



# Maximizing Finance for Development (MFD) in the Agriculture and Food Sector Webinar Series

# Series 4: Maximizing finance for development in Uzbekistan's Agri-food sector in 2017-2020

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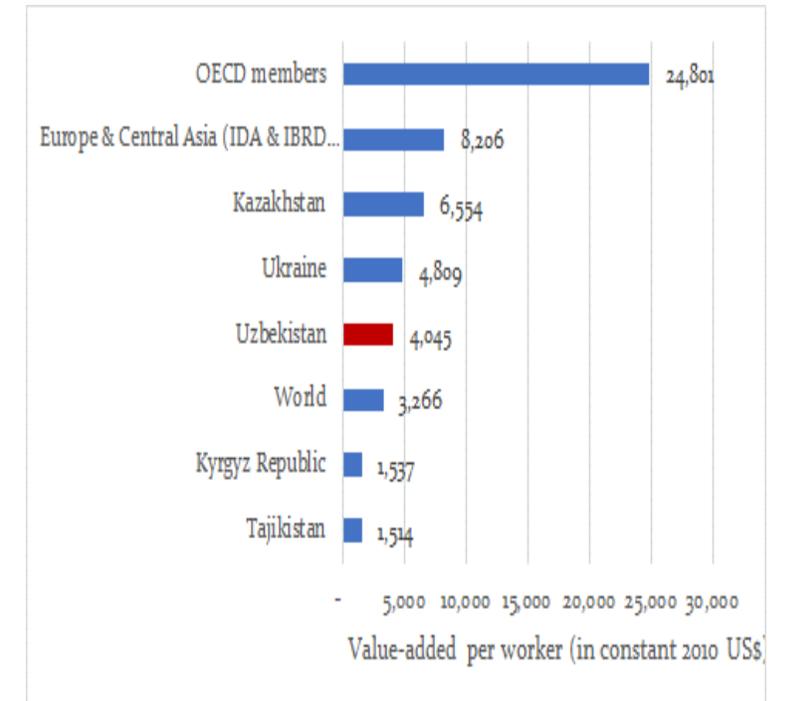
1. The state of Uzbek agri-food sector before 2017
2. Agricultural reforms
3. Maximizing Finance for Development (MFD) and the support of the World Bank Group

# I. Agri-Food Sector prior to Reforms

# 'STATIC' AGRIFOOD SECTOR

- Large share of primary agriculture:
  - 34.0% of GDP
  - 28.5% of labor force
  - 7.3% of exports
- Small share of food-textile sector:
  - 6.5% of GDP
  - 2.5% of labor force
  - 8.4% of export
- Dualistic farm structure:
  - 180,000 large farms (~ 50ha) producing cotton and wheat
  - 4,700,000 small farms (~0.4ha) producing horticulture and livestock products

Low agricultural labor productivity  
(2016-2018)

