

Agricultural Policy in Uzbekistan Challenges and Priorities

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Summary

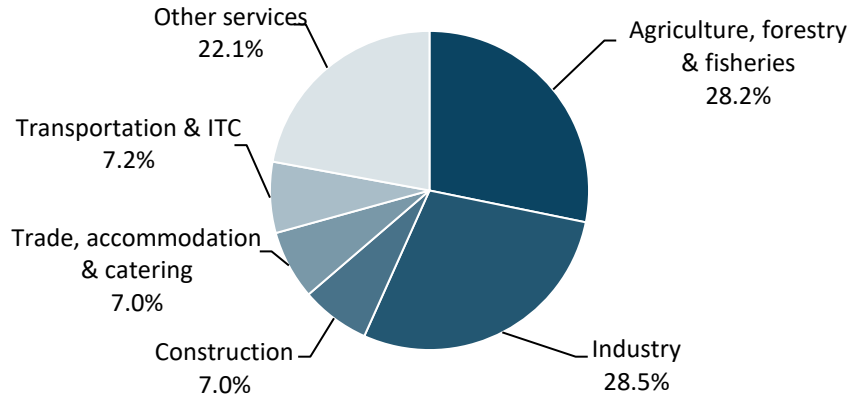
- Agriculture is a key sector and source of growth and employment in the Uzbek economy
- Important challenges facing agriculture in Uzbekistan include
 - The country's land-locked location
 - Overcoming the legacy of centrally-planned agriculture
 - Maintaining food security
 - Tapping export potential, diversifying both the product mix and destinations
- Ambitious reforms have been initiated and are taking effect
 - Elimination of state orders for wheat and cotton
 - Increasing reliance on market signals to drive resource-efficient production
- Policy priorities include
 - Maintaining the direction and momentum of current reforms
 - Establishing rules-based trade relations with neighboring countries
 - Focusing public spending on value-chain development rather than production
 - Investment in public infrastructure and human capital to provide services to agriculture

Outline

1. Background: Agriculture's contribution to the Uzbek economy
2. Constraints
 - Land-locked location
 - The legacy of central planning: Agricultural structures and infrastructure
3. Challenges
 - Staple foods and food security
 - Tapping Uzbekistan's horticultural export potential
4. Policy priorities
 - Maintaining the direction and momentum of reforms
 - Reliable, rules-based trade relations with neighboring countries
 - Value chain focus: from farm to fork
 - Reallocating public spending
 - Increasing investment in agriculture

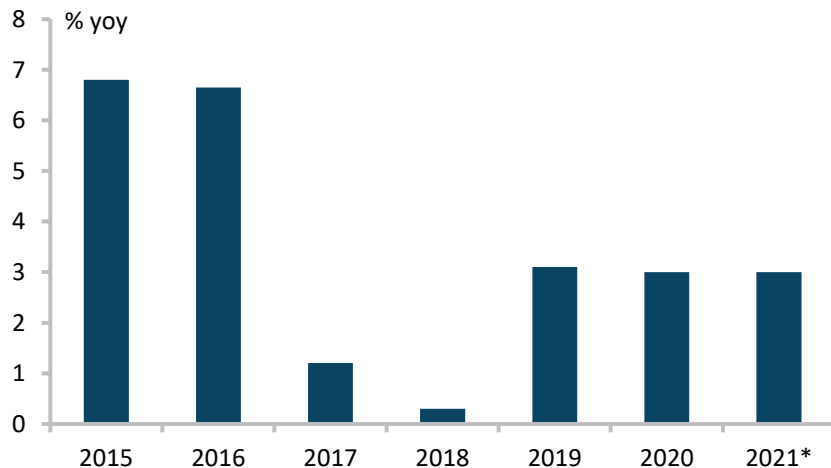
1. Agriculture's contribution to the Uzbek economy (i)

Contribution to GDP (2020)



