

EN



This action is funded by the European Union

ANNEX

of the Commission Implementing Decision on the financing of the annual action programme in favour of Uzbekistan for 2020

Action Document for EU Budget Support to the Agriculture Sector in the Republic of Uzbekistan

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

1. Title/basic act/ CRIS number	EU Budget Support to the Agriculture sector in the Republic of Uzbekistan (BSAU) CRIS number: ACA/2020/041-754 financed under the Development Cooperation Instrument (DCI)	
2. Zone benefiting from the action/location	Central Asia, Uzbekistan The action shall be carried out at the following location: all over Uzbekistan	
3. Programming document	Mid-term review of the Multiannual Indicative Programme for Uzbekistan 2014-2020 ¹	
4. Sustainable Development Goals SDGs	Main SDG Goals: SDG 8 ‘Promote sustainable and inclusive economic growth through increased productive employment and decent work for men and women’, SDG 2 ‘Enhance food security and improved nutrition and promote sustainable agriculture’	
5. Sector of intervention/ thematic area	Agriculture	DEV. Aid: YES
6. Amounts concerned	Total estimated cost: EUR 40 000 000 Total amount of EU budget contribution EUR 40 000 000 of which EUR 33 000 000 for budget support, EUR 6 500 000 for complementary	

¹ Commission Implementing Decision C(2018)4741 of 20.7.2018.

	support, and EUR 500 000 for evaluation/audit and communication/visibility.			
7. Aid modality(ies) & implementation modality(ies)	Budget Support: Direct management through: - Budget Support: Sector Reform Performance Contract - Procurement			
8 a) DAC code(s)	311 – Agriculture, 31110 – Agricultural Policy and Administrative Management			
b) Main Delivery Channel	12000 – Recipient Government and 52000 others			
9. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women in Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

SUMMARY

The proposed action will provide support to the Government of Uzbekistan, through policy dialogue, budget support and capacity building measures, to assist with the implementation of the government's Agri-Food Development Strategy 2019-2030 and the strengthening of several key priority public services in the sector. The action will also contribute to better sectoral coordination of reform efforts amongst various stakeholders (public, private and civil society), by supporting dialogue forums and enhancing sector statistics and monitoring and evaluation systems.

The Uzbek Government has recently committed to embark on an ambitious process to transform its agriculture sector into a competitive, market and export-oriented sector, which will generate economic growth, improve incomes and create new employment opportunities in the sector. Moreover, the Government has also committed to introducing measures to

enhance food security and ensure the sustainable use and protection of its natural resources, particularly land and water.

Agriculture has great potential to become a key driver of economic growth, but it has been lagging behind in its performance in the last decade or more, primarily due to direct state involvement in production, distortion of input and output markets and control over the allocation of land and water resources. The sector's growth is expected to contribute significantly to improved incomes, employment and food security in rural areas.

This action complements other EU projects in support of the sector, notably those actions supporting the development of the livestock and horticulture sub-sectors, vocational training, local public services development and World Trade Organisation (WTO) accession. The action has also been developed in close collaboration with the leading International Financial Institutions (IFIs) active in the sector, namely the World Bank (WB), the Asian Development Bank (ADB) and the United Nations International Fund for Agriculture Development (IFAD).

1. CONTEXT ANALYSIS

1.1 Context Description

Agriculture:

Uzbekistan is gradually transforming itself from an inward looking, command-oriented economy to an outward looking, market-oriented economy. In December 2018 the government published an Economic Reform Roadmap, in order to accelerate this transition. In Agriculture, the transition is focused upon gradually shifting from the historical focus on the production of cotton and wheat to the production of alternative crops in which Uzbekistan has a relative comparative advantage, such as in the production of certain high value horticulture products (such as dried fruits), well known in the Commonwealth of Independent States (CIS) but less known in the fast-growing markets of Asia and the EU. These new export markets demand more stringent product food quality and safety standards. To meet these demands requires significant restructuring and development of both public and private sector agri-food support services and systems from farm to fork. If successful, this transformation will contribute significantly to the protection of the country's natural resources, as cotton and wheat are causing significant soil degradation and salinization. It will also help to improve the livelihoods of the 15 million people (49.4% of the total population and 75% of the low-income population) which reside in the rural areas of Uzbekistan but also and very importantly, it will provide a sustainable solution to the high birth rate and increasing labour force in the rural areas of Uzbekistan.

Gender Equality:

In rural areas, the agriculture sector remains the main provider of jobs for women. Women hold only 7.2% of farms although they represent 52.6% of all workers in agriculture. After restructuring of the former state farms to collective enterprises, this percentage declined to 5.5%. This gender disparity is also reflected in the 82% gap between male and female wages and in unequal access to land. During privatisation, most of the land rights were acquired by men, which in turn are passed to future generations only through male descendants. The Agri-food Development Strategy 2019-2030 will contribute to increasing awareness and

understanding of the gender issues related to land tenure and improve the rights and access of women to agricultural land.

Climate Change:

Uzbekistan is one of the countries most vulnerable to climate change globally. Without additional resource saving measures, the country may face a deficiency of water resources, growth in land desertification and degradation, and increase in the occurrence of droughts, and other dangerous phenomena leading to instability of agricultural production and threatening the country's food security. Sustainable natural resource management is a key priority for the development of agriculture and rural areas, helping to avoid the negative consequences for the environment and climate that are caused by the improper management of natural resources. In order to address these issues, the Agri-food Development Strategy 2019-2030 includes the promotion of sustainable waste management and use of renewable energy in agricultural areas; the promotion of climate-friendly technologies and the promotion of climate-friendly farm management practices.

1.2 Policy Framework (Global, EU)

Rural Development, including the agricultural sector is a key priority of the work of the EU in Uzbekistan and is the only focal sector of the Multi-annual Indicative Program (MIP) 2014-2020, which focuses on improving the living standards of the population, notably in the rural areas. The EU has already supported the modernisation and diversification of the agricultural sector through several projects, including joint projects with the World Bank and GIZ. This budget support will play an important role in supporting the agriculture reform process during this next period, when sector and wider economic reforms are being launched.

Sustainable agriculture and food and nutrition security are at the top of the EU's long-term development cooperation agenda as defined in the 2011 Agenda for Change. Sustainable agriculture is also recognised in the 2017 Consensus for Development as a key driver for poverty eradication and sustainable development as well as to end hunger and ensure food security.

1.3 Public Policy Analysis of the partner country

A relevant and credible sector policy that supports the objectives of poverty reduction, sustainable and inclusive growth, and democratic governance has been developed in Uzbekistan. The Agriculture Modernisation Strategy 2019-2030, submitted in July 2019 to the President Administration, provides a comprehensive and prioritised framework to guide the development of the Uzbek Agriculture sector for the period from 2019 to 2030. It is rooted in a new political cycle, following the appointment of a new Minister of Agriculture in February 2019. The Strategy articulates a clear vision for the future development of agriculture in Uzbekistan and provides a prioritised framework of short, medium and long-term actions and planned policy interventions, with a budget framework.

The overall objective of the Strategy is to pursue a balanced approach to development, i.e. boost competitiveness in the agriculture sector and promote exports, while seeking an equitable distribution of its benefits, in particular by contributing to more direct engagement of small-scale farms and rural communities in the development of the sector. The strategy should lead to improvements in the quality of life in rural areas and preservation of the

country's precious natural resources and the environment. The Agri-food Development Strategy 2019-2030 consists of ten strategic priorities:

- i. Ensuring food security for all citizens of Uzbekistan
- ii. Establishing a robust agri-business climate to facilitate trade and exports
- iii. Developing world class value chains in targeted sub-sectors
- iv. Attracting private investments
- v. Ensuring sustainable use of its precious natural resources
- vi. Developing modern public institutions and services
- vii. Gradual diversification of public expenditure in support of the sector
- viii. Development of a network of agriculture knowledge, information and advisory services
- ix. Revitalising rural areas through diversification and community engagement
- x. Developing robust sector statistics and data collection systems

The ten key priority areas defined in the Strategy are coherent with the stated overall objective and provide a consolidated framework to effectively address the most significant challenges constraining the growth of the agri-food sector of Uzbekistan and the economic development of rural areas. The Strategy includes a detailed and prioritised roadmap for implementation with timelines and allocated responsibilities for each defined action which will allow effective monitoring of progress.