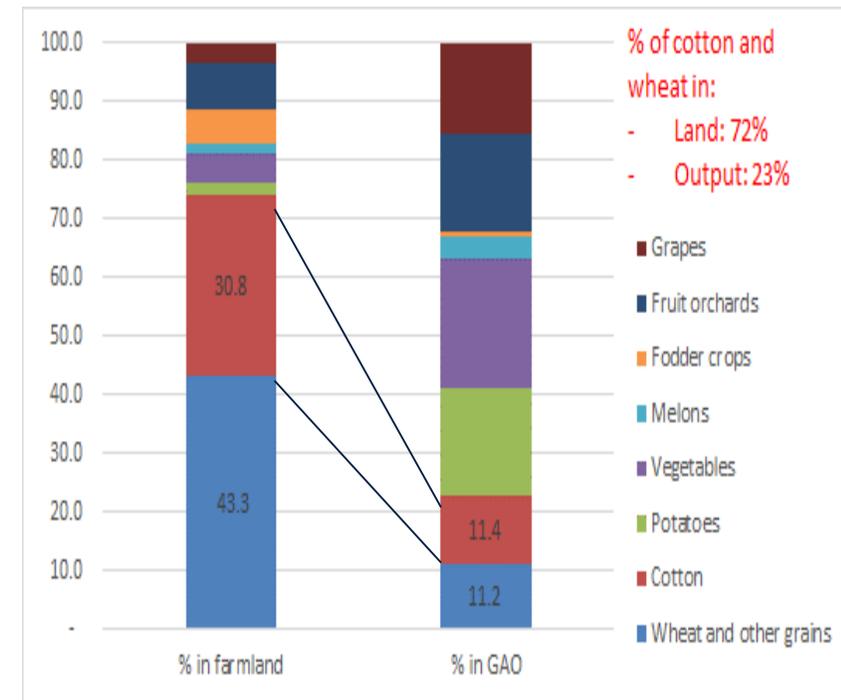


Source: WDI

# STATE ORDER SYSTEM FOR COTTON AND WHEAT

- Production, marketing, and processing of cotton and wheat controlled by the state
- These two commodities receive the most of everything – arable land (72%), water (75%), inputs (80%), and public expenditures (90%)
- Local administrations have unlimited powers to force and enforce compliance with the state order rules
- Farm-gate prices are taxed (~ 1.5% of GDP in 2016)
- Artificially low food/raw material prices

Cotton and wheat: Large grown area but Low productivity



- Horticulture production is not subject to the state order system, but its export is monopolized and subject to many restrictions
- No public program to support horticulture sector
- All export must go through the state-owned Uzagroexport
- Other barriers to export: rail monopoly, currency surrender, minimum export prices, contract full pre-payment requirement
- Despite comparative advantages, export remains low, value chains fragmented, most export goes to Russia and other CIS countries, low value addition

## 2. Agricultural Reforms

## (i) Horticulture

## 2017

1. Liberalization of the exchange rate regime
2. Abolishment of export monopoly of Uzagroexport
3. Abolishment of mandatory sale of 25% hard currency earning and permit to keep 100% value of earned hard currency in their account
4. Reduction in time to receive certificate and register the contract at the customs for horticulture exporters from 10 days to 3 days

## 2018

1. Permission to use any transport for exports, not only railroad
2. Establishment of several “green corridors” at the border crossings
3. Elimination of the minimum export prices
4. Removal of full prepayment req. for export contracts outside of Uzagroexport
5. Improvement of access to credit for horticulture agribusinesses

- These reforms removed most trade distortions (“easy wins”)
- Future reforms for horticulture will need to focus on longer-term competitiveness issues:
  - Core inputs (seed/seedings)
  - AKIS
  - Standards and SPS
  - Quality and traceability
  - Logistics
  - Productive partnerships

# RESULTS: EXPORT SURGED, GEOGRAPHY EXPANDED

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## Export quantities, '000 tons