Source: State Committee on Statistics, 2021

Growth in agricultural GDP



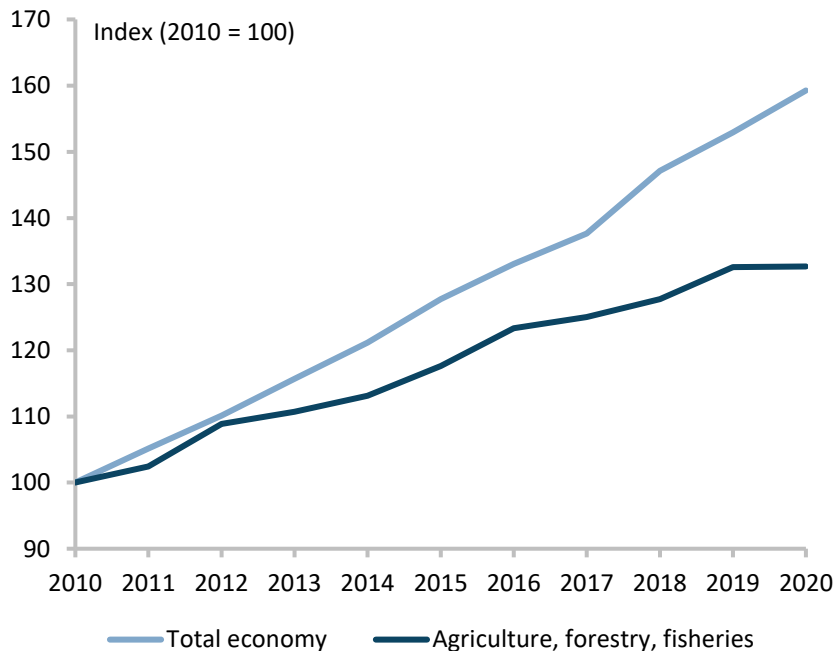
Source: State Committee on Statistics (2021), World Bank (2020). *Target

- Agriculture accounts for over one-quarter of the Uzbek economy
- Divided roughly equally between crops and livestock
- Agricultural growth slowed after 2015/16 (however, doubts about reliability of earlier statistics)
- Recent growth $\approx 3\%$ is solid, and even led overall GDP growth of 1.6% in 2020
- Experience in other transition economies shows that sustained agricultural growth rates of $>3\%$ are possible
- Strategy for the Development of Agriculture in Uzbekistan for 2020-2030 calls for annual growth of 3% in 2021, 5% by 2025

➤ **Growth targets are ambitious but feasible, if reforms momentum is maintained**

1. Agriculture's contribution to the Uzbek economy (ii)

Changes in gross value added per employee since 2010



Source: State Committee on Statistics (2021)

- In 2020 agriculture accounted for 28.2% of GDP and 26.8% of employment
 - Hence, GDP per employee in agriculture is slightly higher than in the rest of the economy
 - However, over the last 10 years, gross value added per employee has grown more slowly in agriculture than in the entire economy
 - 2.9% per year in agriculture
 - 4.8% per year in the entire economy
 - Thus, growth of productivity per worker in agriculture lags the rest of the economy
- **Attract investment in productivity-enhancing modern technologies, and in human resources to implement these technologies**
 - **Foster development of downstream links in the food chain that generate high value-added employment**

2. Constraints: Land-locked country



- Uzbekistan is landlocked, as are all of its immediate neighbors
- Direct access to world markets only via air freight (for high value-density products)
- Otherwise, Uzbek imports and exports must cross at least two borders and long distances
 - Trade vulnerable to conflicts with and instability within neighboring countries
 - Large margins between import parity and export parity prices, price volatility
- Moreover: over three-quarters of Uzbekistan's water resources drawn from transboundary watercourses
- **Reliable political and trade relations with neighboring countries are essential for agricultural development**

Source: <https://worldmapwithcountries.net/2018/08/08/central-asia-map/>

2. Constraints: The legacy of central planning

Comparison of farms and dehqan farms (2020)

	Farms & Organisations	Dehqan farms
Number	82,400	5,642,300
Share of agricultural area (%)*	85.7	14.3
Average size (ha)	45.1	0.1
Share of production (%)	32.0	68.0
Share of fruits & berry production (%)	43.1	56.9
Share of grain production (%)	82.0	18.0
Share of vegetable production(%)	33.7	66.3
Share of livestock production (%)	9.9	90.1

Source: State Committee on Statistics

* Data from 2019

- Dualistic farm structure: smallholder dehqan farms (focus on horticulture and livestock) and farms (larger, focus on grains and cotton)
- Overall: many small production units (even 45 ha is not big in international comparison)
 - Failure to capture economies of scale
 - Coordination costs, difficult to assemble the large, homogeneous and certified shipments that importers demand
- Inefficient public administration: shortage of personnel and infrastructure for implementing policies and providing services
- Public spending highly skewed towards cotton, wheat and especially irrigation
- Key services provided by state enterprises – high costs, low quality, lack of competition
- **Other FSU countries (e.g. Russia, Ukraine) show how strongly agricultural production can respond, given the right policy environment**

