



COUNTRY PROGRAMME FRAMEWORK

REPUBLIC OF UZBEKISTAN

2018-2022

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Introduction

1. This Country Programme Framework (CPF) reflects the priority areas for partnership between the Republic of Uzbekistan and the Food and Agriculture Organization of the United Nations (FAO). The CPF combines innovative international best practices and global standards with the country's national priorities in accordance with the Development Strategy of Uzbekistan for the period from 2017 to 2021.

2. The Country Programme Framework has been prepared in close cooperation with the Ministry of Agriculture and Water Resources of the Republic of Uzbekistan and is based on the outcomes and recommendations of the Country Programme Evaluation for 2014-2017 conducted by the group of independent consultants in July-August of this year.

3. The process of formulating the CPF included an interactive and detailed review of the priorities of national policies on food, agriculture, forestry, fishery and rural development in the context of sustainable development goal (SDG), as well as an analysis of the main ongoing and planned development programmes in Uzbekistan. CPF is consistent with the priorities of the United Nations Development Assistance Framework (UNDAF), which is a strategic document for cooperation between the United Nations and the Government of Uzbekistan for the period 2016-2020.

Situation analysis. National context and priorities of the Government

4. **General data.** Uzbekistan is located at the very centre of Central Asia and is bordered by all Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan) and the Republic of Afghanistan. Total land area is 447 thousand sq. km.

Population of the country exceeds 32 million, nearly 49.4% of which live in rural area and rural settlements. 33.3% of the population is under 18 years of age, 9.4% are people of retirement age. The annual population growth of Uzbekistan is 1.2%, the population growth of working age is 1.7%, or more than 540 thousand people, which determines the burden on the labor market and the social burden on the Government.

5. **Agricultural land.** Agriculture is one of the leading sectors of the country's economy, but under natural and climatic conditions the agricultural production can only be carried out on limited irrigated land, since a substantial area is occupied by deserts and mountainous terrain.

Taking into account the pastures used for grazing and the rain-fed (non-irrigated) land, the agricultural land accounts for about 22.3 million hectares. Only 4.1 million hectares constitute cultivation land (9.16% of the total area), of which irrigated land accounts for 3.3 million hectares (7.45%)¹. No significant increase in irrigated land is possible due to inadequate water resources.

6. **Demographic characteristics.** The population growth rate is much faster than the irrigated land growth rate. As a result, the size of irrigated arable land per capita has decreased from 0.22 to 0.12 hectares over the past 25 years, or by 1.8 times, and this trend will continue in the future, as the population number is projected to increase to 37 million by 2030. The percentage of rural population for the period from 1991 to 2016 has dropped from 60 to 49.4%, and 37% is expected by 2030.

However, the specificity of Uzbekistan is that there is no mass migration of the rural population to the cities. The Government's policy in the area of urbanization is aimed at the gradual transformation of rural settlements into urban settlements and small towns whose population will be engaged in the industrial processing of grown agricultural products and service delivery. This keeps the rural population from mass relocation to major cities.

¹ "On the condition of the land resources of the Republic of Uzbekistan", Uzgeodezcadast

7. Risks of agrarian production. Agriculture in Uzbekistan is subject to significant climatic, environmental and geographic risks associated with a severe continental climate (high temperature drops summer/winter and day/night), limited rainfall in vegetative season, high dependence on water resources of the main rivers of Syrdarya and Amudarya, mostly outside the Republic, the high level of salinity of the soil, increasing due to the ecological disaster of the Aral sea, and irrational land use and water management.

Currently, the agriculture plays a major role in (1) providing raw materials to the developing domestic industry, (2) generating demand for the products of mechanical engineering and other domestic industries, as well as agricultural services.

8. Diversification of agriculture. Over the years of independence, Uzbekistan has visibly diversified the structure of its economy. If in 1991 the share of agriculture in GDP was 37%, it constituted only 17.6% at the year ended 2016 as a result of the growth in the share of industry and services.