	<u>2017</u>	<u>2019</u>
Vegetables	364	817
Fruits	285	591
Grapes	214	300

## Export values, US\$ million

	<u>2017</u>	<u>2019</u>
Fruits & vegetables	564	1,200

## Share of Horticulture in Agri-Food Export:

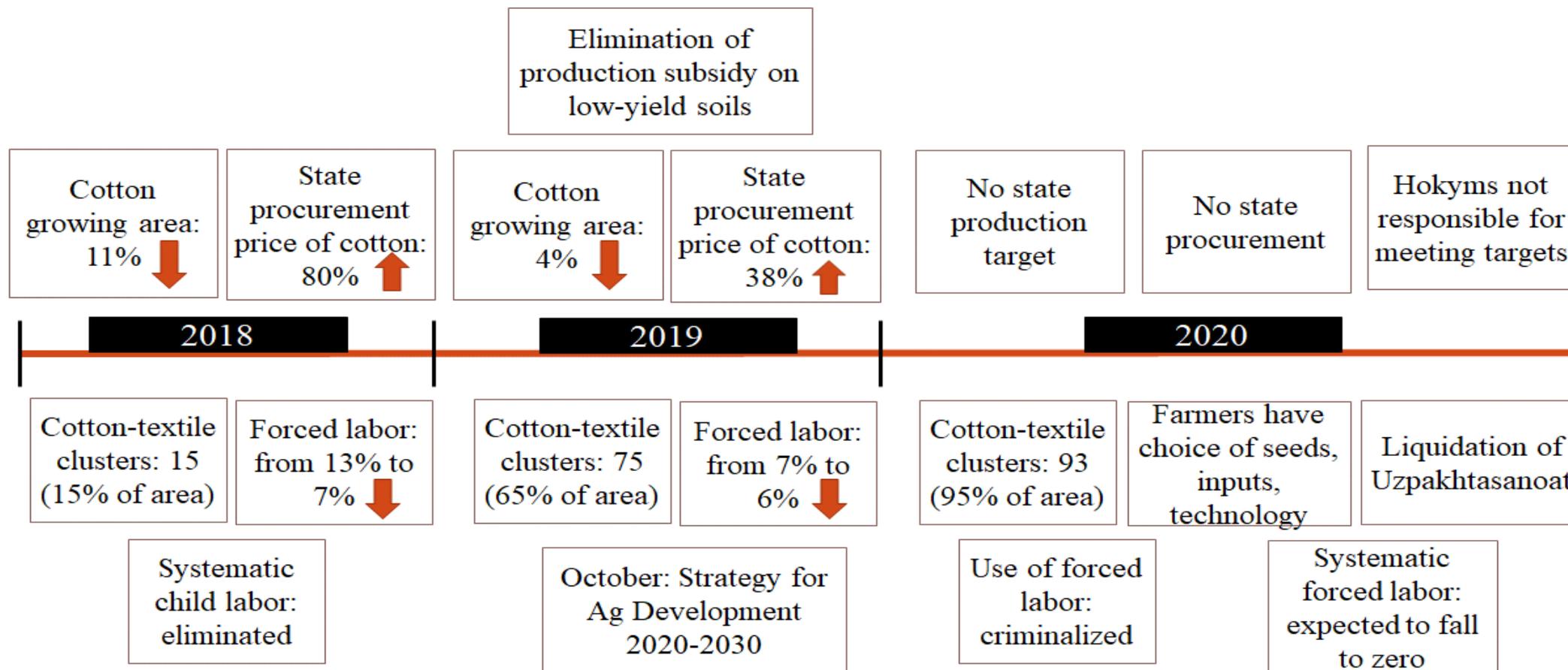
- 2017: 43%
- 2019: 90%

Horticulture exports to East and South Asia increased significantly both in quantity and value

	2017		2018	
	000 tons	\$m	000 tons	\$m
Kazakhstan	52%	49%	48%	44%
Russia	18%	18%	19%	19%
Other CIS	9%	8%	10%	12%
East and South Asia	10%	11%	16%	16%
Middle East	7%	10%	4%	5%
Others	4%	4%	3%	4%

## (ii) Cotton

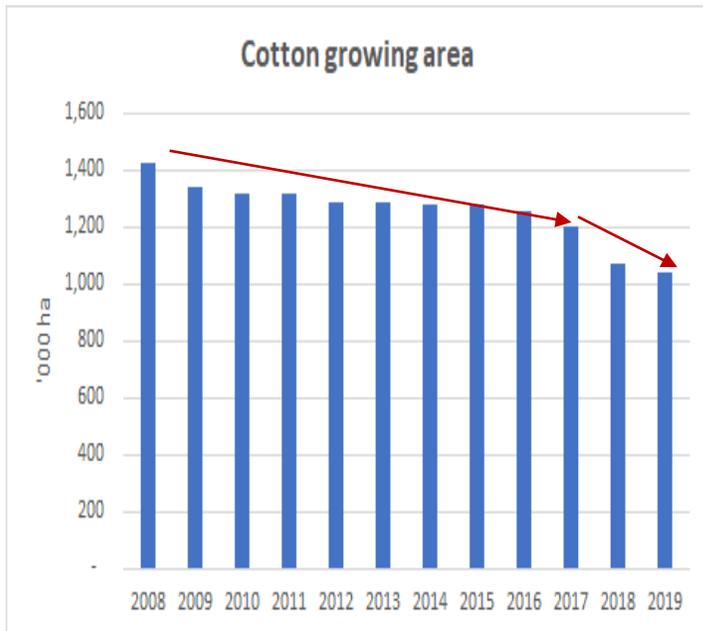
# COTTON SECTOR REFORMS



# RESULTS: REFORMS STARTED TO BRING CHANGES

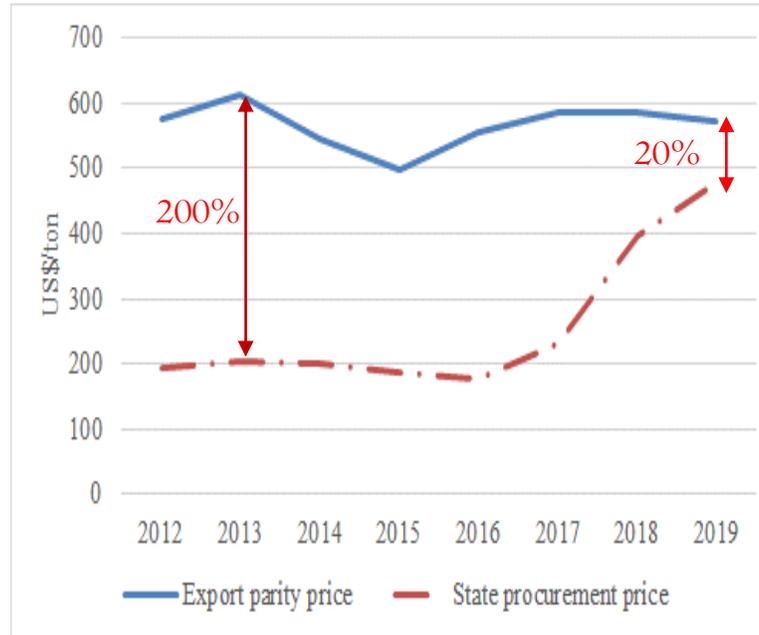
(i) Elimination of systematic child labor and significant progress in reducing the use of forced labor (in 2020, expected 0%)

