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Republic of Uzbekistan: Land Improvement Project (Global Environment Facility Grant Financing)

Asian Development Bank

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I. BACKGROUND

1. The Board of Directors of the Asian Development Bank (ADB) approved on 24 July 2006 to provide to the Republic of Uzbekistan (Uzbekistan) for the Land Improvement Project, two loans: (i) a loan for \$32.6 million from the ordinary capital resources (OCR); and (ii) a loan in various currencies equivalent to SDR18,515,000 (\$27.6 million) from the Special Funds (SF) resources. The Project is expected to cost \$76.2 million, and is accompanied by a \$1.0 million technical assistance (TA) project to promote policy reform. During project preparation, ADB submitted a proposal to the Global Environment Facility (GEF) for a grant in the amount of \$3.0 million to be provided to the Government of Uzbekistan for financing additional activities¹ under the Project to ensure sustainable ecological productivity in the project area. This paper seeks Board approval for ADB to administer the grant financing of \$3.0 million.

A. The Project

2. Land degradation is a serious economic, social, and environmental problem in Uzbekistan and the rest of Central Asia. It directly affects the livelihood of the rural population by reducing land productivity, and by causing agricultural production losses estimated at \$2 billion a year for the region.

3. The Project will address the rapidly worsening and expanding land degradation in nine districts in Bukhara, Kashkadarya, and Navoi provinces. The project area, covering 162,300 hectares of irrigated land, suffers from increased soil salinity and shallow groundwater table—the most serious forms of land degradation. Crop yields in those areas reportedly have declined by 30% since 1991. The problems are caused by (i) poor water management, (ii) deteriorating irrigation and drainage infrastructure, and (iii) a policy environment that constrains production growth and reduces incentives to invest in land improvement. Worsening land degradation directly affects a rural population of 1.4 million in the project districts.

4. To help the Government halt and reverse land degradation, the Project will (i) develop and disseminate improved land reclamation practices adapted to local conditions; (ii) strengthen institutions to address land degradation issues at central, provincial, and community levels; and (iii) improve land and water management infrastructure to enhance water control and efficiency. Through agreed-upon policy reforms, the Project also will help increase farmers' incentives to raise land productivity and invest in land, as well as improve rural governance.

5. A TA entitled *Implementation and Monitoring of Policy Reforms in the Agriculture Sector* will be provided to assist the Government at central and provincial levels in (i) formulating, prioritizing, and implementing the agreed-upon reforms; (ii) strengthening the relevant institutions; (iii) preparing legislation to reverse the constraints on agricultural productivity and rural incomes; (iv) monitoring the implementation of reforms and their impact on farm incomes, rural poverty, and Government revenues; and (v) planning the expansion of sector reforms.

6. A grant from GEF Operational Program 15 on Sustainable Land Management (SLM) is proposed to enhance the project impact at national and subregional levels. The GEF grant will promote modern land management, enhance project replicability, and generate additional global

¹ The GEF grant funding is separate from the approved attached technical assistance of \$1,000,000 for policy reform—as outlined in paras. 43–44 of the report and recommendation of the President (ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to Uzbekistan for the Land Improvement Project*. Manila (Loan 2245/46-UZB, for \$32.6 million, approved on 24 July 2006).

environmental benefits. The GEF-financed activities will (i) address regulatory conditions for improved land management; (ii) foster coordination among line agencies to ensure an integrated, participatory approach to project activities; (iii) involve all stakeholders in planning, implementing, and monitoring SLM; (iv) pilot-test innovative technical systems and public and private partnerships; and (v) include monitoring and evaluation to increase the replicability of the Project.

B. Central Asian Countries Initiative for Land Management

7. The Central Asian Countries Initiative for Land Management (CACILM) is a partnership of Central Asian countries (CACs) and development cooperation partners² dedicated to combating land degradation and improving rural livelihood. Considering previous analytical and resource mobilization support to the CACs from ADB and the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD),³ the development partners requested ADB to lead in designing and developing CACILM. ADB, through a TA cofinanced by GEF and Global Mechanism,⁴ led in designing CACILM as a 10-year program of country-driven action and resource mobilization (July 2006–June 2016)⁵ to achieve in the CACs (i) strengthened policy, legislative, and institutional frameworks, creating conditions conducive to SLM; (ii) increased capacity of key institutions responsible for planning and implementing SLM interventions; and (iii) improved land management and natural systems through the combined impact of enabling conditions and targeted project investments.