The Strategic priorities are also aligned with the government commitment to support the Sustainable Development Goals (SDGs), with emphasis upon:

- SDG 2 'Ending hunger, achieve food security and improved nutrition and promoting sustainable agriculture'
- SDG 6 'Ensuring availability and sustainable management of water and sanitation for all'
- SDG 8 'Promoting sustainable and inclusive economic growth through increased productive employment and decent work for all'
- SDG 13 'Taking urgent action to combat climate change and its impacts'
- SDG 15 'Protecting, restoring and promoting sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss'.

The Strategy has been formulated based upon the latest available relevant data and analysis from the national public institutions and the sector analysis from the donor community, including the recent Public Expenditure Review in the Agriculture sector undertaken by the World Bank (May 2019). The strategy is built on a critical analysis of past policy approaches and on an extensive review of the main constraints and opportunities in the key areas targeted (agriculture land, water resources, forestry, agri-environment).

The Strategy defines specific coordination mechanisms, supported by a technical secretariat within the Ministry. Intra-governmental coordination will be dealt through an Agri-food Coordination Committee involving all relevant public institutions which will provide strategic leadership and oversight of the reform process. This will be complemented by an Annual Agri-food Advisory Congress, to promote wider stakeholder engagement in the Strategy

implementation, involving key Ministries, industry representatives including value chain, farmer's organisations and development partners.

The Strategy contains an indicative budget framework, with investment plan projections for the whole period (2019-2030), structured along budget lines linked to each priority area, with budget classifiers from the sector public institutions from the sector. It specifies that a detailed three-year agri-food sector budget framework will be developed in 2020 to include details of all relevant programs and sub-programs, following formal adoption of the strategy. There is currently no MTEF² at national level but the Minister of Agriculture has proposed to the Ministry of Finance that Agriculture is included as a pilot sector, as part of the future MTEF exercise. The total amount expected to be allocated to support agriculture is anticipated to increase from US\$ 845 million per annum to US\$ 1.393 billion, over the next ten years (2020-2030), reverting the downward trend from last years. Reallocated funds are anticipated to be used to fund restructuring of existing public services and the development of new services. The funding of the sector is fully acknowledged as an important element for the growth of the agriculture sector, including by attracting private investment in the agri-food sector.

The Strategy and Roadmap also includes a detailed monitoring framework covering both sector wide targets and specific indicators linked to the ten priority intervention areas. It provides a solid basis for monitoring progress in implementation of the strategy. The set of SMART indicators have been defined, based mainly on existing indicators collected, processed and analysed by public institutions (Ministries, State Committees, Agencies and Inspection Services). Targets have been set for the short, medium and long term. Annualised targets have not yet been established but are intended to be included in annual implementation plans, based upon the framework articulated in the Strategy Roadmap. It is intended that the technical secretariat within the Ministry of Agriculture will be responsible for preparing and publishing regular reports on progress with the reform agenda and reporting on progress to the government-development partner group on a regular basis.

1.4 Stakeholder analysis

The focus of public institutions in support of the agri-food sector remains production-oriented. Despite the significant growth in the horticulture and livestock sectors, most public support structures, systems, infrastructure and services remain focused on cotton and wheat production. Very limited public sector services or capacities exist that sufficiently understand modern, private, market-oriented agri-food processing, marketing, trade or export (except for cotton and wheat). Key sector policy and strategy formulation and decision-making processes are currently not sufficiently supported by relevant data, evidence or analysis or sufficient consideration of the economic, financial, social, environmental and/or administrative consequences or likely impacts. All the main public services and agencies face significant challenges in the development of new skills.

Ministry of Agriculture:

The functions and responsibilities of the MoA currently cover technical control & oversight of primary production. Its products and services include the control of farm production, the recording and reporting of farm performance, the training and the regulatory oversight of the

² *Medium-Term Expenditure Framework*

sector. The MoA's management structures have currently a strong focus on production with limited inter-departmental coordination. The significant restructuring of the sector governance in 2017 has weakened the MoA, which however has also a strong driver of change with the current pro-reform leadership of the Ministry.

Ministry of Finance:

The Ministry of Finance is currently the main stakeholder regarding budgeting, execution, reporting and control in the agriculture sector. The MoF plays the main role in the financial management of the sector and the IFI coordination. The MoF management is led by a dynamic team with strong IFI partnerships, but so far with limited coordination with line ministries.

State Agency for the implementation of projects in the field of agro-industries and food security (formerly the Rural Restructuring Agency):

The State Agency, which reports directly to the Cabinet of Ministers, is the main implementer of the large investment projects financed by IFIs and is currently supporting an investment portfolio of over US\$ 2.5 billion with its 88 staff. Its main services are project management, monitoring, evaluation and reporting. Its management structure is very much project focused, with little or no coordination of cohesion with sector policy. The Agency was previously part of the Ministry of Agriculture and many of the projects for which it is responsible for were designed to be managed under this framework. However, following restructuring of the Ministry in 2017 and establishment of the Agency as an Independent organisation, this management framework was disrupted which has compounded the policy management challenges. The State Agency is currently overwhelmed by the rapid expansion of its portfolio and needs its project technical management capacities either strengthened or reassigned to ensure more effective management and targeting of the significant investment and technical assistance funds it is responsible for administering in the agriculture sector.

Other governance structures, services and support systems/infrastructure:

The challenges for agri-food sector public institutions and agencies are further compounded by a lack of availability of modern, public quality infrastructure services and systems. These need to be aligned with international standards and requirements. This relates to all public services involved with the delivery of veterinary, phytosanitary and food safety services, including relevant laboratories and surveillance systems) and private quality infrastructure services and systems (including certification and advisory services) that could effectively support producers and processors in securing (and sustaining) access to new higher value agri-food markets.

There are currently no organised public or private agriculture extension or agricultural advisory services in Uzbekistan, with very few exceptions. There are a number of public and private providers of certain farm support and ad hoc training and consultative services, which are provided through various governmental institutions, including the Ministry of Agriculture, the Council of Farmers, Householders ('*Dehkan*') and Landowners, various banks that provide credit to the sector, various larger scale vertically integrated agri-food companies, producer and water user associations, vocational and research institutes and donor funded projects.

Moreover, there are no effective executive structures or governance mechanisms currently in place to effectively lead, coordinate and/or manage the reform process. In particular, the lack of coordination amongst donors by the Uzbekistan government has contributed to the

fragmentation, which characterises this ad hoc approach. Whilst this system has produced some positive results in some areas of the country, particularly where diversification of production into horticulture has been successfully implemented, the vast majority of farmers and agri-businesses lack access to regular, reliable information, knowledge and advice to guide the development of their farms and businesses. This also has an on-going impact on the ability of farmers to access and effectively use available investment capital targeting the modernisation of the agri-food sector, which is resulting in inappropriate allocation of resources to some farms and agri-businesses.

Private Sector / civil society:

Private entrepreneurship has been suppressed historically through direct and highly restrictive state controls on land, capital and labour, although various liberalisation measures supporting entrepreneurship have been introduced in the last 18 months. However, many farmers lack technical knowledge and farm business management and marketing capacities to effectively attract or use investment capital to develop their businesses.

Problems in accessing reliable agriculture knowledge and information services is aggravated by an almost total absence of voluntary, private sector-led farmer groups / cooperatives / industry associations. There has been a strong push by the government in the last year to establish new Associations in many emerging sub-sectors. This offers some potential, particularly in areas where previous state involvement was largely absent (e.g. horticulture, fisheries and other higher value niche product areas). However, many of these associations require mandatory membership and it is unclear what services these associations provide to their members. Umbrella organisations such as the Chamber of Commerce and the Council of Farmers remain somewhat weak, under-developed and lacking ‘farmer-first’ orientation, particularly towards smaller scale farmers’ needs (and their rights as land owners and/or tenant farmers).

