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**Research Report**

## Farm restructuring in Uzbekistan: What next?

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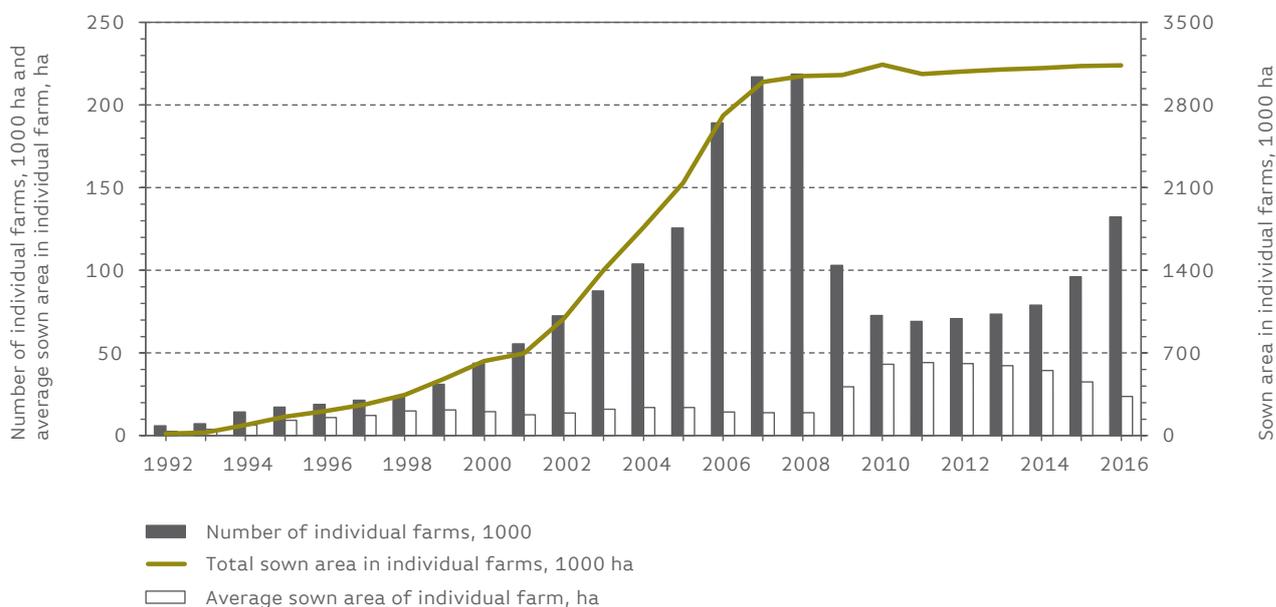
## **Farm Restructuring in Uzbekistan: What Next?**

After two and a half decades of state-mandated cotton production, the diversification of agriculture and the downsizing of the cotton area have become prominent features of Uzbekistan's current modernization strategy. Given the momentum of agricultural policy reform, this policy brief aims to evaluate the success of farm restructuring so far. Moreover, it asks what policymakers should do next to promote agricultural competitiveness without losing sight of the social consequences of reform. After initial downsizing of the former collective farms and achieving nominal self-sufficiency in grain during the 1990s, the government has struggled to find a new model for its farming sector. In January 2019, the government initiated a new wave of farm consolidation. Rather than targeting at a particular type or size of farm organization, policymakers are recommended to focus instead on ensuring that all farmers receive undistorted market signals and have access to an optimal set of supporting public services. Stepwise liberalization of output and factor markets will contribute to this goal, and it needs to be complemented by better tailored public services to Uzbekistan's heterogeneous farming sector to lead to a successful agricultural transformation. The latter is especially important for household producers who will likely appreciate better non-farm income opportunities generated by reforms that go beyond the agricultural sector.

### **Introduction**

Since independence, the Government of Uzbekistan has considered the national farm structure as a key policy parameter to influence the production of cotton and wheat. Up to 2008, farm restructuring followed a strategy of de-collectivization leading to smaller individual farms formally based on private use rights (Figure 1). However, land ownership remained public and farms continued to be subject to cotton and wheat delivery quotas, which persist to date. Inputs like seed, fertilizer and machinery have been mostly provided by government agencies. Farmers obtained the right to produce and sell crops other than cotton or wheat on private terms. Agricultural policy focused on maintaining a stable supply of raw cotton to secure government's export revenues using a dual pricing system, and of wheat to safeguard domestic wheat supply (Zorya et al., 2019).