8. The CACILM partnership is guided by the CACILM Multicountry Partnership Framework (CMPF). In October 2006, the GEF Council approved the CMPF's overall programmatic approach and the associated set of projects seeking grant financing. ADB is responsible for leading the CACILM partnership, coordinating the program at the multicountry and national levels, and supporting activities at the multicountry level. ADB TA 6357-REG: CACILM Multicountry Partnership Framework Support Project is supporting activities in the first phase of the CACILM program.

9. Under the CMPF, GEF has made provision for grant cofinancing of up to \$20 million. The Project grant for \$3,000,000 is included in the CMPF. On 16 July 2007, the grant financing was approved through endorsement of the GEF CEO. As with all GEF funds, ADB will thus administer grant financing under the Memorandum of Understanding of Direct Access to GEF (7 July 2004), and the associated Financial Procedures Agreement (7 July 2004).

² The main partners from the countries are the United Nations Convention to Combat Desertification (UNCCD) Working Groups on Partnership Development for UNCCD Implementation and the UNCCD national focal points. The development cooperation partners are members of the Strategic Partnership Agreement for UNCCD Implementation in the Central Asian Countries (SPA) — Global Mechanism (GM), Asian Development Bank (ADB), Canadian International Development Agency (CIDA), CCD Project of the German Agency for Technical Cooperation (GTZ), International Center for Agricultural Research on Dry Areas (ICARDA), International Fund for Agricultural Development (IFAD), Swiss Agency for Development and Cooperation (SDC), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and World Bank.

³ Support was provided the CACs for important sector work that developed priorities for action and organized resource mobilization efforts through ADB. 2000. *Technical Assistance for Combating Desertification in Asia*. Manila (TA 5941-REG, approved on 9 October, with cofinancing from the Global Mechanism).

⁴ ADB. 2005. *Technical Assistance for Central Asian Countries Initiative for Land Management*. Manila (TA 6236-REG).

⁵ While the resource mobilization period is 10 years, the implementation of various investments in the enabling environment and on the ground development will be over 15 years.

II. GEF-FUNDED ACTIVITIES UNDER THE PROJECT

10. The GEF-financed component will focus on creating additional local capacity and on introducing novel land rehabilitation activities that promise to have wide-ranging environmental benefits. Specifically, the GEF grant will (i) contribute to creating a regulatory regime that enhances incentives for land management in which national and global environmental considerations have a place, (ii) field-test and introduce methods of reusing return irrigation water for productivity and environmental gains, (iii) build the capacity of the agriculture sector of Uzbekistan for environmental analysis and management, and (iv) provide for a structured monitoring and evaluation of the Project's global environmental impacts and other impacts to increase the replicability of its most positive elements.

11. The GEF-financed activities will be integrated with four of the five of the Land Improvement Project components as follows.

12. **Subcomponent A: Strengthening of the Incentive Structure for Environmental Benefits of SLM.** The GEF financing will deepen the reform measures that encourage SLM and, through it, the realization of (also) national and global environmental benefits. The GEF-financed activities will (i) develop measures providing incentives for sustainable use of marginal waters and marginal lands; (ii) review the potential for creating special operating and incentive regimes for sub-areas where land rehabilitation offers high environmental benefits; (iii) develop proposals for legislative and regulatory support for the conservation of agro-biodiversity, and for protection of ecosystems and landscapes; and (iv) investigate the potential of "payment for environmental services" as a policy mechanism, encouraging the adoption of conservation agriculture in Uzbekistan and Central Asia.⁶

13. **Subcomponent B: Management of Marginal Water for Livelihood and Environmental Benefits.** The GEF-financed activities will test new technical and management approaches to managing marginal water (return irrigation water contaminated by salts and other pollutants) in an area of great economic, cultural, and environmental values along the Great Silk Road in the Zeravshan and Kashkadarya River basins. With the GEF financing, the component will (i) introduce and test salinity mitigation management through the application of drainage and flood runoff regulations, and introduce drainage water reuse schemes and other environmental feasible interventions; (ii) introduce and test salinity mitigation management using elements of conservation agriculture; (iii) conserve and improve wetlands and desert ecosystems around irrigated oases and selected desert depressions as a prototype for SLM in these and similar areas; (iv) demonstrate the scope for synergy among biodiversity conservation, carbon sequestration, and land productivity enhancement; and (v) disseminate the results and lessons of the pilot activities.

14. **Subcomponent C: Capacity Building for Environmental Analysis and Management in the Agriculture Sector.** The GEF-financed activities will (i) strengthen and mainstream the environmental analysis and risk assessment of land rehabilitation projects and conservation agriculture into MAWR and related institutions, and (ii) develop the methodology of valuing ecosystem conservation in Uzbekistan for local and regional dissemination.

⁶ In some countries where conservation agriculture (and no-tillage in particular) has been adopted, lower yields in the first 1 or 2 years were recorded. The disincentive effect of the initially lower profitability could be overcome through a financial transfer from the downstream beneficiaries of water-saving conservation agriculture to its "pioneers".

15. **Subcomponent D: Learning and Dissemination for Improved Environmental Outcomes.** Component 3 of the Project (capacity building of land and water management institutions) targets land and water management institutions and builds their capacity in several ways described earlier on. The GEF financing will (i) scale these activities up to a level where they can effectively support the delivery of national and global environmental benefits and make it possible for the relevant institutions to play an active part in the global exchange of experience. The alternative also adds to other capacity building activities: (ii) enlarge the pool of stakeholders involved in training and in dissemination of the globally most relevant lessons of conservation agriculture, (iii) provides support for community-based planning and rural awareness program as well as agro-cultural heritage and gender perspectives, and (iv) promotes public/private study tours to learn from the experience of conservation agriculture.

16. **Subcomponent E: Monitoring and Evaluation of Project Environmental Impacts.** The GEF-financed activities will provide for more comprehensive project management in which a common set of indicators will be used to monitor and evaluate such variables as the nature and status of land degradation, carbon sequestration; biodiversity; on- and off-site environmental impacts, biodrain siltation, salinization, pollution, and eutrophication; and socioeconomic factors. The GEF-financed activities will (i) develop a system for monitoring of the Project's environmental impacts; (ii) develop a proposal for a unified salinity management database in Uzbekistan; and (iii) mainstream the most suitable international practices of participatory monitoring of environmental impacts.

17. The incremental cost of these activities will be financed by GEF (Table 1). The estimated expenditures are provided in Table 2.

Table 1: Estimated Cost of Activities Financed by GEF Grant (\$)

Components	Estimated Cost
A. Policy Reform	
1. Strengthening of the Incentive Structure for Environmental Benefits of SLM	250,000
B. Land and Agricultural Improvement	
1. Management of Marginal Water for Livelihood and Environmental Benefits	1,600,000
C. Capacity Building of Land and Water Management Institutions	
1. Capacity Building for Environmental Analysis and Management in the Agriculture Sector	300,000
2. Learning and Dissemination for Improved Environmental Outcomes	400,000
D. Project Management	
1. Monitoring and Evaluation of Project Environmental Impacts	450,000
Total Costs	3,000,000

GEF = Global Environment Facility, SLM = sustainable land management
Source: ADB estimates.

Table 2: Estimated Expenditures Financed by GEF Grant (\$)

Category	Cost
A. Civil Works ^a	—
B. Survey Design and Construction Supervision ^a	—
C. Machinery and Equipment (GIS Software and Equipment)	50,000
D. Materials ^a	—
E. Vehicles ^a	—
F. Training/Capacity Building	290,000
G. Consulting Services	887,000
H. O&M Vehicles and Machinery ^a	—
I. Studies/ Demonstrations/Knowledge Products	
Demonstration Projects	1,320,000
Knowledge Products	171,000
J. Government Staff ^a	
K. Travel	207,000
L. Office Expenses	75,000
M. Office Renovation ^a	—
Total Expenditures	3,000,000

“—” = data not available, GIS = geographic information system, O&M = operations and maintenance

^a Financing for construction supervision, materials, vehicles, O&M vehicles and machinery, studies/demonstrations/knowledge products, government staff, and office renovation are provided for under ADB. 2006. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Republic of Uzbekistan for the Land Improvement Project*. Manila. (Grant 0080-UZB, Loans 2245/2246-UZB, and TA 4820-UZB, approved on 24 July 2006) and the Government's contribution.

Source: ADB estimates.

III. IMPLEMENTATION ARRANGEMENTS

18. For the loan project, the Government's MAWR will be the Executing Agency. A high-level project steering committee will be established and meet quarterly to provide policy guidance. The deputy minister of water resources in MAWR will be designated as project director with responsibility for project implementation. A project management office will be established within MAWR to manage project activities and liaise with ADB. Project implementation units will be set up to handle project implementation in the three project provinces, and to liaise with local administrations and beneficiaries. The GEF grant-financed activities will be implemented by the same project management office and project implementation units created for implementing the loan. The implementation of the TA will be completed by September 2012.

19. Implementation of the TA activities will require the services of international consultants (39 person-months) and national consultants (103 person-months). Consultants will be engaged under ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). All procurement under the GEF grant will be conducted in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). The grant will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

IV. RECOMMENDATION

20. The President recommends that the Board approve ADB administering the Global Environment Facility grant in an amount not exceeding \$3,000,000 to the Republic of Uzbekistan for the Land Improvement Project. If the Board approves this recommendation, an agreement between the Global Environment Facility and ADB will be entered into.