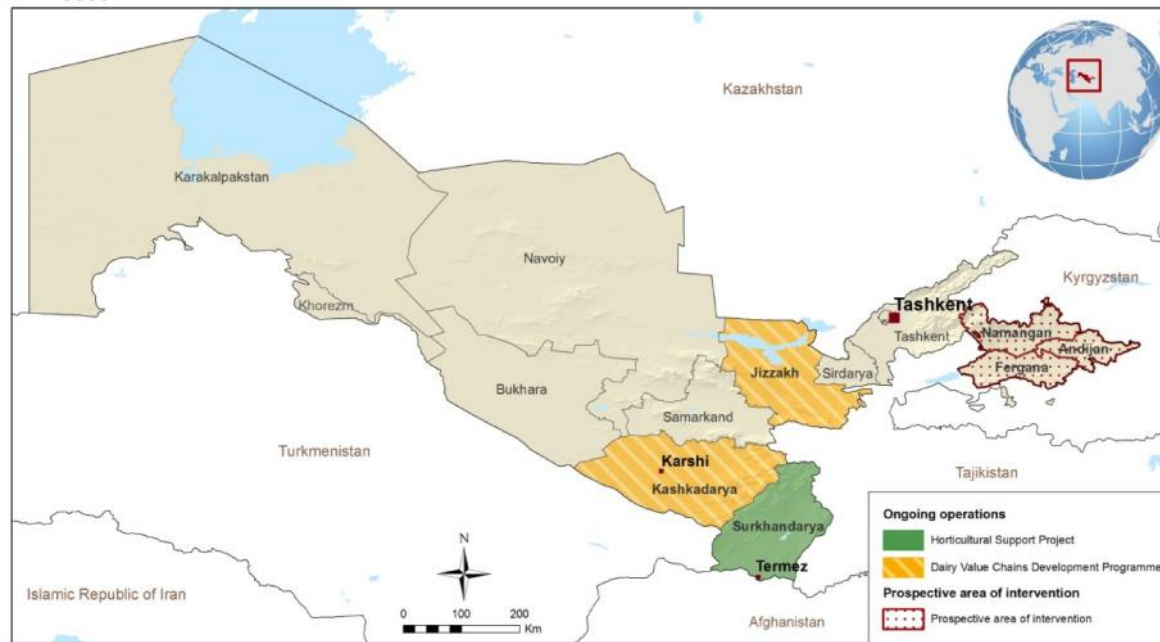
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## Abbreviations and acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement (French Development Agency)
CACILM	Central Asian Countries Initiative on Land Management
RB-COSOP	results-based country strategic opportunities programme
DVCDP	Dairy Value Chains Development Project
EC	European Commission
ECO	Economic Cooperation Organization
GIZ	German Agency for International Cooperation
HSP	Horticultural Support Project
ICARDA	International Centre for Agricultural Research in the Dry Areas
MAWR	Ministry of Agriculture and Water Resources
NRM	natural resource management
NSSD	National Strategy on Sustainable Development
PMU	project management unit
RRA	Rural Restructuring Agency
SECAP	Social, Environmental and Climate Assessment Procedures
SLM	sustainable land management
SO	strategic objective
USAID	United States Agency for International Development
WUA	water users' association

# Map of IFAD-funded operations in the country

**Republic of Uzbekistan**  
IFAD - funded operations in the country  
COSOP



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.  
Map compiled by IFAD | 26-10-2016

## Executive summary

1. The Republic of Uzbekistan joined IFAD in 2011. This is the first results-based country strategic opportunities programme (RB-COSOP) for the country, and covers the period 2017-2021. The COSOP draws on national strategies and guidelines for agricultural and rural development, an analysis of three years of country programme experience, and the 2016 Social, Environmental and Climate Assessment Procedures study.
2. Uzbekistan is a landlocked country in Central Asia that shares borders with Kazakhstan, Tajikistan, Kyrgyzstan, Afghanistan and Turkmenistan. Its economy has been one of the world's best performers in recent years, with economic growth driven primarily by state-led investments, and exports of natural gas, gold and cotton. Uzbekistan is now a lower-middle-income country (LMIC), with per capita gross national income rising to US\$2,160 in 2015.<sup>1</sup> Nonetheless, lower global commodity prices and economic slowdowns in its neighbouring countries – the Russian Federation and China – have undermined its trade and investment, remittances, and mineral and energy exports. Inflation rose to over 9 per cent in 2015.<sup>1</sup>
3. Uzbekistan has a population of over 31 million; 64 per cent of the total population, and 75 per cent<sup>2</sup> of the lower-income population, live in rural areas. Of these, nearly two thirds make their living from agriculture, with many facing productivity threats caused by land degradation. Poverty<sup>3</sup> is gradually decreasing, and stood at 13.7 per cent in 2015.<sup>1</sup> The agricultural sector produces about 18 per cent of GDP and provides employment for some 15 million people, many of whom are underemployed.
4. IFAD started working with Uzbekistan in late 2013 when its first project became operational. The project has already reached 1,503 households, provided training on crop production and technologies for 1,322 people (8 per cent of whom are women), and given loans for 304 dekhkan (household) farms and private farmers (17 per cent to women) totaling around US\$8 million.
5. IFAD's comparative advantage in Uzbekistan stems from its experience, though still limited, and lies in its clear focus on rural people, particularly dekhkan farmers, with the aim of improving their agricultural productivity and integration into value chains.
6. The overarching goal for the IFAD programme is "to enable sustainable income growth for rural people through viable small-scale agricultural production and rural enterprise systems". The COSOP goal and outcome are both consistent with the IFAD Strategic Framework 2016-2025.<sup>4</sup>
7. The strategic objectives (SOs) of this COSOP are:
  - SO1: Improve rural people's capacity and ability to benefit from high-value agricultural systems;
  - SO2: Increase the productive assets and competitiveness of smaller-scale productive entities in rural areas to enhance their market participation; and
  - SO3: Enhance the ability of small-scale producers to make environmentally sustainable use of natural resources, and raise their proficiency in adapting to climate variability and shocks affecting their economic activities.

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<sup>1</sup> World Bank.

<sup>2</sup> [www.uz.undp.org/content/uzbekistan/en/home/countryinfo](http://www.uz.undp.org/content/uzbekistan/en/home/countryinfo).

<sup>3</sup> In the Uzbekistan context, poverty refers to "income-/productive resource-poor", since other basic needs, such as health and education, are adequately provided for by the Government.

<sup>4</sup> IFAD Strategic Framework 2016-2025: Enabling Inclusive and Sustainable Rural Transformation.

8. The IFAD country programme in Uzbekistan will include three investment operations during the COSOP period, two ongoing and one new, along with a broad range of non-investment activities, such as partnership-building, knowledge management and South-South cooperation. The new IFAD investment, Rural Production-to-Market Systems Development Project, will be geared towards developing viable value chains by enhancing their productivity and market access and upgrading natural resources.

# Republic of Uzbekistan

## Country strategic opportunities programme

### I. Country diagnosis

1. The Republic of Uzbekistan joined IFAD in December 2011. The initial engagement was steered by the strategic objectives and outcomes of the two IFAD-funded projects: the Horticultural Support Project (HSP), approved in 2012, and the Dairy Value Chains Development Project (DVCDP), approved in 2015. With the relationship now developing, a strategic approach and medium-term framework for IFAD engagement are needed. This document presents IFAD's first country strategy with Uzbekistan, covering 2017-2021. The formulation of this results-based country strategic opportunities programme (RB-COSOP) benefited from extensive consultation with the central and regional governments, as well as with implementation partners and development agencies active in the rural sector in Uzbekistan. The strategy also capitalizes on the Social and Environmental Climate Assessment Procedures (SECAP) study undertaken in 2016.
2. Uzbekistan is located in Central Asia and shares borders with Kazakhstan, Tajikistan, Kyrgyzstan, Afghanistan and Turkmenistan. It is a land-locked country with a total area of 447,400 km<sup>2</sup> and a dry continental climate of low precipitation, hot summers and cold winters.
3. The Uzbek economy has been one of the world's best performers in recent years, with economic growth averaging 8 per cent over the past decade.<sup>5</sup> Growth has been driven by state-led investments and exports of natural gas, gold and cotton. It is now a LMIC, with gross domestic product (GDP) per capita, as measured by the Atlas method, having risen to US\$2,160 in 2015.<sup>6</sup> However, lower global commodity prices, compounded by economic slowdowns in China and the Russian Federation, have reduced trade and investment activity. In 2015, revenues from exports declined<sup>7</sup> and remittances were down by 40 per cent. This effect has been partially offset by expansionary fiscal policies and measures to boost lending to the private sector. These also had costs, however, with inflation rising to over 9 per cent in 2014 and 2015 according to International Monetary Fund calculations, and depreciation of the Som by 16 per cent against the United States dollar in the same period.
4. Uzbekistan's total population stands at over 31 million, with 64 per cent of the total and 75 per cent<sup>8</sup> of the lower-income population, living in rural areas. Of these, nearly two thirds make their living from agriculture. Annual population growth of 1.36 per cent produces a relatively fast-growing young segment who constitute more than two thirds of the population, which in turn translates into a corresponding need for rapid job creation. The fact that this potential labour force is not being fully absorbed domestically fuels migration flows to the Russian Federation and Kazakhstan,<sup>9</sup> with direct implications for changes in household structure. The number of women-headed households<sup>10</sup> has increased, particularly in rural areas, and women's role in agricultural production has expanded.

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<sup>5</sup> UNdata.

<sup>6</sup> The World Bank.

<sup>7</sup> [www.tradingeconomics.com](http://www.tradingeconomics.com) citing the source: The State Committee of the Republic of Uzbekistan of Statistics.

<sup>8</sup> [www.uz.undp.org/content/uzbekistan/en/home/countryinfo](http://www.uz.undp.org/content/uzbekistan/en/home/countryinfo).

<sup>9</sup> IOM, in 2015, 6.2 per cent of all citizens of Uzbekistan lived outside their country of origin, 58 per cent in the Russian Federation and 14 per cent in Kazakhstan.

<sup>10</sup> National average estimated at 18 per cent, but expected to be much higher in rural areas. Source: The Little Data Book on Gender, World Bank, 2013.

5. The poverty rate fell from 27.5 per cent<sup>11</sup> in 2001 to 13.7 per cent<sup>12</sup> in 2015, thereby achieving the corresponding Millennium Development Goal targets. Rural poverty also decreased from 30.5 per cent in 2001 to 17.3 per cent in 2013, although it remains above the average in eight out of 12 regions.<sup>13</sup> A Human Development Index (HDI) value of 0.675<sup>14</sup> (medium) ranks Uzbekistan 114<sup>th</sup> out of 188 countries and territories, while the inequality-adjusted HDI value is 0.559, which indicates significant income inequality.
6. Average life expectancy is now 69.4 years,<sup>15</sup> and child and maternal mortality have decreased. The adult literacy level is 100 per cent,<sup>16</sup> and gender parity has nearly been achieved in primary education. While the female-to-male labour market participation ratio is 64 per cent,<sup>17</sup> unemployment rates among men and women are similar, although a small gap exists in the case of youth unemployment.<sup>18</sup>
7. Uzbekistan is a major agricultural producer and exporter. The agricultural sector produces about 18.3 percent of GDP<sup>19</sup> and provides income and employment for some 15 million people or nearly 50 per cent of the population. The main crops grown are cotton and wheat, and these occupy about 85 per cent of arable land. Yields are low by current global standards, especially in the case of cotton.<sup>20</sup>
8. The water delivery system for irrigation is basically sound at the macro level, although parts of it need upgrading and renewal. Most of the land is irrigated through surface or furrow irrigation procedures, which are cheap to install and operate but inefficient in terms of water use. This matters because of the overall scarcity of irrigation water, most of it being obtained from river flows originating outside Uzbek territory.<sup>21</sup>
9. Rural labour productivity is markedly lower than the levels commonly achieved elsewhere, owing to limited investment in modern technology and human capital. A good basic education standard provides a sound basis for improvements in essential knowledge for specialized production and agribusiness management.
10. There has been a recent surge in investment in intensive horticultural production of both fruit and vegetables. The Government set clear priorities for development of the subsector in Presidential Decree No. 2460 dated 29 December 2015. Support for this initiative has mobilized public investment (including major donors) and private investment to shift out of lower-value wheat and cotton and into horticulture, mainly with an export focus. More than 25,000 ha of new fruit orchards have been established over the past four years. The value of fruit and vegetable exports now represents over 50 per cent of agricultural export earnings. Farm incomes, and the productivity of land, water and personnel employed have all improved as a result.
11. Uzbekistan has three types of farm:<sup>22</sup> dekhkan, private and shirkat.
  - (a) Dekhkan (household) farms<sup>23</sup> usually without legal status, produce on their own small irrigated or rain-fed plots of up to 0.35 ha, as well as 1 ha of pasture. This land is owned by the family and can be transmitted as an

<sup>11</sup> Millennium Development Goals Report, Uzbekistan, 2015.