Overall existing organisations tend to lack vision, have unclear strategies and limited skills and/or capacities to guide the development of new, market-oriented farm and agri-business support services. There is therefore a growing need to support capacity building of existing and new farmer groups and associations, to enable them to provide more effective representation of members’ interests and needs, offer more commercially-oriented services and generally act as more robust counter-weights to on-going government involvement in agri-food production, processing, trade and marketing.

1.5 Problem analysis / priority areas for support

Low productivity levels:

The need to improve sector productivity remains paramount as an objective to underpin any future transformation process and this challenge is significant. To put this in perspective, in 2016, agricultural labour productivity in Uzbekistan was estimated to be approximately USD \$3,440 per labourer. This compares to productivity levels achieved in Chile of \$11,920, in Turkey of \$15,100, and in the EU of \$25,620. This low level of productivity also means that the quality of any new employment opportunity is low and unattractive, particularly for young people in rural areas. Without improvements in overall productivity and increases in the quality and diversity of production and value-added activities, the opportunities to access new markets, both domestically and in more lucrative export markets will remain limited.

Weak public services:

This is compounded by a lack of availability of public quality infrastructure services and systems (veterinary, phytosanitary and food safety systems and services, including accredited laboratories) and private quality infrastructure systems (certification and advisory) that could support producers in securing (and sustaining) access to new higher value markets. Only through improvements in the quality, consistency and safety of Uzbek agri-food products will the transformation and growth of the sector be assured in the medium to long term.

Fragmentation and coordination challenges:

Changes in sector governance structures in the recent past have led to further fragmentation of technical ministries and policy implementing bodies. All these public services and agencies face significant challenges in the development of new skills and capacities to support the sector transformation processes now in motion.

Limited market-oriented agriculture public services:

Very limited public sector capacities exist that either understand or support agri-food marketing, trade or export (or indeed processing, outside of cotton and wheat). There is a lack of both public and private sector infrastructure and/or services available to support the development of quality export markets. This includes a lack of public or private funded wholesale markets and logistical support centers, laboratories and quality assurance systems to ensure producers can meet international quality standards and requirements, and equipment at customs/border points for horticulture products. This is hampering more rapid increases in export volumes, values & diversification into new markets. Most processes are paper-based, and information is not available to market participants - digitalisation lags behind. There is also very limited support for product marketing, branding and packaging for export markets, leading to sales through intermediaries at low prices.

The Strategy for Agri-food Development also identifies the need for delivering a range of agricultural public services, recognising that many services have been either under-financed or have not existed in the past, which are critical to assist in restoring agricultural growth that has been lagging in recent years. These public services include applied agricultural research and development, extension/advisory services, education, soil fertility improvement, food safety, animal disease control/veterinary services, phytosanitary services, support to collective actions (cooperatives, clusters, productive partnerships), market and statistical information, market infrastructure and logistics, and environment protection and climate change adaptation, among others. Global experience also shows that these public services are key to accelerate agricultural transformation.

Limited advisory support services:

Very limited private advisory capacities and/or consultancies exist in rural areas and those that do exist tend to cluster around higher value vertically integrated value chains where their services are most in demand and can be paid for. There is also growing evidence of larger private farms and agri-business companies establishing and developing their own advisory capacities to support the development of more integrated supply chains. In addition, cluster models in various sub-sectors that are being promoted by the government, are frequently linked to targeted credit lines, administered by state-controlled banks. These generalist banks have been appointed by the government for specific types of sub-sector lending and are being encouraged to rapidly establish credit teams and advisory capacities to assist potential new clients to prepare business plans and receive subsidised credits to enable them to participate in

these new clusters. The knowledge and capacities of these business and banking advisory teams is unclear and their access to modern, good and best practice knowledge and information even less clear.

Poor access to knowledge and information services:

Lack of access to modern teaching and knowledge systems, education, training and/or advisory services/ systems (and related knowledge networks that can be supported through other mechanisms such as producer groups), including programs to support mechanisation and seeds, continue to suppress innovation and limit diversification possibilities.

Poor statistics and policy monitoring and evaluation systems:

The development of governance structures needs to be underpinned by more robust policy analysis and policy formulation processes, policy monitoring and evaluation, and impact assessment, to ensure that reforms are increasingly guided by evidence-based analysis and monitoring and that there is a clearer understanding of the winners and losers of certain reforms and that policy design is able to take action to mitigate the risks for potential losers and ensure greater equity and inclusiveness in the distribution of the benefits. This must include the strengthening of sector statistics and data collection systems which are currently based on outdated central planning reporting systems, providing unreliable estimates of sector production, yield and overall performance.

No coherent food safety policy and services:

The lack of an overall coherent national strategy and/or policy framework or effective coordination mechanisms to address the broader society food safety needs, requires the introduction of a more integrated approach that will more effectively link agriculture, food, health, education and social policies and programs.

This programme will address these weaknesses by focusing on the following strategic priorities defined in the Uzbekistan agri-food development strategy, namely:

- Establishing a robust agri-business climate to facilitate trade and export
- Developing modern public institutions and services
- Gradual diversification of public expenditure in support of the sector
- Development of a network of agriculture knowledge, information and advisory services
- Developing robust sector statistics and data collection systems.

1.6 Other areas of assessment

1.6.1 Fundamental values

Human Rights:

Since the change in leadership, the government has taken a series of positive steps showing a greater openness about human rights and has allowed several external independent scrutiny processes in Uzbekistan. This has led to the first visit to Uzbekistan by the UN High Commissioner for Human Rights in May 2017, a visit by the UN special rapporteur on the

freedom of religion and belief, for the first time since 2002, and allowing representatives of Human Rights Watch to visit in September 2017.

The Uzbek authorities have also taken other steps to improve human rights. In August 2018, a law was approved to strengthen the Human Rights Ombudsman. The Ombudsman gained new powers to intervene on behalf of citizens and to inspect prisons. Dialogue between the Uzbek authorities and international organisations which monitor human rights was revived. A steady stream of prisoners, who it was believed were being held for political reasons, were released. As of April 2018, 26 out of the 34 ‘most prominent political prisoners’ identified in a resolution of the European Parliament in October 2014 had been released. Nevertheless, further work is needed in the field of human rights. Independent journalists continue to be imprisoned and subjected to torture. There are ongoing cases of government critics who face persecution, harassment and who are subjected to travel restrictions. Many cases were reported of internet users detained and questioned for comments on cultural and religious issues, as well as numerous cases of surveillance of civil society activists and human rights defenders, together with cases of torture, poor prison conditions and limitations on the freedom of expression and assembly (IPHR UN Universal Reviews).

Child and Forced Labour in the Agriculture sector:

Uzbekistan has achieved significant progress in eradicating child labour and addressing forced labour in agriculture and related value chains. Reforms announced by the central government are having an impact. Systematic or systemic child labour can no longer be considered a serious concern. School children and students are not mobilised for cotton picking or other agricultural activities. However, there are still risks that skills/labour shortages could lead to the use of forced labour or, less likely, child labour.

For the first time since the ILO began monitoring the annual cotton harvest in Uzbekistan, the ILO concluded in the most recent monitoring report that systematic or systemic forced labour was not exacted by the government of Uzbekistan during the 2018 cotton harvest. There are still many challenges with implementation at the local level and a considerable number of forced labour cases are being observed. Legacy systems conducive to the exaction of forced labour have not yet been fully dismantled.

The government of Uzbekistan is fully committed to working with international organisations on measures to completely eradicate forced labour. This includes increasing wages, implementing fair recruitment systems, reducing the areas allocated for cotton, agricultural reforms, moving up the value chain through processing and manufacturing, raising awareness of labour rights and allowing independent civil society activists to monitor the implementation and participate openly in public discussions on labour rights issues.

The government of Uzbekistan has not only demonstrated political commitment but also already introduced several practical measures and policies that are having a demonstrable impact. The ongoing reforms represent a window of opportunity for the European Union for further engagement on fundamental rights and principles at work in agriculture and related value chains in Uzbekistan.