The country is gradually moving away from cotton monoculture, increasing its average yield. Since 1991, the area under cotton has been reduced by two times, and it will be reduced by another 185 thousand hectares until 2020 in favor of horticultural and other technical crops.

The share of cereals in total cultivation area increased from 25.7% in 1991 to 45.2% (1.67 million hectares) in 2016, potatoes and vegetable-melons from 7.0% to 9.5% (350.6 thousand hectares), and the proportion of technical crops decreased from 41.9% to 34.2% (1.27 million hectares). Grain production for the period 1993-2016 increased by more than 3.7 times, and Uzbekistan has changed from importer of grain to the exporter of certain grains.

The increase in cereal production has been affected not only by the expansion of the land area but also by increased yields. During the period of 2001-2016, the increase in yields provided 85.1% of the increase in cereal yields. At present, the average yield of cereal crops is 46.2 C/ha, which is higher than the figure of 1991 by almost two times.

There has been a noticeable increase in production of other main food products, such as meat, milk, eggs and horticultural products, in addition to cereals. As a result, Uzbekistan has achieved almost total self-sufficiency in its own production of all basic foodstuffs, except for those which, by nature, may not be cultivated in the Republic. In 2015, Uzbekistan became one of the 14 countries, which received the rewards for achievement of the Millennium Development Goals in food security by the member countries of the Food and Agriculture Organization of the United Nations (FAO).

At the same time, Uzbekistan is increasing its food exports, which contributes to raising the income of the rural population. The share of food exports increased from 3.5% in 1991 to 11-12% in 2016.

Today, there are about 4.7 million of dehkan enterprises and over 160 thousand of farms enterprises. Over 3.5 million hectares of agricultural land are assigned to farm enterprises and nearly 500 thousand hectares are assigned to dehkan enterprises. The average area of land sites assigned to the farm enterprises constitutes 22.3 hectares, and dehkan enterprises - about 0.1 hectares.

In monetary terms, about 64% of all agricultural products is produced by dehkan enterprises, and 34% by private farm enterprises.

9. Institutional reforms in the agrarian sector. Agriculture in Uzbekistan, as in many other developing countries, has performed such essential functions at various stages of reform as: subsidizing industrialization, the main source of foreign exchange earnings, and the maintaining the employment and income of the population.

Uzbekistan has always had to maintain a balance between several tasks: increasing own food production, generating investment resources for industrial and infrastructural development, providing social protection of the population, implementing market reforms and developing the private sector. It was impossible to entrust immature markets with the task of rapid and radical restructuring of agriculture.

The Government has taken the leading role in agricultural reform by using such tools as (1) state orders at fixed purchase prices for two "strategic crops": the wheat, for self-sufficiency, and the cotton, as an important source export earnings; (2) measures of tax stimulation and credit support for producers; (3) subsidies to the means of production (water, fuel, pesticides and fertilizers) and leasing of equipment and machinery; (4) state investment in rural infrastructure. The harvest of cotton in excess of government order is acquired by the state at negotiable prices and the harvest of grain can be sold by the farm enterprises in the free market.

Uzbekistan has not followed the experience of other neighboring countries and has not privatized the land, which, in the context of the high density of the rural population, the scarcity of land and water resources, the complex irrigation system, could have caused unreasonable speculation and social tensions. Administrative control over land use has made it possible to address a number of social, political and economic challenges: (1) guarantee the equal access of the population to the land, especially the rural one; (2) quickly change the structure of agricultural production, adjust the direction and the speed of such changes; (3) to screen out inefficient owners and to exclude land speculations.

On the basis of shirkats (former collective farms and state farms), the private farm enterprises were established in several stages. The land has been transferred to the farm enterprises on a competitive basis for a long-term lease (up to 49 years) with the right to renewal, subject to proper use of land and efficient management.