<sup>12</sup> World Bank.

<sup>13</sup> Including the Namangan region in the Fergana Valley.

<sup>14</sup> In 2014, Human Development Report 2015.

<sup>15</sup> World Health Organization, 2015.

<sup>16</sup> UNESCO, Institute of Statistics. 2017.

<sup>17</sup> International Labour Organization, Key Indicators of the Labour Market database 2017.

<sup>18</sup> 22 per cent for women and 19 per cent for men, World Bank, Gender Statistics 2013.

<sup>19</sup> The World Bank.

<sup>20</sup> Cotton yields in Uzbekistan average 2.6 metric tonnes (mt)/hectare (ha) of seed cotton, compared with almost 6.4 mt/ha in Australia (Cotton Australia 2012), and more than 4 mt/ha in the United States (United States Department of Agriculture, 2015).

<sup>21</sup> IFAD SECAP Report for Uzbekistan.

<sup>22</sup> Derived from "Uzbekistan – Strengthening the Horticulture Value Chain", World Bank 2012.

<sup>23</sup> The number of dekhkan farms doubled in 2000-2014, according to the State Statistics Committee.



inheritance. Accounting for 13 per cent of irrigated arable land, these farms produce 63 percent of the country's gross agricultural output,<sup>24</sup> including nearly 98 per cent of all its meat and milk, most of its eggs, wool and pelts, and a large share of its fruit and vegetables.

- (b) Private farms are independent legal entities with land use granted on a 49-year lease. These farms produce all of the country's cotton and most of its wheat, and increasing amounts of fruit and other products in recent years. They are subject to state orders to grow cotton and wheat according to their land allocation, for which they receive inputs.
  - (c) Shirkat farms stem from the former state farms (kolkhoz) which were reorganized into cooperatives. They have little prominence now, with only 104 in existence in the karakul sheep sector.
12. Significant challenges affecting rural smallholder families include their limited access to land and irrigation water. Limited access to productive assets, good infrastructure, energy, modern technology and knowledge for coping with natural disasters and climate change challenges are also drivers of low rural productivity. Smallholders are also normally excluded from government support for official production of wheat and cotton, and thus have higher input costs. Problems include lack of liquidity, the high cost of foreign exchange and poor access to it, and a regulatory environment that hinders smallholder activities owing to their limited engagement with banks and other institutions, lack of formal business organization and a shortage of collateral. Many smallholders lack knowledge and access to capacity-building to enable them to operate commercially viable farming ventures and other small enterprises.
  13. Institutional structure for rural development. Policies and targets are determined by the Government and announced by the Head of State, and then implemented through the Cabinet of Ministers. The Complex of the Cabinet of Ministers for agriculture and water issues is led by the Prime Minister. This Complex coordinates the work of the Ministry of Agriculture and Water Resources (MAWR) and the national State Committee on Land Resources. Additionally, a special commission directs reforms in the agrarian sector, chaired by the Prime Minister, with members including the Ministers for MAWR, Finance, and Economy, and the chairpersons of the committees on land resources, banks and others.
  14. The MAWR is responsible for developing strategies and implementing reforms in the agrarian sector, developing sectoral and regional development programmes, conducting market research, providing information to farmers and assisting in attracting foreign and domestic investment in agriculture.
  15. The MAWR's Rural Restructuring Agency (RRA) is responsible for implementing projects financed by various international financial institutions such as IFAD, the World Bank, the Asian Development Bank (ADB) and others. The RRA is responsible for implementing the IFAD-supported HSP and DVCDP.
  16. One of the MAWR's strengths is that it is represented in each region. The regional departments are headed by the deputy governors of each region, thereby providing synergies and authority with regional and lower-level administration. This enables MAWR to have direct contact with farmers, and to monitor the performance of rural investments. The main weaknesses of the MAWR are related to the previous centrally planned systems with the firmly directed approach to management. Contracts to produce cotton and certain other crops reduce farmers' options to manage their land as they perceive opportunities. Obsolete equipment and outdated knowledge also impair the ability of MAWR to support improved agricultural productivity and quality.

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<sup>24</sup> State Committee of the Republic of Uzbekistan on Statistics, 2010.

17. The guiding principles that inform and direct the Government's course of action are embedded within the Welfare Improvement Strategy of the Republic of Uzbekistan for 2013-2015 (WIS II), and Presidential Decree PP 2469. The Government has set specific goals for improving labour efficiency and income generation through agrarian development, improved infrastructure and the development of agro-processing. More efficient labour use is expected to lower production costs, thereby enhancing competitiveness in local and export markets.
18. The Government targeted annual growth in the agriculture sector of 5.4 per cent in 2013-2015, and for this growth to be sustained into the future. A specific aim is to diversify away from wheat and cotton production towards higher-value intensive crops grown on a total of 220,000 ha of land over the next five years. Dekhkan farmers have a prominent place in plans to intensify production systems. To complement these efforts, it is also planned to increase the involvement of Uzbek industries in processing horticultural, meat and dairy products.
19. There are opportunities for rural growth in both export and domestic markets. The growth of horticultural exports is already well documented<sup>25</sup> and is strongly backed by private and public investment.
20. Import statistics also reveal major import-substitution opportunities for wheat products, barley, edible oils and sugar, which are mostly produced by large-scale private farms. There are also significant opportunities for dekhkan farms in the production of meat, dairy, freshwater fish and horticultural products, including potatoes, to satisfy local demand. Annual meat imports are valued at US\$69 million, poultry products at US\$43 million, fish at US\$7.1 million and pistachio at US\$7.8 million. All of these products could be profitably produced locally, but this would require major improvements in the application technology employed for irrigation systems, to ensure highly efficient water use and a low risk of salinity and erosion. Uzbekistan is also an importer of plant seeds and nursery seedlings. These could be multiplied locally with the proper supervision.
21. There are many opportunities to boost the growth of rural productivity and incomes, related to the need for agricultural technology modernization; more efficient use of irrigation water; adoption of climate-resilient agronomic systems; and investment in the knowledge and capacity of farmers to apply improved techniques and business principles more effectively.
22. The risks to rural growth include the following:
  - (a) There is little or no sector-level data on the productivity and profitability gains resulting from recent public and private investment in the sector. Without this, there is a risk that publicly driven investment could be misallocated in underperforming subsectors;
  - (b) The financial and technical criteria for rural investments at the enterprise level are often not rigorously applied due to financial supply pressures and centrally mandated investment targets, with unviable investments being supported;
  - (c) Moreover, while value chain principles are being promoted through several externally supported technical assistance projects, these are often not matched by actual physical investments;
  - (d) Climate change trends and overuse of water resources pose risks to any intensive productive investment in the agricultural sector;
  - (e) External events pose constant risks to commercial agriculture, especially that primarily targeting export markets.

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<sup>25</sup> United States Agency for International Development (USAID), September 2016, Agricultural Value Chains Activity, Uzbekistan.

## II. Previous lessons and results

23. IFAD started working with Uzbekistan in late 2013 when its first project, HSP became operational. Although there is data on immediate outputs, these investments have not yet evolved sufficiently to generate outcome data. The HSP has reached out to 1,503 households, provided training on crop production and technologies for 1,322 people (8 per cent of them women), and given loans for 304 dekhkan and private farmers totaling around US\$8 million. This has been for the establishment and improvement of orchards and vegetable fields, the introduction of modern production technologies, and investments in agricultural machinery, cold storage and processing facilities.

### Lessons

24. The key lessons to emerge from this initial IFAD experience are:
- (a) Project management – some constraints have emerged with respect to limited institutional capacity, particularly in attracting qualified local personnel, lack of knowledge and technical expertise in project management and in retaining staff. Moreover, the location of the main project management unit (PMU) in the capital has meant that direct interaction with stakeholders and beneficiaries is limited;
  - (b) The project uses an unstructured and ad hoc approach for capturing and documenting M&E data on the outputs, outcomes and impact of interventions; and
  - (c) Government processing of investment proposals, which required a feasibility study to be produced for each donor project. This uses up large amounts of time and resources and points to the need to conduct project design and government processing simultaneously, rather than sequentially.
25. Lessons have also emerged from consultations with the main development partners in Uzbekistan,<sup>26</sup> including the following:
- (a) Investments are likely to be more successful in areas where the financing institution and the government have a common understanding of development paths;
  - (b) The use of pilots, demonstration of farm-level results, and the dissemination of those outputs are appropriate vehicles for spreading potential sources of innovation;
  - (c) Identified beneficiaries should be incorporated into clusters and production/processing chains, to reduce costs and take advantage of training, collective market links, and economies of scale; and
  - (d) Commercial lenders need to be supported to provide incentives for expanded outreach in rural areas, including capacity-building for field-level operational staff.

## III. Strategic objectives

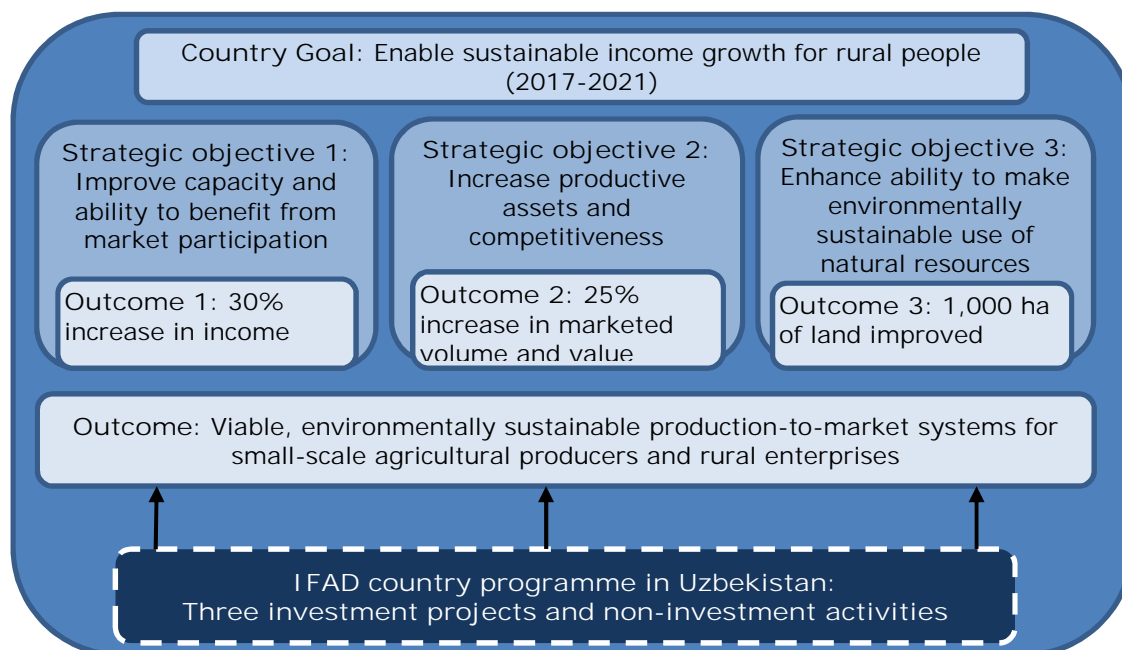
26. IFAD's comparative advantage in Uzbekistan will continue to be focused on rural people, particularly dekhkan farmers, to improve their agricultural productivity and participation in value chains, while also integrating the sustainable use of natural resources and climate-resilient technologies.
27. The overarching goal for the IFAD country programme is: to enable sustainable income growth for rural people through viable small-scale agricultural production and rural enterprise systems.

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<sup>26</sup> Lessons derived from the IFAD DVCDP project design document.

28. Special emphasis will be given to empowering dekhkan farmers, small-scale private farmers, including women and women-headed households, and youth. Accordingly, the outcome of the IFAD interventions will be: viable, environmentally sustainable production-to-market systems for small-scale farmers and associated rural enterprises.
29. The COSOP goal and outcome are both consistent with the IFAD Strategic Framework 2016-2025.<sup>27</sup> The proposed strategic objectives (SOs) are:
- SO1: Improve rural people's capacity and ability to benefit from high-value agricultural systems;
  - SO2: Increase the productive assets and competitiveness of smaller-scale productive entities in rural areas to enhance their market participation; and
  - SO3: Enhance small-scale producers' ability to make environmentally sustainable use of natural resources, and raise their proficiency in adapting to climatic variability and shocks affecting their economic activities.
30. The strategic objectives will be achieved as follows:
- SO1: through market opportunities research, and through training and mentoring for smallholders and associated market chain individuals and companies;
  - SO2: through investment in efficient productive assets owned and operated by smallholders. This would be done by providing medium-term loans from financial institutions, as well as shorter-term production loans;
  - SO3: through actions to enhance and restore the productive capacity of agroecosystems in the target areas, investment in climate-resilient agronomic systems and sustainable land and water conservation techniques, together with complementary training for users in sustainable operating procedures.

