

COUNTRY STRATEGY AND
PROGRAMME EVALUATION

Uzbekistan

Executive Summary



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IOE

IFAD
Investing in rural people

Independent Office of Evaluation

Executive summary

A. Background

1. In line with the IFAD Evaluation Policy¹, and as approved by IFAD Executive Board, the Independent Office of Evaluation (IOE) undertook the first Country Strategy and Programme Evaluation (CSPE). The main objectives of the CSPE are to: (i) assess the results and performance of the IFAD strategy in the period 2011-2020; and (ii) generate findings and recommendations for the future partnership between IFAD and the Government of Uzbekistan for enhanced development effectiveness and rural poverty eradication. The findings, lessons and recommendations from this CSPE will inform the preparation of the new Country Strategic Opportunities Programme (COSOP) in 2022.
2. The scope of the CSPE was defined within the context of the ongoing COVID-19 pandemic. The CSPE covered the three projects comprising the portfolio: the Horticulture Support Project (HSP), the Dairy Value Chains Development Program (DVCDP) and the Agriculture Diversification and Modernization Program (ADMP). HSP is the only closed operation in the portfolio and as such it was assessed through a dedicated in-depth Project Performance Evaluation (PPE), the findings of which informed the CSPE. The other two projects are ongoing, in particular ADMP became effective in January 2019 and therefore its evaluability was limited. Despite the limitations posed by the pandemic, mixed methods were applied for data collection (through virtual meetings and field visits), which allowed to triangulate and conclude.

B. Country context and IFAD's strategy and operations for the CSPE period

3. **Country background.** Uzbekistan has undergone a significant political and economic transition from a centrally planned economy to a market-based one, following independence from the former Soviet Union in August 1991. This accelerated in 2017, with a change of leadership, and state-led reforms and gradual liberalization of the economy and trade.
4. Agriculture has been, and continues to be, an engine of economic growth. Yet, access to finance, production infrastructure, extension services and value chains remains limited, particularly for the poorest smallholders - the dehkan farmers.² Dehkan farms produce the majority of the country's livestock and horticulture products. They employ 60 per cent of the farm labour force, generate 70 per cent of country's total agricultural output, and 35 per cent of the agriculture export value. Yet they operate on less than 20 per cent of the country's arable land.³ Social development is strengthening, yet there is gender inequality and growing rural unemployment, as well as increasing environmental threats from climate change.
5. **IFAD's engagement with Uzbekistan is relatively recent.** Uzbekistan joined IFAD in 2011, since then IFAD has approved three loan projects in the horticulture and dairy production sectors (including in-project grants) for a total of US\$128 million, along with two regional grant funded activities. There is no in-country office, and the portfolio is managed from the Sub-Regional Hub in Istanbul. The first results-based country strategic opportunities programme (COSOP) for Uzbekistan was prepared in 2017 to cover the four-year period until 2021. The focus was on rural small-scale producers, particularly dehkan farmers, to improve

¹ <https://www.ifad.org/en/web/ioe/policy>

² Dehkan farms are small-scale household farms averaging less than 2 ha. Dehkan farms produce livestock and horticulture products and employ 60 per cent of the farm labour force. They operate on less than 20 per cent of the country's arable land but generate 70 per cent of total country's agricultural output, and 35 per cent of the agriculture export value.

³ In 2018. Source: The World Bank. *Uzbekistan: Agricultural Trade Policy Report*.

their agricultural productivity and participation in value chains, while integrating the sustainable use of natural resources and climate-resilient technologies.

