

«Uzbekistan’s agriculture is one of sectors of the economy which is the most regulated by the state. The property rights of main large agricultural producers, farmers, are extremely weakly protected; methods for regulating their activities are in fact taken from the Soviet past. The markets for many types of agricultural products and production resources and services for the sector are not developed. The agrarian sector is in a desperate need of reform,» - notes economist from Tashkent Yuli Yusupov in his article for CABAR.asia.

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### Summary of the article:

- Uzbekistan’s agriculture is one of sectors of the economy which is the most regulated by the state. The agrarian sector is in a desperate need of reform;
- The dehqan farms which have only 11.3% of land in 2018 accounted for 70.0% of the total agricultural output;
- The rights of farms owners (farmers) to use leased land are very limited and poorly protected;
- The existing mechanisms of the state orders formation and the pricing system make the cultivation of cotton and wheat unprofitable for most farmers;
- Farmers executing a state order for cotton and grains can control neither the prices of their products nor the prices of resources.

Agriculture is one of the leading sectors of Uzbekistan’s economy. The contribution of the agricultural sector to Uzbekistan’s GDP was 28.8% in 2018.[\[1\]](#)

Crop production in 2018 accounted for 53.2% and livestock breeding for 46.8% of the cost of agricultural products. 3.7 million people worked in the agricultural sector in 2017 (27.2% of the total number of employed). Almost half of the country’s population lives in rural areas.[\[2\]](#)

At the same time, agriculture is one of sectors of the economy which is the most

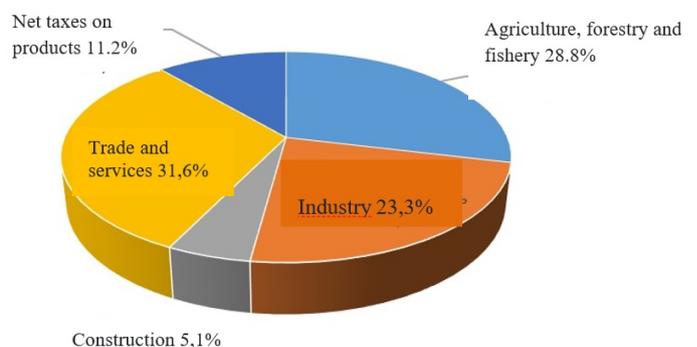


Figure 1. Sectoral structure of Uzbekistan’s GDP in 2018, in %.

regulated by the state. The property rights of major large agricultural producers, farmers, are extremely weakly protected; methods for regulating their activities are in fact taken from the Soviet past. The markets for many types of agricultural products and production resources and services for the sector are not developed. The agrarian sector is in a desperate need of reform. Although Uzbekistan has already headed for system economic reforms for two years, there is almost no change in agriculture.

**The main categories of agricultural producers in Uzbekistan**

From the late 1980s Uzbekistan like other republics of the former Soviet Union, began the transition to a market economy, including in the agrarian sector. Significant areas of agricultural land were transferred from former collective and state farms for the development of private farms of the rural population in 1989. By 1994, all collective and state farms were transformed into cooperative farms — shirkats. In the early 2000s, private farms replaced the shirkats as the main subjects of farm-market agriculture. At the same time, most of the agricultural products are not produced by them, but by small dehqan (personal subsidiary) farms.

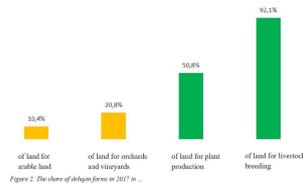
|              | Arable land | Orchards and vineyards | Hayfields and pastures |
|--------------|-------------|------------------------|------------------------|
| Farms        | 3 472,9     | 295,6                  | 4 981,3                |
| Dehqan farms | 420,2       | 80,3                   |                        |
| Other farms  | 182,2       | 10,3                   | 19 643,1               |
| Total        | 4 075,3     | 386,2                  | 21 124,4               |

Table 1. Distribution of agricultural land by land users, in thousands of hectares in 2017

The farms, possessing 85.2% of land allocated for cultivation area, orchards and vineyards (data of 2017), produced only 27.3% of agricultural products in 2018. 70.0% of the total agricultural output in 2018 was accounted for dehqan farms owning only 11.3% of the land allocated for cultivation

area, orchards and vineyards. The situation is associated with the Soviet past, when the majority of main types of agricultural products were produced not on large farms (collective and state farms), but on personal household plots of land.