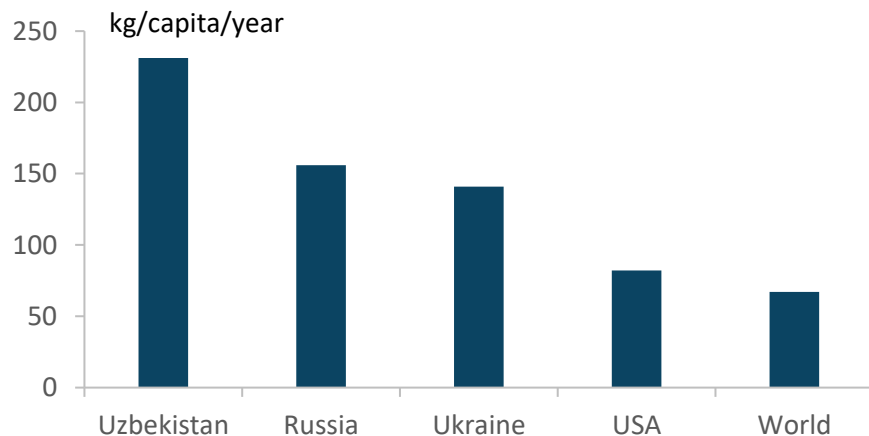
3. Challenges: Food security and availability of staple foods

Wheat supply balance for Uzbekistan

	2018	2019	2020
Beginning stocks	2.47	1.51	1.51
Production	6.00	6.80	6.51
Imports	2.83	3.00	3.10
Consumption (food)	7.60	7.50	7.50
Consumption (feed)	2.00	2.10	2.10
Exports	0.20	0.20	0.15
Ending stocks	1.51	1.51	1.37

