1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Sustainable Development in Rural Areas of Uzbekistan DCI-ASIE/2011/020-510</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>Total Cost: EUR 11 120 000</td>
</tr>
<tr>
<td></td>
<td>€ EU contribution: EUR 10 000 000</td>
</tr>
<tr>
<td></td>
<td>€ Other contribution (grantee co-financing): 1 120 000</td>
</tr>
<tr>
<td>Aid method / Method of implementation</td>
<td>Project approach/ Direct centralised management</td>
</tr>
<tr>
<td>DAC-code</td>
<td>43040</td>
</tr>
</tbody>
</table>

2. RATIONALE

2.1. Sector context

Since the break-up of the Soviet Union, the Government of Uzbekistan is following a gradual approach towards market-oriented reforms.

In Uzbekistan agriculture is an important sector for enhancing living standards and achieving economic growth because a) it constitutes 38 per cent of the country’s GDP and b) 60 per cent of the population relies on agriculture for sustenance. Agriculture has the potential to provide regular income, employment and food supply.

Further focusing the agricultural sector, there are different challenges to overcome but also current opportunities.

Starting with opportunities, these are mainly linked to Presidential decrees related to Agriculture, notably “On Further development of farms and dehkans, and on State support of entrepreneurs of the Republic” and others that encourage growth in the agriculture sector. Moreover the main objective of Uzbekistan’s Welfare Strategy is to accelerate growth through a modernised and competitive agricultural industry.

As for challenges from a production perspective, these are notably the following:

ζ Water and Land: As a result of the country’s arid climate almost all agriculture depends on irrigation and drainage infrastructure. The irrigated areas cover about 4 million hectares (ha) and of this, more than 25 percent is within the Ferghana Valley, the most fertile soils of Central Asia. As for land usage, producers lease land from the State, and this is somehow reducing long term investments.

ζ Energy, Technology and Productivity: energy shortages and difficulties in delivering fuel to remote areas force people to use wood and bush vegetation as fuel. Lack of contemporary technology and infrastructure frequently impedes the processing of primary agricultural products and leads to high post-harvest losses. In general, the input supply channels (seeds, machinery, fertilisers, pesticides, etc) need support, in terms of quantity and quality, to meet farmers’ demands.
**Extension services, agriculture and veterinary:** advisory and consultative services are mainly provided by governmental institutions: Business Centres, Resource Centres, agricultural Vocational and Training schools, Chamber of Commerce, Ministry of Agriculture and other players on the ground. This area requires support to further develop the services provision on a structured network basis, including the modernisation of the information channels on market requirements.

**Livestock production** for dehkan farmers plays a significant social role, because it is an important source of income and food for rural families. However, the small size of the majority of livestock producers poses significant challenges for the application of innovative technologies and limits potential economies of scale effects, resulting in relatively low levels of the sector’s efficiency. Critical issues are the lack of feed due to a considerable decrease in the areas under feed crops, and insufficient development of the service infrastructure for rural producers.

The proposed programme is meant to represent the EU know-how and technologies in the agro-food value chains as requested by the Uzbek authorities since 2008. Through pilot demonstration models it is envisaged to support the ongoing and gradual development towards a market-oriented production; to further upgrade productive skills and techniques for quality and productivity improvement, to provide tools for understanding markets and finance, and to further train and re-train local authorities to elaborate and make operational local development plans with Food and Energy Security as main cross cutting issues. All efforts are going to contribute to further develop the ongoing agricultural diversification policies in Uzbekistan.

From a **geographical perspective**, the Programme will cover the selected 6 regions: Namangan, Andijan and Fergana (together constituting the Fergana Valley), Djizak, Syrdarya and Kashkadarya.

### 2.2. Lessons learnt

Since 2002, the European Union has been implementing projects in Uzbekistan to the amount of more than EUR 8 million in the field of poverty reduction in line with the TACIS Multi Annual Indicative Programme for Central Asia, Track 3 focussing on the Fergana Valley. The main lessons learnt from this experience can be summed up as follows:

- The rural development approach implemented so far has been mainly based on scattered and dispersed small community grants that, although responding to immediate community needs, has made the management and impact assessment difficult, while running the risk that actions remain isolated after the completion of the projects. Therefore there is a need for more concentrated actions based on development processes more than single actions.
- Soft and Hard (training and equipments) components should be in a balanced share for sustainability purposes: training as a standalone activity does not motivate people to get involved; equipment as standalone delivery does not support the development of processes. Therefore there is a need to create pilot projects as comprehensive package models of trainings and equipments.
- Rural development is a multidimensional sector; therefore it should involve as many players as possible, not only one single institution in order to ensure sustainability and an adequate division of labour/competences.
- Women and female-led households should be maintained – during the implementation- as specific target groups for income generation activities because
many adult males are migrants to Kazakhstan and Russia, and the number of female-led households in rural areas is an important share of all households.