1.6.2 Macroeconomic framework³

Excessive credit growth has emerged as a risk to macroeconomic stability. Rapid credit growth in 2018 financed a surge in imports of capital goods and bolstered investments in housing and infrastructure following decades of underinvestment. Looking ahead, the main macroeconomic stability risk is that a prolonged credit boom will aggravate inflationary pressures and feed into excessive external deficits. Potential funding of credit is plentiful. The country has large accumulated financial buffers that could be drawn down; and external lenders seem eager to provide debt financing at favourable terms, as highlighted by February's oversubscription of the country's first sovereign debt issue. While this is a new macroeconomic stability challenge for Uzbekistan, the authorities are acutely aware of the need to adjust policies to forestall a boom-bust credit cycle.

External deficit:

External deficits are likely to persist, but risks remain low. Imports, especially capital and intermediate goods, surged in 2018 reflecting foreign exchange and trade liberalisation and rapid credit growth. With strong domestic demand, external deficits will likely remain high in 2019. External stability risks are mitigated by large foreign exchange reserves and moderate external debt. The main risk is that a continued boom in credit growth could propel external deficits and inflation rates significantly above projections.

Monetary Policy:

Given persistent inflationary pressures, the monetary stance needs to remain tight. To facilitate the move to inflation targeting over the medium term, the proposed new central bank law should provide the CBU with enough independence to conduct policies effectively.

Fiscal Policy:

The fiscal deficit, including the Fund for Reconstruction and Development (FRD), rose from 0.5 percent of GDP in 2016 to 3.25 percent of GDP in 2017, due mainly to the larger than expected FRD expenditure. Fiscal policy in Uzbekistan encompasses both traditional fiscal operations and policy-based lending operations, which include investment project financing and on-lending by the FRD, recapitalisation or capital injections in SOEs including state banks, and loans extended to construct affordable housing in rural and urban areas.

At this point, fiscal policy remains the primary tool to control inflation. The government should therefore focus on targeting an overall fiscal balance that is consistent with preventing the first- and second-round effects of price and wage adjustments from spilling over into permanently higher inflation rates. Fiscal policy in 2019 should remain somewhat expansionary. The IMF mission projects that the consolidated fiscal surplus will amount to 0.3 % of GDP. The decline in the surplus in 2019 reflects mainly the cost of the tax reform, estimated at about 2 % of GDP.

The tax reform starting in 2019 will have to be complemented by additional tax policy measures over the medium term and steps to strengthen tax administration. Tax reform in Uzbekistan will be a multi-year project, needing strong supervision by the Ministry of Finance. This will require increasing the Ministry of Finance's capacity in designing tax policies and on the administrative side, the addition of some 19,000 firms to the standard tax regime in 2019 will raise administrative challenges.

³ IMF Staff Concluding Statement, March 2019

Regarding policy-based lending operations, the authorities plan to scale them back to 2.8 % of GDP in 2019. Combining the two parts of fiscal policy, the projected overall fiscal deficit would remain at its 2018 level of 2.5 % of GDP. In the 2019 budget submitted to the parliament in early November 2018, the fiscal deficit amounted to 1.8 % of GDP.

1.6.3 Public Financial Management (PFM)

The PFM Strategic Action Plan (AP) covering the period from 2019 to 2022 was finalised by the Ministry of Finance in September 2019. The comprehensive PFM Strategy will consist of the PFM Strategic Action Plan and a strategic narrative, detailing reform priorities, the sequencing of the policy measures, as well as outlining of the monitoring and implementation mechanisms. The PFM Strategy has been drafted following the Presidential Resolution from 2018 on elaborating the strategy and is fully embedded in the Economic Roadmap of the country (approved by the Presidential Decree No. UP-5614) that aims to sustain macroeconomic stability via strengthening: (i) macroeconomic institutions; (ii) fiscal policy; and (iii) tax reforms.

The PFM Strategic Action Plan is informed by various recent external assessments of the PFM system, that provides a systematic assessment of its relative strengths and weaknesses against the international benchmarks and identify the remaining gaps. These assessments, notably, include the 2018 multi-donor Public Expenditure Financial Accountability (PEFA) assessment, Fiscal Transparency Evaluation report by the IMF released in 2019 and the Public Expenditure Review on selected PFM areas⁴ of the World Bank. The PFM Strategic Action Plan also considers ongoing reforms, road maps, and actions plans in other PFM areas that are already underway, for instance the ongoing tax reform agenda, actions on procurement and PPPs, and more specific work being undertaken to further develop debt management capability.

Hence, the PFM Strategic Action Plan provides sound basis for a comprehensive PFM reform agenda and addresses the key weaknesses of the present PFM system of Uzbekistan. Its implementation shall tackle the main risks to attaining fiscal discipline linked to unreported operations and fiscal risks from other public sector entities⁵ that do not quantify contingent liabilities in their financial reports. Addressing swiftly and decisively the quality and transparency of information on past, current and future fiscal developments will not only lay robust foundations for all the other planned PFM reforms but also contribute to the envisaged new role that parliament will have on budgetary matters. The components supporting the Action Plan's priority on the Fiscal transparency include: (i) improving coverage, comparability and integrity of fiscal reports; and, (ii) enhancing the quality of information on government's fiscal policy intentions.

The PFM Strategic Action Plan also envisages to change fundamentally the role of the Parliament in the process of approving of the Budget, in specific expanding and strengthening its mandate. This would be an important improvement both in improving oversight and accountability as well as to adopt a prudent Medium-Term Budget Framework. It is envisaged to introduce a parliamentary appropriation system from the 2020 fiscal year. Further on, the

⁴ Including such areas as management of the State-owned enterprises, Public Investment Management, Intergovernmental Fiscal Relations, Tax expenditures etc.

⁵ Such as State-owned enterprises (SOEs).

Action Plan addresses the challenges on effective strategic allocation of resources by developing effective multi-year forecasting and programming, establishing a process to allocate budgetary resources in accordance with Government’s declared strategic objectives, develop efficient mid-term debt strategy as well as achieve credible medium-term expenditure ceilings for the budget preparation process. Implementation of the strategy would also promote more efficient or effective use of public resources through better Public Asset Management, internal audit for all budgetary entities and reconciling the monetary and fiscal financing data on a regular basis. The Action Plan shall also seek to improve intergovernmental fiscal relations via a transparent and rule-based intergovernmental transfer system.

Review and overall assessment of the PFM Strategic Action Plan provides a strong evidence that it is a credible and relevant programme to improve the PFM system in Uzbekistan. Realistic sequencing of the priorities of the PFM reform provides a strong framework for addressing the challenges in the PFM area and informing an effective policy dialogue for EU Budget Support operations with the Government of Uzbekistan. All major Development agencies active in the realm of PFM reform have intensively supported the process of elaborating the PFM Strategic Action Plan. Subsequently, the Government of Uzbekistan has recently also strengthened a PFM reform platform with international partners (IMF, WB, EU, ADB and others) that together with the Economic council of Uzbekistan would supervise and assist implementation of the PFM Strategy.

1.6.4 Budget Transparency and oversight of the budget

The ‘entry point’ for Budget support⁶ is met as the 2019 budget approved is published. All other major budget documents including the Executive's budget proposals, In-Year, Mid-Year, Year-End reports, Audit Reports are produced and published regularly.

Prior to the 2018 Budget, only limited extracts of the budget were published, even though the details had been presented to the parliament. The full budget documentation (including the Budget Message and Annexes 1–6 containing macroeconomic forecasts, fiscal aggregate forecasts and key estimates for EBFs) was published for the first time for the 2018 Budget⁷.

The Ministry of Finance has clearly defined government’s objectives in order to strengthen transparency and strengthen the application of the international fiscal statistics and reporting standards⁸, improve the budget classification, presentation and reporting; strengthen fiscal risk disclosure and address other fiscal transparency-related issues. Its main objectives in order to improve transparency are improving Government Finance Statistics, enhancing budget transparency and fiscal risk disclosure, and introduce the necessary changes to the legislation supporting the PFM reforms.

2. RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
-------	--------------------	---------------------

⁶ The EU ‘Budget Support Guidelines’ define the ‘entry point’ as met if the government has officially published its budget within the previous or the current budget cycle (either the Executive’s budget proposal or the enacted budget). This information should be available to the general public in printed form or on an external website.

⁷ *Fiscal Transparency Evaluation*, June 2018.

⁸ Such as alignment with the IMF’s Government Financial Statistics (GFS) Manual 2014.

Political instability and social unrest in the country	L	Government sustained reform for Economic reforms and communication /dialogue on the reform process with the general public; Development Partners continue supporting interventions contributing to stability
Lack of a quality evidence-based agriculture Vision and Strategy prevents reform of the sector	L	Government sector leadership and coordination strengthened; EU support to the finalisation of a quality evidence-based agriculture strategy
Insufficient capital investment and inefficient systems to screen and monitor the use of available investment funds in support of the agriculture sector limiting the implementation of the agriculture strategy	L	Introduction of a transparent, rules-based investment management and appraisal system; Sufficient financial resources are made available by the Government, IFIs and Development Partners and monitored effectively
Institutional resistance to change within current sector governance structures	M	Government and EU support to functional review processes and development of change management plans and processes
Vested interests in the agriculture sector prevent fundamental elements of the agriculture strategy to take place (Land reform)	M	Government and EU support to PFM reform positively impacts on reducing corruption. Improved oversight and transparency of resource allocations and use.
Vested interests in MoA and MoWR and among decision-makers across Government continue business as usual (priorities on cotton, wheat and large irrigation scheme)	M	Commitment at sector level to a gradual reallocation of available resources to build a market and export oriented competitive agri-food sector
Human rights and gender equality components are left without attention during the process. A risk of human rights violations committed by private sector actors, for example on labour rights and gender equality.	M	Policy dialogue between EU and the Government on gender equality and human rights. Monitoring will be conducted by using disaggregated data in order to follow impact on different groups. Civil society will participate in the monitoring process.
Low absorption due to lack of capacity in Implementing agencies (RRA)	H	Government and EU support to building capacity of implementing agencies
Assumption:		
The Government of Uzbekistan, the European Commission, IFIs and other donors continue to support the reform in the agriculture sector as a national development priority and support all interventions (budget support, programmes, facilities, projects) that support the reform.		

3. LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

Budget support is new in the agriculture sector of Uzbekistan and therefore there are no direct lessons learned from past implementation experience. There is also only limited experience of past EU sector budget support focused on the Agriculture sector in other countries. Research of comparative experience has identified the need for: (i) *Developing a unified policy framework*: recognising the need for partners to work towards the establishment of a unified agriculture sector policy framework, embracing the new policy directions which have political backing from key government counterparts and stakeholders; (ii) *Defining basic*

principles: establishing a consensus on basic principles/philosophy underlying the financing agreement in support of any new agriculture policy should be established, particularly on the roles of the state vis-à-vis other sector stakeholders; (iii) *Involvement of all major sources of funding*: In order for policy dialogue to be meaningful and to ensure the integrity of the planning and budgeting processes, all major sources of funding (donors) need to be involved in the sector program, irrespective of the funding modalities used; (iii) *Development of robust M&E systems*: Resolving capacity limitations in the critical area of monitoring and evaluation is essential; (iv) *Engaging with sector stakeholders*: Reaching out to sector operators at field level is essential (NGOs, the private sector and farmers). The lack of sector level outcomes is partly the consequence of failing to involve these key sector players in implementation.

These lessons and other insights gained from past and on-going EU and other donor support to the Uzbekistan agriculture sector have been considered in the design of the Budget Support for Agriculture in Uzbekistan (BSAU). These lessons further serve to highlight the need to address underlying weaknesses in sector strategic planning, sector governance and coordination, stakeholder consultation mechanisms and processes, technical capacities, policy dialogue, monitoring and evaluation. Lessons also highlight the need to build on existing capacities where these exist, to help support the pace of sector reform and change through more demand-driven mechanisms (rather than force the pace of change through more supply-driven approaches), be sensitive and responsive to Uzbek culture and customs, and be ready to provide pro-active support for local leadership/champions where these emerges by positioning support to be flexible and dynamic and responsive to emerging needs that cannot be fully anticipated in advance.

3.2 Complementarity, synergy and donor coordination

The BSAU will enhance opportunities for policy dialogue across the entire EU Rural Development current project portfolio in Uzbekistan. The BSAU will also improve visibility of the current EU agricultural cooperation programme in the country, which is currently centred on indirect management agreements with World Bank and a delegation agreement with the GIZ.

There is currently a large range of donor and IFI projects in support of the agriculture sector in Uzbekistan, predominantly focused on providing lines of credit for support of larger scale agri-businesses. This support requires an effective sector governance framework to be in place as well as performing key public services. The EU Budget Support in Uzbekistan will therefore provide an essential framework and complement the investment capital by the WB, ADB, AFD, IFAD, IDB and others.

The total ongoing projects in Uzbekistan represents 2,485 USD Millions, covering irrigation and drainage projects (845 USD Millions), horticulture related projects (1153 USD Millions), livestock related projects (379 USD Millions), other sub-sector related projects (58 USD Millions) and regional projects (48 USD Millions). The projects in pipeline represent 863 USD Millions, covering horticulture related projects (297 USD Millions), livestock related projects (100 USD Millions) and other sub-sector related projects (465 USD Millions).

The main IFIs include WB, ADB, IFAD, EBRD, and KfW. They represent funds in excess of USD\$ 2 Billion committed or planned in support of agri-business capital investment funding. Their services include technical and business advice, assistance in loan applications and other financial services. The IFI agriculture sector specific support is limited in Uzbekistan with the

WB providing the main leadership in sector. The WB and ADB have undertaken a number of targeted assessments but impact assessments of loan portfolio are not yet available. They play a key role in sector strategy development but weak conditionality for past and current loan portfolios limits their impact. The IFI's increased level of engagement and reform commitment of government is very recent in the sector. This change requires a new and improved approach to facilitate dialogue and support and guide reform planning, implementation & M&E.

The main donors include EU, USAID, AFD, UNDP, UNFAO, and GIZ - with various planned commitments but only limited TA deployed in the sector currently. The services include technical and business advice, assistance in loan applications and other financial services. Most TA is allocated through direct agreement to UN agencies/GIZ or delegated authority to IFIs. Some support for ad hoc studies to help define projects but no systematic support or coordination in the sector. The limited portfolio of donors has limited drive for change but accelerated programs from some donors will increase their influence and role in the near future.

4. DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective(s), expected outputs and indicative activities

Overall Objective:

To enhance food and nutrition security and ensure sustainable use of natural resources.

Specific Objectives:

- To develop a competitive market and export-oriented agri-food sector;
- To increase public and private investment in the agri-food sector;
- To improve agriculture practices by individual farmers.

The induced outputs of the policy supported through budget support are anticipated to include:

- Enhanced agri-food sector governance;
- Enhanced agri-food sector policy and regulatory framework;
- Strengthened sector finances and management;
- Restructured and improved agriculture and rural advisory services;
- Restructured and improved agri-food information and statistics services;
- Improved food safety framework and services.

The following are the expected direct outputs of this budget support contract:

- Increased capacities of Ministry of Agriculture to implement the strategy;
- Continued policy dialogue with the Government;
- Continued dialogue with other development partners to coordinate and further align development cooperation;
- Regular monitoring of budget support eligibility criteria.

Complementary assistance will provide support for the establishment of an *Agriculture Support and Knowledge (ASK) facility*, which will include a balance of long and short-term expertise, to provide on demand technical and organisational services to assist in the following areas:

- *Support for strategic and functional assessments, institutional restructuring planning, policy planning and formulation, programming, budgeting and monitoring of selected (priority) public services.* Key targets for support are anticipated to include: Agriculture and Rural Sector Governance services; Food Safety Services; Farm & Agri-business Advisory Services; and Agri-food Statistics and Information Services;
- *Support for Strategy implementation and capacity building:* This will include support to develop the capacities of the selected priority public services and other actions that will assist in the development of public services defined in the Agri-food development strategy. Priority will be given to activities that will directly contribute to improved productivity, incomes, employment and enhanced trade.

