



REFORMING AGRICULTURE IN UZBEKISTAN

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Annotation

The article provides an overview of ongoing agrarian reforms in Uzbekistan. The issues of liberalization of the agricultural sector, the creation of a cluster system, the formation of diversified farms, as well as the measures taken to support exporters of fruits and vegetables were considered.

Keywords: agriculture, reforms, liberalization, clusters, diversified farms, exports, fruits, and vegetables.

Introduction

Agriculture in Uzbekistan is one of the leading sectors of the economy, providing more than 28% of the country's gross domestic product, almost 28% of employment, and producing socially significant goods - food for the population and raw materials for industry. The prospects for development, the economic and financial condition of many industries of the republic, such as cotton ginning, textile, light, food, chemical industries, and others, and this is about half of the entire industrial potential, directly depend on agriculture. Many researchers emphasize the importance of the development of this sector and its impact on socio-economic growth in general. So, for example, FAO researchers concluded that growth in agriculture, more than in any other sector of the economy, can reduce poverty by playing the role of a multiplier [1]. This report found that every percent of economic growth in the agricultural sector is equivalent to a 1.5% reduction in overall poverty rates.

World agriculture is becoming increasingly dependent on market conditions, whereas before it developed mainly under the influence of protectionist policies. In this way, developing countries are now in a position to take advantage of investment and reap economic benefits, given the growing demand for food in these countries, the potential for increased production, and comparative advantages in many world markets. Accordingly, the sustainable development and modernization of agriculture is a key priority of any macroeconomic development strategy of the country, aimed at economic growth and improving the welfare of the population.

Since its first days of independence, the Republic of Uzbekistan has been consistently implementing a well-thought-out strategy for the development of agriculture, aimed





at ensuring the food security of the country. The main important directions of the state policy in the field of agriculture in the period 1991-2016 were:

- Change in the structure of sown areas, an almost 2-fold reduction in cotton crops in favor of grain crops. As a result, Uzbekistan, which previously imported more than 80% of its grain needs, gained grain independence;
- Liquidation of state and collective agricultural enterprises and the creation of farms that ensure the growth of labor productivity based on modern agricultural technologies;
- Diversification of branches of the agricultural sector, development of potato growing, viticulture, beekeeping, poultry and fish farming;
- Expansion of the system of concessional lending for agricultural production; creation of a maintenance system for farms and dekhkan farms, as well as the supply of necessary material and technical resources for their needs (fuel and lubricants, chemical fertilizers, biological and chemical plant protection products, seeds);
- Formation of a logistics system for the storage and transportation of agricultural products, as well as its industrial processing.

However, by the end of 2016, the further development of agriculture was in jeopardy, as the previous sources of growth had exhausted themselves, and it ran into several barriers, such as a monopoly on the export of products, regulation of export prices, and the purchase of agricultural products under government orders at unfair prices for agricultural producers. prices, etc. After being elected President of the Republic of Uzbekistan, Sh. M. Mirziyoyev began to gradually carry out reforms to liberalize both the economy in general and the agricultural sector in particular.

In 2017, a new direction appeared in the agriculture of Uzbekistan - the cluster system. Clusters of various directions are developing: cotton-textile, horticultural, seed-growing, cereals, meat, dairy, etc. The main goal of creating clusters is to form a single chain that unites all processes for the production of finished products - from growing raw materials to processing and manufacturing the final product. Of course, it is worth noting that this system is only being established and there are problems in certain links of the chain, but the prospects for its further development will make it possible to most effectively use the production potential of agriculture in Uzbekistan.

Also, since 2017, the process of transforming farms into diversified ones has begun to take place actively. A diversified farm is a farm that, along with the production of agricultural products, is engaged in the processing, storage, and sale of agricultural products, industrial production, the performance of work, provision of services, and other activities not prohibited by law [2]. The creation of diversified farms is the main factor in ensuring a stable social and economic situation in rural areas, enriching the



markets of the republic with the necessary consumer goods and services [3]. Based on the large-scale development of diversified farms, it is possible to partially solve an acute social problem - ensuring permanent employment for the population. By the end of 2021, all farms should switch to a multi-profile system [4].