However, there are big doubts about the reliability of data on the volumes of



agricultural products of dehqan farms, as they are obtained from the results of sociological surveys. And some of these indicators for example, milk-yields were systematically falsified.[3] In addition, it is necessary to take into account that cotton and grain are purchased from farms by the state at low prices (more on this below), which naturally affects the size of their share in the total cost of agricultural products.

## Farm units

The **farm units** are large private producers of agricultural products with a minimum size of land plot farms of cotton-growing and grain-growing directions – 30 hectares and 5 hectares for other directions. Land plots are provided by local authorities to farms for long-term lease, for a period of up to 30 years, with the right to extend the lease agreement and to transfer the right of lease by inheritance. When allocating a land plot, the farm is responsible to ensure: a) crop yields are not lower than the cadastral valuation; b) fulfillment of obligations on the cultivation and sale of cotton and wheat (for farms of cotton and grain-growing direction). Failure to comply with any of these requirements for three consecutive years can initiate termination of the lease agreement and seizure of the land plot.

## Dehqan farms

Dehqan farms are created on the basis of household plots. The head of a dehqan farm receives a land plot for life inheritable possession. Unlike farms, the maximum sizes of the land area for dehqans are established: 0.35 ha of irrigated land, 0.5 ha of boharic land and

not more than 1 ha of non-irrigated land in the steppe zone. These are small farms focused on self-production and sale of surplus agricultural products in food markets.

The rights of farms owners (farmers) to use leased land are very limited and poorly protected:

- Farmers cannot use the land allocated for growing cotton and wheat (it is the largest part of the land for cotton and grain farms) for other purposes, regardless of whether they fulfill the planned tasks for selling cotton and grain to the state or not.
- Land plots of farmers can be easily seized. Either by the initiative of local authorities (under the pretext of non-fulfillment of planned tasks, inefficient use of land or in a “voluntarily-compulsory order” - in the form of waiver of rights to use land), or during the so-called “aggregation and disaggregation” of farms initiated from Tashkent.

As a result, farmers do not feel like the real owners of the land and are not interested in long-term investments in increasing its fertility.

### The state order system in agriculture

The key feature of the agrarian sector of Uzbekistan is that cotton and wheat are two agricultural crops the production of which is mainly carried out for state needs.

In recent years, there has been some reduction in the mandatory land allocation for cotton, in favor, of horticultural production. But at the same time, more than two thirds of all land allocated for cultivation areas, orchards and vineyards account for cotton and wheat (2017). Planting of cotton and wheat accounted for 82.2% of all cultivation areas (without orchards and vineyards) of farms in 2017.

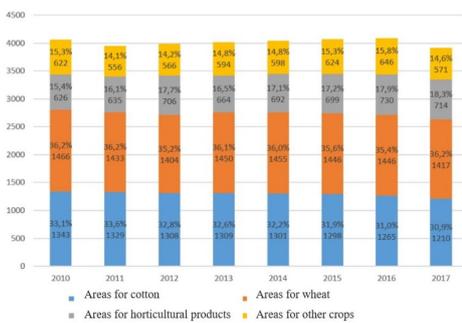


Figure 3. Distribution of agricultural land allocated for cultivation areas, orchards and vineyards, in thousands of hectares and in %

The existing mechanisms of the state orders formation and the pricing system make the cultivation of cotton and wheat unprofitable for most farmers.<sup>[4]</sup> The difference between government procurement and domestic market prices for wheat in 2005-2013 can be given as an example. (see table 2). In some years this difference exceeded 3 times fold.

In addition, the existing system of land quotas for crops that are obligatory for farmers does not allow them to optimize the production structure taking into account soil features and climate, water availability, staff qualifications and etc. Often, lands for cotton and wheat are more productive for other crops. But the farmer cannot optimize the structure of production, as the land allocated for cotton and wheat is prohibited to use for other purposes.