Source: USDA, 2021, own estimates

Average per capita food wheat consumption

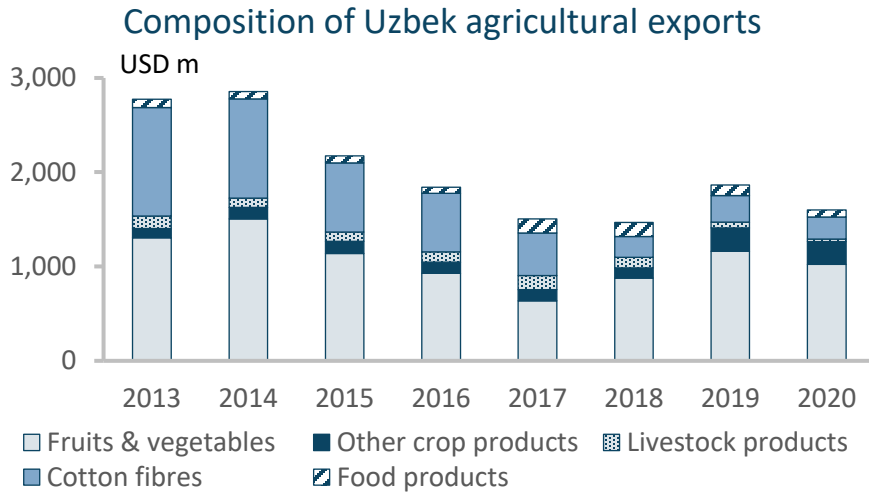


Source: World Bank, 2020, own estimates

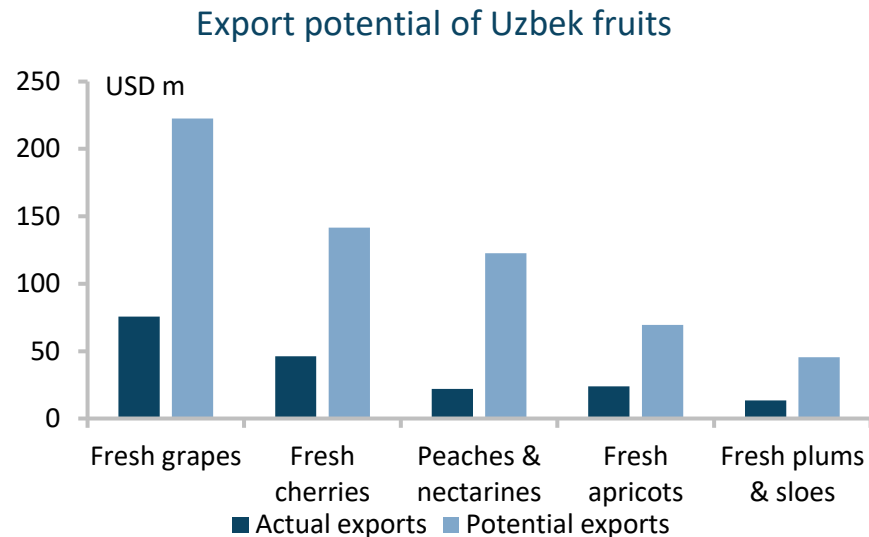
- Policy makers are understandably sensitive to the issue of food security
 - High per capita consumption of wheat-based bread and pastry products
 - Dependence on imports of wheat from Kazakhstan, volatile Kazakh prices
- But food security is not just physical availability
- Focus on wheat (and cotton) has reduced productivity in other parts of agriculture
- Instead, focus on
 - Reducing feed use, increasing livestock productivity (not numbers!)
 - Increasing yields (better seed and seeding technology)
 - More efficient use of water
 - Good trade relations with neighbors
 - Appropriate public stocks (World Bank calculates 0.75-1.00 MT of wheat)

➤ **Huge potential to maintain and increase food security and increase agricultural exports**

3. Challenges: Tapping horticultural export potential (i)



Source: State Committee on Statistics, Trade statistics (2021)



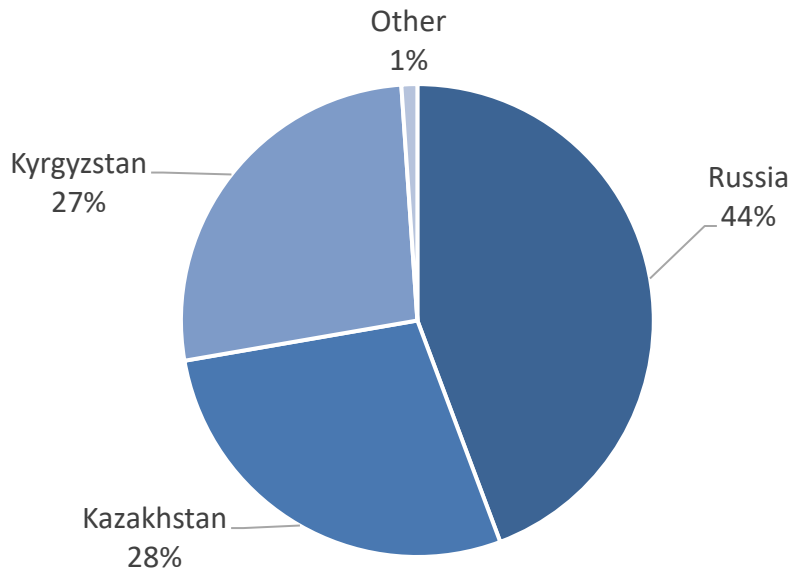
Source: International Trade Center, 2018

- Agricultural exports fell after 2014 but have recovered since 2018
- 2020 affected by Covid-19
- Recent export growth due to horticulture
- Uzbekistan has excellent conditions for the production of high-quality fruits, experts see the largest potential for growth in horticulture
- Horticultural production is comparatively labor-intensive, important given Uzbekistan's large and young rural population
- Horticulture has benefitted from key reforms, including:
 - abolishment of state export monopoly
 - abolishment of mandatory sale of hard currency earnings
 - establishment of green corridors
 - elimination of minimum export prices

➤ **Horticulture provides a positive example of reforms boosting value added, employment and export earnings**