2.3. **Complementary actions**

Under the premise that rural development in Uzbekistan is an ongoing process, and that realities are changing and circumstances dynamic, this Programme will complement other ongoing activities in the sectors of horticulture and livestock value chains.

To avoid overlaps, the Programme will ensure coordination with other EU projects, notably:

- **Management Training**: the project will provide Training/internships in EU companies for SME managers and Business Support Organisations’ (BSO) experts, in the framework of the capacity building and institutional strengthening of the Chamber of Commerce and Industry.

- **Central Asia Invest Programme** and in particular the project "Promoting the Role of Women Entrepreneurs in Local Economic Development" which supports the establishment of 5 regional business centres, delivery of business trainings for BWA staff and women entrepreneurs.

The Programme will also coordinate with the GIZ programme **“Sustainable Economic Development in Selected Regions of Uzbekistan** (5M Euros). This programme (2009-13) covers 2 regions - Surkhandarya and Andijan- and it supports value chain activities in the dairy, cattle management, meat, tomato, carpet, silk, handicraft/tourism, and fishery sectors.

Coordination and complementarities will be established with all other donors' actions, the World Bank and Swiss Cooperation, mostly focused on the water sector (potable and irrigation systems).

2.4. **Donor coordination**

Coordination will be organized in order to join efforts and avoid overlaps. Appropriate coordination between donors supporting rural development issues will be ensured from the very beginning of the Programme implementation, and notably during the *assessment and feasibility* phase.

3. **DESCRIPTION**

3.1. **Objectives**

The **Overall objective** of the programme is the "Enhancement of Living Standards in Rural Areas in Uzbekistan".

The **Specific objective** is the "Transfer of EU know-how and technologies in the agro-food value-chains in partnership with local authorities and economic players for further developing socio-economic potentials in rural areas of Uzbekistan".

To this respect the pilot projects have to be seen as a *means* for "networking" between European and Uzbek peers (local authorities, farmer associations, agricultural enterprises, agro-food processing enterprises, input suppliers, enterprises which provide services to the agricultural sector).
3.2. Expected results and main activities

The Programme is based on three interrelated pillars. For each of them the following results are expected:

- **C1- Income generation**: Further developed commodity value-chains mainly related to the agro-food sector (livestock breeding, gardening, vegetable growing and services sector);
- **C2- Capacity development**: Further developed and upgraded skills and techniques of economic players, including Youth; implementation of modern technologies and training on their application; re-training of farmers and improvement of agro-product processing methods.
- **C3- Institutional strengthening**: Further strengthened and upgraded development planning capacities of regional and local authorities.

The components as stated above should not be read in the perspective of chronological order because there are interconnections and interdependencies between all of them.

The overall approach of this Programme can be summed up in two basic concepts: “demand-oriented” and “expertise-experience sharing from practitioners-to-practitioners”.

“Demand-oriented” means that the Grantee will provide targeted expertise to: a) undertake an economic feasibility assessment and b) facilitate the formulation of project portfolios that local stakeholders (local authorities, farmers and small entrepreneurs) will jointly prepare. These portfolios will contain bankable projects earmarked in the livestock and horticulture value chains. The selection of Pilot projects will be done in a joint panel: the Grantee and Local stakeholders. For this purposes, the Grantee will assist in establishing agreed selection criteria, templates and evaluation grids. Moreover to this respect, specific requirements will be included in the guidelines of the call for proposal.

“Expertise-experience sharing from practitioners-to-practitioners” (farmer to farmer) means that the implementing entities will organize -within the framework of the pilot projects-exchanges with targeted intermediary/sectoral institutions from EU countries (notably Ministry of Agriculture, Ministry of Economy and Development, Chamber of Commerce, Agriculture Consortia, Cooperatives, Agriculture Associations). Such experience exchange sharing will provide concrete inputs for networking between practitioners-to-practitioners. Moreover such activities should be performed at the early beginning of the pilot projects implementation to fully optimize their value: motivation, transfer, adaptation, and replication.