For example, due to the climatic conditions in the country, it is difficult to grow food-grade wheat that meets the needs of bakery industry.

The state is trying to solve this problem by significant investing in breeding of new varieties adapted to the soil and climatic conditions of the country and even of each individual region, but this is a long and expensive process. Meanwhile, many farms would be much more profitable to specialize not in growing wheat, but in the production of horticultural products, where Uzbekistan has much greater natural, historical, technological and qualifying advantages than in the grain sector.<sup>[5]</sup>

Here is another example. Livestock production suffers from the current practice of compulsory state orders: with a significant increase in livestock numbers, the size of cultivation areas for forage crops decreased by 3.7 times from 1992 to 2017.<sup>[6]</sup>

As a consequence of the existing practice of state order for cotton and wheat:

- many farms are in poor financial condition;
- farmers do not have incentives and financial resources to introduce new knowledge and agro technologies, including water saving;
- farmers do not have incentives and financial resources to preserve and improve soil fertility (this is also facilitated by the weak protection of property rights);
- the total volume of agricultural production is below potential (as the existing system will not allow to optimize the structure of production, taking into account comparative advantages)

All this limits the opportunities for the development of the sector, improving the well-being of both rural residents and the population as a whole.

In addition, the system of compulsory state order is the main cause of the constant violations of contractual rights to lease land by farmers. Most often the seizure and redistribution of land occurs for the sake of the state order fulfillment.

## Product and Resource Markets

According to the official data, the production of the main types of agricultural products (except cotton) increases year by year. This is especially true for horticultural products, along with the production of which, its processing and export are growing. There is a significant increase in the production of livestock products.<sup>[7]</sup>

|                   | 1992 | 2000  | 2010 | 2017  | Increase in times, 2017/1992 | Increase in times, 2017/2010 |
|-------------------|------|-------|------|-------|------------------------------|------------------------------|
| Wheat             | 964  | 3002  | 6657 | 6802  | 7,1                          | 1,0                          |
| Raw cotton        | 4128 | 3002  | 3404 | 2900  | 0,7                          | 0,9                          |
| Potato            | 365  | 731   | 1695 | 3015  | 8,3                          | 1,8                          |
| Vegetables        | 3494 | 2645  | 6347 | 11434 | 3,3                          | 1,8                          |
| Melons and gourds | 883  | 451   | 1183 | 2095  | 2,4                          | 1,8                          |
| Fruit and berries | 702  | 791   | 1710 | 3076  | 4,4                          | 1,8                          |
| Meat              | 777  | 842   | 1197 | 2281  | 2,9                          | 1,9                          |
| Milk              | 3679 | 3633  | 6169 | 10083 | 2,7                          | 1,6                          |
| Eggs (Mio. pcs.)  | 1898 | 12849 | 3061 | 6605  | 3,5                          | 2,2                          |

Table 3. The volume of main types of agricultural products' production, thousands tons

A significant increase in wheat production after 1992 is due to both the expansion of cultivation areas and the significant increase in the yield of this crop. Thus, the yield increase almost quadrupled - from 12.8 to 48.6 c/ha between 1991 and 2014 (*Ed. note c-centner, 1 centner = 100kg*). However, the yield and the volume of

|                         | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| State procurement price | 82,0  | 98,4  | 118,0 | 169,0 | 206,0 | 237,0 | 291,8 | 338,0 | 380,0 |
| Domestic market price   | 182,0 | 195,5 | 352,3 | 615,5 | 448,2 | 456,1 | 957,8 | 827,8 | 907,9 |
| Difference, in times    | 2,22  | 1,99  | 2,99  | 3,64  | 2,18  | 1,92  | 3,28  | 2,45  | 2,39  |

Table 2. Dynamics of government procurement prices and domestic market prices for wheat in 2005-2015 (thous UZS per 1 ton).<sup>5</sup>

wheat production appear to be significantly overestimated, which is associated with the methods of statistical recording.[\[8\]](#)

Despite a significant increase in the production and export of agricultural products, the existing system of state orders and the practice of export regulation do not allow the formation of free markets for agricultural products.