Figure 1  
COSOP results framework logic



<sup>27</sup> IFAD Strategic Framework 2016-2025: Enabling inclusive and sustainable rural transformation.

31. The IFAD country programme in Uzbekistan will include three investment operations, two ongoing and one new, along with a broad range of non-investment activities, such as partnership-building, knowledge management and South-South cooperation. The combined results of these activities will contribute to COSOP outputs and outcomes.
32. The new investment supported by IFAD during the COSOP period, Rural Production-to-Market Systems Development Project (RPMSD), will be oriented towards the development of viable value chain systems for smallholder farmers and associated rural enterprises. The production systems that could potentially be supported are: beekeeping, fish farming, sericulture and the intensification of small ruminant production. The main types of interventions would be:
  - (a) Investment in the processes of developing viable production-to-market enterprises, entailing capacity-building for farmers, service providers, processors, financial institutions and buyers of agricultural produce. These would be focused on "farming as a business" principles.
  - (b) Financing of commercial investments, involving the provision of credit through existing financial institutions.
  - (c) Investments in climate-resilient agronomic practices, water-saving technologies and complementary erosion prevention actions.
33. The project will be managed on a decentralized basis, thus affording closer cooperation with local authorities and stakeholders, and a more responsive and outcome-based modality of engagement.

## IV. Sustainable results

### A. Targeting and gender

34. Geographic targeting. The IFAD resources that are available allow for a concentrated approach in a limited geographical area, to test and refine innovations before their replication to other regions. In keeping with this, ongoing operations target areas of high development potential in the Surkhandarya, Jizzakh and Kashkadarya regions. The new investment will focus on the eastern geographic area of the Fergana Valley, comprising the Fergana, Andijan and Namangan regions. These are severely challenged by very high population density (accounting for one third of Uzbekistan's total population)<sup>28</sup> and the country's second lowest per capita GDP, particularly in Namangan.<sup>29</sup> The valley suffers from the consequences of inadequate land and water management practices, which have resulted in high salinity levels on irrigated land, causing crop yields to drop by a third.<sup>30</sup>
35. The target group will be resource-deprived rural people, with a particular focus on dekhkan farmers; smaller private farmers; rural entrepreneurs; and the rural unemployed. Women<sup>31</sup> will constitute a specific target group because, while they are key players in primary production, they have limited access to assets and services, which affects their capacity and that of their families to improve their livelihoods. Youth<sup>32</sup> will be another distinct target segment, given the lack of attractive opportunities available to young people, which causes agricultural production to stagnate and fuels migration to urban centres and abroad.

### B. Scaling-up

36. The Government recognizes that modest scale IFAD interventions can pioneer new methods, approaches and tools of engagement in agriculture, and are already

<sup>28</sup> State Committee of the Republic of Uzbekistan on Statistics.

<sup>29</sup> See: Country Partnership Framework for the period FY16-20, World Bank.

<sup>30</sup> United Nations Economic Commission for Europe, 2010, Environmental Performance Review, Uzbekistan, Second Review, Series No. 29.

<sup>31</sup> State Committee of the Republic of Uzbekistan on Statistics.

<sup>32</sup> Ibid.

serving as a model for other investments by the Government and by development partners – such as the World Bank and ADB – that are currently implementing or planning major interventions in the horticultural and dairy subsectors. The Government has encouraged IFAD to continue playing this key role.

37. The RPMSD, funded during the COSOP period, will follow a similar approach and build on the experience of ongoing projects, replicating and scaling up their models, with an inclusive value chain approach for development of an agricultural commodity, targeted rural financial services and smallholder organization as businesses. The key scaling-up pathway will be knowledge generation to feed into operational policy dialogue. Project results will be packaged into specific operational knowledge products, to demonstrate to the Government and development partners what works well for smallholders, and leverage additional resources for the purpose of replicating the approach for other commodities and expanding outreach to more smallholder farmers.

### C. Policy Dialogue

38. An important function of the IFAD country programme will be to demonstrate to the Government and other development partners the positive role that the smallest-scale dekhkan farmers can play, and are playing, in the development of commercially viable businesses. In addition, IFAD will contribute practical knowledge from the field on new approaches and successful models for advancing the development of agricultural subsectors such as horticulture, dairy, small livestock and others. It will also showcase viable methods for climate adaptation technologies. The three interrelated methods of IFAD policy engagement will include: (i) the country programme management team (CPMT) contributing country programme knowledge to the in-country working groups of the Government and its development partners; (ii) project staff communicating successful approaches tested under IFAD-supported projects for potential scaling-up; and (iii) projects enhancing the capacity of rural people to participate in national policy processes.

### D. Natural resources and climate change

39. Environmental mistreatment, compounded by inadequate agricultural development actions, have brought serious environmental risks to Uzbekistan. Freshwater resource depletion and deterioration of water quality, desertification, soil erosion and salinization, and habitat loss remain key issues for Uzbekistan's ecosystems and biodiversity. Of total irrigated land in the Ferghana Valley, 28 per cent suffers from moderate to high salinity levels, resulting in a 20-30 per cent drop in crop yields. There is also soil contamination linked to irrigated agriculture (pesticides, nitrates and strontium). Unsafe water supply caused by agriculture and industrial pollution is particularly affecting downstream areas of the Amu Darya and Syr Daria rivers, making it urgent to improve irrigation techniques and adopt sustainable agronomic systems that avoid excessive chemical use. The receding Aral Sea has left huge plains in the north-western corner of Uzbekistan covered with salt and toxic chemicals, which are picked up and carried away by the wind as toxic dust and spread to the surrounding areas, thereby exposing 6 million, mostly poor, people to serious health risks.
40. Climate change is projected to lead to higher temperatures (between 2°C and 3°C over the next 50 years) and changes in precipitation patterns. It is likely to cause yield reductions of 20–50 per cent by 2050 for nearly all crops; and there will be a severe water shortage of 12-51 per cent in the Ferghana Valley by 2040.
41. The Government has identified land restoration and climate change adaptation priorities for the agriculture sector. These are aimed at enhancing institutional and technical capacity to reduce production risks related to climate change.

## E. Nutrition-sensitive agriculture and rural development

42. Uzbekistan has the highest regional incidence of anaemia (52 per cent)<sup>33</sup> among women of reproductive age, and a high percentage of children (70 per cent) aged 12-23 months are iron-deficient. Around 19 per cent of children aged under five are stunted, and 4 per cent are underweight. The Government's approach to food security and nutrition entails defining wheat as a "strategic crop" subject to state procurement targets and prices, opening up access to land through the allocation of small household plots and dekhkan farms, and special nutrition programmes for mothers and children.
43. This COSOP contribution to better rural nutrition will focus on crops, small livestock and aquaculture (hence diet diversification), increasing household income and access to nutritional foods, improving nutritional quality through farmer education and information, and promoting the adoption of improved natural resource management (NRM) and climate-resilient techniques.

## V. Successful delivery

### A. Financing framework

44. The new RPMSP, designed during this COSOP, will amount to about US\$75 million. It will be funded by the performance-based allocation system (PBAS) allocation for 2016-2018, in the amount of US\$39 million on blend terms, together with a grant of US\$500,000. The latter will be used for capacity-building in programme management partner institutions and an outcome oriented M&E system. The remainder of financing for the project will be raised from development partners and/or potentially funded by the PBAS allocation for 2019-2021.

Table 1  
PBAS calculation for COSOP year 1

<i>Indicators</i>		<i>COSOP year 1</i>
	Rural sector scores	
A (i)	Policy and legal framework for rural organizations	2.50
A (ii)	Dialogue between Government and rural organizations	2.50
B (i)	Access to land	2.75
B (ii)	Access to water for agriculture	3.50
B (iii)	Access to agricultural research and extension services	3.00
C (i)	Enabling conditions for rural financial service development	3.00
C (ii)	Investment climate for rural businesses	3.00
C (iii)	Access to agricultural input and produce markets	3.33
D (i)	Access to education in rural areas	4.25
D (ii)	Representation	3.00
E (i)	Allocation and management of public funds for rural development	3.50
E (ii)	Accountability, transparency and anti-corruption in rural areas	2.75
	Average scores	3.09
	Project-at-risk rating 2015	5.70
	Country performance score (2015)	4.06
	Annual allocation (in United States dollars, 2016)	13 072 778

<sup>33</sup> International Food Policy Research Institute, Global Nutrition Report 2015: Actions and accountability to advance nutrition and sustainable development.

Table 2  
**Relationship between performance indicators and country score**

Financing scenario	Project-at-risk rating (+/- 1)	Rural sector performance score (+/- 0.3)	Percentage change in PBAS country score from base scenario
Hypothetical low case	5	2.8	(2)
Base case	6	3.1	0
Hypothetical high case	6	3.4	12

## B. Monitoring and evaluation

45. The IFAD country programme in Uzbekistan is expected to directly support income growth for some 45,000 households during the COSOP period, including the creation of 5,000 rural jobs. It will also provide training for over 10,000 beneficiaries, and support the construction/rehabilitation of infrastructure. The indicators under the IFAD project M&E systems will be linked to those of the COSOP results framework. An annual review process will be carried out to measure achievements against the indicator targets.

## C. Knowledge management

46. The country programme will have a strong focus on learning and knowledge management, given IFAD's limited operational experience in Uzbekistan. Knowledge from IFAD operations and from development partners will be gathered at the project level and from non-project activities, and it will be fed into the country-level dialogue with the Government and shared with the development partners. Learning notes will be produced on key IFAD interventions – value chain development, horticulture development and climate resilience – and will be shared with the Government and key implementation partners.

## D. Partnerships

47. The key development partners currently working in rural/agricultural development in Uzbekistan are the World Bank, ABD, the USAID, the European Commission (EC), Agence Française de Développement and the German Agency for International Cooperation (GIZ). Several of these institutions have substantial grant funding for the development of commercially viable agricultural production and marketing systems. IFAD explored initial interest in collaborating with these donors, particularly the EC and USAID, to secure financing partnerships for technical assistance, training and capacity-building.

## E. Innovations

48. The current IFAD interventions are innovative in the Uzbekistan context, supporting the production-to-market chain development approach, with the inclusion of dekhkan farmers and other public- and private-sector players. Further innovations for this COSOP include:
- Targeting the most disadvantaged rural producers, to demonstrate their productive and commercial potential;
  - Application of the production-to-market investment approach for several commodities;
  - Development of more sustainable financing modalities for rural investment through commercial banks; and
  - Climate change interventions, such as the introduction of climate-resilient agronomic practices, promotion of a water-saving culture, and landscape restoration techniques.

## F. South-South and triangular cooperation

49. IFAD supports the joint partnership initiative on South-South and Triangular Cooperation for Agricultural Development in collaboration with the United Nations



Office for South-South Cooperation. The activities to be supported in Uzbekistan during implementation of this COSOP are:

- (a) South-South knowledge exchange workshop on horticulture;
- (b) Two pilot initiatives on organic farming and on no-till and conservation agriculture; and
- (c) Replication of the successful model of information communications technology-driven knowledge exchange between smallholder farmers, i.e. the MEVA Android application.