A detailed version of the chain of results presented above, including an indicative results matrix and indicators at each level, can be found in Appendix 1: Intervention Logic Table for Budget Support.

4.2 Intervention Logic

This action will directly support the Government strategic goals to diversify and broaden the economy, strengthen the human capital and improve competitiveness, first and foremost in the agriculture sector whose potential has remained largely untapped and which is due to play a key role in terms of employment, income generation and food security.

The increased technical and financial capacities of Ministry of Agriculture expected through this budget support will lead to enhanced performance of government services. By targeting identified institutional, regulatory and organisational weaknesses in the existing sector governance structures, strategic planning and policy coordination between relevant Ministries and agencies will be strengthened, absorption capacities will be bolstered, and technical capacities established in the provision of core services and support systems. This will also assist in improving accountability in the use of public funds.

Through support for improvements in the agri-food sector policy and regulatory framework, the enabling environment for private farms and agri-business will be improved, providing a more stable and reliable environment for the production of quality agri-food products and the attraction of investment.

Through support for the establishment of advisory services, farmers will have improved access to advice, knowledge and information which will lead to the uptake of improved agricultural and environmental practices, increased productivity and more sustainable use of land and water resources.

Through improved agri-food information and statistics services the government will be able to improve planning and targeting in the use of state support for the sector and provide access to better information to guide farms and agri-business in the development of their businesses and on existing and future market opportunities and trends.

Through improved food safety framework and services, the government and private sector will be able to better ensure the quality, reliability and safety of Uzbek agri-food products, improving its reputation and credibility as a reliable trading partner in both domestic and international markets.

Improved productivity, quality and diversity of agri-food production will also create more tradable and exportable surpluses. This will also lead to the creation of more employment opportunities both on, and off-farm, as more value added activities are developed, both up and downstream in the sector. The expansion of production of higher value fresh and processed agri-food products will also provide Uzbek consumers with more choice and higher quality and safe food products which will help to enhanced food security and improve nutrition.

In order for this intervention logic to be achieved there needs to be a sustained commitment from the government to the gradual dismantling of the former centrally planned economy structures and systems and the on-going liberalisation of the sector and wider economy, where the role of the state will shift towards facilitation of private sector development in a market-oriented manner, free from state interference or direct control over individual farms and agribusinesses. There will also need to be a greater commitment to improving coordination and cohesion in the development of sector policies and programmes between the various government institutions. Private sector organisations will also need to commit to actively support the reform process and play a more pro-active role in attracting investment through improved organisation and the development of self-regulatory mechanisms, procedures and

standards which will all contribute to enhancing the competitiveness of the sector in the medium to long-term.

4.3 Mainstreaming

Mainstreaming of the key cross-cutting issues in the agriculture sector, including climate change adaptation and mitigation gender equality and social inclusion, will be addressed through gender sensitive performance indicators and targets (see Appendix 1) in order to ensure progress on these issues in each of the induced outputs of the BSAU. They will also be addressed through a strengthened policy dialogue at political level between the EU and key stakeholders in the agriculture sector, underpinned by the introduction of transparent monitoring, evaluation and public finance management systems.

Climate change adaptation and mitigation: The BSAU will focus on the main environmental challenges in the sector related to inefficient use of land and water resources:

Land: Land suitable for agricultural production is limited, largely conditioned by irrigation. Out of 20.4 million ha of agricultural land, only 25 percent is arable. Over the last 15 years the irrigated land declined by 24 percent in per capita calculation (from 0.23 ha to 0.16 ha). This is a result of a growing population, lower water supply, and conversion of farmland to other uses. The irrigated area is projected to further decline by 20-25 percent over the next 30 years. Most of the limited farmland is used for low-value and high-water use cotton and wheat. Together they account for 75 percent of total sown area. Lack of productive and irrigated land for feed crops is already the main constrain for livestock sector expansion and increase in horticulture exports. About 45 percent of agricultural land is saline, with 19 percent of which have a very high level of salinity.⁹ Policy dialogue and improved public services that can promote the application of good agriculture and environmental practices will be a central aspect of the BSAU financial support framework and complementary actions.

Water: Access to water is the largest challenge to expand agricultural land area and maintain/increase its productivity. Some 80 percent of Uzbekistan's water resources come from neighbouring countries. This underscores the importance of regional cooperation for sustainable water resources management, both in Central Asia more generally and in Uzbekistan in particular. The country is experiencing significant water shortages because of high conveyance losses, poor irrigation planning/scheduling, and inefficient application in the fields resulting from water not being charged. This could worsen with increasing aridity due to anticipated climate change and continued use of conventional irrigation techniques as well as reliance on irrigated agriculture. Actions to encourage more efficient use of precipitation in rain-fed agriculture and rangeland production systems will be crucial to inject into the current irrigation focused agriculture development. Introduction of water harvesting, modern irrigation scheduling using weather stations, laser levelling, canal lining are technical measures that need to go hand-in-hand with water accounting and payments/taxation for overuse of delivered water.

Climate change: The growing aridity projected in most climate change scenarios for the Aral Sea basin seems poised to aggravate many of Uzbekistan's water management problems. Water run-off is generally projected to decline due to both glacial melting and changing rainfall patterns. Small watercourses and the Amu-Darya river basin seem particularly

⁹ Ministry of Water Resources of Uzbekistan, 2017.

vulnerable to both longer-term reductions and increased short-term variation in runoff, resulting in earlier spring floods and reductions in run-off during the growing season. Compensating increases in groundwater consumption are expected to deepen problems of land degradation and reduced crop yields.¹⁰ The World Resources Institute projects Uzbekistan to be among the world's 33 most water-stressed countries by 2040. By 2050, cotton and wheat yields are projected to decrease by 11-13 percent and 5-7 percent in the Syrdarya basin, respectively; and by 13-23 percent and 10-14 percent in the Amu-Darya basin, respectively.¹¹ Such declines will have major implications both for food security and the balance of payments, further underscoring the need to shift to more sustainable water- and crop-management practices.

Actions promoted through the BSAU will help to accelerate the reduction of farmland used for cultivation of water-intensive cotton. Cotton and wheat account for 90 percent of all agricultural water use. The adoption of water-saving technologies will also be promoted, as will the introduction of water pricing to cover operational and maintenance expenses of the irrigation systems.

Environmental issues are integrated within the design of complementary assistance through the Agriculture Support & Knowledge Facility (ASK). In particular, the ASK Facility will provide technical support to develop government capacities in conducting environment impact assessments that will inform the development of new sub-sector strategies, programmes and projects, as an intrinsic part of the implementation of the Agri-food Development Strategy.

Gender equality and social inclusion: The mainstreaming of gender equality and social inclusion (including gender budgeting) has not been institutionalised across the government (i.e. in line ministries, agencies, etc.). The capacity of Government to include gender awareness raising and equality in the planning and implementation of sector policies and programs is currently absent from sector policy design, budgeting and monitoring despite the international commitments of the Uzbek Government. The promotion and awareness of gender equality will take place at induced output level of this budget support BSAU but also through the support provided through the Agriculture Support and Knowledge Facility (ASK).

The budget support will promote gender sensitive advisory services, as well as gender sensitive agri-food information and statistics services, for which performance indicators and targets have been disaggregated by sex. The will, among others, carry out studies in differences between women and men in access to resources, control of assets (land rights) and decision-making roles in the agriculture sector that will inform the development of sub-strategies and the implementation of the Agri-food Development Strategy. Finally, gender equality is also an important part of the policy-dialogue process at political level in order to ensure commitment of the Government of Uzbekistan to fundamental values and gender equality.