As the state is a monopolist, solely buying this type of raw material, there is no free cotton market. Further, cotton is distributed for export and domestic consumers. Currently, “agro-industrial clusters” are being introduced as an experiment, where farmers will have to sell cotton not to the state, but directly to processing enterprises within the cluster. But such a model does not mean the emergence of the cotton market, but creates a new form of farmers’ “bondage” not from the state, but from the cotton processors now.

The state for a long time tried (and probably still will try in 2019) to centrally regulate the export of horticultural products. In past years, the main instruments of such regulation were:

- allocation of quotas for export of products (by the monthly decisions of the Cabinet of Ministers of Uzbekistan),
- mandatory export through the state trading companies,
- determination of the minimum export prices (below which products were prohibited to sell),
- the requirement of 100% prepayment,
- penalties for late receipt of foreign currency earnings (in cases where it was possible to fulfill the requirement of 100% prepayment) and etc.

The most of the administrative barriers to the export of horticultural products were eliminated during 2017-2018. But it is not yet clear how the new mechanism will work in 2019, to what extent it will be free from administrative interference.

While the article was being prepared for publication, a draft government decree was issued on monitoring the contract value of exporting horticultural and textile products. The purport of a document is not to allow exporters to sell their products cheaper than the marginal prices which will be set by the Ministry of Investment and Foreign Trade.[\[9\]](#) It confirms the fears that officials will try again to take control over the export of horticultural products.

The system of administrative regulation of the industry extends to resource markets.

Agricultural machinery, fuel and lubricants, fertilizers, feed, seeds, biological and chemical plant protection products, etc., are supplied to farmers by the state-owned monopolists. Prices for some resources are often subsidized. The amount of resources that can be purchased at lower (subsidized) prices is limited and is determined by the size of cultivation area and expected yield of cotton and wheat.

Farmers can get fuel, fertilizers and seeds only at stations opened by state-owned companies in the area of their location. There is no competition between resource providers,

which leads to their low quality. For the cultivation of products that are not subject to government orders, manufacturers must acquire material resources on their own, at the prices prevailing in the market.

In addition, state-owned companies provide agricultural machinery services (plowing with a tractor, harvesting by a combine, transporting crops, etc.), a network of machine-tractor parks is deployed. Finally, the state practices advanced production: farmers often purchase resources in advance against future income from the sale of cotton and wheat. At the same time, the farmer cannot freely dispose of the received advance payment depending on the specific situation or local conditions. In fact, he receives not money, but resources paid for at state prices, which limit his financial independence.

Thus, farmers executing a state order for cotton and wheat can neither control the prices of their products nor the prices of resources.

### **Agrarian reform**



*The President of Uzbekistan Shavkat Mirziyoyev is in a cotton field of Samarkand region. The Uzbek leader is in favor of diversifying the agricultural sector and reducing dependence on cotton. Photo: Facebook page of Shavkat Mirziyoyev*

The existing system of agriculture state regulation was formed under the tasks of accelerated industrialization in the framework of the implemented import substitution policy

since 1996.<sup>[10]</sup> The role of a donor of massive financial investments into the development of the “strategic sectors” of economy was assigned to the agricultural sector (same as during the years of Stalinist industrialization). This policy failed; Uzbekistan did not become an industrial power, but significantly lagged behind in its economic development. The system reforms initiated in 2017 imply the abandonment of an inefficient economic model.

However, the administrative regulation mechanisms of the agricultural sector have not undergone significant changes yet.

The sector needs a radical reform, the main content of which is the following:

- Refusal of compulsory allocation of land for certain crops (even if the state order continues, farmers should be given an opportunity to freely use their land in order to optimize the structure of production).<sup>[11]</sup>
- Refusal of the planned tasks practice to produce cotton and wheat (if not simultaneously, then at least a gradual, annual reduction of the planned tasks).
- The formation and development of free and competitive cotton and wheat markets.
- Elimination of all administrative barriers to the export of agricultural products.
- Formation and development of free and competitive markets of resources and services for agricultural producers.
- Strengthening of land ownership rights, protecting existing lease agreements, considering the possibility of introducing private ownership of agricultural land.