## COSOP results management framework

Country strategy alignment	Key Results for RB-COSOP (covers 2 PBAS cycles)			COSOP Institutional/Policy and Non-Lending objectives
The Program of Action of the Cabinet of Ministers for near and long-term perspective	Strategic objectives	Outcome indicators	Milestone indicators	
<p>The “Program of measures on reforming and development of agriculture for the period 2016-2020” aims at:</p> <ul style="list-style-type: none"> <li>• Increase the yield and productivity of crops</li> <li>• Expansion of cultivated land for growing fruits and vegetables</li> <li>• Modernization of agricultural production</li> </ul> <p>The aim would be achieved by Optimization of structure of sowing areas through reducing the areas cultivated with cotton</p>	<p>S.O.1: Improve rural people’s capacity and ability to benefit from high value agricultural systems;</p>	<ul style="list-style-type: none"> <li>- 30% Increase in income for targeted households</li> <li>- 30% of targeted households with increase in assets ownership index</li> </ul>	<ul style="list-style-type: none"> <li>- 30% increase in volume/value of horticulture and dairy produce</li> <li>- At least 50% of trained beneficiaries adopting the recommended technologies (30% women)</li> <li>- At least 450 trained in post-production, processing and marketing(30% women)</li> </ul>	<p>Evidence-based data and knowledge products on productivity and income of small dekhkans to inform policy discussions with the Government and other partners</p>
	<p>SO2: Increase the productive assets and competitiveness of smaller-scale productive entities in rural areas to enhance their market participation</p>	<ul style="list-style-type: none"> <li>- 25% Increase of marketed volume and value of sales of supported producers</li> <li>- 75% of supported agro-enterprises operating profitably two years post investment</li> </ul>	<ul style="list-style-type: none"> <li>- At least 450 trained in business and entrepreneurship skills (30% women)</li> <li>- At least 25 small-scale productive entities supported</li> </ul>	<p>Government implementing partners replicate the piloted IFAD interventions in non-project areas</p>
	<p>SO3: Enhance small-scale producer’s ability to make environmentally sustainable use of natural resources and their proficiency in adapting to climatic variability and shocks affecting their economic activities</p>	<ul style="list-style-type: none"> <li>- At least 1 000 ha of land managed under climate-resilient agronomic practices</li> <li>- \$ value of new or existing rural infrastructure made climate-resilient</li> </ul>	<ul style="list-style-type: none"> <li>- At least 1000 ha of land managed under climate-resilient agronomic practices and complementary erosion reduction measures</li> <li>- At least 25 other infrastructure constructed/rehabilitated</li> <li>- People trained in infrastructure and natural resources management (30% women)</li> </ul>	<p>Enhance linkages of programme/projects M&amp;E for supporting the scaling-up agenda</p>

## Agreement at completion point of last country programme evaluation

Not applicable

## COSOP preparation process including preparatory studies, stakeholder consultation and events

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## Natural resources management and climate change adaptation: Background, national policies and IFAD intervention strategies

1. This appendix is a summary of the “Social, Environmental and Climate Change Assessment Procedures” (SECAP) report that was prepared to support the COSOP design in Uzbekistan. The full report is available upon request.
2. The Republic of Uzbekistan is a landlocked country of Central Asia that extends from the Tian Shan and Pamir mountains in the east to the Aral Sea in the west. The climate is continental with predominance towards harsh continental conditions with hot summers and cool winters. Summer temperatures often surpass 40 °C, while winter temperatures average about –2 °C, but may fall as low as –40 °C. Climate is characterized by low precipitation (70–100 mm per year) in the plains of the north-west part and up to 1,200 mm in mountainous regions. Over 70 per cent of the precipitation falls between autumn and spring, with a maximum in March and April.
3. Almost 85 per cent of Uzbekistan territory consists of desert and semi-desert plains, with extensive mountain systems flanking the deserts. Three distinct major ecological zones can be distinguished in Uzbekistan: (i) sand, salt and clay deserts, occupying the Uzbekistan’s lowlands, mainly at 100 m to 300 m above sea level; (ii) mountains with steppe grasslands, scrublands, deciduous and juniper forests, and subalpine and alpine meadows; and (iii) freshwater ecosystems, linked mainly to Amudarya and Syrdarya Rivers and the downstream parts of the Zerafshan and Surkhandarya. A large area of Uzbekistan is used for agriculture, with natural pastures occupying 40 per cent of the country, and rain-fed and irrigated cropland accounting for an additional 12 per cent. The major crops are cotton, wheat, maize (corn), alfalfa, barley, sorghum, rice, mulberry for silkworm culture, vegetables, melons, fruit trees, and others. The majority of pastures is situated in the desert belt (78,1 per cent).
4. The rich flora of Uzbekistan includes at least 4,500 species of vascular plants. The country is part of a centre of origin of wild ancestors of cultivated plants, with greatest importance for the genetic improvement of existing cultivars. Surveys of households and commercial orchards collected from 2006 to 2011 demonstrated that Uzbekistan is still the home for 83 traditional varieties of apricot, 43 of grape, 40 of apple, 30 of walnut, 21 of pomegranate, 15 of pear, all grown within the farmers’ production systems. Wild almond, pistachio and walnut and other wild fruit and nut species found in the forests are used by local people for their own consumption and income.
5. Environmental neglect, combined with inadequate agricultural development policies, have brought Uzbekistan to serious environmental crisis, such as the desiccation of the Aral Sea due to the excessive use of river water for irrigation. Key environmental challenges for Uzbekistan can be grouped in the following three areas: (i) freshwater resource depletion and deterioration of water quality, (ii) desertification, soil erosion and salinization, and habitat



loss, as a result of unsustainable livestock management, agricultural and irrigation practices, (iii) climate change.

6. The rivers Amudarya and Syrdarya, which used to deliver their waters into the shrinking Aral Sea, are used intensively for irrigated agriculture. Since the 1970s, the Aral has shrunk from 68,000 km<sup>2</sup> to approximately 9,400 km<sup>2</sup> in 2015, with dramatic environmental, economic, social and health impact. Uzbekistan is the primary consumer of water in the region, with irrigation accounting for 92 per cent of surface water withdrawal and its agricultural production almost 90 per cent dependent upon irrigation. The irrigation network is extensive, but investments in infrastructure maintenance have decreased in recent years. Few incentives exist for the application of water-saving technologies. Water costs are covered by an overall land tax and are not tied to use of inputs.
7. Salinization and soil erosion are two major issues, potentially reducing the agricultural viability of the mountainous foothills and making the desert and steppe zone even less suitable for agriculture. Most pastures are subject to degradation due to overgrazing, cutting down of small trees and shrubs for fuelwood, soil water reduction, water erosion, sand encroachment, and land conversion into agriculture. These problems affect at least half of Uzbek agricultural land and lead to reduced yields and the abandonment of cropland. Research shows that 28 per cent of irrigated land in Ferghana valley suffers from moderate to high salinity levels, resulting in a 20 per cent-30 per cent drop in crop yield; soil contamination linked to irrigated agriculture (pesticides, nitrates and strontium) is an issue in the whole central part of the Ferghana valley, where the highest soil salinity is observed .
8. Research indicate that 0.85 billion US\$ were lost per year between 2001 and 2009 due to land degradation, which was equivalent to about 4 per cent of Uzbekistan's GDP in 2007 . These authors also estimated the decline in productivity in terms of lower meat and milk production, as well as weight loss among livestock to be up to 6 million US\$per year. The province of Karakalpakstan bears the highest financial burden of the desiccation of the Aral Sea. Other provinces with significant land degradation issues are: Kashkadarya, Buhoro, Samarkand, Surhandarya, Ferghana and Sirdarya. According to the same authors, the cost of action against land degradation is four times lower than the cost of inaction when projected over a 30-year time horizon (11 billion US\$against 50 billion US\$if nothing is done). Each US\$spent on restoring lands will yield about 4.3 US\$in return.
9. Climate change in Uzbekistan will further lead to higher temperatures (2-3°C in average over the next 50 years, and as much as 4-5°C during summer), and changes in precipitation regimes (between 10-40 mm increase of annual rainfall; less precipitation during summer cropping period; lower winter snow cover reducing soil water retention, and river water flow; more torrential rainfall regime). As a result, the periodicity and intensity of extreme and hazardous hydro-meteorological phenomena will increase, namely droughts, heat waves, mudflows, floods and avalanches.
10. If no adaptation measures are taken, CC is likely to have significant impacts on agriculture, with potential yield reductions of 20–50 per cent by 2050 for

nearly all crops. Evaporation increase will lead to higher irrigation water demand of 7-10 per cent by 2050. The net effect of rising water demand and falling supply is a significant reduction in water availability for irrigation, with severe water shortfall (between 12-51 per cent in the Ferghana valley by 2040). Due to population growth, the share of cultivated areas per capita will reduce from 0.15 ha in 2006 to 0.10 ha on average by 2050, which may lead to agriculture output deficiency of 10-15 per cent by 2050 compared with the current period. Research demonstrated that the cost of action against land degradation is four times lower than the cost of inaction when projected over a 30-year time horizon. The government of Uzbekistan has identified a number of land restoration and CC adaptation priorities for the agriculture sector, aimed at enhancing institutional and technical capacity to reduce the risks related with agriculture production, markets, prices, and policies and regulations.

11. The State Committee for Nature Protection is responsible for the protection of the environment and the use of natural resources. There is no overall coordinating entity to ensure that adaptation policies and programs are undertaken in an effective and systematic way, although the Cabinet of Ministers has a range of climate-related tasks. The Ministry of Agriculture and Water Resources is responsible for the formulation and promotion of policies and strategies related to agriculture and water resources across Uzbekistan. The principal agricultural Research and Development agency is the Uzbek Agricultural Research and Production Centre, which does research on agriculture sector under the Ministry of Agriculture and Water Resources (MAWR) of Uzbekistan. Most research is carried out by 45 research institutes and research stations of the Uzbek Agricultural Research and Production Centre, and research labs in Universities. The presence of two CGIAR centres in Tashkent - International Centre for Agricultural Research in the Dry Areas (ICARDA) and Bioversity International - is an advantage, supporting and promoting research in the framework of the Eco-Regional Collaborative Research Programme for Sustainable Agriculture Development in Central Asia and the Caucasus. The NGO sector is still weak and subject to strict governmental regulations.
12. At a policy level, the National Strategy on Sustainable Development (NSSD) (1999) continues to serve as the overarching framework for sustainable development and functions as the basic reference document for all strategies and legislation. Among its policy goals, there are major environmental concerns, namely supporting the ecosystem integrity through efficient natural resource management, mitigating the growing economic impacts on the natural environment, and taking into account climate change impacts. The Welfare Improvement Strategy (WIS-II) of the Republic of Uzbekistan for 2013-2015, which is the Government's main income growth strategy, includes environmental objectives, such as the adoption of improved mechanisms and innovative technologies for the effective and rational use of land and water resources, the allocation of crop varieties with due consideration to the natural and climate conditions as well as resource-supply and market demand, the introduction of EIT and conservation agriculture technologies, and the improvement of the Water Users Associations (WUAs) with a gradual shift towards partly-charged water usage.

13. The 1998 National Environmental Action Plan describes the state's environmental policies. Uzbekistan currently does not have a comprehensive climate change policy document that would provide a strategic framework for national climate change adaptation and mitigation actions. The governmental protocol 2015-17 of the National Forest Programme proposes the conservation, management and restoration of forest areas, involving the production in nurseries of cultivars of drought-tolerant trees such as pistachio, the production of medicinal and aromatic plants, the establishment of protective tree shelterbelts, and the challenging afforestation programme for the dry seabed of the Aral Sea. The 1999 National Action Programme to Combat Desertification (NAPCD) is the prevailing strategies for combating desertification, including national programming frameworks (NPF) with 10-yr programmes of investments in sustainable land management (SLM) and activities to arrest land degradation. Uzbekistan currently does not have a focused and comprehensive climate change policy document that would provide a strategic framework for national climate change adaptation and mitigation actions. There are several environmental policies and programs that cover a range of adaptation activities in sectors such as water resources and agriculture, health, ecosystems, and others, but they are rather uncoordinated and fragmented.
14. The Second National Communication to the UNFCCC (2008) is the primary document that assesses the impacts of climate change and outlines adaptation options to increase the resilience of the agro-ecosystems and rural population in the fields of water resource management, livestock sector, agricultural production, climate risk management and biodiversity conservation. Key CC adaptation priorities for the agriculture sector identified by the Government (NSSD, WIS, SNC, NAPCD/NPF, NFP ): (i) the introduction of climate-resilient agronomic practices (conservation agriculture systems and technologies, including no-till, permanent soil cover, mulching, crop rotation, spatial crop diversification, organic fertilization, integrated pest management; micro-pressurized irrigation technologies); (ii) the promotion of a water saving culture, creating innovative and inclusive water management approaches for WUAs at the watershed level; (iii) development of agriculture climate expert-advisory system to facilitate the use of updated scientific and practical agronomic information by large and small farmers, and identifying opportunities for innovative public-private partnerships for NRM; (iv) the implementation of landscape restoration techniques, including climate-proof irrigation and road infrastructures, "green infrastructures" (e.g. tree shelterbelts, bio-engineering structures to streambank and slope stabilization), and forestation and rangeland restoration, to avoid evaporation and reduce seepage losses in irrigation schemes, prevent climate shocks on livestock (e.g. shelter, wind protection and water supply infrastructures), and prevent water and wind erosion, and soil salinization trends.
15. Since 1978, IFAD has funded agricultural research and innovative approaches and technologies, including the Central Asian Countries Initiative on Land Management project of ICARDA, with a focus on the interactions between food security, income growth, land degradation, biodiversity conservation and climate change. Several International development partners, including EU, ADB, WB, GIZ, USAID, UNDP, UNESCO, and FAO have extensive portfolio of ENRM and adaptation and mitigation projects in

the agriculture sector, which provide a sound basis of knowledge and lessons learned.