4. 4 Contribution to Sustainable Development Goals (SDGs)

This programme will contribute to two of the SDGs defined by the Uzbek Government on October 20, 2018. The BSAU will contribute mainly to SDG goal N° 2 'Enhance food

¹⁰ Second National Communication of the Republic of Uzbekistan to the UNFCCC, 2008.

¹¹ Second National Communication of the Republic of Uzbekistan to the UNFCCC, 2008.

security and improved nutrition and promote sustainable agriculture’ and SDG goal N° 8 ‘Promote sustainable and inclusive economic growth through increased productive employment and decent work for men and women’.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for the budget support component is EUR 33 000 000, and for complementary support EUR 6 500 000.

The yearly amount allocated for budget support (EUR 11 000 000 in average) represents an average of 1.12% of the yearly government budget for the sector or 0.67% of the total budget (including Development Partners) of the sector. Despite the seemingly limited size, this amount is considered adequate to effectively support the reforms and to positively impact resource allocation to the sector, as well as to support effective policy dialogue, sector strategic planning, and institutional strengthening. It will help to mitigate the risks related to institutional capacity of the ministries and agencies in the Uzbek agriculture sector.

This amount is based on the analysis of the institutional framework and public services in the agricultural sector in Uzbekistan in early 2019 and aims at supporting its further development in order to support the implementation of essential agricultural reforms, providing the incentive, over time, to introduce a more policy-driven, results-oriented, evidence-based policy approach and public finance management in the agriculture sector in Uzbekistan.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of Uzbekistan’s agriculture and food industry Modernisation Strategy 2030 and continued credibility and relevance thereof;
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances;

- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and the continued relevance and credibility of the reform programme as defined in the Public Finance Management Action Plan 2019-2025 of the Government of Uzbekistan;
- Satisfactory progress regarding the public availability of accessible, timely, comprehensive and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches are expected to be in the following areas:

- Agri-food sector governance, policy, and regulatory framework;
- Agri-food sector finances and management;
- Agriculture and rural advisory services;
- Agri-food information and statistics services;
- Food safety framework and services.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Ministry of Finance may submit a request to the Commission for the targets and indicators to be changed. Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The changes agreed to the targets and indicators may only be authorised in writing through a formal amendment to the financing agreement.

In case of a significant deterioration of fundamental values, budget support disbursements may be temporarily withheld, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The budget support will be provided in the form of a mix of fixed and variable tranches, with the following the indicative breakdown below:

<i>In EUR</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
Fixed tranche	10 000 000	11 000 000	4 000 000
Variable tranche			8 000 000
Total	10 000 000	11 000 000	12 000 000

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Uzbek Sum will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support to budget support

The Commission will ensure that the EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures¹².

5.4.1 Procurement (direct management)

The procurement of capacity building services will contribute primarily to the specific objectives 1 and 2, namely to develop a competitive market and export oriented agri-food sector, and to improve agriculture practices by individual farmers, and will also cover capacity building in the field of public finance management. It is tentatively planned to conclude several contracts for technical assistance in the above mentioned areas (including the ASK Facility).

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)
Budget support – cf. section 5.3	33 000 000
Procurement (direct management) – cf. section 5.4.1	6 500 000
Evaluation (cf. section 5.9) and Audit (cf. section 5.10)	250 000
Communication and Visibility - cf. section 5.11	250 000
Total (EUR)	40 000 000

5.7 Organisational set-up and responsibilities

Under the overall guidance and planning of the Cabinet of Ministers, the Ministry of Agriculture will play the lead role in the agriculture reform process, while the Ministry of

¹² www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

Finance will be responsible for those elements that relate to the reform of the public finance management system. The MoA is in charge of the implementation of the Agriculture Modernisation Strategy 2030, including the BSAU objectives, in coordination with the Ministry of Water Resources, Ministry of Innovations, Ministry of Foreign Trade, Ministry of Finance, and Ministry of Economy, the State Investment Committee, government agencies, private sector, civil society, and development partners, ensuring compliance of EU and other IFI funds with the Agriculture Modernisation Strategy 2030 once adopted. Each line ministry will have responsibility in implementing selected activities according to their mandate. Technical Assistance (under the ASK Facility) providing policy-making technical support, as well as coordination of technical support (also under ASK Facility) and monitoring capacity (see below, also under ASK Facility) will accompany the MoA in its coordination of the implementation of the Agriculture Strategy.

5.8 Performance and Results monitoring and reporting

The Results Framework of the Agriculture Modernisation Strategy 2019-2030 includes the higher-level outcome indicators at the agri-food sector level which include the main BSAU performance indicators. The monitoring of the overall implementation of the Strategy is under the responsibility of the MoA which will report to the coordination body (here above) and to the public on progress achieved on a regular basis. The regular monitoring of the implementation of the BSAU is an integral part of that process.

To monitor overall implementation, a policy dialogue forum between the EU and the principal interlocutors in the Agri-food sector, involving all key line ministries and agencies in the sector and other development partners has been developed and agreed. This policy dialogue mechanism will provide a forum for progress monitoring in the implementation of BSAU and the special conditions for disbursement related to the variable tranches of budget support, providing an additional incentive to achieve planned reform targets.

An annual performance review for this programme will take place to inform the disbursement request. Those reviews will include performance on the agriculture sector, the variable tranche indicators as well as on the other three eligibility criteria on which the Ministry of Finance will provide the information. A comprehensive report will be sent to the Delegation demonstrating achievement of progress for the four eligibility criteria and targets for the variable tranche indicators.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, a permanent internal, technical and financial monitoring system for the BSAU will be integrated under the body of the MoA responsible for monitoring the implementation of the Agriculture Modernisation Strategy 2030 and regular progress reports (not less than annual). Review missions for the disbursement of fixed and variable tranches will take place in the 1st Quarter of the year following the reference year, at which point the beneficiaries will have prepared a self-assessment report, and will make available the materials/data defined as sources of verification in the policy matrix. The MoA, with the support of the M&E TA component under ASK Facility, will be responsible for the collection and collation of materials/data to be used in the review missions.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the nature of the action, the European Commission may, as required, carry out an external final evaluation via independent consultants.

The evaluation of the budget support and complementary measures should be aligned with similar exercises of other budget support providers (WB, ADB, AFD) for accountability and learning purposes at various levels (including for policy revision) and carried out via independent consultants. The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the Uzbek Authorities, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project. Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, based on a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the BSAU, to be elaborated at the start of implementation. In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and Contribution agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations. Communication and visibility are considered a critical element to the success of this budget support programme but also to the overall reform process in agriculture in Uzbekistan in general. The financing of the Communication and Visibility of the BSAU is covered under this Financing Agreement.

It is foreseen that a contract for communication and visibility may be contracted.

Appendix 1 – Intervention Logic Table for Budget Support

	Results chain	Indicators	Baselines (2018/2019)	Targets by the end of the budget support contract (2022)	Sources of data
Expected impact of the policy (Overall objective)	To enhance food and nutrition security and ensure sustainable use of natural resources.	1.1. Incidence of stunting in children under 5 years old 1.2. Number of food insecure people 1.3. Level of greenhouse gas emissions from agri-food sources	1.1. 10% 1.2. 6.3% 1.3. 15,740 gigagrams (2016)	1.1. 7% 1.2. 5% 1.3. 14,176 gigagrams	1.1. UN FAO 1.2. UN FAO 1.3. UN FAO
Expected outcomes of the policy (Specific objective(s))	Outcome 1: To develop a competitive market and export oriented agri-food sector	1.1. Average farm labour productivity (US\$ per ag. worker p.a.) 1.2. Value of agri-food exports	1.1. Average farm labour productivity value p.a. of \$3,900 1.2. US\$ 2.3 billion	1.1. Average farm labour productivity value p.a. of \$4,700 1.2. US\$ 3.0 billion	1.1. State Statistics Committee (SSCU) 1.2. SSCU / MIFT
	Outcome 2: To increase public and private investment in the agri-food sector	2.1. Value of capital investment in agriculture and agri-food businesses in USD (disaggregated by public and private)	2.1. USD \$600 million	2.1. USD \$1.2 billion	2.1. Ministry of Investment & Foreign Trade