(ii) Reduction of low-yield growing areas



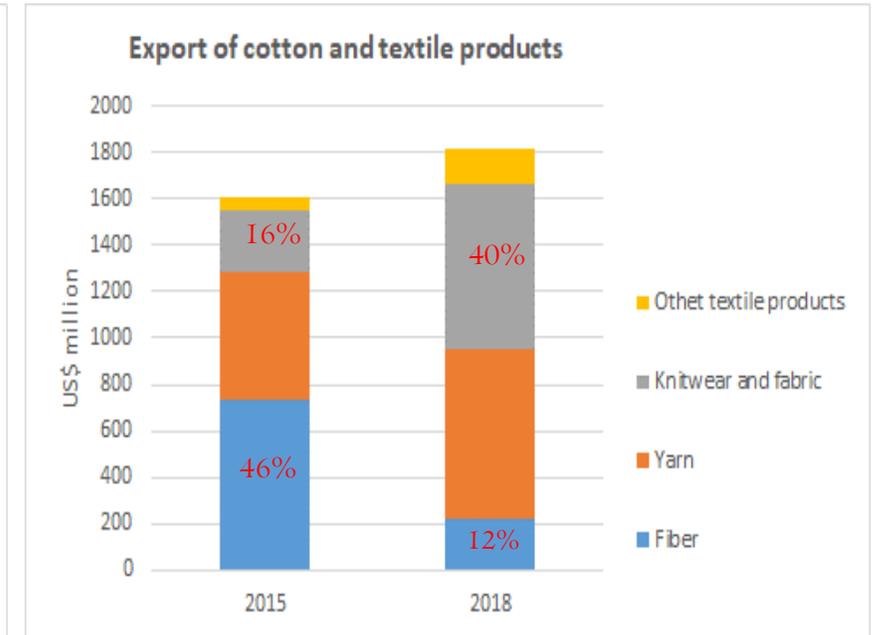
Source: State Statistics Committee, Uzbekistan

(iii) Gradual increase in the state procurement prices, reduction of the gap with export parity prices



Source: World Bank estimates

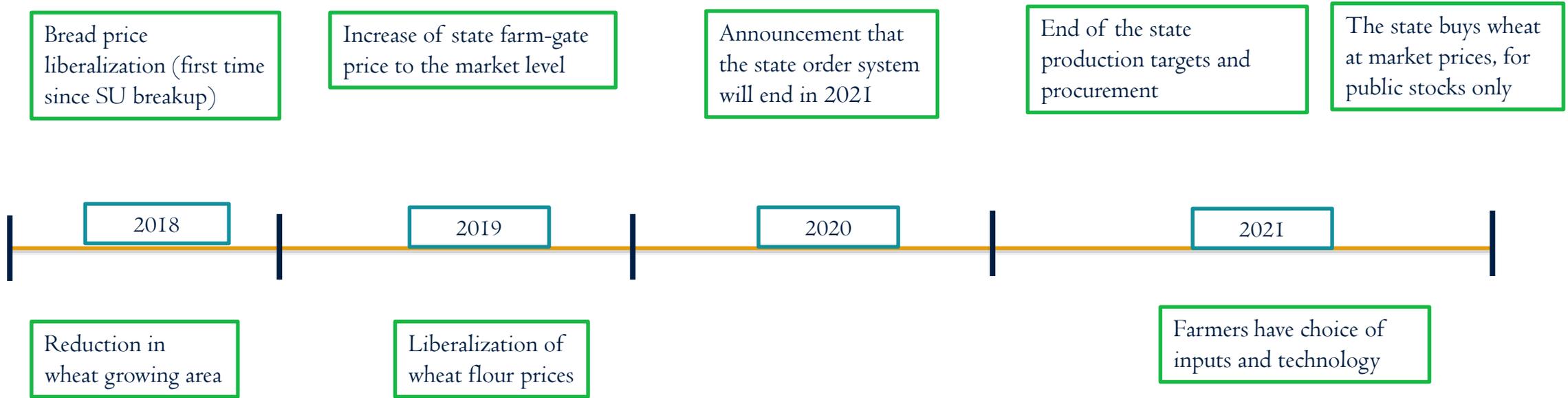
(iv) Export is rapidly shifting from low-value fiber to high-value textile products