In 2019, the "Strategy for the Development of Agriculture of the Republic of Uzbekistan for 2020-2030" was approved, which covers the following strategic priorities: ensuring food security of the population; creating a favorable agribusiness climate and value chains; reducing the role of the state in managing the sphere and increasing investment attractiveness; ensuring the rational use of natural resources and environmental protection; development of modern public administration systems; phased diversification of public spending in support of the sector; development of science, education, systems of information and consulting services in agriculture; rural development; development of a transparent system of sectoral statistics [5]. Within its framework, it is planned to achieve the following main indicators by 2030:

- Development of 1.1 million hectares of agricultural land, increasing the efficiency of the use of 535.6 thousand hectares of rainfed, pasture, and other lands;
- Growth of average labor productivity in agriculture by 1.7 times (up to 6.5 thousand US dollars per employee per year);
- Increase in the rate of processed products up to 30%;
- Increase in exports up to 20 billion dollars.

Thanks to the reforms carried out, the gross agricultural output for 2017–2020 increased by 6.8%. The average annual growth rate of production for the analyzed period amounted to about 1.7%.

Significant progress has been made in the growth of labor productivity in the industry. Only in 2017-2019, the value-added of agriculture per 1 employed person increased by 7.0%, exceeding the global average by 60% in 2019.

Within the framework of the Strategy for the Development of Agriculture in the agricultural sector, the process of liberalization is being accelerated. On October 15, 2019, state regulation of flour prices, which had been going on since 1994, was terminated in Uzbekistan. The sale of flour at market prices ensures efficient distribution of resources and competition in the markets, taking into account the interests of both producers and consumers. This mechanism has increased the interest of flour mills and provided them with financial opportunities to modernize production facilities, which serves to improve quality, increase production volumes and increase labor productivity.





Starting from the 2020 harvest, the state order for grain has been reduced by 25% and starting from the 2021 harvest, the practice of setting grain purchase prices by the state has been completely abolished [6].

Also, from the 2020 harvest, the practice of setting purchase prices for raw cotton was canceled and raw cotton producers (farmers, cotton-textile clusters, cooperatives) were granted the right to free variety distribution of zoned cotton [7]. In cotton growing, the mechanization of the industry is being actively carried out, replacing manual labor.

Separately, it is worth dwelling on the process of carrying out the reform to liberalize the export of fruits and vegetables.

In June 2017, at the initiative of President Sh.M.Mirziyoyev, Uzagroexport JSC lost its monopoly on the supply of fruits and vegetables abroad [8]. As a result, from July 1, 2017, business entities were allowed to export fresh fruits and vegetables, grapes, and gourds based on direct contracts on the terms of 100% advance payment and the mandatory sale of 25% of their foreign exchange earnings. The last requirement was canceled in July 2017 to further stimulate national exporters [9].

The practice of setting by Uzagroexport JSC the recommended minimum prices for concluding export contracts was initially wrong. As a result of the fact that Uzagroexport did not allow farmers to sell crops below the established prices, the products were often simply thrown away. President of Uzbekistan Sh.M.Mirziyoyev in August 2018 [10] made the right decision to cancel this practice and it was allowed to conclude export contracts for fresh and processed fruits and vegetables at prices lower than those published by Uzagroexport JSC with the corresponding invoice during customs clearance.

The next step to improve the efficiency of promoting fruit and vegetable products to foreign markets was to allow export by legal entities in the absence of prepayment, open a letter of credit, issue a bank guarantee and an insurance policy against political and commercial risks under an export agreement, by the procedure established in October 2018 [11].

The government headed by the President of the Republic of Uzbekistan Sh.M. Mirziyoyev created an unprecedented system of support for exporters of fruits and vegetables, which did not exist before in Uzbekistan [12].