16. Within this framework, the SECAP study makes the following recommendations:
  - (a) Assist the authorities in mainstreaming adaptation priorities into policy and funding allocation across all relevant sectors, highlighting the link between income growth, ENRM and CC adaptation in the structural reforms of the agrarian sector.
  - (b) Incorporate CC risk and integrated land and water resource management principles in the COSOP targeting strategy, also with the use of GIS tools overlapping information on poverty, CC risks and the assessment of land and water resources at the watershed level.
  - (c) Embed awareness raising and education in agriculture and rural development projects, to nurture a water saving culture and understand the specific CC adaptation needs of women and men.
  - (d) Encourage research work incorporating CC modelling and adaptation/mitigation technologies for natural resources conservation, management and restoration.
  - (e) Disseminate among farmers and extension agents the know-how on water saving and climate-resilient agronomic systems and technologies that have been developed in collaboration with the CGIAR, FAO, and other partners.
  - (f) Support income diversification as a key component for income growth and food security, with a focus on the rich agro-biodiversity of the country, and on market development opportunities for high quality organic products.
  - (g) Incorporate climate-resilience criteria for the investments to be financed through grants or loans to the beneficiaries, and build related capacity within the participating financial institutions and insurance companies.
  - (h) Incorporate IWRM and water saving principles in the water irrigation infrastructure and on-farm production systems and develop water governance systems supporting fair access to, and efficient use of water.
  - (i) Incorporate ecosystem-based adaptation and land restoration measures in all rural development interventions, to enhance those ecosystem services that underpin agriculture and livestock productivity.
  - (j) Strengthen gender and youth inclusiveness, also by further analysing the differential responses to environmental and climate risks by women and men, and identifying opportunities for enhanced participation of women and youth in, capacity building and economic diversification.
  - (k) Identify areas and modalities for partnership with relevant UN agencies and other technical and financial development partners.
17. A detailed analysis of the steps needed to comply with the above recommendations is included in Chapter 5 to the SECAP report.
18. The SECAP assessment also recognizes that the IFAD country program to be developed under the new COSOP would require supplemental sources of other IFAD (ASAP) and external financing to address environmental and CC

(i.e. GEF, GCF). A detailed list of actions that could be eligible for external financing is included in Chapter 5 to this report.

Finally, the SECAP assessment recommends that the IFAD country program developed under the COSOP ensures that RIMS indicators for ENRM and CC adaptation are fully integrated into the M&E systems of all projects. A list of possible indicators and feedback mechanisms is included in Chapter 5 to the SECAP report.

## Country at a glance

Indicators	2000	2005	2010	2013	2015
Population, total (million)	24.65	26.17	28.56	30.24	31.29
Rural population ( per cent of total population)	63	63	64	64	64
Rural population (million)	15.42	16.57	18.23	19.29	19.92
Life expectancy at birth, total (years)	67	67	68	68	
GDP ('000 US\$)	13760374	14307509	39332770	57690453	66732736
GDP growth (annual per cent)	4	7	9	8	8
GNI per capita, Atlas method (current US\$)	630	530	1340	1940	2160
GNI per capita, Purchasing Power Parity(current international \$)	1950	2730	4280	5460	6200
Agriculture, value added ( per cent of GDP)	34	28	20	19	18
Industry, value added ( per cent of GDP)	23	23	33	33	35
School enrollment, primary and secondary (gross)	0.98	0.98	0.99		
Poverty headcount ratio at national poverty lines ( per cent of population)				14.10	
Unemployment, total ( per cent of total labor force) (ILO estimate)	11	11	11	11	
Inflation, GDP deflator (annual per cent)	47	21	16	14	10
Foreign direct investment, net inflows ('000 US\$)	74700	191600	1636449	628866	1068393
Imports of goods and services ( per cent of GDP)	22	29	29	31	22
Exports of goods and services ( per cent of GDP)	25	38	32	27	21
Exports of goods and services ('000 US\$)	3383400	5416000	12452711	15345927	13790499
Personal remittances, received (current '000 US\$)			2858000	6689000	3104000
Net official development assistance received (current '000 US\$)	185750	169790	232080	292740	

Source: WB, World Development Indicators database

Downloaded: 08.02.2017

## Concept note

### Republic of Uzbekistan: Rural Production-to-market Systems Development Project.

#### A. Background

1. Uzbekistan is a fast growing middle-income country, with about 34 per cent of the population under the age of 14, and an annual population growth rate estimated to be 1.36 per cent. Approximately 64 per cent of the total population, and 75 per cent<sup>34</sup> of the lower income population, live in rural areas where agriculture is the main source of income and productivity is threatened by landscape degradation. Steady economic growth has led to gradual poverty reduction in Uzbekistan. Over the period of 2001-14, Government policies have resulted in the reduction of the poverty rate from 27.5 per cent<sup>35</sup> to 14.1 per cent with a forecast of a further drop to 13.5 per cent in 2015. Rural poverty has also decreased from 30.5 per cent in 2001 to 17.3 per cent in 2013, however it remains higher than average in eight out of twelve regions, including Namangan<sup>36</sup> in the Fergana Valley.

#### B. Possible geographic area of intervention and target groups

2. Rural households in the Eastern geographic area of the Fergana Valley, which comprises the Regions of Fergana, Andijan and Namangan, are severely challenged by very high population density (equalling to one third of the total population of Uzbekistan), registering, particularly in Namangan, the second lowest country GDP per capita. Women constitute around half of the population share, with a relatively high incidence of female-headed households (18 per cent of the total households), and around 20 per cent of youth (more than two-thirds of the population are under 30 years of age) being unemployed. While historically it was the most productive soil of Uzbekistan, today the Valley suffers from the consequences of inadequate land and water management practices which have resulted in high salinity levels in the irrigated land, causing a drop in crop yields by a third. This is aggravated further by the potential impact of climate change which could reduce yields in the Valley by 20–50 per cent for nearly all crops by 2050, thus threatening food security in the area, and beyond.
3. In line with IFAD's mandate, project support for income growth and human development will be directed to rural female and male rural inhabitants, including youth. These would comprise dekhkan farmers and smaller private farmers. The support would also be provided to private sector entities (processors, market enterprises, service providers) with clear beneficial linkages to the dekhkans and smaller private farmers. Specific geographical areas will be selected on the basis of social, demographic, economic and environmental criteria, in addition to social and economic priorities set by the Government. Further criteria will include lack of small-scale agricultural investments in the area as well as potential for income diversification.
4. It is proposed that the investment would be commenced in Namangan Region, with possible subsequent expansion to Ferghana and Andijan

<sup>34</sup> <http://www.uz.undp.org/content/uzbekistan/en/home/countryinfo>.

<sup>35</sup> Millennium Development Goals Report. Uzbekistan 2015.

<sup>36</sup> Official statistics provided by the Government of Uzbekistan, Country Partnership Framework for the period FY16- 20, World Bank.

Regions after three years. While these areas have high agricultural potential, they also have large rural populations of small-scale producers requiring investment support. They also have a relative lack of international donor support for agricultural investment.

#### C. Justification and rationale

5. The Government views IFAD as a specialist rural development agency that has the skill to develop and apply innovative approaches to the economic and technical development needs of rural populations. This will help to increase the pace of rural transformation currently underway. At the same time, it is apparent that the regions of the Fergana Valley have densely populated rural areas and a relative lack of investment finance, for rural development. IFAD has already demonstrated the benefits of taking a commercial approach to development of production-to-market chains in horticulture, and will soon provide similar support for the small-scale dairy industry. However, there are remaining challenges, including the need to broaden the opportunities for small-scale producers, the limited financial means for commercial development and the declining productivity of significant land areas due to application of poor techniques for agricultural production. There is therefore a continuing need for IFAD to provide stimulus and investment to identify and test the means for technically and commercially viable solutions for rural development, especially in areas with significant income disadvantages.

#### D. Key Project Objectives

6. The Goal of proposed RPMSD is "to improve the incomes and livelihoods of rural people (women and men) in the Project Area". The Development Objective of the project is: "development of profitability of selected commodities through enhanced productivity, market access and upgraded natural resources".
7. The Project investments and activities will be delivered through the following three outcomes:
  - (a) Outcome 1. Small-Scale Producers and Rural Enterprises enabled to profitably engage with markets;
  - (b) Outcome 2. Production-to-market Enterprises Development for selected commodities adequately financed; and,
  - (c) Outcome 3. Farmland productivity increased through the effective implementation of climate-resilient agronomic systems and technologies, and complementary erosion prevention measures.

#### E. Scaling up

8. The modestly-scaled IFAD interventions to pioneer new methods, approaches and engagement tools are already serving as a model for other investment by Government, development partners and the private sector. The project will follow a similar approach. New initiatives in comprehensive investments in commercial production-to-market chains for a variety of important commodities will be introduced, on a modest scale. After refinement and effective demonstration, these models will be available to inform further public and private investments.
9. The innovations to be tested and subsequently more widely applied would include:



- (a) Application of production-to-market systems for several additional commodities that are relevant for smallholders, and have good internal or export market prospects;
- (b) Further development of products for targeted rural financial services for smallholders and associated business engaged with them; and,
- (c) The implementation of suitable climate-resilient agronomic systems and technologies to improve land productivity and water use efficiency and reduce soil erosion and salinization risks.

#### F. Ownership, Harmonization and Alignment

10. It is proposed that IFAD would support one investment during the period covered by this COSOP. This would be oriented towards development of viable production-to-market systems for small-scale farmers and associated rural enterprises. A proposed name for the investment would be Rural Production-to-Market Systems Development (RPMSD). It is proposed that IFAD seeks to cooperate with one or more other development organisations operating in Uzbekistan to co-finance this project. In particular, with Government support and agreement, IFAD would seek to engage an organisation providing finance for technical support and capacity-building on a grant basis. This would enable the main IFAD loan to be directed mainly towards capital items.
11. The investment would assist with the development of diversified rural incomes, in line with Government policy. The production systems/commodities that potentially could be supported, subject to market assessment prior to project detailed design are: beekeeping, fish farming, sericulture and intensification of small ruminant production. There is also the opportunity for farmers to produce high quality seed and seedlings on a commercial basis, under an appropriate licensing arrangement with the owners of the plant breeder's rights. These systems will be examined in further detail during project design.

#### G. Components and activities

Outcome1. Small-Scale Producers and Rural Enterprises enabled to profitably engage with markets.

12. The types of activities supported would include:
- (a) Market opportunity studies, to identify and prioritize the commodities that could be successfully developed for sustainable profitability. Included in these studies would be identification of the links in production-to-market chains that require investment critical for success.
  - (b) Technical support for establishing farmer groups/ organisations, including rural women and young people groups.
  - (c) Training/ technical support on Farming as a Business;
  - (d) Technical training on the application of modern, highly productive, production techniques for the commodities selected for support;
  - (e) Training and support on the quality and certification standards required for successful penetration of local and export markets;
  - (f) Mentoring for rural entrepreneurs including services providers, off-takers and suppliers interested in developing their businesses to serve farmers on a commercial basis.

13. The services required to enable this capacity development will be provided by:
  - (a) Regional staff of the MAWR, who themselves would be provided with training, as required;
  - (b) Specialist technical service providers, recruited by the project, who would train MAWR staff as well as direct project participants; and,
  - (c) Businesses engaged with the farmers, through a combination of specific Public Private Partnership contracts and technical support for commercial contracts.
14. It is recommended that support be provided for commodity development platforms, with representatives of farmers, businesses and service providers active in commercial operations. These platforms would be voluntary organisations where information would be exchanged and business arrangements disclosed. The information would include matters such as price derivation, means for access to finance, quality and quantity standards required and other items of technical and financial interest to the parties. The objective of the platforms would be to facilitate increased business and profits for the members.

## Outcome2. Production-to-market Enterprise Development for Selected Commodities adequately financed.

15. Small farmers and nascent rural enterprises have limited access to finance, because they lack both collateral and a lack of record of doing business with potential rural financiers. In addition, given the nature of the business, in agriculture, financial institutions are reluctant to provide longer term financing which is often required for agriculture projects. Currently, the usage of formal financial services in Uzbekistan is remarkably low: only about 1 per cent of people take credit from a financial institution; for the ECA region and the lower middle-income countries this indicator is 8 per cent and 7 per cent, respectively. The project intends to support rural finance development, providing appropriate financing for the currently “unbanked” small-scale producers and enterprises. After their successful introduction to the use of financial products, it is envisaged that they would become eligible for normal commercially available financial services.
16. Banks and other rural financial services providers do have relatively good liquidity levels, and they would be able to provide short-term lending products for commercial rural production and services. However, they lack access to long-term deposits, thus inhibiting their willingness to lend for capital items without support. They also lack some of the skills needed to properly assess rural investment proposals, especially those that are from smaller-scale operators.
17. Project support would consist of the following:
  - (a) Provision of support to small producers, rural women and SMEs to become bankable and access rural finance (the target group), as they lack engagement with banks and other institutions due of their lack of formal business organisation, collateral and capacity for business procedures.
  - (b) Technical advice and mentoring for potential and actual rural financial services providers. This would include development of skills to successfully manage short and medium-term lending, as well as product

development. The latter would be to ensure that smaller-scale producers are able to gain access to appropriate financial services. Products developed could include lease finance, structured trade finance, savings products and targeted insurance products.