Source: State Statistics Committee, Uzbekistan

## (iii) Wheat

# WHEAT SECTOR REFORMS



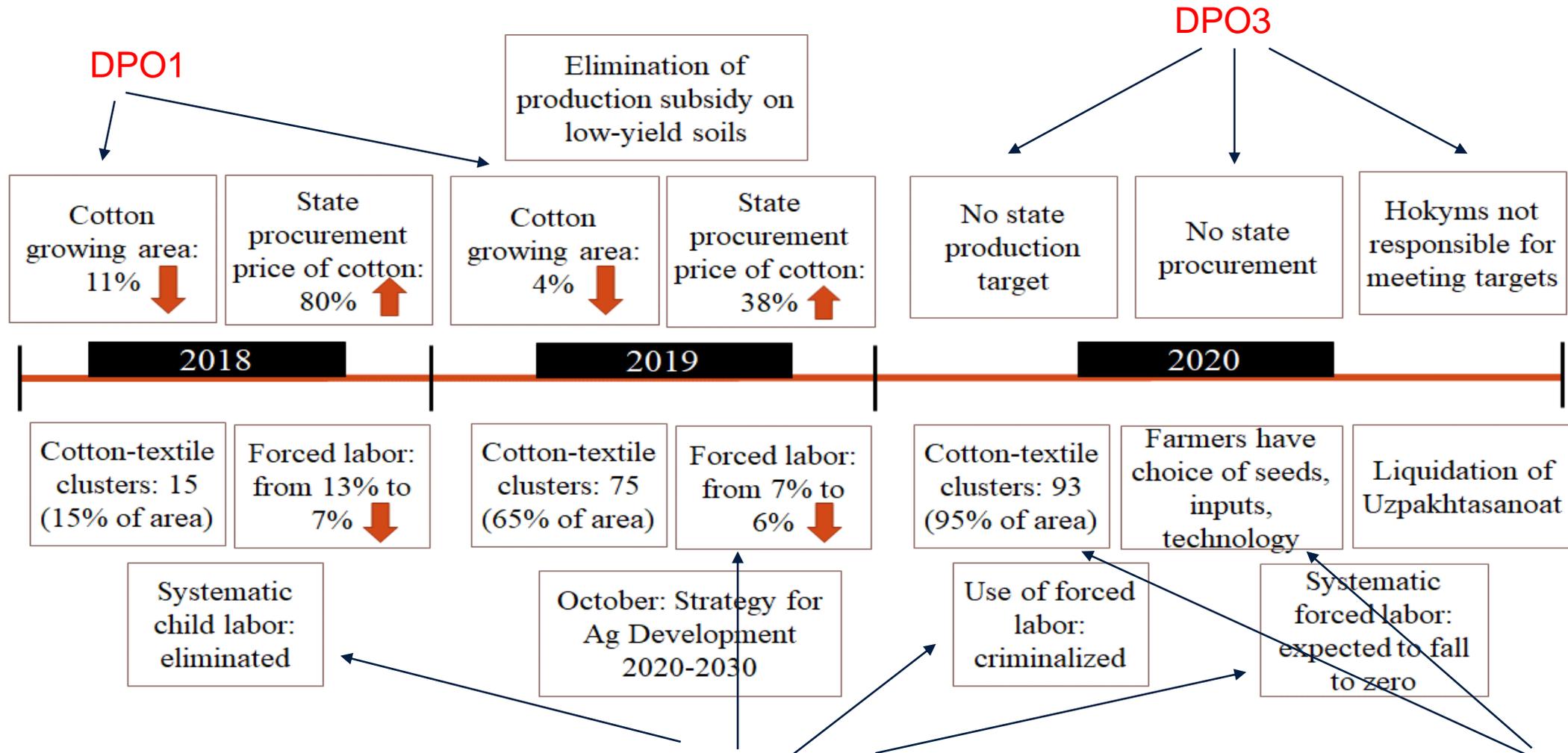
- Gradual reforms of wheat-flour-bread sector, with a clear target set for 2021
- In 2019, the first time in the history of Uzbekistan, farmers were paid for wheat under state procurement the same as by private traders
- Bread prices were liberalized in 2018, doubling the first time in 20 years
- Vulnerable population received compensations for bread price increase through social safety net. The same mechanism was used to mitigate the liberalization of flour prices in 2019, and in 2020 to mitigate the impact of the Covid outbreak
- Discussions started to privatize 44 state-owned flour mills

## 3. MFD and the WBG

# MFD ENGAGEMENT IN HORTICULTURE

Constraints	Phase 1	Phase 2	Phase 3
	Policy Support	Implementation Support	Inclusive value chains for export orientation
Policy hindering investments and export at scale	<ul style="list-style-type: none"> <li>- Exchange rate liberalization, removal of export revenue surrender requirement (DPO1)</li> <li>- Removal of minimum export prices, export prepayment requirements, and Uzagroexport monopoly (DPO2)</li> </ul>		<ul style="list-style-type: none"> <li>- Enabling environment for crop receipts, a financing instrument for secure finance (IFC)</li> </ul>
Poor value chain organization	<ul style="list-style-type: none"> <li>- Country Private Sector Diagnostic (CPSD)</li> </ul>	<ul style="list-style-type: none"> <li>- Improved access to finance (HDP)</li> <li>- Agri-finance program with participating financial institutions (IFC)</li> </ul>	<ul style="list-style-type: none"> <li>- Pilots for farm cooperatives and productive partnerships to access finance (AMP)</li> <li>- IFC advisory services on joint ventures between local horticulture exporters and global lead companies</li> </ul>
Exclusion of small farms from value chains			<ul style="list-style-type: none"> <li>- Inclusive value chain development, public investments in AKIS and other programs for smallholders (AMP)</li> <li>- Upstream work linking lead firms with farm cooperatives (IFC)</li> </ul>
Lack of public goods	<ul style="list-style-type: none"> <li>- CPSD</li> </ul>	<ul style="list-style-type: none"> <li>- Initial investments in public programs (HDP)</li> </ul>	<ul style="list-style-type: none"> <li>- Public investments in service provision and agro-logistics (AMP)</li> </ul>
Outdated standards to enter profitable markets	<ul style="list-style-type: none"> <li>- CPSD</li> </ul>	<ul style="list-style-type: none"> <li>- Improvement of food safety institutions (HDP)</li> </ul>	<ul style="list-style-type: none"> <li>- IFC on standards and global GAP</li> <li>- Adoption of Uzbekistan's GAP (AMP)</li> <li>- ASA on Export to Russia and China</li> </ul>

# MFD ENGAGEMENT IN COTTON SECTOR



WB's just-in-time notes:

1. Cotton Taxation Assessment (2019)
2. First Review of Cotton-Textile Clusters (2019)
3. Second Review of Cotton-Textile Clusters (2020)
4. Reforming the State Fund for Agricultural Support (2020)
5. Cotton Pricing after 2020 Reform (2020)

The Strategy approved in October 2019 sets up a framework and ambitious vision for future reforms and sustainable agricultural development. The Strategy was prepared with significant support by the World Bank and the EU

## 9 Strategic Priorities

-  Ensuring food security of the population
-  Creating a favorable agri-business environment & value-chains
-  Decreasing state involvement in sector management & enhancing investment attractiveness
-  Ensuring rational use of natural resources and environmental protection
-  Development of modern public administration systems
-  Gradual diversification of state expenditure
-  Development of research, education, information and advisory services
-  Development of rural areas
-  Development of transparent statistics & information systems

## 2030 Targets: Snapshot

 US\$ 20 billion Agri-food export value per annum	 60% increase in farm labor productivity	 1 million ha of farmland using water-saving technologies	 50% of farmers have access to advisory services
 Increase in Research spending to 1% of Agriculture GDP	 No Agriculture Land under production quota	 40% of the state budget allocated to new public services	 0% Food insecure people

# EVOLUTION OF AGRI REFORM'S FOCUS AREAS

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## 2017-2019

1. Removal of agricultural distortions
2. Launch of reforms in cotton and wheat subsectors
3. Reduce the use of child and forced labor
4. Utilize export opportunities from the 2017 devaluation through better access to finance and removal of export barriers
5. Strategy of agricultural modernization

## 2019-2020

1. Completion of liberalization in cotton and wheat subsectors
2. Completion of elimination of forced labor use
3. Defining of a new role of the state in agri-food sector
4. Start of dialogue on land tenure security and responsible investments
5. Agri-food jobs, gender and youth employment, regional development
6. Improved access to finance

## 2020-2023

1. Attraction of private investments in input markets and agri-food value chains
2. Refocusing of ag. public expenditures to crowd in private investments
3. Strengthening of public institutions
4. Development of inclusive and climate-smart food systems
5. Improvement in farmland tenure security
6. Rural development and poverty reduction

- The authorities initiated 'change', and the WBG has been there to support it
- Supporting the champions of change
- Active Cross-GP and WBG collaboration
- Strategic use of the WBG instruments

## (i) Development Policy Operations:

- DPO1: Cuts of import tariffs; diversification (shift of wheat and cotton growing areas to other crops); increase in cotton prices
- DPO2: Removal of minimum export prices and contract prepayment requirement for horticulture; elimination of bread price subsidy; increase in wheat price
- DPO3: cotton/wheat sector liberalization, climate-smart agriculture

## (ii) Investment Lending:

- Horticulture Development Project (\$650m) - SPN
- Livestock Sector Development Project (\$150m) – SPN
- Fergana Valley Water Resource Management Project (\$145m) - SPN
- SK Water Resource Management Project (\$261m) - SPN
- Fergana Rural Entrepreneurship Project (\$200m) - SPN
- Agriculture Modernization Project (\$500m) - SPN

## (iii) ASA and Donor Collaboration:

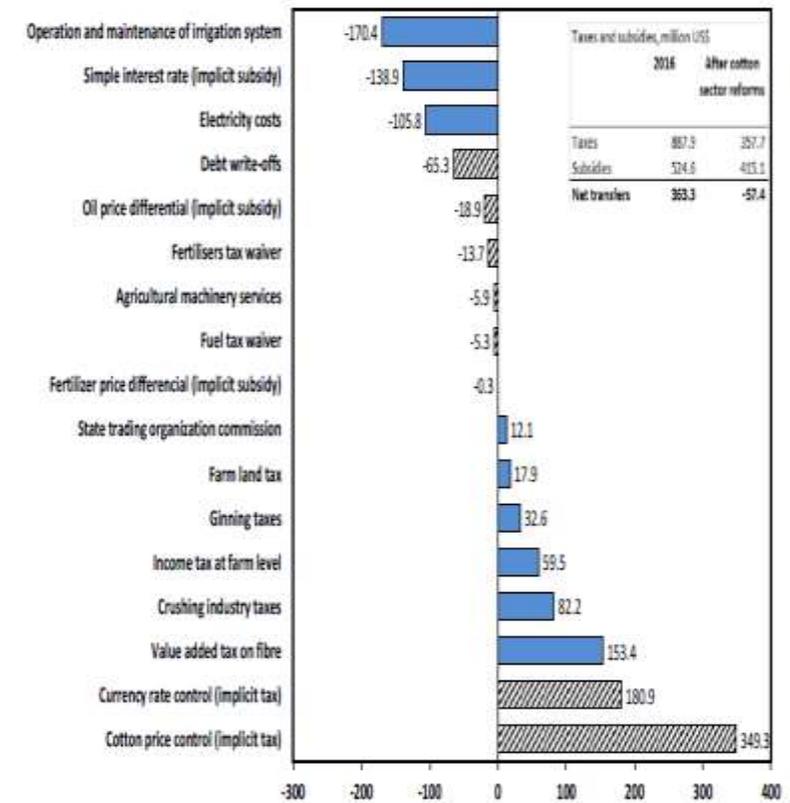
- Agriculture Modernization ASA
- Joint with IFC (MDTF-supported) Cotton Policy Dialogue
- Lead (with the EU) in the Donor Agricultural Sector Working Group
- Leveraging EU grants for WB investment projects (50m Euro)
- Active participation in preparation and implementation of the EU's AGRI Budget Support Project (50m Euro)



# THE STATE ORDER SYSTEM FOR COTTON

- The government allocates land for cotton growing (1.3 million ha), set up production targets, and procure all raw cotton at farm-gate prices that are below the world market level
- Large taxation of cotton producers through low fixed farm-gate prices
- Raw cotton is turned into cotton fiber by state-owned gins
- Raw cotton is picked by about 2.8 million pickers, 13% of whom (365,000) estimated by ILO as forced labor
- Child labor is common in cotton picking
- No independent organization is allowed to monitor cotton harvesting. Uzbek cotton is boycotted by more than 300 global retailers through Cotton Campaign
- Main export item is the low-value cotton fiber
- Domestic textile and apparel enterprises (i.e. light manufacturing) must pay dollars for cotton fiber, which is a subject to mandatory sale. That deprives them from accessing raw materials
- Low private sector investments in light manufacturing enterprises, small number of jobs (150,000 or 1.2% of total employment)