In particular, the State Fund for Supporting the Development of Entrepreneurial Activities began to provide exporters with compensation to cover interest expenses on pre-export loans from commercial banks, incl. issued to replenish working capital, up to the refinancing rate of the Central Bank of the Republic of Uzbekistan. Also, exporters began to be provided with guarantees for loans from commercial banks in



the amount of up to 50% inclusive of the amount of the pre-export loan, but not more than 4 billion soums.

For the first time in the years of independence, fruit and vegetable exporters were given subsidies to compensate up to 50% of the cost of transportation by rail when exporting fruits and vegetables to non-CIS countries. However, this was not very effective, since deliveries by this mode of transport were rare and in small volumes. Therefore, in the future, subsidies for export transportation were expanded to include the delivery of products by road and air transport [13].

The protection of export activities began to be applied [14], for which the State Fund for Supporting the Development of Entrepreneurship was allocated up to 50 billion soums. The Fund covers interest expenses on pre-export loans and guarantees on loans from commercial banks.

At the end of 2020, the Government further expanded assistance to exporters of fruits and vegetables. By the Decree of the Cabinet of Ministers of the Republic of Uzbekistan dated December 31, 2020 No. 826 [15], a procedure was introduced according to which exporters are provided with coverage of expenses in the following amounts:

- In the field of implementing standards and obtaining certificates of conformity - 100%, but not more than \$20,000 for the implementation of one international standard and obtaining one certificate;
- In the field of presentations and advertising campaigns to promote local products and brands to foreign markets - 100%, but not more than \$20,000 per calendar year for one exporter;
- In the field of participation in international tenders and competitions - 100%; registration of domestic products and trademarks in foreign authorized bodies - 100%, but not more than \$10,000 per exporter;
- In the field of organizing business seminars, training, trade missions, and business forums with the involvement of specialists from local and foreign companies in Uzbekistan - 100% of the actual costs;
- In the field of participation in business seminars, training, trade missions, and business forums in foreign countries - 100% without limiting the number of actual costs;
- In the field of participation in the exhibition and fair events - 100% without limits on the number of actual costs;
- Sending product samples to foreign trading houses and showrooms for review, including assistance in finding potential buyers, through the diplomatic missions of





Uzbekistan abroad - 100%, but not more than \$2,000 per calendar year for one exporter.

In 2020, a COVID-19 pandemic was declared in the world. As part of measures to mitigate the negative impact on the economy of the coronavirus pandemic and the global crisis, agricultural producers were provided with significant support. In particular, the tax rates for the use of water resources in terms of volumes used for irrigation of agricultural land were reduced by 50% [16], and the deadline for paying land tax for agricultural land was postponed from September 1 to December 1, 2020 [17].

At the expense of the Anti-Crisis Fund under the Ministry of Finance, the State Fund for Employment Promotion in 2020 was allocated funds in the amount of 50 billion soums to finance the improvement of the efficiency of household plots, as well as the allocation of subsidies to the unemployed, low-income and poor families to pay fees for membership in agricultural cooperatives [18]. Subsidies began to be provided from May 20, 2020, in the following amounts:

- Based on tripartite agreements concluded between the Center for the Promotion of Employment of the Population, Supplier Organizations, and Owners of Household Lands: up to 30 times the base calculated value [1] - for the installation of light-weight greenhouses; up to 10 times the base calculated value - for the purchase of irrigation funds; up to 3 times the base calculated value - for the purchase of seeds and seedlings;
- Up to 10 times the basic calculated value - for contributing to the authorized fund of agricultural cooperatives.

Major changes are also expected in the sphere of land relations in the coming years. The first step towards reforming the rights to use agricultural land was made already in September 2020 by introducing a sublease mechanism to grow agricultural products, which will allow the most efficient use of valuable land resources [19].

The term of the sublease is up to one year. Thus, in 2017-2020, grandiose reforms were carried out in the agriculture of Uzbekistan, the results of which have already made it possible to ensure sustainable growth of the industry and improve resource efficiency. In the future, they will serve to the fullest use of the existing potential of the republic in agricultural development and make Uzbekistan one of the world leaders in the production and export of agri-food products.





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