A major instrument in the National Food Security Strategy was also the transfer of small plots to households in the late 1980s for personal consumption and sale of products in the market. A number of these sites were assigned with the status of dehkan enterprises. Households, both in urban and rural areas, received valuable assets that initially enabled them to ensure food self-sufficiency, and subsequently form a fully private and decentralized component of the country's agriculture.

Creation of dehkan and farm enterprises has led to the formation of a dual system of agricultural organization, where there are small and large producers exist in the sector with comparative advantages and specialized in certain types of products. This makes it possible to plant crops that require higher level of mechanization, such as cotton, cereals, oilseeds, intensive fruit orchards, melons and vineyards, on relatively large sites (30-50 or more hectares) of farm enterprises. Whereas, dehkan enterprises specialize mainly in the cultivation of vegetables and fruits, other small-scale crops that make it possible to maintain the living standards of households, both through natural consumption of grown crops and additional proceeds from sale.

At the same time, agricultural firms engaged in cultivation of intensive orchards and horticultural cultivation, as well as created multi-business farm enterprises, are increasingly being evolved.

Farm enterprises, through several stages of consolidation, can benefit from economies of scale and have preferential access to the means of production and financial resources. Since the mid-2000s, the government has steadily promoted diversification of farm production by optimizing/reducing cotton and grain crops, increasing the use of land for horticultural production, melon and other cultures.

The productivity of dehkan enterprises in the production of horticultural products is about 50% higher than that of farm enterprises. This is due to the fact that dehkan enterprises have the right to determine the production structure independently, opting for products with higher (than that of cotton and grain) value added.

In October 2017, the Council of farm enterprises, dehkan enterprises and household plot owners was established to replace the Council of farm enterprises, with broad powers to regulate and facilitate their activities².

² Decree of the President of the Republic of Uzbekistan dated October 9, 2017, No. UP-5199 "On measures to fundamentally improve the system of protection of the rights and legitimate interests of farm enterprises, dehkan enterprises and household plot owners, and the efficient use of cultivated agriculture areas"

10. Food security. As a result of its proactive agricultural policy, the Government of Uzbekistan has made significant strides in ensuring food security in all three key areas: adequacy of the aggregate supply of food to meet the needs of the country; access of all sectors of society to sustainable nutrition; and the appropriate nutritional value of the food consumed.

Self-sufficiency in basic types of food has been achieved. The Government is actively regulating the markets for essential foodstuffs (bread, sugar, vegetable oil) in order to ensure their price availability, especially for the vulnerable segments of the population. In order to improve the nutritional status of the population, Uzbekistan is implementing programmes on supplementation of foodstuffs with missing micro elements: fortification of flour (more than 30%), enrichment of salt with iodine (more than 53% of the salt produced), supplementation of vegetable oil with retinol or vitamin A.

The quality of nutrition and related public health issues are addressed in the health system with a special focus on children and maternal health, sanitary supervision, and public education and awareness-raising programmes. The system of monitoring the anthropometric indicators and the quality of household nutrition is an integral part of Uzbekistan's approach to food security issues.

In addition to traditional crops, the production of promising non-traditional crops (e.g. legumes, broccoli, salad leaves, pistachios, etc.) is being actively introduced. For example, as a result of demonstration projects, the growing of pistachios on the foothills of the rainfed lands is 50 times more profitable than the production of wheat on these lands; cattle grazing for the entire period is only 4.5% of the benefit from growing pistachios over the entire period.

In the perspective, the government sets up an objective to create the system of logistics (harvesting, storing, selling) to increase the access to the food products, as well as to improve the performance of institutions that provide and control the quality of food products.

Taking into account the scarcity of irrigated lands, the government decided in October 2017 to tighten the legislation on the effective use of land sites provided for unlimited use to dehqan enterprises and household plot owners through increase of the land tax by 3 times and, in some cases, through termination of the contracts for their use.

11. Priorities for agricultural development in Uzbekistan for the future. In the current phase of reform, the role of agriculture as a driver of the overall structural transformation of the economy is becoming increasingly required. This is because the industry has great potential for building and expanding the value-added chains based on the processing and export of agricultural products. On the other hand, it forms the demand for industrial goods and services, from chemistry and machines to the Internet, banks, research and development (R&D), etc. At the same time, the farmers' large incomes provide opportunities for large investments into the industry, large investments - increase productivity - more products for processing industries and for export. Moreover, the labor force, released from agricultural production, moves to these industries. Thus, the importance of agriculture for the successful implementation of reforms in the country has been immeasurably increased.

Given the stages of reform in the agricultural sector, as well as the current dynamics, the conclusion is clear: agricultural sector should serve as the most important driver for sustainable and inclusive growth in Uzbekistan, taking into account the diversification of the economy and the objectives of raising the standard of living of both rural and urban populations.

FAO's contribution and expected outcomes

12. The priorities and expected outcomes of the Country Programming Framework (CPF) are in line with the Government's priorities as reflected in key national programmes. A special attention in them is paid to effective utilization of the industry's potential, increasing productivity and productiveness, and maintaining resilience to external shocks, first of all, climatic shocks. The priority areas of the CPF reflect areas in which FAO can make the greatest contribution, in accordance with the mandate and capacity, in close cooperation and synergy with UN agencies and other international organizations. The priority areas are also closely associated with the UN Framework Programme (UNDAF) and contribute to the achievement of the SDGs.

Based on past FAO experience in the country, the CPF will focus directly on the following three priority areas identified by the Government:

Priority 1: Development of an integrated agricultural development strategy in Uzbekistan

Priority 2: Development of local and regional agricultural and food production value chains

Priority 3: Strengthening national capacity for sustainable management of natural resources, climate change and biodiversity

13. The implementation of all three priorities of the CPF will contribute to the transforming role of the agricultural sector as the most important driver of sustainable and inclusive growth in Uzbekistan, taking into account the diversification of the economy and the tasks of raising the standard of living rural and urban population. The synergy, if necessary, will be established between the three priorities and the activities undertaken within each priority.

14. The main areas of cooperation in the priority areas are described below. A detailed list of outcomes and target indicators is given in Annex No.1. In addition, it is intended to integrate cross-cutting themes from the FAO Framework strategies, such as gender, statistics and healthy nutrition, into regular and planned work in various priority areas.

Priority 1. Development of an integrated agricultural development strategy in Uzbekistan

15. The integrated agricultural development strategy of Uzbekistan should identify **strategic directions for structural, institutional and technological changes in the industry for the next 10-15 years aimed at improving the efficiency, productivity and financial sustainability of the industry, increasing its role in employment, income growth of the population, country's food security and economic growth.**

An integrated strategy should have both internal linkage with the directions of sector transformation and external linkage with the development of other sectors of the economy and the overall direction of the reforms in the country.

At the process of development of the Integrated strategy, it will be necessary to identify resources and mechanisms for its implementation, including workforce capacity, training and retraining, scientific and technical support and mechanisms for the implementation of advanced technologies, as well as sources of financing for the implementation of the proposed changes, including the system of benefits and preferences provided by the Government of the industry for the period of implementing transformations.

Priority 2. Development of local and regional agricultural and food production value chains

16. Improving agricultural efficiency is primarily related to the widespread introduction of processes for the in-depth processing of agricultural raw materials up to the finished products through the development of supply and logistics chains of associated production and services.

The development of supply chains for agricultural products can be carried out in three main ways:

- (a) internal vertical-horizontal integration within the existing farm enterprises;
- (b) internal vertical-horizontal integration within the agricultural cluster (holding);
- (c) inter-sectoral vertical-horizontal integration.

The decisions of the Government of Uzbekistan provide for the active establishment of multi-functional farm enterprises meaning the enterprises that organize simultaneously both the cultivation and the processing of agricultural products with further sale.

At the same time, in the cotton processing field, the clusters (holdings) integrating productions on in-depth processing of cotton raw materials are being created as pilot projects: into cotton fiber, cotton seeds and production of cotton oil, meal and husks, feed production with the possibility of creation of feeding livestock and poultry farms, processing of cotton fiber into yarn and finished textile products.

Inter-sectoral integration involves the establishment, in cooperation with farm enterprises, of independent processing productions in the field of dairy industry, canned, dried, quick-frozen horticultural products and concentrates, and etc., as well as the entire logistic chain of: collection, storage, transportation, and sales.

It seems that Uzbekistan must provide the opportunity to all three forms to develop simultaneously on competitive conditions, thus accelerating the process of creation of supply chains.

To do this, however, it is necessary to create the equal conditions for their activity, particularly in the provision of land sites for the cultivation of agricultural products for the first and the second forms, and for optimizing the tax burden for the second and the third forms. This is due to the fact that there is a prevailing tax on the turnover of legal entities from their economic activities, which results in the same multiple taxation of the same product at the second and the third forms of integration of production and processing of agricultural products. In other words, the existing system of VAT application in Uzbekistan has such mechanisms that prevent the formation of supply chains, since full amount of VAT is paid by its participant at each stage of the chain.

Another problem is the efficiency of the collection, storage, transportation and sale of final products, given its high seasonal dependence and the high losses of storage and transportation without the use of modern technology.

As an example of pilot projects, FAO could provide the necessary recommendations to improve the tax system to stimulate the creation of supply chains, as well as to offer the most modern logistics technologies.

Another problem is the quality of supply chain products, primarily related to food security and compliance with international standards.

The activities of FAO in this direction would lead to the formulation of direction on creation of international system for the quality of agricultural and processed products for its subsequent delivery, not only to domestic but also to external markets.

Priority 3. Strengthening national capacity for sustainable management of natural resources, climate change and biodiversity

17. Agriculture is heavily dependent on climatic conditions, especially in conditions of Uzbekistan, where irrigated agriculture is mainly concentrated.

It is possible to reduce dependence on dry-lands by:

- (a) breeding activities on cultivation of moisture-saving and drought-resistant plant varieties;
- (b) widespread introduction of modern irrigation systems, including drop irrigation;
- (c) introduction of modern soil management systems, combating salinity of land, careful husbandry of productive layer of land in ploughing, and observing crop rotation;
- (d) introduction of modern technologies of plant production (intensive gardens, greenhouses, including hydroponics, use of rain-fed, foothill and mountain land sites for specific agricultural crops, and medicinal herbs, etc.) and feeding of animals (cattle and goats, poultry, fish), which increase productivity and productiveness.

Implementation, monitoring and reporting arrangements

18. The total volume of resources required for the implementation of CPF constitutes \$30 million, of which \$8 million at the expense of FAO funds and \$22 million at the expense of contributions from development partners, including the Government according to the Annex 1.

19. CPF will be implemented through close consultation and collaboration with national institutions and stakeholders (civil society, private sector, research institutions, etc.), as well as with key development partners to enhance the coordination and effectiveness of provided aid. In addition, regional cooperation among the countries of the region is envisaged through a South-South model and triangular cooperation. FAO looks forward to the cooperation and support of all interested partners for the successful implementation of CPF.

20. For monitoring and evaluation, it is proposed to establish a Coordinating Council to monitor and control the implementation of the country programme, with holding meetings at least once a year, in order to monitor, provide an annual midterm assessment of programme implementation. The proposed Coordinating Council, under the chairmanship of MAWR, will consist of:

- Government agencies: Ministry of Economy, Ministry of Foreign Trade, Ministry of Labor, State Committee for Nature Protection, Uzgidromed, State Investment Committee, Chamber of Commerce and Industry.
- International financial institutions and technical assistance agencies: ADB, WB, EU, GIZ, TICA, JICA, KOICA
- FAO at the level of headquarter, regional, subregional and country offices of FAO

21. The Coordinating Council can also serve as a platform for constructive dialogue and play the coordinating role of the international donor community in the agrarian sector.