Unsatisfied with the productivity of individual farms and aware of a mismatch between water supply infrastructure and farm sizes, the government consolidated farms again after 2008. After 2015, the diversification of crop rotations away from cotton and wheat moved center stage, and farm numbers went up again. In addition to productivity increases among traditional crops, the new government now also aims to increase the output of fruits, vegetables, and other high-value crops. Farmers are supposed to be integrated into multi-profile farms, which may engage in agricultural production and processing, preparation, storage, marketing, and provision of other services. The most recent reforms of 2018/2019 aim at the establishment of private cotton-textile clusters based on contract farming, replacing the state procurement system. The government expects that the clusterization of the cotton sector, which started as a pilot project in Navoi region, will ultimately entail up to



**Figure 1:** Sown area and number of individual farms in Uzbekistan, 1992–2016  
 Note: Average size of individual farm is given in average sown area per farm.  
 Source: IAMO and World Bank staff based on official statistical data.

half of the total agricultural area of the country. By attracting private investment, this strategy is supposed to generate higher agricultural output than previous steps of farm restructuring.

### Cotton and wheat mandates constrain private diversification and investment

Post-independence reform policies successfully stabilized cotton and wheat supply, helping to achieve self-sufficiency in wheat (Zorya et al., 2019). This required an allocation of substantial agricultural land to these two commodities. Although land in farms specialized in fruits and vegetables has increased (Figure 2), cotton and wheat continue to account for 70 percent of total area, the same as ten years ago. The establishment of clusters in the cotton sector did neither eliminate the production plans nor the state control over cotton prices and inputs. Despite area expansion, self-sufficiency in wheat has been economically flawed because the homegrown wheat is often used for feed while Uzbekistan’s consumers prefer the higher quality of rainfed bread wheat, mainly imported from Kazakhstan.

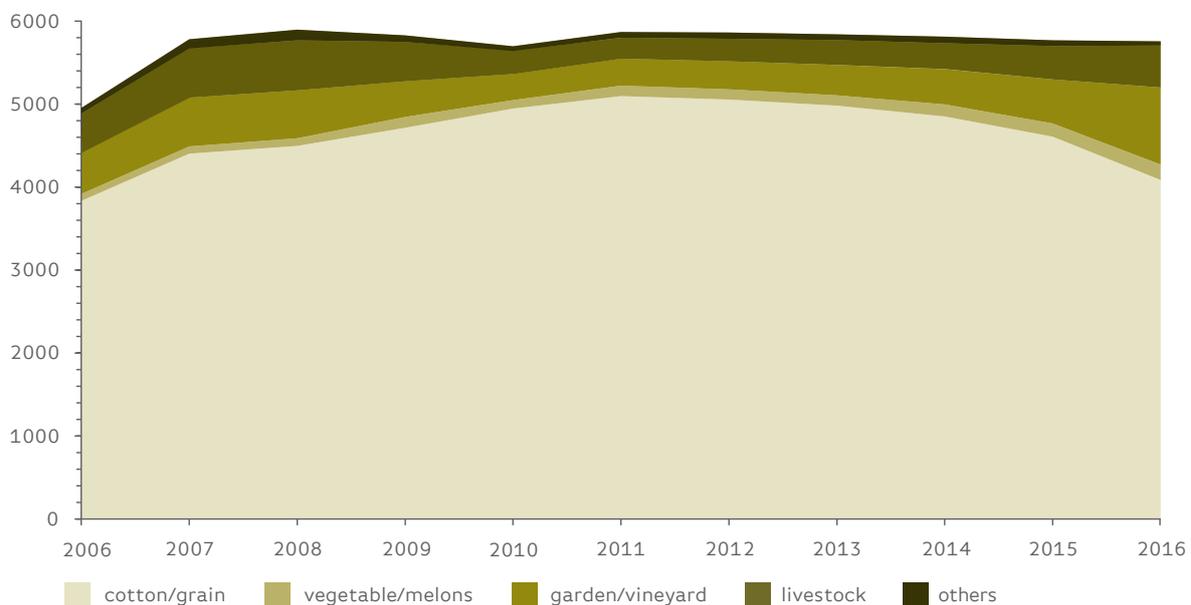
In addition, producers of non-strategic crops have been taxed by the uneven and distorted access to intermediate inputs and factors of production. Individual farms producing high-value crop are constrained in their access to fertilizers, fuel, machinery, credit, value chains and export channels. Land allocations to cotton and wheat are not driven by market signals. Problems pertaining to the stability and distribution of irrigation water supply have not been resolved in a satisfying manner. Despite reported significant progress on eliminating forced labour, government authorities continue to mobilize public servants to contribute to manual cotton harvesting in some cases. Year-long

announcements to introduce mechanical cotton harvesters on a large scale have not materialized yet. Erratic farm restructuring by decree and weak property rights in land have curtailed management and investment incentives and raised issues of a just access to farmland for the rural population (Djanibekov et al., 2013). All these distortions make it difficult for farmers to increase productivity and quality of cotton and wheat or successfully diversify away from them.