3. Challenges: Tapping horticultural export potential (ii)

Destinations of Uzbek fresh grape exports in 2020

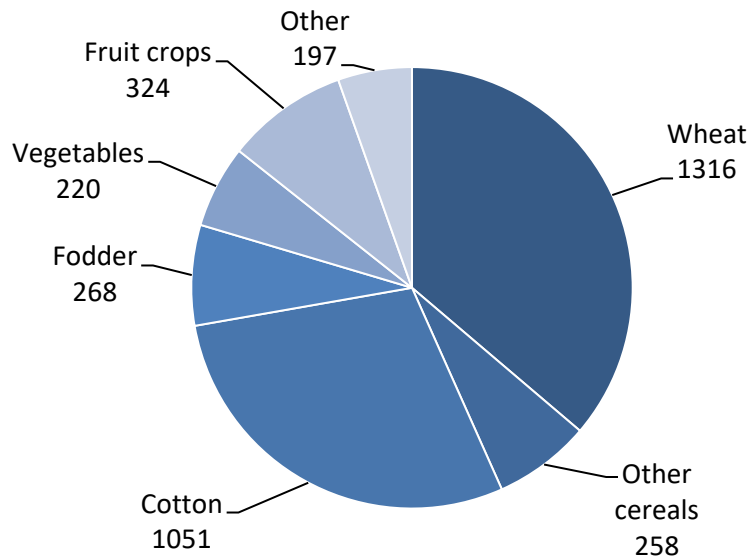


Source: UN Comtrade

- Horticultural exports heavily dependent on FSU
 - Vulnerable to trade disruptions
 - Gives buyers market power (e.g. IFC report that Uzbek cherries sold in Kazakhstan for 1.77 USD/kg vs. 3.07 USD/kg in China)
 - FSU countries generally impose lower food safety and quality standards
- Especially China is an attractive export destination that is growing in importance
- The EU is also an option
- But penetrating these markets requires strict compliance with
 - International SPS and maximum residue level requirements (MRLs)
 - Non-governmental standards (Global GAP and HACCP certification)
- **Continued export growth and diversification are linked to the effective implementation of food safety standards**

3. Challenges: Tapping horticultural export potential (iii)

Area planted to crops in Uzbekistan (2019, thousand ha)



Source: State Committee on Statistics, 2020

- Area planted to fruit crops increased from 280,000 ha in 2016 to 324,000 ha in 2019
- However:
 - Wheat and cotton still dominate
 - Many small fruit producers, traditional, low-cost production methods
 - Low quality and fragmented production, heterogeneous supplies, high costs of aggregation and certification
 - Lack of support for research on identifying and adapting new varieties
 - High post-harvest losses (as much as 40%) and quality loss due to poor infrastructure, especially cold-chain capacity
 - Actors along the chain lack training, often unaware of standards and other market requirements
- **Support horticulture via measures to increase land tenure security, consolidation of holdings and partnerships, and farmers' freedom to choose what to plant**

4. Priorities: Maintain reform momentum (i)



- Government of Uzbekistan has announced an ambitious and forward-looking set of reforms
 - First steps taken towards reforming cotton and wheat policies are very encouraging
 - Elimination of state orders
 - Greater reliance on market signals to drive production and marketing decisions
 - Measures to eliminate the use of forced labor are especially important
 - ILO Report* in early 2020 attests to the progress that has taken place
 - Crucial issue for improving trade relations with EU, image of and market access for other Uzbek exports (e.g. horticultural products)
- **Continue market-oriented reforms that allow farmers to decide what and how to produce**

* https://www.ilo.org/ipec/Informationresources/WCMS_735873/lang--en/index.htm

4. Priorities: Maintain reform momentum (ii)



- General agreement on what needs to be done; the devil is in the details, how to get it done e.g.
 - How to reform the agricultural research system
 - How to improve the provision of key services, given competing priorities, powerful vested interests, and a shortage of skilled staff
- In the long run who gets it done is also important
 - Many key projects largely run by outside consultants
 - Need to increase ownership by the Uzbek Ministry of Agriculture
- **Focus especially on investments in human capital and institutional structures that will generate long-lasting benefits**