- (c) A large dedicated credit line, on-lent from IFAD to Government to Financial Institutions. This deposit would be used for medium-term financing for capital equipment and productive improvements for small farmers and rural entrepreneurs engaged in the production or provision of services for the commodities selected for support.
- (d) Development of a Rural Re-Financing Facility to manage on-lending of IFAD funds from Government to rural financing institutions. Such a facility would enable a permanent boost in liquidity for medium-term rural financing, while at the same time enable Government to adequately service the IFAD loan from interest spreads.

**Outcome 3. Farmland productivity increased through the effective implementation of climate-resilient agronomic systems and technologies, and complementary erosion prevention measures**

18. Stop and reverse maladaptive land management practices which are the direct cause of soil salinization, soil erosion, productivity loss, and soil pollution is becoming a high priority, especially in densely populated areas such as the Ferghana Valley where the most fertile soils are found. About 28 per cent of irrigated land in Ferghana suffers from moderate to high salinity levels due to inadequate water management practices, resulting in a 20 per cent-30 per cent drop in crop yields. Soil pollution linked to irrigated agriculture (pesticides, nitrates and strontium) is an issue in the whole central part of Ferghana valley, where the highest soil salinity is observed. Wind erosion significantly affects crops in the arid flatlands, and water erosion dominates in the foothills and mountain areas due to overgrazing and inappropriate ploughing and land management systems. Climate change has already exacerbated land degradation trends with an ongoing aridification trend and a higher frequency and intensity of droughts, heat waves, mudflows, and flood events.
19. The project would build on lessons learned provided by the IFAD-supported CACILM project and support investments in the adoption of climate-resilient agronomic systems and technologies suitable for the agro-climatic conditions of the target regions in Ferghana valley, which would be subsequently made available for upscaling sustainable productive investments by small-scale producers. Complementary land restoration measures will be promoted where necessary in order to prevent wind and water erosion problems. The project support would include:
- (a) Detailed technical assessment of agro-climatic conditions in the target areas, with the identification of suitable agronomic systems and technologies (e.g. conservation agriculture, micro-pressurized irrigation, organic agriculture) and likely costs of shifting from conventional agriculture practices to sustainable agriculture. Identification and design of complementary soil erosion prevention measures (e.g. the planting of tree shelterbelts in between farmland plots and along water canals; the promotion of agroforestry practices; grasslands restoration).
  - (b) Provision of finance and technical support to farmers for the adoption of the proposed agronomic systems and technologies, and erosion

prevention measures. This can include equipment, physical works, technical design, tree planting or suitable bio-engineering measures.

- (c) Provision of training for relevant public officials, private operators and farmers' organizations (among which water users associations) on the technical means to effectively implement climate-resilient agronomic systems, to make an efficient use of the limited water resources, and to maintain and/or improve the productivity of land.
- (d) Provision of equipment to monitor the status of land and water, and provide early warning of potential misuse.

#### H. Preliminary Environmental and Social category

- 20. The project should qualify for category B, provided it fully integrates the approaches, measures, lessons learned, and best practices on soil erosion/salinity control, land restoration, SLM and climate-resilient agronomic practices and technologies developed and tested by the different phases of the CACILM project (supported by IFAD, ADB, GIZ, ICARDA, UNDP, SDC, and WB among others) and other projects implemented by the CGIAR centres in Tashkent and the national research institutions, which respond to the governmental priorities (NSSD, WIS-II, SNC, NAPCD/NPF, NFP) .
- 21. From the social point of view, the project should capture the need to address the specific CC adaptation needs of women and men, and promote diversification of income sources in order to support rural livelihoods and build socio-economic resilience by reducing the risk of income loss caused by environmental and climate risks. In this sense, the project will develop targeting mechanisms to well capture and address the needs and priorities of the more vulnerable groups, namely women-headed households and unemployed youth. The project will ensure compliance throughout the target value chains with the International Labour Organization standards, including forced labour, occupational health and safety - an area increasingly recognized as requiring attention.

#### I. Preliminary Climate Risk classification

- 22. The project should qualify for Moderate Risk, provided it fully integrates existing data on climate change impacts to NRM and agriculture development in the target regions, and the governmental recommendations and priorities on climate change adaptation. If no adaptation measures are taken, climate change is likely to have significant impacts on agriculture, with potential yield reductions of 20–50 per cent by 2050 for nearly all crops. Evaporation increase will lead to higher irrigation water demand of 7-10 per cent by 2050. The net effect of rising water demand and falling supply is a significant reduction in water availability for irrigation, with severe water shortfall between 12-51 per cent in the Ferghana valley by 2040.
- 23. Project design will ensure that the project rational, activities, and investments incorporate climate change adaptation needs to enhance ecological, social and economic resilience in the target areas. There will be improved productivity enabled by better water use efficiency in irrigation systems. Several of the commodities proposed for investment will have limited exposure to climatic risks, due to the nature of the production systems. There will also be investment to revive the productivity of degraded lands, and associated protection against further degradation risks.

24. Considering the major challenge of climate change, which is already exacerbating water scarcity and land degradation problems in Uzbekistan, the SECAP assessment recognizes that the IFAD country program to be developed under the new COSOP would require supplemental sources of other IFAD (ASAP) and external financing to address environmental and CC issues of global significance (i.e. the Global Environment Facility/GEF, the Green Climate Fund/GCF).

#### J. Costs and financing

25. The estimated total cost of the project is about US\$75 million. Of this, IFAD funding from the current PBAS allocation for the cycle of 2016-2018 is \$39million on blend terms. In addition, it is expected that IFAD would provide a grant of US\$500,000, subject to availability of grant resources, which would be used for capacity building of programme management partner institutions and an outcome oriented M&E system.

26. There is preliminary interest from the EU to contribute as co-financier or parallel financier for the costs of technical assistance in all three components. In addition, interest in was indicated by AFD in Uzbekistan to complement IFAD project activities with investments in infrastructure. IFAD and Government will follow up with both financiers on the request for this support.

#### K. Organization and management

27. The project would be implemented by the MAWR. It is proposed that the Project Management Unit (PMU) would be decentralized and located in Namangan Region to enable close cooperation with Regional authorities and to more effectively supervise implementation. It is noted that the head of MAWR in the region is the Deputy Governor. This will enable close cooperation between the Regional Government, the Project, and the target group, enabling good communication and prioritization of activities, and well as an enhanced ability to mobilize business and public sector entities to achieve agreed outputs. The capacity of the local government in Namangan region has been previously built by UNDP and GIZ projects, and this was witnessed during the field visit to Namangan region. The regional Government shared their views on regional development and demonstrated their keen interest in partnering with IFAD in implementing investment projects in the region.

28. It is also proposed that the M&E functions within the programme would be outsourced to competent Uzbek institutions. The decentralized PMU would be attached to the Regional MAWR. The unit would be composed of:

- (a) Project Director, possessing skills and experience in commercial small-scale agribusiness development;
- (b) Production-to-market systems specialist;
- (c) Agricultural Engineer;
- (d) Rural Finance Specialist;
- (e) Environmental Specialist;
- (f) Project Financial Officer.

#### L. Monitoring and Evaluation indicators, KM and Learning

29. It is proposed that Project M&E functions would be outsourced to a competent Uzbek service provider. There is a need to shift to a Results

Based Monitoring and Evaluation System, to generate data for effective knowledge management. The data generated by the M&E system would be applied to guide subsequent implementation. This would include the promotion of best practices and success stories, especially where there are opportunities for scaling up and replication.

30. The operational framework of the M&E system will be harmonized with the project cycle and its logical framework as stipulated in the IFAD M&E guidelines. The four interrelated components of the proposed M&E will collectively span the performance-impact space and comprise:
  - (a) Input/Output/Activity monitoring subsystem;
  - (b) Financial and Procurement subsystem;
  - (c) Outcome/impact assessment subsystem (includes RIMS); and
  - (d) Reporting routine.
31. The details of the RIMS-based M&E indicators will be fully developed during detailed design. Tentatively indicators will probably evolve around: i) improvements in household assets and incomes, ii) reduced climate vulnerability, iii) improvements in rural productivity and profitability, iv) improved access of the poor and farmers' groups to financial services, v) and vi) per cent of beneficiaries adopting SLM practices and technologies.

#### M. Risks

32. The main risks and the means of alleviation are:
  - (a) Inadequate governance procedures that lead to inappropriate use of project resources. IFAD will work closely with GoU to ensure that all agreed procurement and disbursement procedures are rigorously followed;
  - (b) Distortive Policy Environment, whereby interventions are not consistent with effective targeting of the agreed beneficiaries, leading to the possibility of elite capture. The Project Implementation Manual will detail explicit measures to ensure correct targeting of benefits;
  - (c) Environmental Risk Assessment, where this is incorrectly done, leading to risks of environmental damage through investments. The Project Implementation Manual will provide details of the methodology to be employed for environmental risk assessment; and
  - (d) The Project Implementation arrangement proposed is new for Uzbekistan, and there is a risk that it will not be effective. Detailed attention will be provided to this risk during project design

#### N. Timing

33. The RB-COSOP is expected to be approved by IFAD in 2017. Thereafter, detailed project design work will commence in late 2017, and be ready for board presentation in 2018.
34. Once the initial design of the project is completed, the GoU would be requested to prepare its own required feasibility study of the project. This should be concluded by early 2018 to enable project implementation to commence immediately thereafter.

Concept Note Log Frame

Results	Indicators					Means of Verification			Assumptions
	Name	Baseline	YR1	Mid-Term	End Target	Source	Frequency	Responsibility	
Goal:	<ul style="list-style-type: none"> <li>75 per cent of targeted households with improvements in asset ownership (RIMS 3<sup>rd</sup> level mandatory impact indicator)</li> </ul>	0 per cent	-	40 per cent	75 per cent	Baseline and Completion Survey	MTR and completion	CPIU M&E unit	
Development Objective:	<ul style="list-style-type: none"> <li>50 per cent of targeted households increase their incomes by at least 25 per cent</li> </ul>	0 per cent	-	25 per cent	50 per cent	Baseline and Completion survey	MTR and completion	M&E officer	
	<ul style="list-style-type: none"> <li># of FTE job opportunities created</li> </ul>				TBD	Mid-term and Completion survey	MTR and completion	M&E officer	
Outcome 1 Small-Scale Producers and Rural Enterprises enabled to profitably engage with markets	<ul style="list-style-type: none"> <li># of VCs supported fully operational</li> </ul>				TBD	M&E system Component reports	Annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li>per cent increase in productivity/yields</li> </ul>				TBD	M&E system Component reports	Annually	M&E officer Component officer	
Outputs	<ul style="list-style-type: none"> <li># of people trained in crop production practices and technologies (RIMS 1st level) (gender disaggregated)</li> </ul>				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li># of people trained in post-production, processing and marketing (RIMS 1st level) (gender disaggregated)</li> </ul>				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li># of farmer groups formed</li> </ul>				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
Outcome 2: Commodity Production-to-market Enterprise Development adequately financed	<ul style="list-style-type: none"> <li>Improved access of the poor to financial Services (RIMS 2nd level)</li> </ul>				TBD	M&E system Component reports	Annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li>Improved performance of PFIs participating in the project (PAR, OSS, active borrowers, (RIMS 2nd level)</li> </ul>				TBD	M&E system Component reports	Annually	M&E officer Component officer	
Outputs	<ul style="list-style-type: none"> <li>Number and value of loans disbursed (disaggregated by type and gender)</li> </ul>				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li>Value of gross loan portfolio (RIMS 1st level)</li> </ul>				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	<ul style="list-style-type: none"> <li>Rural Re-Financing Facility established</li> </ul>				TBD	M&E system Component	Semi-annually	M&E officer Component	

						reports		officer	
Outcome 3: Farmland productivity increased through the effective implementation of climate-resilient agronomic systems and technologies, and complementary erosion prevention measures.	• No. of ha of land with increased production managed under climate-resilient practices (RIMS 2.1.6)				TBD	M&E system Component reports	Annually	M&E officer Component officer	
	• \$ Value of new or existing rural infrastructure made climate resilient				TBD	M&E system Component reports	Annually	M&E officer Component officer	
Outputs	• # of households in vulnerable areas with increased water efficiency for agricultural production and processing				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	• # of individuals (including women), community groups and institutions engaged in climate risk management and ENRM				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	
	• # of hectares of degraded and marginal lands restored				TBD	M&E system Component reports	Semi-annually	M&E officer Component officer	



## Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Groups	Major Issues	Action Needed
Relatively high levels of poverty in the Regions of Namangan, Andijan and Fergana (Fergana Valley)	Smallholder dekhkan and private farmers, women and women-headed households, youth	<ul style="list-style-type: none"> <li>- Incidence of poverty in rural areas higher than in urban areas.</li> <li>- High incidence of poverty in the densely populated Fergana Valley.</li> </ul>	<ul style="list-style-type: none"> <li>- Support strategies and investments focusing on sustainable, viable agricultural productivity for smallholders.</li> </ul>
Low agricultural productivity	Smallholder dekhkan and private farmers	<ul style="list-style-type: none"> <li>- Insecure and limited access to land tenure.</li> <li>- Limited access to irrigation water.</li> <li>- Low level of crop and land.</li> <li>- Degradation of natural resources.</li> <li>- Some decline in the physical infrastructure.</li> <li>- Lack of access to improved inputs and technology.</li> <li>- Limited access to and knowledge of appropriate modern agricultural practices.</li> </ul>	<ul style="list-style-type: none"> <li>- Support the establishment of farmers' groups and organisations.</li> <li>- Support land tenure security.</li> <li>- Enhance access of smallholders to improved infrastructure, inputs, technology and advisory services.</li> <li>- Promote diversification of rural incomes through piloting production diversification.</li> <li>- Promote and mentoring in 'farming as a business'.</li> </ul>
Natural resources degradation	Smallholder dekhkan and private farmers	<ul style="list-style-type: none"> <li>- Failure to maintain infrastructure</li> <li>- Unsustainable irrigation practices, particularly concerning soil salinity management.</li> <li>- Unsustainable agriculture practices leading to soil erosion and degradations.</li> <li>- Lack of access to information and technical support including on environmental and climate change challenges.</li> </ul>	<ul style="list-style-type: none"> <li>- Provide farmers and relevant official with support to apply NRM principles.</li> <li>- Enhance farmers' capacity to deal with climate change and adopt sustainable and climate resilient farming practices.</li> <li>- Land rehabilitation and recovery.</li> <li>- Promote modern conservation farming techniques.</li> </ul>
Lack of access to credit	Smallholder dekhkan and private farmers, women, youth and rural entrepreneurs	<ul style="list-style-type: none"> <li>- Limited opportunities for smallholders and rural entrepreneurs to access credit facilities.</li> <li>- Lack of collateral to secure loans.</li> <li>- Reluctance of commercial banks to extend credit to smallholders, particularly for medium-term investments.</li> </ul>	<ul style="list-style-type: none"> <li>- Policy dialogue on micro-finance development.</li> <li>- Enhance banks staff skills to engage with small farmers.</li> <li>- Availability of short, medium and long-term loans for production and investments for small-scale producers and rural entrepreneurs.</li> <li>- Banks to provide innovative financial products to</li> </ul>

Priority Areas	Affected Groups	Major Issues	Action Needed
			<ul style="list-style-type: none"> <li>- overcome access and collateral constraints.</li> <li>- Promote risk mitigation instruments including insurance.</li> <li>- Enhance role of entrepreneurs in providing finance for small-scale producers.</li> </ul>
Lack of access to markets	Smallholder dekhkan and private farmers, rural entrepreneurs	<ul style="list-style-type: none"> <li>- Limited supply of production inputs.</li> <li>- Lack of viable marketing systems and processing industry.</li> <li>- Lack of access to market information and technical support.</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthen smallholders effective linkages with viable markets.</li> <li>- Market studies to identify and prioritize profitable and environmentally sustainable commodities.</li> <li>- Promotion of business principles for small-scale producers and rural entrepreneurs.</li> <li>- Enhance smallholders' capacity to reduce transactions costs.</li> </ul>

## Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats analysis)

Organization	Strengths	Weaknesses	Opportunities	Threats
Ministry of Economy	<ul style="list-style-type: none"> <li>- Key role in formulation mid-term and long-term development strategies, including development of all sectors of national economy.</li> <li>- Organizes evaluation and monitoring of water and land resources.</li> <li>- Participates in organizing and coordinating investment policies (including foreign investments).</li> <li>- Controls realization of projects funded by government or by loans under governmental guarantee.</li> <li>- Clear direction in which to steer the country.</li> <li>- Analyses macro-economic data and develops further reforms in any sector of economy.</li> </ul>	<ul style="list-style-type: none"> <li>- Has no financial power to allocate resources to the regions.</li> </ul>	<ul style="list-style-type: none"> <li>- Can play an enabling, facilitating and coordinating role in the use of IFAD and other donor resources effectively.</li> <li>- Can help IFAD to identify the specific sector of agriculture to invest</li> <li>- Can assist IFAD in conducting baseline research.</li> <li>- Can play a key role in supervising projects and providing implementation support to enhance impact.</li> <li>-</li> </ul>	
Ministry of Finance	<ul style="list-style-type: none"> <li>- Well developed and generally efficient financial management system for use of IFAD funds to finance programme activities.</li> <li>- Key role in developing finance policy of the Uz.</li> <li>- Makes the expertise of Loan Agreements, concluded by GoU, controls their realization and loan's return.</li> <li>- Capacity to support decentralized project implementing agencies to establish and operate financial management systems.</li> </ul>	<ul style="list-style-type: none"> <li>- Has no direct contacts with beneficiaries.</li> </ul>	<ul style="list-style-type: none"> <li>- Can manage the Special Account, flow of funds and withdrawal applications.</li> </ul>	
Ministry of Agriculture and Water resources	<ul style="list-style-type: none"> <li>- Key agency in development and implementation of state policy in agriculture and water management.</li> <li>- Has a wide range of technical and</li> </ul>	<ul style="list-style-type: none"> <li>- Limited financial capacity and therefore has to get approval from other Ministries for the</li> </ul>	<ul style="list-style-type: none"> <li>- To enhance impact through an enabling role in supportive policy, regulatory, coordination and monitoring functions.</li> </ul>	

Organization	Strengths	Weaknesses	Opportunities	Threats
	<p>administrative capabilities.</p> <ul style="list-style-type: none"> <li>- Strong commitment to achieving the GoU objectives of food security and self-sufficiency.</li> <li>- Recent reforms enabled Ministry to diversify agricultural production and enhance productivity with further development of value chain and its export.</li> <li>- Proactive supports Innovative initiatives.</li> <li>- Has direct contacts with farmers on the fields through regional and district branches.</li> </ul>	<p>initiatives.</p> <ul style="list-style-type: none"> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>- To develop a long-term vision for the development of agriculture extension services.</li> <li>- To strengthen the capacity of provincial governments to assume a leadership role in the agriculture sector.</li> <li>-</li> </ul>	
Uzagroexport Specialized company	<ul style="list-style-type: none"> <li>- Only company entitled to export horticultural products.</li> <li>- Monitor market price and assist exporters in preparation of documents.</li> </ul>	<ul style="list-style-type: none"> <li>- Newly established company that might not have enough capacity.</li> </ul>	<ul style="list-style-type: none"> <li>- Has opportunity to make external market researches on and provide suggestions to the MAWR on types of products with high demand.</li> </ul>	<ul style="list-style-type: none"> <li>- Limited capacity and lack of competitors may cause troubles to horticulture producers</li> </ul>
State committee on land resources, geodesy, cartography and state cadastre	<ul style="list-style-type: none"> <li>- Develops and implements a complex of measures aimed at improving the organization of land management, use and protection of land, recording and evaluation of land resources.</li> <li>- Organizes and carries out state control over the use and protection of lands</li> <li>- Develops and implements together with the public authorities in the field of the state program on improvement of soil fertility, rational use and protection of lands</li> <li>- Conducts assessment and monitoring of the land quality.</li> <li>- Keeps records of land owners and register documents on land.</li> </ul>	<ul style="list-style-type: none"> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>- Possibility to create the online system for application and registration of rights on use of the land.</li> </ul>	<ul style="list-style-type: none"> <li>-</li> </ul>
Central Bank	<ul style="list-style-type: none"> <li>- Independent Central Bank in charge of monetary policy, maintaining a fluid payment system and managing and supervising the banking system.</li> <li>- Organize and implement foreign</li> </ul>	<ul style="list-style-type: none"> <li>- Shortage in foreign currency limits the possibility of money exchange for import of equipment and other</li> </ul>	<ul style="list-style-type: none"> <li>- Can enhance the effect of the project by providing easier mechanism for money exchange for farmers, importing innovative technologies.</li> </ul>	<ul style="list-style-type: none"> <li>- In case of non-compliance with regulations can withdraw licenses from</li> </ul>

Organization	Strengths	Weaknesses	Opportunities	Threats
	<p>exchange regulation.</p> <ul style="list-style-type: none"> <li>- Set and publish the official exchange rates of foreign currencies against the sum.</li> <li>- Provides licenses to commercial banks.</li> </ul>	<p>goods.</p>	<ul style="list-style-type: none"> <li>- Strengthening the micro-finance regulations for enhancing the access of financial service provision to rural areas.</li> <li>- Capable of playing an enabling and facilitation role and supporting capacity building of banks participating in any new IFAD programme.</li> </ul>	<p>commercial banks</p>
Commercial banks	<ul style="list-style-type: none"> <li>- Have well organized structure and represented in every region of the country.</li> <li>- Can adjust terms and conditions of the loans based on demand of farmers.</li> </ul>	-	<ul style="list-style-type: none"> <li>- Besides providing loans, can also participate as a shareholder or create venture funds.</li> </ul>	<ul style="list-style-type: none"> <li>- In case of incompliance with the legislation and regulations of the Central bank can be deprived of license</li> </ul>
Farmers Council	<ul style="list-style-type: none"> <li>- Develops legislative proposals for further improvement of legislation regulating farmers activity.</li> <li>- Ensures reliable protection of farmer's property relations;</li> <li>- Protection of rights and legitimate interests of farmers, including participation in courts;</li> <li>- Public control in order to ensure the principles of openness, transparency and the rule of law in the creation and reorganization of the farms allocated to them in the long-term lease of land;</li> <li>- Be a member of the state commission on designation of land in rural areas for farmers.</li> </ul>	<ul style="list-style-type: none"> <li>- limited financial capacity;</li> <li>- in its activity depends on khokimiyats.</li> </ul>	<ul style="list-style-type: none"> <li>- Can create and expand the network of consulting centers in rural areas on the legal, economic, financial, agro-technical and other issues.</li> <li>- Can assist in development of diversified farms and implementation of effective water-saving technologies, particularly drip irrigation, modern information and communication technologies.</li> </ul>	-
Regional governor office (khokimiyats)	<ul style="list-style-type: none"> <li>- Wide power within the region ensures timely performance of plans.</li> <li>- Very enthusiastic in implementing projects with foreign investments.</li> <li>- Strong network and cooperation with farmers, producers and industry of the</li> </ul>	<ul style="list-style-type: none"> <li>- Limited capacity in decision-making process.</li> <li>- Has limited financial capacity.</li> </ul>	<ul style="list-style-type: none"> <li>- Can assist in gathering different players of the value chain – from farmers up to storage owners to processing plants.</li> </ul>	-

Organization	Strengths	Weaknesses	Opportunities	Threats
	region.			