### The future of farming in Uzbekistan

Like other Central Asian governments, Uzbekistan’s administration has struggled to find a post-socialist model for its farming sector. Past debates often focused on the desirable farm size, where the Soviet legacy of industrialized collective farms coexisting with private household plots marked the extremes. The global experience stresses the need for flexibility in farming structures, especially in an Asian context with limited land area, high population density, and a rapid urbanization, which drives outmigration from rural areas (Otsuka et al., 2016). Rather than targeting at a particular type or size of farm organization, the government should make sure that farmers receive market signals and can react to them by having access to an optimal set of supporting public services.

In Uzbekistan’s agricultural sector, medium-sized individual farms currently coexist with small household producers. While the production of cotton and wheat dominates on individual farms, high-value crops and livestock are concentrated in households, where land productivity is much higher. Whereas the former face strong government regulation, the latter lack access to value chains and essential services and may prefer better off-farm employment options altogether.



**Figure 2:** Land allocated to individual farms by specialization, 2006–2016, 1000 ha

Note: The figure presents total land, including unproductive land, hayfields, gardens and land under perennial crops, while Figure 1 is on sown area. Source: IAMO and World Bank staff based on official statistical data.

A liberalized market environment in agriculture has the potential to provide more coherent signals of economy-wide scarcities, thus raise efficiency and profitability of producers, and allow different types of farms to participate in labor sharing more impartially. Future government support should complement the market by providing essential public services, such as water and transport infrastructure, know-how, or rules facilitating domestic and international trade. At the same time, policymakers should be aware that farmers are not a homogeneous group, and that commercially oriented farmers, even if they are small, have different service needs than subsistence households or farmers looking for off-farm development opportunities.

### The way forward

Effects of recent liberalization attempts have yet to materialize in agriculture along with the goals of diversifying the production portfolio in individual farms. A lack of finance, absent connections to marketing channels, missing role models and the complete inexperience of farmers with alternative farming technologies impede the further expansion of crops other than cotton or wheat (Petrick and Djanibekov, 2016). Bolder reforms may thus be required to enhance productivity and raise the competitiveness of the agricultural sector. Such reforms should focus on the following broad tasks (Zorya et al., 2019):

- In a first step, abolish the cotton and wheat quotas to permit the “freedom to farm”. Allow higher farm-gate prices for cotton and wheat to raise the profitability of the sector. Avoid the introduction of new mandates (such as on high value crops or diversification) that impose other production constraints on farmers. Improve access to agricultural services, such as water, machinery, know-how, and

marketing options. Consider the establishment of pilot regions where the beneficial effects of change are demonstrated.

- In a second step, liberalize the land market to allow farm restructuring according to market signals. This does not necessarily require full privatization of farmland, but the legalization of land rentals, revoking the threat of public land seizures, the formalization of labor contracts, and commercial input and credit arrangements outside of government directives.
- Redirect subsidies towards public good provision and ensure a more effective service delivery, such as land registries or advisory services. Create a more conducive environment for collective action and local self-help activities. Increase the capacity of agricultural research and extension.
- Enhance support, especially for smaller producers, by reducing transaction costs in land and credit access, e.g. by providing transparent information as well as online- and one-stop services; facilitate the establishment of local vegetable and fruit processors, abattoirs or dairy plants where public veterinary supervision is provided.

How a future and still growing rural population will be employed and secure its income is one of the essential questions the government should address (Varis, 2014). It requires action beyond the agricultural sector, as raising labor productivity in agriculture will be impossible without releasing a major share of workers from the sector. Allowing private investment into up- and downstream industries and private intermediation with export markets has the potential to create new jobs for the rural population and broaden the tax base for the government. But a fundamental modernization of the agricultural sector will also depend on comprehensive reforms to vitalize the non-farm economy.

## Further Information

### Literature

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