**KEYS STRUCTURAL FEATURES OF THE PROGRAMME**

**Assessment and feasibility phase**

Due the peculiar nature of this Programme (rural development/value chains) and the need for an in-depth analysis (within a confidence-building context) an assessment and feasibility phase of maximum 12 months is planned in order to allow a sufficient time margin to perform the basic six (6) steps before defining the strategy of value chains development of horticulture and livestock selected sub-sectors.
These steps are the following:

1. Economic mapping (and market analysis);
2. Sub-sector selection;
3. Sub-sector analysis;
4. Value Chains selection;
5. Value Chains analyses;

Main **expected results / outcomes** of this phase will include:

- **Working Groups** made up of EU expertise and local stakeholders as the leading players to undertake:
  - The above mentioned economic assessment in the selected 6 regions: Namangan, Andijan and Fergana (together constituting the Fergana Valley), Djizak, Syrdarya and Kashkadarya;
  - An *ex-ante* and *ex-post* evaluation of the value-chains in terms of *job-creation* and *value-added*;
  - The formulation of project portfolios.

For this purpose, the Grantee will provide targeted expertise *a*) to train and transfer know-how in PCM to the involved players, and *b*) to establish agreed selection criteria, templates and evaluation grids for the PILOT projects.

- **Project portfolios** prepared and containing *bankable projects* within the framework of livestock and horticulture value chains sectors. In case of projects that do not apply in the framework of the agreed selection criteria, they will constitute the value-added of this Programme and Uzbek authorities can further identify their funding.

- **Selection of pilot projects.** Such selection will be done by a joint panel representative of main involved stakeholders. The Programme should focus on maximum 3 pilot projects that can contribute to the creation of a critical mass and avoid fragmentation of actions.

In addition specific reporting requirements will be fixed in guidelines of the call for proposal for this Programme in order to ensure the European Commission involvement in the selection criteria of pilot projects.

"Income Generation-C1" and "Capacity Development-C2"

Selected pilot demonstration projects will contain these two components in the framework of livestock and horticulture value chains sub-sectors. Such projects will be supported concretely through a combination of hard component (*equipments, supplies, works, materials, and productive infrastructure*) with soft components, i.e. training linked to the specific equipment and to the process the equipment will support (for instance milk processing).
Although the focus of the Programme is value-chains, this does not mean that actions will necessarily be concentrated on each node of the selected value chain. It might also be that according to the outcomes of the economic feasibility study - carried out during the assessment & feasibility phase-a commodity will require further support only for a specific node of the value chain. A pilot project could also be addressed to the strengthening of the existing agricultural extension service for instance, and to the improvement of communication and information flow for market issues (this implies supplies and equipments as well, for instance veterinary laboratories materials, hard -software's for information dissemination, etc).

As for horticulture, seeds genetic production/improvement, production, processing, storage, quality control, distribution and marketing-business are potential areas for actions.

As for livestock, breeding forage preparation, meat and milk production, crop growing, breed production-improvement, quality control, etc., are potential areas for action.

For both sectors it is important to mainstream the following features:

- **Demonstration plots/complexes** to show tangible results-modern technologies and generate replication effects;

- **Energy-saving technologies** applied to agriculture (for instance water saving technologies, drip, rainfed and other types of irrigation; soil tilling and fertilising, care of seedlings, green housing, etc);

- **Equipments – supplies- works**: closely linked to the institutional and capacity building activities linked with rural development (they can include not only equipments but also software useful to improve the communication and information flow among the existing Business Centres to further develop the information and consultancy services, for instance). Productive infrastructure development could be envisaged as well (for instance storage facilities, and limited interventions in rural roads - if critical, etc.).

An important overall feature is to avoid fragmented and isolated actions based on small community basis. It has also to be underlined that all equipment and supplies provided under this Programme will remain with the property rights of local authorities, farmer associations and other agriculture related public entities.

"The Institutional Strengthening – C3"

This component is already largely conceived in the assessment and feasibility phase. In order to give an institutional character and ensure the transfer of EU know-how, it is critical that this component – including the feasibility and assessment phase- is directed by a competent public body from an EU country.

Within the framework of this component, it is expected to transfer know-how and methodological tools to local stakeholders in the following:

- Economic feasibility and assessment exercises;

- Project preparation and prioritisation (Project Cycle Management) in the perspective of local economic development;
- Preparation and pilot exercises of Local Development Plans with integrated cross cutting issues particularly Food and Energy Security. This should be linked to the formulated projects;

- Experience-expertise sharing between Uzbek local authorities and their peers in EU public institutions.

### 3.3. Risks and assumptions

<table>
<thead>
<tr>
<th>Risks</th>
<th>Level</th>
<th>Mitigation measures.</th>
</tr>
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</table>
| Total public property of rural production units will not allow the development of cooperatives/small businesses | Medium to High     | - Confidence building strategies and joint management plans will be promoted among economic players.  
- The EC through policy dialogue will constantly revise the adoption and respect of the programme's commitments. |
| Target groups might not be allowed to adopt new practices             | Medium to High     | - Projects will be jointly formulated to enhance ownership of local stakeholders (including public authorities) since the early start  |
| Continuing migration of skilled and unskilled labour and younger people could threaten the critical mass necessary for self-sustaining economic growth. | Medium to High     | - The programme will promote job creation activities and involve as many youth and women as possible. |
| Asymmetric information and low coordination among economic players along the value chains. | Medium             | - Development of partnerships with financial institutions and joint business plans. |
| Privatization of income generation activities                          | Medium             | - The programme will focus on farmer groups and institutional networks activities |
| The complexity of the project might create problems for potential bidders (EU Member States). | Medium to low      | - Preparatory / information sessions with EU Member States |

Main assumptions are:

- The Programme covers at least two agricultural seasons;
- The Government of Uzbekistan continues the reform of the Agriculture sector and Business environment;
- Agricultural areas under cotton will further decrease to allow other crops to be produced instead;
- The Government of Uzbekistan is keen to allow farmers to move beyond their individual capacities organizing themselves in dynamic production networks,
developing strategic relationships with other producers and institutions to improve their competitive advantages based on economies of scale, innovation and learning;

• Local authorities use pilot projects as inputs for the development planning process.

3.4. Crosscutting Issues

The Programme will pay special attention to the economic activities of women and youth. Measures to safeguard biodiversity while introducing new intensive varieties will be foreseen, and environmentally agriculture practices will be promoted. Food and Energy Security will constitute the basis of cross cutting issues of this Programme; in fact pilot project activities will envisage the development and application of energy-saving technologies applied to agriculture. For each of these crosscutting issues indicators to be achieved will be defined and monitored throughout the Programme lifetime.

3.5. Stakeholders

The nature of the project requires a great deal of coordination and shared responsibilities from all stakeholders involved. Main project partners will be the Ministry of Economy and the Ministry of Foreign Economic Relations and International Trade-MFERIT.

Important roles will be played by Regional and District Khokimiyats1, Mahallas2, the Farmers Associations, the Ministry of Agriculture and Water Resources, and the Chamber of Commerce.

Potential target groups are farmers, agricultural enterprises, agro-food processing enterprises, input suppliers, and in general enterprises which provide services to the agricultural sector.

Due to the nature of this action, and its EU character, the Programme will be steered by the Steering Committee (SC) that will be established during the assessment and feasibility phase and held on a regular basis. The SC will meet at least twice a year during the whole implementation phase to discuss the progress and the co-ordination of the Programme together with the stakeholders. Upon request of the stakeholders and/or the European Commission, extraordinary Steering Committees can be convened.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management through the signature of a Financing Agreement with the Government of Uzbekistan.

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1 Local Governments are subdivided into regional, district and city administrations. Khokims are heads of Khokimiyats (local executive authority) at regional, district and city level. Local governments are shared between local council and the Khokimiyat. The institutions of the khokim are the central part of the new system, combining executive and representative functions. The local representative authorities at the regional, district and city levels are the local councils. They are responsible for economic and social development in their regions, districts and cities. They develop and execute the budget on their respective levels and govern various types of property, specifically land and other natural resources.

2 In addition to the public administration structure, community self-governments also operate locally (Law 1993). According to Uzbek legislation and tradition, the Mahalla level is local self-governing. Its role has increased significantly in the past few years as they have been absorbed into the government, expanding from a traditional social structure to an administrative unit, tasked with assistance and control in the implementation of current government policies at community level issues. They have significant freedom and independent authority to identify their own problems and prioritize solutions, especially when it comes to every day social issues.
The implementation will be carried out as follows:

- **A grant contract will be awarded by the European Commission following a call for proposals.**

In order to respond to the specific request of the Government of Uzbekistan for EU *know-how* and *technology* in the agro-food value chains, the call for proposals will be designed to assure the following:

- Relevant EU expertise as for the Programme fields and appropriate technology are transferred;

- The EU Member States are fully represented in a varied range of expertise that covers the whole programme requirements in terms of institutional capacity for local governance - rural development- as well as to present significant and different experiences from European countries in the field of agro-food value chains development.

**Specificities** of the call for proposals are the following:

- Applications will gather at least 3 members (*applicant and at least two partners*) from 3 different EU countries in order to ensure varied EU expertise in the rural development / agro-food value chains;

- Because of the nature of this programme - *focus on EU transfer of know-how and technologies in agro-food value chains and related capacity building for Uzbek public bodies in rural development strategies and planning*-, and as per Art. 31.4 of the DCI, the *lead* applicant will be an EU development agency in order to adequately ensure the EU institutional representation and a wider transfer and "networking" with European peers in the agro-food sector.

- As for the partners, these should be:
  
  - At least one public body (*in the form described under point 3.2*) with competences on rural development/value chains. This is necessary to assist Uzbek authorities to develop their rural development *paradigm* that can be integrated into policies, and to ensure an effective economic planning of local authorities;
  
  - Private sector organisations related to livestock and horticulture (agro-food) sectors are critical to the success of the Programme in particular for:
    
    - assessing the bottlenecks of the selected value chains,
    - ensuring the practitioners-to-practitioners exchanges and
    - exposing Uzbekistan to energy-saving technologies applied to agriculture.

- Applicants are expected to co-finance at least 10% of the project's total budget.
4.2. **Procurement and grant award procedures**

(a) **Contracts**

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by Regulation (EC) N° 1905/2006 establishing a financing instrument for development cooperation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Articles 31(7) and (8) DCI.

(b) **Specific rules on grants**

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to Contract Procedures for EU External Actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 90% of the total accepted costs of the Action. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.

4.3. **Budget and calendar**

The total amount for the project is estimated at EUR 11, 12 million, of which the EU foreseen contribution is EUR 10 million. Co-financing by the grantee is expected to be EUR 1, 12 million.

The Uzbek authorities will provide as *in-kind* contribution: office space, telephones and access to internet in beneficiary premises, including training facilities.

The table below shows the budget breakdown:

<table>
<thead>
<tr>
<th>Category Breakdown</th>
<th>EU</th>
<th>Other contribution (Grantee co-financing)</th>
<th>Total</th>
<th>Contracting and Paying Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Grants</td>
<td>10 000 000</td>
<td>1 120 000</td>
<td>11 120 000</td>
<td>European Commission</td>
</tr>
<tr>
<td>1.1 Call for proposals</td>
<td>10 000 000</td>
<td>1 120 000</td>
<td>11 120 000</td>
<td>European Commission</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>10 000 000</strong></td>
<td><strong>1 120 000</strong></td>
<td><strong>11 120 000</strong></td>
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</table>

The planned and agreed distribution of the EUR10 million will be as follows:
• EUR 7 million will be allocated for the implementation of components 1 and 2 in the form of pilot demonstration projects as a combination of hard and soft components. This combination refers to equipments, supplies, works, materials and targeted training related to the specific process that the pilot project will support, for instance: seeds and breeds improvement, post-harvest facilities, processing, quality control, packaging, distribution, all accompanied by targeted trainings and experience sharing exchanges.

• EUR 3 million will be allocated for component 3 including Programme Management. This item will also include visibility and monitoring expenditures.

The operational implementation period of the proposed programme will be 72 months as from the signature of the Financing Agreement.

**Tentative calendar**

The Commission Decision is expected by December 2011. Depending on the final date of signature of the Financial Agreement, the Call for Proposals is expected to be launched by the second quarter of 2012.

4.4. **Performance monitoring**

The Programme itself will develop an ad-hoc internal monitoring and evaluation system for technical and financial performance. Such a system will support the internal quality control and the decision making process.

On the other hand, regular monitoring will be conducted by the EU through independent consultants recruited directly by the Commission in accordance with EU rules and procedures on specifically established terms of reference.

Key indicators for measuring progress will be developed in the inception phase. However, it will be important to develop process indicators against which to measure the impact of the overall progress of the programme. Some indicators are already listed in the logical framework at annex I.

4.5. **Evaluation and audit**

Audit arrangements will be integral part of the contractual arrangements with the selected grantee.

External evaluations and audits might also be carried out by independent consultants recruited directly by the Commission in accordance with EU rules and procedures on specifically established terms of reference. It will be financed from another financing decision.

4.6. **Communication and visibility**

A communication plan ensuring the high profile of the EU project activities will be developed and implemented by the project during the assessment and feasibility phase. Communication activities in the plan will comply with the EU communication and visibility guidelines for external Actions.

This communication plan will be targeted at promoting visibility of the EU activities in Uzbekistan. The project will regularly liaise with the EU Delegation and the EU Member States' embassies.