C. Performance and rural poverty impact of the Country Strategy and Programme

6. **Relevance** of IFAD's country strategy and programme is rated as moderately satisfactory. The development strategy pursued by IFAD responded to important shifts in government policies and interests in the agriculture and rural sectors during the last decade, promoting a more diversified and sustainable sector. It was the first IFI to provide loan finance to the horticulture value chain in the country, and championed direct support to the most vulnerable group, the dehkans farmers. The focus on the value chain approach to agribusiness development combined with the provision of rural finance, capacity building and pro-poor focus, was relevant. Targeting of dehkans and women, and later youth, was innovative and important in the Uzbek setting.
7. Yet, the relevance of IFAD's country strategy and programme is heavily affected by several factors. Key among them were the initial poor alignment with IFAD's corporate priorities, the overall weak strategic orientation of the COSOP and absence of a monitoring system, and the disconnect between IFAD design documents and the feasibility studies prepared by the Government. Many innovative aspects, targeting approach and value chain focus, were lost in the Feasibility Studies. Moreover, the CSPE highlights the low attention to risks in implementing value chain operations in a new country, weakness in implementation arrangements, as well as the shift in geographic and sectoral focus which limited the consolidation of results. These factors heavily affected programme implementation.
8. **Coherence** of IFAD's country strategy and programme is moderately unsatisfactory. Knowledge management, partnership-building and policy engagement are also individually rated as moderately unsatisfactory. IFAD covered (and continues to cover) a specific niche in Uzbekistan which reflects its comparative advantage with smallholders. The Fund is targeting directly the poorest people in rural areas and has been an early actor in horticulture and dairy loan activities. However, the external coherence of IFAD's strategy in Uzbekistan was diminished by the limited efforts spent to build on the synergies with other development interventions and consolidate results. IFAD's positioning in the country was not guided by a strategic vision, either intended or formalized in the 2017 COSOP. The internal coherence of the strategy did not build on the complementarity between the lending and non-lending programme, and steer partnership and policy dialogue. Grants are detached from the rest of the programme. No action plan was developed to guide knowledge management, and formally document and disseminate the results of the projects to unlock the potential for learning, promote innovation and scaling-up and influence policy dialogue. While there are some recent, supportive policy changes and a growing interest of the Government in dehkans, there is insufficient evidence of direct links to IFAD's policy dialogue efforts. The potential for partnerships, including with the private sector, remains untapped.
9. **Efficiency**. The efficiency of IFAD's country strategy and programme is moderately satisfactory. There is no doubt that the environment in 2011 was challenging. There have been delays in start up in both HSP and DVCDP, mainly due to the Feasibility Study process of the Government, and there were initial difficulties with the contracting procedures, but both partners have learned to manage these processes. Planned synchronisation of activities, such as providing capacity building prior to investment, did not occur, as the emphasis was on disbursement. Insufficient funds have been disbursed for project management (even though they were planned for in the project budget), and this has had a negative impact on implementation.

Particularly with a new country, technical assistance is needed to ensure good implementation. Despite this, and the serious currency devaluation that occurred in 2017, the indicators of economic efficiency are quite positive and the cost per beneficiary contained.

10. **Effectiveness.** The effectiveness and innovation of IFAD's country strategy and programme are both rated as moderately satisfactory. These ratings take into account the political context in Uzbekistan prior to 2017, the disconnect between IFAD design documents and the Feasibility Studies which, as mentioned above, constrained implementation, and the absence of an effective monitoring system which limited the assessment of the contribution of IFAD's country strategy to immediate and longer-term results on the ground. Overall, the objectives of the three thematic areas selected for focus by the CSPE (targeting, pro-poor value chain development, and rural finance), also reflected in the COSOP, were only partially achieved. Geographic targeting has been fairly successful, being based on poverty levels and potential for the sector, as well as guidance by the Government. However, changing region with each project missed the opportunity to build on achievements. IFAD introduced some innovations in social and sectoral targeting and its outreach was good overall. However, disaggregation by target group shows that dehkan farmers and women are underrepresented as beneficiaries of project-supported activities, and in particular, of rural finance initiatives. Owing to the absence of an adequate monitoring system and poverty data, it is challenging to verify whether the poorest dehkans have actually been reached. While in HSP and DVCDP, dehkan farmers have received the majority of the bank loans, the value of the loans has been very small. It has definitely proved difficult to involve women in project activities (training and loans), due to cultural barriers. In HSP, gender was not given much attention, but there have been improvements in DVCDP and ADMP.
11. The value chain approach emphasised at design stage has not been evident in implementation of HSP and DVCDP, and was apparently poorly understood. Efforts were made to support value chain development via innovations such as the Fora for Private-Public Collaboration within DVCDP, however they did not develop beyond an opportunity for meetings and into a true innovation platform. ADMP is also piloting several innovative ideas to support different points in the value chains as well as mapping the sub-sectors. IFAD support has enhanced agricultural skills through trainings and study tours, though not in a very structured manner. In practice, the focus of training, technical assistance and provision of rural finance has been on production, particularly on imports of dairy heifers in DVCDP and ADMP, without clearly linking the various elements of the value chains. This is typical when entering a new sector, especially in a situation of low community trust; however, as the focus of the projects keeps changing, it has not been possible to develop to later phases to give more emphasis to issues such as processing, packaging and marketing.
12. IFAD projects contributed to enhance access to rural finance services, and this was greatly appreciated by the beneficiaries and national authorities. Adoption of the CLARA risk assessment programme by PFIs as helped the banks with credit management. However, although it was agreed in the project design documents that the Participating Financial Institutions would contribute matching funds from their own resources, this criterion was not included in the subsidiary loan agreements (nor did the subsidiary loan agreements refer to any borrower selection criteria or project priorities). No working capital loans were issued. Many loans were issued in US dollars in order to pay for imports, especially in DVCDP. The devaluation of local currency has put many borrowers at risk, despite the Government intervention of the State Fund for Entrepreneurship Support.
13. **Rural poverty impact.** The rural poverty impact of the IFAD's strategy and programme in Uzbekistan is not rated given that only one of the three projects is completed and the data available is not sufficiently robust. Only one out of three

projects is completed and two operations out of the three funded so far, have been designed and implemented without the COSOP, hence establishing any link between the assessment of the impact of the intended strategy with the COSOP would be anecdotal. Moreover, outcome level data are not available. Monitoring systems need to improve to measure impact. It is presumed that there were positive impacts of HSP on food security and nutrition, as well as incomes and assets. New jobs have been created in HSP and DVCDP, though it is not clear if these will be permanent. There has not been any effort to work with social capital via development of cooperatives or Water User Associations, partly due to layers of distrust. In common with all the IFIs initially, there has been insufficient support for institutional capacity development, which may impact on sustainability. Finally, as analysed under coherence, it is difficult to draw clear links to policy development and attribute the growing interest of the Government on Dekhan farmers to IFAD.

14. **Gender equality and women's empowerment.** IFAD's country strategy and programme is assessed as moderately unsatisfactory for gender equality and women's empowerment. The prevailing cultural attitudes make involvement of women in trainings and project activities difficult. Gender targeting was poor in HSP and is slowly improving in the later projects, although targeting of women through loans remains weak. The collateral and registration requirements as well as the low levels of financial literacy and business management limited the access to finance of women and poor households. While there have been some positive results regarding women's assets and incomes via new jobs, training and production gains, there is little influence on improving women's voice and involvement in decision-making or lessening their workload as yet. Similarly, there was no youth focus in HSP, but youth are gradually receiving increasing attention in the later projects in recognition of their importance in rural employment. The recently appointed technical advisors in DCVDP and ADMP are improving the focus on gender mainstreaming and have developed gender/youth action plans, however, more commitment is required from the leadership. The COSOP did not include the lessons learned regarding gender from the earlier projects, nor proposed ways to address the difficult cultural and structural barriers.
15. **Sustainability and scaling-up.** The CSPE assessed the likely sustainability of the country strategy without providing a rating, given that two out of three projects are on-going. The sustainability of HSP was assessed and rated through a dedicated PPE. Specific domains of sustainability are (i) environment and natural resources management and climate change adaptation, and, (ii) scaling-up rated. These were individually rated as moderately satisfactory. On the positive side, IFAD has been the first IFI to provide loan financing to horticulture and dairy and its role in promoting dehkans is noted by the Government and other financiers. Government policy has recently begun to reflect these issues and replicate them more widely, via the Strategy for Agricultural Development 2020-2030 and Presidential decrees. The sectors of horticulture and dairy production are likely to be financially and economically sustainable, despite the negative impact of COVID-19 on markets. Attention to environment and climate change issues is improving, with incorporation of improved irrigation technology and renewable energy on a small scale.
16. However, there is a risk of loss of institutional memory, with the restructuring of UZAIFSA. The institutional support and training in O&M of irrigation infrastructure and water use was inadequate, considering its importance for sustainable functioning. The absence of consideration by PFIs of environmental threats (for instance, of poor manure handling polluting water sources) when issuing loans is a risk for sustainability. During the planning stages of DVCDP, attention was given to greenhouse gas risks, however more efforts are needed to improve cows' nutrition and manage manure, in order to consider dairy a sustainable activity.

D. Performance of partners

17. **IFAD.** IFAD began work in Uzbekistan in 2011, within a policy environment that was not conducive to good project planning. Poverty (a key focus for IFAD) was not recognized officially by the Government and the Government maintained strong control of planning. The first COSOP prepared in 2017 did not formally recognise the challenges and lessons learned from HSP and DVCDP. Lessons have, however, been internalized and there is increasing attention to value chains, dekhans and gender in ADMP. The number of supervision missions to support project start up and implementation has improved since HSP, yet more attention shall be paid to M&E, knowledge management, gender mainstreaming, and procurement. IFAD's performance is rated as moderately satisfactory).
18. **Government.** The change of government in 2017 has improved the policy environment and the coherence with IFAD's targeting of smallholders, women and youth. Counterpart funds have been provided in a timely manner. Yet, the performance of the government is only moderately satisfactory due to the disconnect between the Feasibility Studies prepared by the government, which did not integrate IFAD approaches and interpreted IFAD projects more as credit operations than value chain development programmes and the frequent institutional changes which delayed implementation.

E. Conclusions

19. **IFAD's strategy in Uzbekistan over the past 10 years is only moderately satisfactory: several strategic areas need to be revisited to establish a solid long-term partnership with the government.** Context is important to understand the performance of IFAD's country strategy. In the early years, as the first experience of IFAD in Uzbekistan, there was considerable learning required on both sides. There was little in the way of a market economy and it was only in 2017 that the country really began to open up. Despite these challenges, IFAD's support in promoting rural development was aligned with the country needs and priorities and, according to the government, will continue to be relevant for Uzbekistan given the persistent disparities in living standards between urban and rural areas and the effects of the global pandemic, which is reducing growth and creating additional financing needs.
20. Having said this, there is room for improvement moving forward, especially in consideration of the catalytic role that IFAD could play in Uzbekistan and the recent more conducive policy environment. The Government of Uzbekistan is paying increasing attention to the poorest and to technical innovations, partnership building and policy dialogue. To respond to this positive change, several areas require attention in the next COSOP cycle to make it an instrument for strategic guidance for IFAD in the country and drive partnership and policy dialogue.
21. **First, targeting dehkans was relevant as they are the drivers of horticulture and livestock production and key to reduce rural poverty. Yet, the targeting strategy was not tailored to the needs of the different beneficiary groups.** IFAD pioneered direct support to the most vulnerable group, the dehkan farmers. They are a clear niche for IFAD, while other IFIs support larger scale producers. At present, it is not possible to know whether poorer dehkans are accessing finance or participating in project activities as poverty data on this group are not available. In practice, the large size of the loans and the collateral requirements suggest that they are not. Without close supervision and adequate policy environment, there is an incentive for the PFIs to issue fewer, larger loans, and this will favour elite capture and decrease the potential impact on rural poverty.
22. Along the same lines, little effort has gone to supporting gender equality and youth outcomes until recently. The above requirements at design constrained women's participation. While it is recognised that cultural norms make it difficult for Uzbek women to be actively involved in all value chain activities, gender equality and

women's empowerment is a significant focus of IFAD's mandate and important for achievement of Sustainable Development Goals. Not only equitable economic empowerment should be addressed, but also enabling men and women to have equal voice and influence, and to achieve more equitable workloads. More recently the projects have taken some steps to develop gender strategies and action plans, and appoint gender advisors – good steps forward, but more follow-through is needed, as the DVCDP will end soon. Youth is being addressed with ADMP.

23. **Second, shifting geographic and sector targeting constrained the opportunity to consolidate results and build on experience.** Uzbekistan was not ready for a true value chain approach prior to 2017. There was insufficient productivity and production quality, and trust and collaboration among different categories of stakeholders was lacking. For instance, there were no functioning cooperatives that could have represented dehkans' interests. Producer group formation and empowerment takes time and hands-on support. In addition, there was insufficient knowledge and extension advice, and weak infrastructure. For these reasons, it made sense in HSP to focus on production, though a second phase might have allowed some value chain elements to develop. Changing sectors and geographical regions for each project misses this opportunity, meaning that IFAD interventions are spread too thinly and do not build on previous investments, experience and knowledge.
24. **Third, the assessment of results was constrained by the lack of a solid M&E system.** The CSPE found data scarce and not reliable. There was too much focus on disbursing and implementing activities rather than outcomes, and reluctance to change course as needed. Supervision missions were unable to introduce some of the missing elements of the project designs as only the Feasibility Study indicators were observed. Despite capacity building efforts the M&E system remains weak, and this affected the availability of evidence of results, knowledge generation and the capacity of IFAD to unlock the potential for learning to promote innovation and scaling-up and influence policy dialogue.
25. **Finally, IFAD's weak programme support and overall sporadic interactions with in-country partners during the review period, affected results and the potential of policy dialogue to boost scaling-up of IFAD's innovations and approaches.** The disconnect between IFAD's design documents and the feasibility studies prepared by the government to guide project implementation affected projects' results and innovation potential, and caused disbursement and implementation delays. IFAD's limited interactions with in-country partners and the weak capacities at the project level constrained programme management and monitoring. Moreover, the high turnover of staff on IFAD and Government sides constrained IFAD's ability to ensure continuity, establish sustainable partnerships and adequately participate in country-level policy dialogue. Overall, IFAD's strategic orientation, including when the COSOP was finally designed, and the complementarity between lending, non-lending activities and grants were not sufficiently explored. This can offer great potential to contribute more broadly to the country's transition to more inclusive rural transformation.

F. Recommendations

26. **Recommendation 1. Effective targeting strategies should be at the core of the new strategy in order to reach the poorest including through pro-poor value chains.** Targeting strategies should be more effective in reaching genuinely poor dehkans, narrowing the gaps between men and women and between generations, in rural areas. Four immediate line of actions could be implemented to decrease the risk of elite capture in ongoing and future value chain operations:
 - i. target the genuinely poor based on participatory methods, considering assets and social status and, when possible, by reinstating the 'low-

- income' criterion, rather than only nominating dehkans as a group to receive loans;
- ii. weaken the "barriers to entry" (such as collateral requirements for loans) to enable the poorest and vulnerable people to participate in projects;
 - iii. give more attention to the development of clear linkages with rural entrepreneurs either via direct contracts or in formal associations with cooperatives;
 - iv. strengthening producers' associations through capacity building in order to allow these organisations to protect the smallest producers and use them to establish linkages with medium-large scale producers
27. **Recommendation 2. IFAD and the Government of Uzbekistan should develop a COSOP that includes a coherent and viable action plan for non-lending activities and provide opportunities to engage with the private sector.** Uzbekistan is a middle-income country and as such, new ways of work are needed. Other IFIs can provide large loans. IFAD's added value may be more than focusing on production and providing rural finance. IFAD could add value in policy and capacity building on issues such as pro-poor value chains, climate smart agriculture, PPPs and private sector engagement. In particular, the new COSOP should have a more realistic basis and a clear theory of change, building on the lessons learned from the loan and grant projects. Consideration should be given to developing a clearer sector and geographic focus, given the relatively small budget available – for instance, staying in one geographic location for more than one phase. It should include an action plan with adequate human and financial resources to ensure knowledge management and build new partnerships including with the private sector. Future grants could be used to support piloting of innovations as they are developed.
28. **Recommendation 3. IFAD's country strategy should devote attention and resources to develop robust project level M&E systems.** IFAD and the Government must work together to ensure data collection, analysis and use moving forward. Data should be collected according to a clear plan and analysed to ensure course correction as needed. This will be of utmost importance not only to collect evidence of results on the ground but also to monitor systematically, for instance, the environmental impact of the investments in livestock and course correct when necessary. This will require capacity building and improved tools – for instance, use of mobile phone apps for farmers to update data on production directly, and online systems for monitoring by project staff. Results should then be shared widely – with beneficiaries, country stakeholders and internationally, to promote learning and a culture of transparency. In order to support this, and ensure quality project management and a pro-poor and gender focus, project management units need qualified staff and technical assistance.
29. **Recommendation 4. Enhance country presence and programme support.** IFAD shall improve portfolio and programme support by using instruments to finance pre-implementation preparation work and capacity-building to facilitate project implementation readiness, such as Project Pre-financing Facility and the Non-reimbursable Technical Assistance for Project Start-up Facility. Moreover, an active and effective country presence will be key to ensure supervision, programme management and monitoring, and policy dialogue. To this end, adequate human and financial resources and less staff rotation from both IFAD and government must be ensured.