	Results chain	Indicators	Baselines (2018/2019)	Targets by the end of the budget support contract (2022)	Sources of data
	Outcome 3: To improve agriculture practices by individual farmers	3.1. Uptake of Good Agriculture Practices by individual farmers; 3.2. Global GAP certification as percent of farmers(or similar certification schemes)	3.1. No current Code for Good Agriculture Practices 3.2. 1% of farmers	3.1. Code of Good Agriculture Practices adopted; 3.2. 3% of famers	3.1. MoA Farmer surveys 3.2. MoA Farmer surveys
Induced outputs	Induced Output 1: Enhanced agri-food sector governance	1.1. Status of the implementation of the Agri-food Development Strategy and Roadmap 1.2. Status of restructuring of the Ministry of Agriculture 1.3. Status of sector stakeholder coordination and consultation mechanisms	1.1. Strategy & Roadmap in approval process 1.2. Minor restructuring of existing departments 1.3. None	1.1. Progress with the implementation of the Strategy and Roadmap, in line with defined annual strategy implementation workplans 1.2. Restructured MoA including new Departments for Strategic management, programming, policy analysis and M&E 1.3. Sector stakeholder coordination and consultation mechanisms operational for: Inter-Governmental; Public-Private; & Govt-Dev. Partners/Donors	1.1. Cabinet of Ministers Reports; MoA Reports 1.2. Cabinet of Ministers Reports; MoA Reports 1.3. Meeting minutes; Cabinet of Ministers Reports; MoA Reports
	Induced Output 2: Enhanced agri-food sector policy and regulatory framework	2.1. Status of agri-food sector policy and regulatory framework	2.1. Various decrees passed / incomplete and unclear policy framework	2.1. Detailed sector policy & regulatory plan developed & being implemented	2.1. Cabinet of Ministers Reports; Legislative records

	Results chain	Indicators	Baselines (2018/2019)	Targets by the end of the budget support contract (2022)	Sources of data
	Induced Output 3: Strengthened sector finances and management	3.1. Yearly budget execution ratio in agriculture (disaggregated by sector priorities or essential services)	3.1. Fragmented budget framework with no allocations for essential public services 3.2. No MTEF	3.1. Unified budget framework with clear allocations to support new public services 3.2. MTEF for 2022-2025	3.1. Cabinet of Ministers Reports; 3.2. Published budgets; Ministry of Finance Reports
	Induced Output 4: Restructured and improved agriculture and rural advisory services	4.1. Status of Strategy, Institutional Plan and Investment Plan 4.2. Status of National Adviser Network and Adviser Training and Certification Program 4.3. Percentage of small and medium scale farms and rural businesses receiving advisory services support	4.1. None 4.2. None 4.3. None	4.1. Advisory Services Strategy, Institutional Plan and Investment Plan Approved (2020) 4.2. National Adviser Network + Adviser Training and Certification Program fully operational (2021) 4.3. At least 20% of small and medium scale farms and rural businesses receiving advisory services support.	4.1. Cabinet of Ministers Reports; 4.2. Ministry of Agriculture Reports; 4.3. Advisory service monitoring reports

	Results chain	Indicators	Baselines (2018/2019)	Targets by the end of the budget support contract (2022)	Sources of data
	Induced Output 5: Restructured and improved agri-food information and statistics services	5.1. Number of farm surveys with gender sensitive analysis completed 5.2. Status of the Agri-food Market Information (AMS) system 5.3. Status of Gender sensitive policy impact monitoring data system	5.1. None 5.2. None 5.3. Incomplete / unreliable / out-of-date	5.1. Farm surveys completed, and farm performance data / comparative farm gross margin data gender sensitive analysis published (2020) 5.2. Agri-food Market Information (AMS) system operation, publishing regular market/price data on leading commodities (2021) 5.3. Gender sensitive Policy 4mpact monitoring data system operational and providing relevant data and progress reports on sector reforms (2022)	5.1. Ministry of Agriculture (MoA) publications 5.2. AMS Publications; MoA publications 5.3. Monitoring Reports; Annual Agriculture Reports of the MoA
	Induced Output 6: Improved food safety framework and services	6.1. Status of National Committee for Food Safety; 6.2. Status of Law on Food Safety to align with WTO SPS requirements; 6.3. Level of compliance of Food Safety services with WTO requirement	6.1. None 6.2. None 6.3. Not compliant with WTO SPS requirements	6.1. Establishment of National Committee for Food Safety (2021) 6.2. Law on Food Safety adopted to align with WTO SPS requirements (2021) 6.3. Food safety services structures compliant with WTO SPS requirements	6.1. Cabinet of Ministers Reports; 6.2. Legislative records 6.3. WTO reports and minutes

	Results chain	Indicators	Baselines (2018/2019)	Targets by the end of the budget support contract (2022)	Sources of data
Direct outputs	Direct output 1: Increased available agriculture budget resources	1.1. Amount of agriculture budget (per year in EUR)	1.1. 757 million Euro	1.1. Increases in accordance with agreed budget projections / MTEF	1.1. Ministry of Finance Budget reports
	Direct output 2: Increased capacities of Ministry of Agriculture to implement the strategy	2.1. Number of MoA staff in key Strategic Planning and Analysis roles 2.2. Skill levels of relevant MoA staff	2.1. 5 core staff 2.2. Skills audit to be completed	2.1. 20 core staff 2.2. Skills audit to be completed	2.1. MoA Human resource records 2.2. External skills audit (supported by EU TA)
	Direct output 3: Continued policy dialogue with the Government, with a focus upon BSAU Yearly Policy Dialogue Plan	3.1. Number of yearly priorities defined in the Policy-Dialogue Plan achieved	3.1. None	3.1. Policy-Dialogue Plan fully implemented	3.1. CoM / MoA reports on meetings
	Direct output 4: Continued dialogue with other development partners to coordinate & further align development cooperation	4.1. Number of development partners and government regularly participating in coordination meetings	4.1. Ad hoc meetings, forums and participation	4.1. Regular (quarterly) government-development partner policy dialogue meetings	4.1. Development partner meeting records /minutes
	Direct output 5: Regular monitoring of budget support eligibility criteria: achievement of agriculture sector priority objectives; macro-economic developments; PFM eligibility; & budget transparency	5.1. Number of reviews of budget support eligibility criteria completed	5.1. None	5.1. All reviews of budget support eligibility criteria completed	5.1. Budget Support reports / monitoring reports

Appendix 2 - Table of Acronyms and Abbreviations

AD	Action Document
ADB	Asian Development Bank
AFD	French Agency for Development
BCOP	Budget Community of Practice
BS	Budget Support
BSAU	Budget Support for Agriculture in Uzbekistan
BSSC	Budget Support Steering Committee
CIS	Commonwealth of Independent States
CN	Concept Note
DP	Development Partners
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EUD	European Union Delegation in Uzbekistan
EU	European Union
FAO	Food and Agriculture Organisation
GDDS	General Data Dissemination System
GFMS	Government Financial Management Information System
GIFT	Global Initiative for Fiscal Transparency
GIZ	German Development Agency
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Financing Institutions
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
M&E	Monitoring & Evaluation
MIFT	Ministry of Investment and Foreign Trade of Uzbekistan
MoA	Ministry of Agriculture of Uzbekistan
MoE	Ministry of Economy of Uzbekistan
MoF	Ministry of Finance of Uzbekistan
MoI	Ministry of Innovative Development of Uzbekistan
MoWR	Ministry of Water Resources of Uzbekistan
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NCU	National Coordination Unit
OBI	Open Budget Index
PEFA	Public Expenditure and Financial Accountability
PEMPAL	Public Expenditure Management Peer-Assisted Learning Network
PFM	Public Finance Management
RMF	Risk Management Framework
SDG	Sustainable Development Goal
SOE	State-Owned Enterprises
SPS	Sanitary and Phyto-Sanitary measures
TVET	Technical and Vocational Education Training
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank