

**Uzbekistan: Dairy Farming Programme**

**Ex-post evaluation**

<b>OECD sector</b>	32 161 / Agroindustries	
<b>BMZ project number</b>	1994 65 519	
<b>Project-executing agency</b>	Usmjasomolprom (USM)	
<b>Consultant</b>	None	
<b>Year of evaluation</b>	<b>2002</b>	
	<b>Project appraisal (planned)</b>	<b>Ex-post evaluation (actual)</b>
<b>Start of implementation</b>	Q 4/1994	Q 1/1995
<b>Period of implementation</b>	12 months	62 months
<b>Investment costs</b>	EUR 5.7 million	EUR 5.4 million
<b>Counterpart contribution</b>	KEUR 31	KEUR 31
<b>Financing, of which FC funds</b>	EUR 5.6 million	EUR 5.4 million
<b>Other institutions/donors involved</b>	None	None
<b>Performance rating</b>	5	
• <b>Significance / relevance</b>	5	
• <b>Effectiveness</b>	5	
• <b>Efficiency</b>	5	

**Brief Description, Overall Objective and Project Purposes with Indicators**

The overall objective of the project was to contribute quickly and effectively to ensuring a sufficient supply of good-quality dairy products for the Uzbek population (indicator: the volume of dairy products sold is equivalent to or higher than the 1993 level). The programme purpose was to maintain the production capacity and functionality of the facilities at 27 dairy plants and milk collection points through the delivery of spare parts and equipment as well as of a production and filling facility for ultra-high temperature milk and fruit juices for the dairy plant in Tashkent.

**Project Conception / Major Deviations from the original Project Planning and their main Causes**

The measures actually implemented and financed out of FC funds corresponded – with very minor deviations - to the planning in the project appraisal phase and comprised: (1) Delivery of equipment, spare parts and accessories, primarily for refrigerating facilities at 27 dairy plants

(planned during project appraisal: 24); (2) delivery of a milk evaporator for the dairy plant in Buchara (not planned during project appraisal); (3) delivery and installation of a packing machine (ultra-high temperature [UHT] plant) for pasteurized milk and fruit juices for the dairy plant in Tashkent, including a water purification plant; (4) consulting services. The programme measures were adequate considering the needs of the dairy plants identified during the project appraisal. They contributed to the maintenance or expansion and modernization of their production capacity. Yet, until today the improved production capacities are still used to only a very limited degree owing to the steep decline in milk deliveries to the state-owned dairy plants by the farms.

The period of implementation increased from 12 to a total of 62 months so that the measures did not take rapid effect, as intended. The main cause of the delay in implementation was the poor experience of the Uzbek institutions with processing donor-financed projects. While the implementation of the components delivery and installation of equipment and replacement parts took place chiefly within the planned timeframe, the considerable delays affecting the component of the ultra-high temperature (UHT) plant were primarily the result of the fact that, owing to the decrease in water quality, a water purification plant also had to be procured and installed.

### **Key Results of the Impact Analysis and Performance Rating**

In the period following the project appraisal in 1994, all dairy plants participating in the programme experienced a drastic drop in milk buyup and throughput volumes from approx. 840,000 t (24% of the national milk production) at the time of the project appraisal to approx. 110,000 t (some 3% of the national milk production) upon completion of the programme measures in 1997, and only around 39,000 t (approx. 1% of the national production) in 2001. This corresponds to a decline of some 95% compared with the time of the project appraisal. Thus, today the participating dairy plants contribute only marginally to supplying the Uzbek population with milk and dairy products. Nowadays urban and rural areas are supplied with fresh milk almost exclusively by private companies. In view of the small market share of the participating dairy plants, it is quite certain that the project did not achieve the intended effects.

In addition to the crisis and the near-total collapse of the collective economies - which delivered approx. 90% of the annual throughput volumes at the time of the project appraisal - the steep drop in supplies to state-owned dairy plants (due in particular to the deregulation of producer's prices and the elimination of the quota system) explains how especially the private producers were able to avoid the former planned economy system with its high compulsory taxes by charging producer's prices held at an artificially low level. The high relevance of these interactions of impacts was underestimated in the problem analysis conducted during the project appraisal.

With a decrease of some 250 t daily during the project appraisal to an average of some 20 t daily in 1997 when the deliveries were concluded and only around 13 t daily in 2001, the reduction in throughput volumes at the dairy plant in Tashkent was particularly harsh. This led to the only minimal utilization of the capacity of the filling machine (installed under the programme), to which some 40% of the total investment costs are attributed. Looking back, the key problem identified in the project appraisal – that of a lack of possibilities for filling as one of the main causes of the undersupply of the urban population – is shown to be irrelevant.

The drastic decrease in milk deliveries described above provokes a strong underutilization of the capacities available at the dairy plants promoted by the programme. Consequently, the contribution to maintaining the productivity of the machines and to improved capacity utilization could not be achieved. At the same time the economic situation of the dairy plants worsened significantly as a result of the declining capacity utilization. This also applies to the UHT plant in Tashkent. Although there are not any comprehensible cost data available, it can be assumed

that all participating companies are currently incurring heavy losses during operation, and that they cannot afford the debt service resulting from the programme deliveries. Furthermore it is to be expected that some of the dairy plants operating at a particularly low capacity level will have to shut down in the near future. The supply of the least profitable companies with liquidity from the national budget kept them from having to shut down thus far.

From a macroeconomic perspective the project contributed to increasing the foreign debt via corresponding burdens on the Uzbek national budget since the participating dairy plants are unable to satisfy their debt service resulting from the deliveries. The production of UHT milk at the filling facility in Tashkent is considered unprofitable in macroeconomic terms. Ultimately the programme measures applied contributed unintentionally to maintaining the production capacity and the functional efficiency of state production structures unprofitable in economic and microeconomic terms and, thus, to keeping them alive. One of the fears at the time of the project appraisal was that, without the programme, the supply situation would worsen. In retrospect, however, this was not the case since in spite of the general limitations the private sector became involved in milk collection, processing and marketing faster and to a greater degree than expected. Therefore, looking back, the active promotion of this privatization process is the better microeconomic alternative.

The risks deemed average at the time of the project appraisal (drop in sales caused by the decrease in purchasing power or poorer supply of the Uzbek population owing to rising exports to Kazakhstan and Kyrgyzstan; loss of production stages or parts of the distribution system that were not affected by the programme deliveries; improper use of the supplied replacement parts and equipment) did not arise. Inputs needed to operate the UHT plant have to be imported; therefore, the plant operation faced a high risk of interruption due to foreign currency shortages. In retrospect, the very high risk of shrinking buy-up and throughput amounts that the participating state-owned dairy plants are facing as a result of the structural reforms (price liberalization; abolishment of quotas and selling obligations; licenses for private throughput plants) and the inevitable result – problems with capacity utilization – were not correctly estimated in the project appraisal. While the rapidity of the collapse of the former collective economies and the related declines in production were underestimated, the commitment of the private sector in the field of milk collection and processing was also underestimated. This commitment was a major factor in preventing the supply situation for the Uzbek population - at least for milk and dairy products – from getting worse, which was feared at the time of the project appraisal.

In view of the low degree of capacity utilization of the dairy plants taking part in the programme, the project's effectiveness is clearly insufficient (rating 5). The contribution made by the relevant dairy plants to supplying the population with milk and dairy products could not be maintained as planned and, in comparison to the situation at the time of the project appraisal, dropped substantially directly after the programme deliveries (1993-1997: drop by approx. 730,000 t p.a., or -87%). With a throughput share of approx. 1% of the national production (around 39,000 t p.a.) today this contribution is so marginal that the developmental relevance and significance – also for the years 1995 and 1996 included in the programme goal – must also be deemed clearly insufficient (rating 5). Although the efficiency of the physical implementation of the programme measures can finally be judged to be sufficient overall, in view of the poor achievement of the goals and the unsatisfactory microeconomic and macroeconomic contribution the allocation efficiency is clearly insufficient. The programme aimed to solve a certain problem (maintenance of the production capacity and functionality of state-owned dairy plants) that, looking back, proved to be hardly relevant in light of the actual developments in the sector since the project appraisal. Consequently we also judge the project's efficiency to be clearly insufficient (rating 5). Thus, in summary we classify the project's developmental effectiveness as clearly insufficient (rating 5).

## General Conclusions applicable to all Projects

At the time of the project appraisal only very little experience with transition countries was available that could have been taken into consideration in the planning and implementation of the project. However, the policies and strategies involving an enormous transfer of resources out of the agricultural sector to the benefit of the State and other sectors via producer's prices held at an artificially low level, production quotas and selling obligations - typical for the socialist systems and planned economies at the time - were generally known to everyone. The inevitable impacts of sector reforms such as price liberalization and the abolishment of the quota system on the selling behaviour of private producers in particular as well as the related capacity utilization level of state-owned companies and the basic interactions of their effects should therefore have been emphasized more strongly in the project appraisal.

## Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

## Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its assignment during the final evaluation to one of the various levels of success described below in more detail concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of efficiency of the project conception)?
- To the extent that undesired (**side**) **effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on their own and generate positive results after the financial, organizational and/or technical support has come to an end.

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