### Key file 3: Complementary donor initiatives/partnership potential

Project Name	Amount US\$ (million)	Grant/ Credit	Donor(s)	Govern Authority	Start date	Duration (years)	Geographic Coverage	Main Thematic Areas (Value chains, Irrigation, Water Management, etc.)
Innovations for Agriculture Modernization	1.0	TA Grant	ADB	MAWR	2014	3	Bukhara and Tashkent province	Agricultural production and markets
Amu Bukhara Irrigation System Rehabilitation	215.0	Credit	ADB/ JICA	MAWR	2014	7	Bukhara and Navoi province	Irrigation, drainage, and food protection
Water Resources Management Sector Project	100.0	Credit/ Grant	ADB/SDC	MAWR	2009	6	Samarkand, Fergana, and Namangan provinces	Irrigation, drainage, and food protection
Sustainable Development in Rural Areas of Uzbekistan	10.1	Grant	European Union	MoE	2015	3	Fergana, Andjan, Namangan, Jizzak, Syrdaria and Kashkadarya	Horticulture and Livestock Value Chains
Strengthening adaptation of Aquaculture and Culture-based Fisheries to Climate Change	0.4	Grant	FAO	MAWR	2015	2	Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan	Reduce the vulnerabilities of the aquaculture
Strengthening capacities of the national phytosanitary control services in Central Asia	0.4	Grant	FAO	MAWR	2014	2	Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan	Sustainable intensification of crop production, enable more inclusive and efficient food and agricultural systems at local, national and international levels
Institutional capacity building to develop organic agriculture and to promote Good Agricultural Practices in Uzbekistan	0.4	Grant	FAO	MAWR	2015-2017	2	Uzbekistan	Organic agriculture, good agricultural practices
Integrated Forest Land and Tree Resources Assessment in Uzbekistan	0.4	Grant	FAO	MAWR	2016-2018	2	Uzbekistan	Sustainable forest management

Project Name	Amount US\$ (million)	Grant/Credit	Donor(s)	Govern Authority	Start date	Duration (years)	Geographic Coverage	Main Thematic Areas (Value chains, Irrigation, Water Management, etc.)
Demonstration of diversification and sustainable crop production intensification in Uzbekistan	0.4	Grant	FAO	MAWR	2016-2018	2	Uzbekistan	Potential sustainable crop management practices and diversified cropping systems tested and demonstrated for further promotion in farming systems and communities
Integrated natural resources management in drought-prone and salt-affected agricultural production systems in Central Asia and Turkey ('CACILM2')	11.0	Grant	FAO/GEF	MAWR/Uzhydromet	2016-2021	4	5 CA countries+ Turkey	Drought and salinity management, economics of land degradation, climate smart agriculture
Sustainable forest management in Mountain and valley areas in Uzbekistan	3.6	Grant	FAO/GEF	MAWR	2016-2021	5	Uzbekistan	Sustainable forest management focusing for pistachio plantations and protective forests in the agricultural land (shelterbelts)
Decision Support for Mainstreaming and Scaling up of Sustainable Land Management	0.2	Grant	FAO/GEF	MAWR	2015-2018	3	Global+Uzbekistan	Sustainable Land Management
Central Asian Desert Initiative	3.6	Grant	FAO/ICI	MAWR	2016-2019	3	Kazakhstan, Turkmenistan and Uzbekistan	Integrated land, forest and protected areas management, desert ecosystem conservation and restoration [ICI: International Climate Initiative of German Government]
Towards better national and regional locust management in Caucasus and Central Asia	0.6	Grant	FAO/Turkish Government	MAWR	2012	5	Regional (Azerbaijan, Kazakhstan, Kyrgyzstan,	Locust management



Project Name	Amount US\$ (million)	Grant/Credit	Donor(s)	Govern Authority	Start date	Duration (years)	Geographic Coverage	Main Thematic Areas (Value chains, Irrigation, Water Management, etc.)
							Tajikistan, Turkmenistan, Uzbekistan)	
Promotion of water saving technologies in the Uzbek water scarce area of the transboundary Podshaota river basin	0.2	Grant	FAO/Turkish Government	MAWR	2014-2015	2	Namangan province, Uzbekistan	Sustainable agricultural production, water saving technologies
Seed sector development in countries of the Economic Cooperation Organization (ECO)	0.4	Grant	FAO/Turkish Government	MAWR	2011-2016	5	Afghanistan, Azerbaijan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Turkey and Uzbekistan	Appropriate national seed policy, promotion/development of private seed sector, improvement and harmonization of legislations with the international rules, etc.
Enhancement of national capacity to develop strategy for mobilization of foreign investment in the agricultural sector of Republic of Uzbekistan	0.4	Grant	FAO/Turkish Government	MAWR	2016-2018	2	Uzbekistan	Donor coordination in the agriculture sector, strengthening efficiency of technical assistance and investment in the agriculture sector
Transboundary Water Management in Central Asia (part of the "Berlin Process")	25.1	Grant	German Federal Foreign Office	MFA, MAWR	2009	8	5 CA States	transboundary water management, water governance, IWRM, river basin planing, water saving technologies in agriculture

Project Name	Amount US\$ (million)	Grant/ Credit	Donor(s)	Govern Authority	Start date	Duration (years)	Geographic Coverage	Main Thematic Areas (Value chains, Irrigation, Water Management, etc.)
Sustainable Economic Development in Selected Regions of Uzbekistan	5.5	Grant	GIZ	MAWR, MoE, MERIT	2014	3	Andijan, Surkhandarza, Karakalpakstan, Khorezm	Horticulture, Fishery, Dairy, Agribusiness and Green Economy
Rehabilitation of Irrigational Network and Drainage System in Jizzak and Syrdarya	52.6	Credit	Islamic Development Bank	MAWR	2009	5	Djizzak and Syrdarya	Rehabilitation of Irrigation and drainage networks
Reconstruction of Main Irrigation Canals of Tashsaka Irrigation System in Khorezm Region Project	90.4	Credit	Islamic Development Bank	MAWR	2013	5	Khorezm	Rehabilitaion and recover of main irrigation channels
Improvement of Water Resources management in Surkhandarya Region (Rehabilitation of Hazarbag-Akkapchigay Canals System)	89.6	Credit	Islamic Development Bank	MAWR	2015	5	Surkhandarya	Water management
Amu Bukhara Irrigation System Rehabilitation Project	105.1	Credit	JICA	MAWR	2015	5	Bukhara, Navoi	Modernization of existing pump stations
National water Resources management Project	2.7	Grant	SDC	MAWR	2015	3	Nationwide	Water Management, Water Information System, DRR
Horticulture Development Project	150.0	Credit	World Bank	MAWR	2015	6		
Ferghana Valley Water Resource Management Project	82.0	Credit	World Bank	MAWR		6	Ferghana, Namangan, Andijan	Irrigation and water management
South Karakalpakstan Water Resource Management Improvement Project	337.0	Credit	World Bank	MAWR			South Karakalpakstan	Irrigation and water management

Project Name	Amount US\$ (million)	Grant/ Credit	Donor(s)	Govern Authority	Start date	Duration (years)	Geographic Coverage	Main Thematic Areas (Value chains, Irrigation, Water Management, etc.)
Rural Enterprise Support project (Phase II + AF +GEF)	120.0	Credit	World Bank, SDC	MAWR	2009	6	Bukhara, Kashkadarya, Smarkand, Tashkent, Syrdaria, Andijan, Farghana	Agribusiness and value chains, credit, farmers training, irrigation, WUAs.
Projects in pipeline								
Rehabilitation of 29 Pumping Stations in Kashkadarya and Surkhandarya regions	76.7	Credit	Islamic Development Bank	MAWR	2016		Kashkadarya and Surkhandarya	Irrigation
Horticulture Development in Aral Sea Region	78.8	Credit	Islamic Development Bank	MAWR	2016		Karakalpakistan, Khorezm, Bukhara and Nawoi	Value chains
Ferghana Valley Water Resource Management Project 2	280.0	Credit	World Bank	MAWR	2016	6 years	Ferghana, Namangan, Andijan	Irrigation and water management
Livestock Sector Development Project	150.0	Credit	World Bank	MAWR	2017	4 years	TBD	Livestock
Horticulture Development Project 2	150.0	Credit	World Bank	MAWR	2018	4 years	TBD	Value chain
Agriculture Modernization and Competitiveness Project	200.0	Credit	World Bank	MAWR	2018	4 years	TBD	Cotton sector modernization

## Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Levels and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Smallholder dekhkan and private farmers, rural entrepreneurs, in the Regions of Namangan, Andijan and Fergana	<ul style="list-style-type: none"> <li>- <b>Moderate to severe</b></li> <li>- Insecure and limited access to land tenure.</li> <li>- Limited access to irrigation water.</li> <li>- Low level of crop and land.</li> <li>- Degradation of natural resources.</li> <li>- Some decline in the physical infrastructure.</li> <li>- Low productivity of small holder farming.</li> <li>- Lack of access to improved inputs and technology.</li> <li>- Limited access to finance and inability to borrow from the formal financial sector.</li> <li>- Lack of viable marketing systems and processing industry.</li> <li>- Lack of access to information and technical support including on environmental and climate change challenges.</li> <li>- Limited access to and knowledge of appropriate modern agricultural practices.</li> </ul>	<ul style="list-style-type: none"> <li>- Reversion to subsistence farming.</li> <li>- Use of unsustainable farming practices.</li> <li>- Sell or barter surplus production immediately after harvest.</li> <li>- Borrow informal credit at high cost.</li> <li>- Short and medium-term migration to in search of wage labour in urban areas, Russia and Kazakhstan.</li> <li>- Engage in low productivity wage labour.</li> <li>- Remittances from other family members.</li> <li>- Social welfare payments.</li> </ul>	<ul style="list-style-type: none"> <li>- Improved natural resource management practices.</li> <li>- Assistance to gain secure land tenure.</li> <li>- Improve rural infrastructure.</li> <li>- Access to improved inputs, technology and finance to increase agricultural production.</li> <li>- Assist in establishing viable links with the market.</li> <li>- Access to business development skills and information.</li> </ul>	<ul style="list-style-type: none"> <li>- While there are several donor supported agricultural programmes in the area, small-scale agricultural investments are lacking.</li> </ul>	<ul style="list-style-type: none"> <li>- Support the establishment of farmers' groups and organizations.</li> <li>- Land tenure security, rehabilitation and recovery.</li> <li>- Promote diversification of rural incomes through piloting production diversification.</li> <li>- Promote and mentoring in 'farming as a business'.</li> <li>- Market studies to identify and prioritize profitable and environmentally sustainable commodities.</li> <li>- Strengthen smallholders linkages with markets.</li> <li>- Assist with the provision of sustainable rural financial services though working with banks.</li> </ul>
Women, including	<ul style="list-style-type: none"> <li>- <b>Moderate to severe</b></li> <li>- High degree of vulnerability.</li> <li>- High workloads compared to men.</li> <li>- Lower wages in the labour</li> </ul>	<ul style="list-style-type: none"> <li>- Reversion to subsistence farming.</li> <li>- Use of unsustainable farming practices.</li> <li>- Engage in low productivity</li> </ul>	<ul style="list-style-type: none"> <li>- Improved natural resource management practices.</li> <li>- Assistance to gain</li> </ul>	<ul style="list-style-type: none"> <li>- Government ensures the promotion and protection of economic,</li> </ul>	<ul style="list-style-type: none"> <li>- Gender Equality and Inclusion Strategy and actions mainstreamed in all projects.</li> <li>- Awareness on land</li> </ul>

Typology	Poverty Levels and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
women-headed households	<p>market.</p> <ul style="list-style-type: none"> <li>- Limited ownership of productive assets, collateral.</li> <li>- Lack of access to financial services.</li> <li>- Lack of access to information and technical support.</li> <li>- Limited acknowledgment of their key role in agricultural productivity.</li> </ul>	<p>wage labour.</p> <ul style="list-style-type: none"> <li>- Sell or barter surplus production immediately after harvest.</li> <li>- Borrow informal credit at high cost.</li> </ul>	<p>secure land tenure.</p> <ul style="list-style-type: none"> <li>- Improve rural infrastructure.</li> <li>- Access to improved inputs, technology and finance to increase agricultural production. Assist in establishing viable links with the market.</li> <li>- Access to business development skills and information.</li> </ul>	<p>social rights and opportunities of women through the mahallas, the Women's Committee and the the Business Women Association of Uzbekistan.</p>	<p>tenure rights and access to water.</p> <ul style="list-style-type: none"> <li>- Access to credit and mitigation for lack of collateral.</li> </ul>
Rural youth	<ul style="list-style-type: none"> <li>- <b>Moderate</b></li> <li>- Lack of entrepreneurial activities in rural areas.</li> <li>- Low access to market and business opportunities.</li> <li>- Lack of access to financial services.</li> <li>- Lack of collateral.</li> <li>- Lack of access to information and technology.</li> </ul>	<ul style="list-style-type: none"> <li>- Short and medium-term migration to in search of wage labour in urban areas, Russia and Kazakhstan.</li> <li>- Engage in low productivity wage labour.</li> <li>- Remittances from other family members.</li> <li>- Some nascent SMEs operating below capacity and undercapitalised.</li> </ul>	<ul style="list-style-type: none"> <li>- Credit</li> <li>- Access to business development skills and information.</li> <li>- Friendly market integration.</li> </ul>	-	<ul style="list-style-type: none"> <li>- Promote youth skills for employability.</li> <li>- Improving the equality of apprenticeship of youth and women.</li> <li>- Promote youth and women entrepreneurship opportunities.</li> <li>- Improving quality of and access to labour market information system.</li> <li>- Access to credit and mitigation for lack of collateral.</li> </ul>