## Large net taxation (US\$360m in 2016)

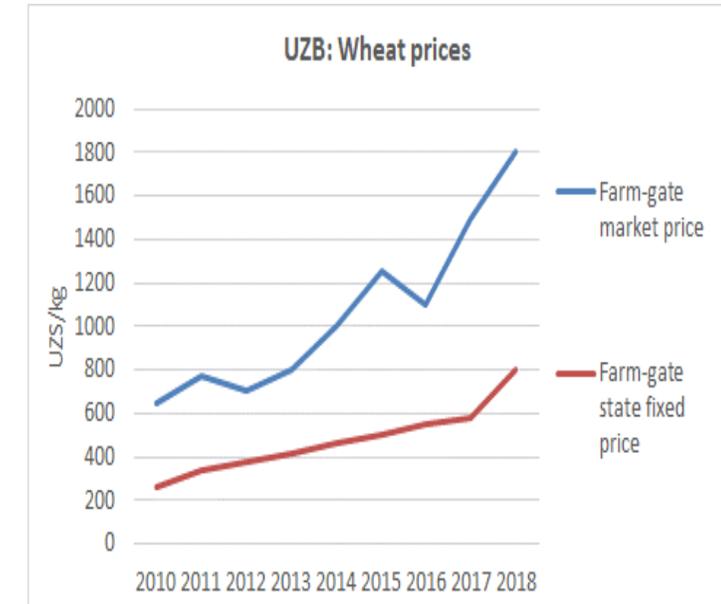


Source: World Bank estimates

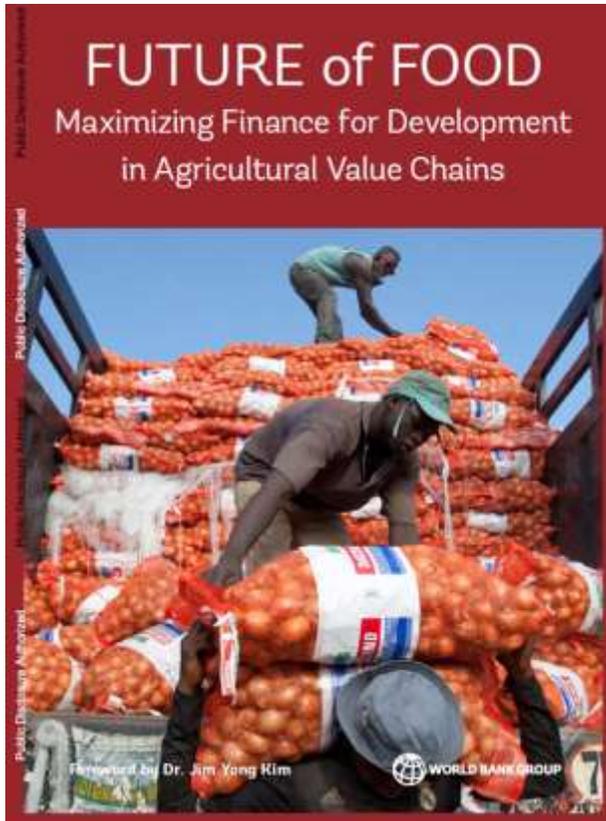
# THE STATE ORDER SYSTEM FOR WHEAT

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- The government allocates land for wheat growing (1.4 million ha), set up production targets, and procure 50% of produced wheat at farm-gate prices that are below the market level
- Taxation of wheat farmers through the lower state procurement farm-gate prices
- Average annual wheat procurement is 3 million tons, vis-à-vis total wheat production of 6-7 million tons
- Procured wheat is given to 44 state-owned mills to produce flour.
- Social bread prices are fixed at a very low level – 600 soms/loaf ~ \$0.07/loaf
- Wheat-flour-bread prices are kept low to provide cheap bread, food staple in Uzbekistan
- As a result, per capita wheat consumption is among highest in the world (500g/day), even higher than in Egypt
- Wheat yields are flat, farmers do not have incentives to increase productivity
- Share of wheat import in domestic consumption is rising, from 25% in 2014/15 to 32% in 2017/18



# Publication - Future of Food



## **Maximizing Finance for Development in Agriculture Value Chains (2018)**

A joint WBG publication outlining coordinated complementary activities of World Bank, IFC, FCI and MIGA for addressing development challenges using the Cascade Approach to maximize private finance.

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# Maximizing Finance for Development - Making it operational in the Agriculture and Food Sector - Guidance Note (V2.0) [Link](#)

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