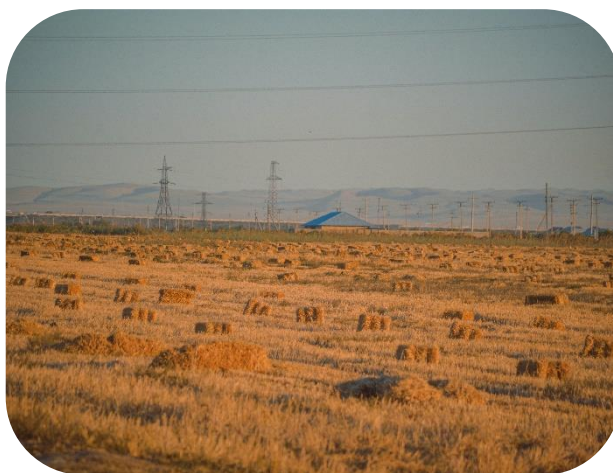


Uzbekistan

Experience in policy action for agricultural price liberalization and soil health enhancement

Context

Uzbekistan began its significant economic reforms in 2017, catching up with a long-overdue transition from a planned to a market economy. The country's record of agricultural reforms carried out since then has been impressive. This includes the liberalization and promotion of foreign trade through exchange rate unification and trade facilitation; support to the horticulture sector, which exhibits strong comparative advantages; adoption of the ambitious long-term agricultural modernization strategy; and most important, reforms of the state system for cotton and wheat production and marketing.¹



Prior to 2017, Uzbek farmers were losing 1.6% of GDP annually from the artificially low state procurement prices for cotton and wheat, while the government spent 2% of GDP on various agricultural programmes. Due to depressed farm gate prices and the focus of public services on the production of cotton and wheat at any cost, the rate of return of agricultural public expenditures was very low.² Cotton and wheat yields stagnated, resulting in increased imports of wheat, the main food staple, and decreased exports of cotton. Soils were degrading due to: weak incentives for farmers to invest in soil fertility improvement; low crop diversification; little public support for soil health; and subsidies that encouraged cotton's production on degraded soils and overuse of water for irrigation. Climate change was making things worse, reducing water availability for Uzbekistan's irrigation-dependent farmers.

In 2019, the Government of Uzbekistan adopted an ambitious Strategy for Agriculture Development 2020–2030, which outlined market-friendly reforms and set deadlines and targets. In 2020, the cotton state order system was phased out and cotton prices were liberalized. Wheat prices were liberalized in 2022. In 2019, the government abolished the subsidy for cotton production on plots with low-quality soil, and in 2021 it started an investment programme with matching grants to promote water-efficient irrigation in cotton and horticulture production. In 2021, the government launched its Agricultural Knowledge and Innovations

¹ World Bank. 2021. *Assessing Uzbekistan's Transition*. Country Economic Memorandum. Washington, DC USA.

² World Bank. 2020. *Uzbekistan Public Expenditure Review*. Washington, DC, USA.

System (AKIS) to strengthen collaboration between agricultural education, research and advisory services, and increased its funding. Special attention has been given to improving soil health through digital soil mapping, modernized soil testing, and an update of fertilizer recommendations.³ As a result, the growth of agricultural GDP accelerated from 0.8% in 2017–2018 to 3.3% in 2020–2022.⁴

Rationale

The policy actions intended to: (i) remove agricultural price distortions to enable farmers to invest more, and (ii) repurpose agricultural public expenditures to support a more sustainable sector growth model. Policy actions have so far sought to shift the behaviour of both farmers and policy makers regarding the role of the markets vis-à-vis the state in supporting agriculture.

Approach

Agricultural reforms have been underpinned by estimates of the cost of inaction, and consequent analytical support for the preparation of Uzbekistan’s Strategy for Agriculture Development 2020–2030, including the design of reform options. Short just-in-time policy notes were especially useful for the latter to provide quick and impactful advice for senior policy makers.

Agricultural price liberalization reforms were supported by improvements in coverage and support provided through the social safety net to shield the poor and vulnerable population more effectively from food price spikes. The removal of agricultural price distortions was followed by the increased investment and budget funding for agriculture and food and nutrition security from the World Bank and other development partners.

The design and implementation of agricultural price liberalization reforms were supported by several of the World Bank’s development policy loans, while investments in public services were supported through the World Bank’s Agriculture Modernization Project, the Korean Green Growth Trust Fund, agricultural budget support and technical assistance from the European Union, and investment projects and technical assistance financed by other development partners.

Experience and emerging results achieved

Results so far have seen increased and more sustainable agricultural growth supported by a more diverse set of subsectors, i.e. horticulture and livestock, not only cotton and wheat. More specific results have been the following:

- Cotton and wheat producers received market-level farm gate prices, with an additional income gain of about 1.6% of GDP and an enabling policy for higher rates of return from public expenditures.
- Cotton and wheat yields started increasing again.

³ World Bank. 2021. *Second Agriculture Public Expenditure Review*. Washington, DC, USA.

⁴ World Bank. 2022. *Review of Implementation of Uzbekistan’s Agricultural Strategy 2020-2030*. Washington, DC, USA.

- Public investments for AKIS, including soil health and water-efficient irrigation, increased.
- Subsidy that encouraged farmers to produce cotton on degraded soils, which accounted for 5% of total agricultural expenditures, was removed. The government subsidy on interest rates for working capital inputs to cotton and wheat production was reduced. This allows for redirecting resources to support diversification and other investments such as irrigation.
- The Digital Soil Information and Land Management Geoportal was established, and more soil testing has been undertaken. Investments in soil testing infrastructure (i.e. laboratories) and staffing have increased.

These results represent the emerging shifts in policy and public expenditures from 2018 to 2022. Further reforms are needed to avoid reversals of the first-generation reforms; continue repurposing public expenditure; improve the quality of AKIS programmes, including for soil health; and deepen reforms in other areas such as land tenure security, input markets, and the irrigation–agriculture nexus, many of which are critical for promoting climate-smart agriculture.

Lessons learned

The following lessons emerged from the first-phase agricultural reforms in Uzbekistan:

- Reforms require the right political momentum and champions among senior policy makers. Analytical evidence on the costs of inaction and specific policy options should be available on time to underpin reforms.
- Agricultural public expenditure reviews with cross-country comparisons are critical to receive buy-in for reforms, and underpin reform proposals.
- Short just-in-time policy notes combined with more detailed analytical work are very useful for providing quick and impactful advice for senior policy makers.
- Reforms take time, and a gradual sequence of actions is often more feasible than big bang wholesale reforms.
- The successful design and implementation of soil health programmes requires a shift in behaviour and public funding, as well as technical assistance from development partners on best global practices. Improvements relating to soil testing and soil information systems should be complemented by AKIS and other programmes that increase soil fertility to make a difference on the ground.

This is one in a set of country case studies demonstrating policy action that individual countries are taking with the aim of transition to sustainable agriculture. They are country owned and do not represent wider views of the Policy Dialogue participants.