4. Priorities: Reliable trade relations with neighbors

Uzbekistan's trade agreements



Accession candidate:
World Trade Organisation



Member: *CIS Free Trade Area*



Observer status:
Eurasian Economic Union



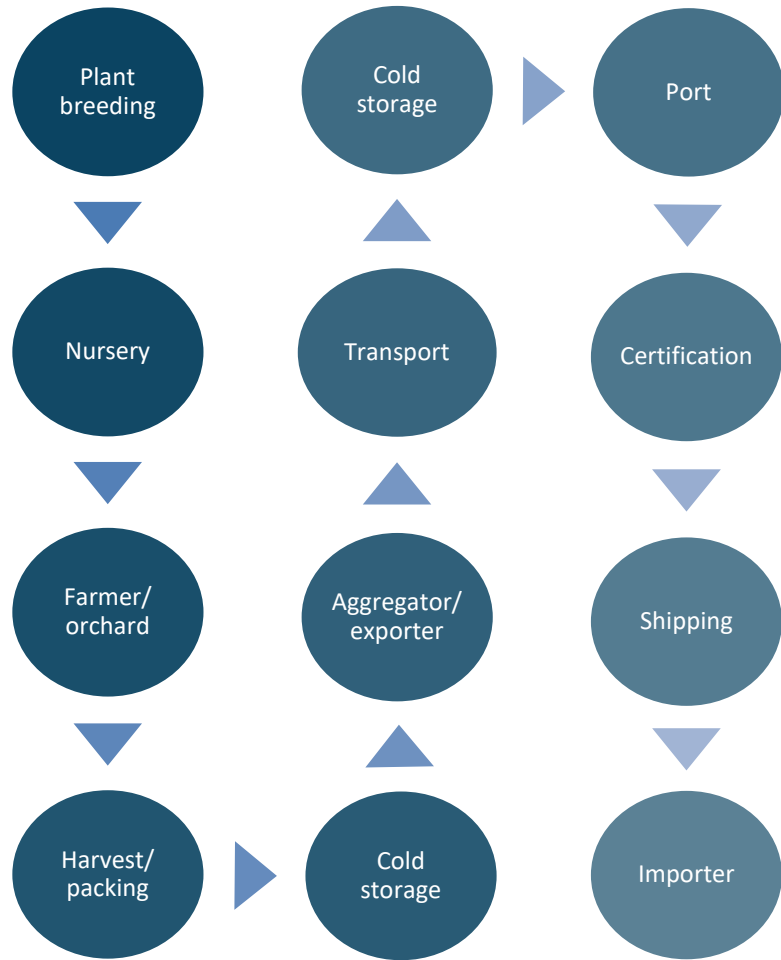
Trade agreements with 45 countries providing MFN treatment



EU GSP+ status since April 2021

- Multilateral trade relations – finalize WTO membership
- Regional trade relations – stable, liberal trade relations with all neighboring states (CISFTA is weak, does not include Turkmenistan)
- Short-term goal – negotiate a regional grain market agreement with Kazakhstan
 - Goal: to reduce impact of any future grain export restrictions on Uzbekistan
 - Possible concession: stop using differences in transport rates to protect Uzbek flour milling industry
- Diversify trade and infrastructure investments to reduce dependence and potential physical bottlenecks to trade
- **Food security and agricultural trade: Uzbekistan and its neighbors need cooperation and mutually beneficial solutions**

4. Priorities: Value chain focus – from farm to fork



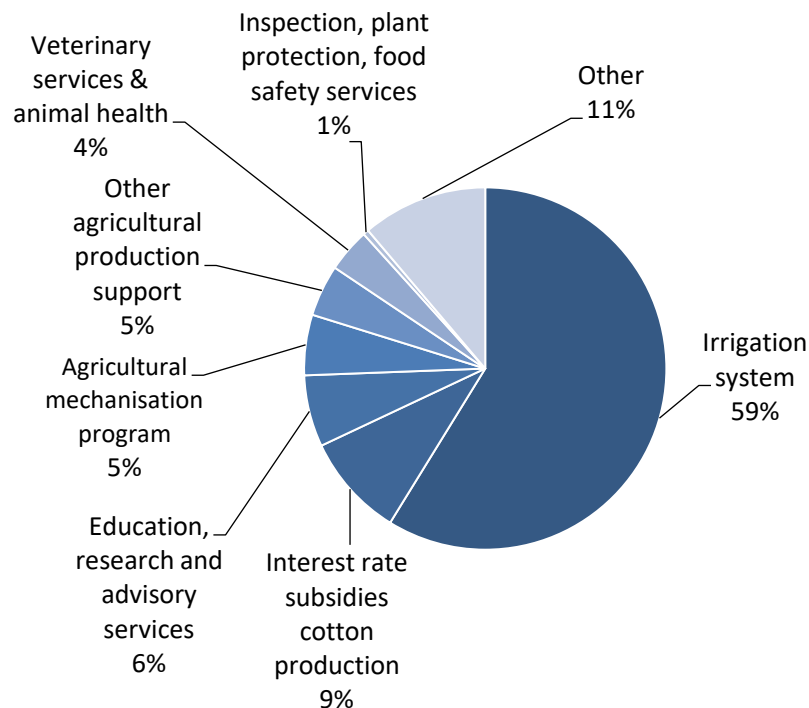
- Production is only one link in a long and complex chain
- Other links often account for two-thirds and more of total value added in the chain
- The food value chain is an alliance of farmers and upstream/downstream partners that increases value added by coordinating responses to demand
- Without the support of an integrated food value chain, Uzbekistan cannot tap the full potential of its comparative advantage in horticultural production
 - Traceability
 - Uninterrupted cold chain
 - Certification