The implementation of the above reforms will strengthen the financial position of agricultural producers, increase their incentives for efficient land use, and expand opportunities for diversifying agricultural production, including by increasing the cultivation of horticultural and forage crops. This will allow increasing both the total volume of agricultural production and the agrarian sector’s export potential.

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[1] Hereinafter, unless otherwise specified, the data of the State Statistics Committee of the Republic of Uzbekistan.

[2] As of January 1, 2019, 33.25 million people lived in Uzbekistan, including 16.45 (49.5%) in rural areas.

[3] See: Livestock in Uzbekistan: current state, problems and development prospects. Analytical report. UNDP Publishing, Tashkent, 2009,

<http://ced.uz/issledovaniya/zhivotnovodstvo-v-uzbekistane-tekushhee-sostoyanie-problemy-i-perspektivy-razvitiya/>

[4] For wheat, see: Petrick, M., Djanibekov N. (2016) Obstacles to crop diversification and cotton harvest mechanisation: Farm survey evidence from two contrasting districts in Uzbekistan. IAMO, Discussion Paper No.

[5] Source: Agricultural policy in wheat production and diversification of crop production in Uzbekistan. Country report on AGRIWANET project, 2016,

<http://ced.uz/issledovaniya/selskohozyajstvennaya-politika-v-proizvodstve-pshenitsy-i-diversifikatsii-proizvodstva-selskohozyajstvennyh-kultur-v-uzbekistane/>

[6] For details, see: Livestock in Uzbekistan: current state, problems and development prospects. Analytical report. UNDP Publishing, Tashkent, 2009,

<http://ced.uz/issledovaniya/zhivotnovodstvo-v-uzbekistane-tekushhee-sostoyanie-problemy-i-perspektivy-razvitiya/>

[7] But considering that the majority of livestock products are produced in dehqan farms, the values of these indicators should be treated with caution due to the specificity of their statistical recording.

[8] Farmers are obliged to hand over 40% of their wheat crop to the state, but there are also planned tasks, which they also have to fulfill. In statistical calculations, it is assumed that if the state order is 40% of the crop grown by farmers, then farmers must grow 2.5 times more wheat than the state order plan. In other words, the statistics actually calculates the volume of wheat production by farmers as an executed state order multiplied by 2.5. The actual production volume is unknown.

[9] Project text:

[https://regulation.gov.uz/en/document/2698?fbclid=IwAR05TQ-iQtHQuj2YDrN3GY7WT6YkbXG\\_tzTg-WR1tP-0O-c89HWtiYCtGfo](https://regulation.gov.uz/en/document/2698?fbclid=IwAR05TQ-iQtHQuj2YDrN3GY7WT6YkbXG_tzTg-WR1tP-0O-c89HWtiYCtGfo) Comment on B. Hoshimov's project:

<https://www.gazeta.uz/ru/2019/03/12/bad-project/?fbclid=IwAR0qT-7I2aMzVEd4xcstdm3i4MnLCTk9xRao5EKI pYf5AnJdpbYLxjRTEIE>

[10] See more: Y. Yusupov. Uzbek economic model: myths and reality,

<http://kommersant.uz/uzbekskaya-model/>; Y. Yusupov. Has Uzbekistan managed to preserve and increase its industrial potential?

<http://ced.uz/issledovaniya/udalos-li-uzbekistanu-sohranit-i-priumnozhit-svoj-promyshlennyj-potentsial/>

[11] See: State order for cotton: the possibility of improving mechanisms. Analytical note, 2007,

<http://ced.uz/issledovaniya/analiticheskaya-zapiska-gosudarstvennyj-zakaz-na-hlopok-vozmozhnosti-sovershenstvovaniya-mehanizmov/> It was shown in this work that even within the framework of the state order for cotton, it is advisable to refuse land quotas and move on to sustainable planned tasks



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