➤ **Maintain a value chain focus: channel public spending not to where it increases production most, but rather to where it maximises value added over the entire chain**

Adapted from Van Dyk, E. & Maspero, EL. (2004). Analysis of the South African fruit logistics infrastructure. ORION. 20. 10.5784/20-1-6.

4. Priorities: Reallocating public spending

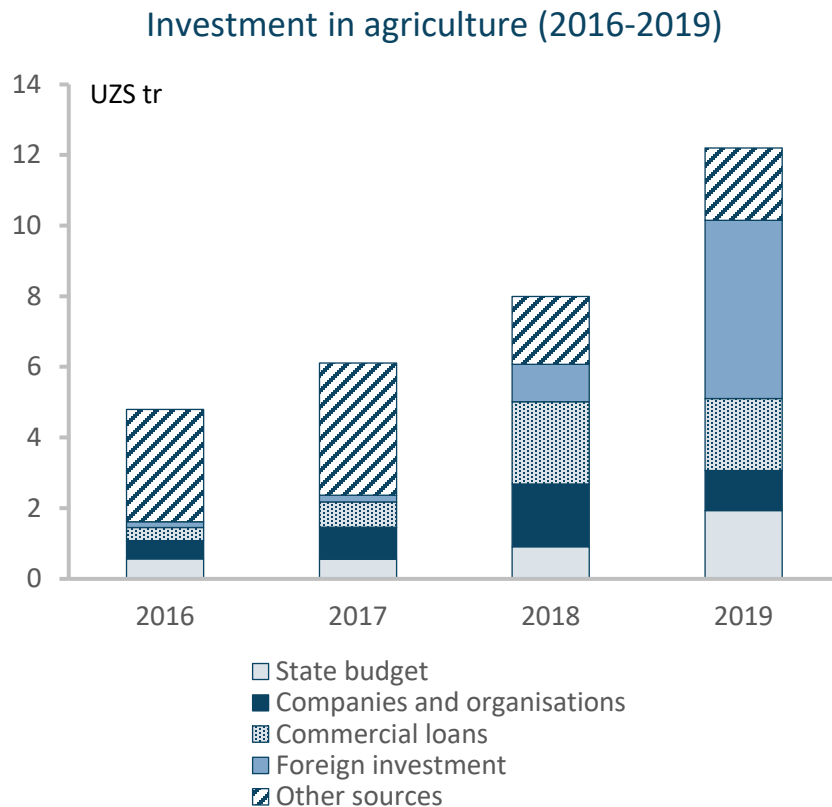
Public spending on agriculture (2018)



Source: Strategy for the Development of Agriculture 2020-2030

- Public spending heavily skewed
 - Towards farms rather than dehqan farms
 - Towards raw production (>75%) and especially towards irrigation systems (almost 60%)
 - Nevertheless, water-use efficiency remains low, spending props up an outdated system
 - Striking underinvestment in education, research and the provision of advisory and other services
 - Limits Uzbekistan's ability to tap its agricultural potential, diversify its exports and respond to emerging opportunities and challenges
- **Reallocate public spending: reduce spending on production and irrigation, boost investments in service provision, research and education**

4. Priorities: Increasing investment in agriculture



Source: Strategy for the Development of Agriculture 2020-2030

- Investment in agriculture has increased in recent years
 - Positive sign: increasing volume and share of commercial loans and foreign investment
 - However, most farms and agribusinesses are still credit constrained
 - Lack of collateral
 - Banks lack capital and expertise for agricultural lending
 - The planned privatisation of several commercial banks will help alleviate some of these problems
 - Security of land tenure and consolidation of holdings can also contribute
- **Explore the potential of non-traditional credit instruments such as warehouse receipts and leasing**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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