Country case study

External finance for rural development

Country case study: Uzbekistan

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Key messages

- Agriculture and rural development are high priorities for the Government of Uzbekistan, and are seen as critical for economic growth, welfare and food security. Ambitious reforms aim for a shift from state-led to market-oriented agriculture and a pilot rural development programme aims to address poverty and welfare.
- Uzbekistan spends the world's third highest share of public expenditure on agriculture, reflecting, in part, its largely state-led economic model for agriculture.
- Official development finance (ODF) to Uzbekistan – once limited – has increased in recent years, mostly as non-concessional finance.
- Much of Uzbekistan's ODF goes to agriculture and rural development: 22% in 2018 (far above the global average of 5%) with the majority spent on financing banks to provide rural credit.
- Government demand for ODF – grants, concessional and non-concessional loans – for the sector is expected to increase over the next five to 10 years. While there is no formal policy on the types of projects to be supported by non-concessional loans, the government prefers to use it for rural development projects that generate revenue. The new government may, however, be more willing to borrow for wider objectives, including public goods and capacity-building.

Introduction

Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional $267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)[1] to agriculture and rural development rose slightly from $10.2 billion in 2015 to $10.9 billion in 2018. This is only a fraction of the total ODF disbursements of $254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Uzbekistan. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Uzbekistan over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale-up to support public investment in rural development.

Definitions

What we mean by public investment in inclusive and sustainable rural development (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value-chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

What we mean by external assistance for inclusive and sustainable rural development: We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria (usually defined as other official flows, or OOFs).[2] We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is

1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA-eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

not a perfect measure, but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect on the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature[3] and data analysis,[4] which also helped us to identify country stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Uzbekistan, we held 10 interviews between May and June 2020, and received six questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

Uzbekistan: country context

Uzbekistan has been classified as a LMIC since 2009. The country's income status has fluctuated over time, and it was first classified as a LMIC back in 1991. However, Uzbekistan struggled with low and negative growth rates after breaking away from the Soviet Union in 1990 and was reclassified as a low-income country (LIC) in 1999. Uzbekistan has been eligible for concessional and non-concessional credit from the World Bank's International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) as well as the Asian Development Bank (ADB) under blend terms[5] (World Bank, 2019a; ADB, 2020b) since 2008.

Uzbekistan's sustained economic growth between 2005 and 2015 was the highest in Europe and Central Asia, with an average gross domestic product (GDP) growth rate of 8.2% (World Bank, 2016). The economy has continued to grow since 2015, by an average of 5.8% each year. The structure of the economy, which has changed little over the past decade, is based largely on industry and manufacturing, which accounted for 52% of GDP in 2019, followed by services (32%) and agriculture (26%) (World Bank, 2020c). The share of the economy based on agriculture is far higher than the average for LMICs, which stood at 15.1% in 2019 (World Bank, 2020c).

Uzbekistan is a 'double landlocked' country, in that is surrounded by countries that are also landlocked. With a population of 31 million, it is

3 Government strategies, IMF Article IV and World Bank and Asian Development Bank (ADB) diagnostic tools.

4 Spanning IMF, OECD and World Bank and ADB sources.

5 ADB's terms are: a five-year grace period, 25-year maturity and 2% interest with no commitment fee. The World Bank (IBRD) terms are an average of 20 to 35 years maturity; and the IDA has a five-year grace period, 30-year maturity and 0% grants.

the most populous country in Central Asia, and over one-third of its people are under the age of 14 (World Bank, 2016).

Just under half of the population (49.4%) lived in rural areas in 2017 (World Bank, 2020c), with this expected to rise in the next 10 years (UNDESA, 2020). The agricultural sector also accounts for 33% of all jobs in the country (World Bank, 2020c).

Poverty levels in rural and urban areas in Uzbekistan are hard to calculate, given the lack of international comparable data. However, the World Bank estimates that the poverty level was 9.6% in 2018, based on the $3.20 a day poverty line (public–private partnership (PPP)–adjusted poverty rate) (World Bank, 2019b). According to government data, national poverty rates fell from 27.5% in 2001 to 11.5% in 2018 (ibid.). The issue of poverty has risen sharply up the political agenda in 2020 with the government identifying it as a major priority. Prior to this there was limited official recognition that poverty was a problem in the country.

Food security remains a concern for the country. While there has been significant progress in reducing the percentage of the population that is undernourished, which fell from 19.4% in 2001–2003 to 2.6% in 2017–2019, child malnutrition has remained high, at 10.8% in 2017 (FAO, 2020).

Government priorities for rural development

Agriculture and rural development are high priorities for the Uzbekistan government, and are seen as critical to driving economic growth, improving welfare and ensuring food security. Their prioritisation reflects the country's relatively high rural population and agriculture's role as an important source of economic growth and jobs.

Uzbekistan's National Development Strategy 2017–2021 (GOU, 2017) revolves around reforms in five areas: public administration, the judiciary, social sectors (health and education), the economy and security. At the heart of economic reform lies the modernisation and intensification of the agriculture sector, with a focus on ensuring food security, improving livelihoods and boosting the sector's export potential. The strategy's social reforms recognise the need to reduce inequality between regions in Uzbekistan and support basic infrastructure in disadvantaged areas.

In 2019 the government adopted a long-term strategy for agriculture, aiming to modernise the sector. 'The strategy for the development of agriculture of the Republic of Uzbekistan for 2020–2030' (GOU, 2020c) identifies nine priority areas for action:

1. ensuring food security for the population;
2. creating a favourable agri-business environment and value chains;
3. decreasing state involvement in sector management and enhancing the attractiveness of investment;
4. ensuring the rational use of natural resources and environmental protection;
5. developing modern systems of public administration;
6. ensuring the gradual diversification of state expenditures on sector support;
7. developing research and education and advisory services in agriculture;
8. developing rural areas; and
9. developing a transparent industry statistics system.

Beyond the agricultural sector, the government is also supporting rural development through its *Obod Qishloq* (Prosperous Villages) programme. This state programme, launched in 2018, aims to improve the welfare of rural residents by empowering local communities in decision-making and providing direct financing to support basic infrastructure, improve service delivery and create jobs. The programme is in its pilot stage, focusing on only four villages within each district, aiming for full coverage by 2028 (World Bank, 2019c). The programme is financed by the national budget and the World Bank is also providing a support programme.

According to our interviewees and survey respondents, improving basic rural infrastructure is expected to be the top priority for government public investment over the next five to 10 years, followed by agricultural value-chain development and support for the rural investment environment. This reflects the challenges facing the sector identified by our interviewees. Inadequate infrastructure, for example, is a major issue, particularly in water irrigation, and is hindering productivity, which is already low. Uzbekistan's geography means that water supply is limited and current irrigation is inefficient, badly maintained and far from comprehensive (GOU, 2020c). These factors, along with increased use of land for non-agricultural purposes, have resulted in a 24% decrease in irrigated land per capita since 2002. Projections show that this could be reduced by another 25% in the medium term (ibid.).

Agricultural value-chain development is also weak, with limited competitiveness within a small food industry, and most entrepreneurs need individual investment and more business. The high costs for collection, transportation, storage, packing and certification of produce also undermines the efforts of businesses to add value. In addition, support for a more enabling investment environment is vital, given the important and changing role envisaged for the state in the agricultural sector as it is transformed from state-led to market-led.

Technical capacity issues, rather than inadequate finance, were seen as the main barrier to effective public investment in rural development and agriculture by almost all of our interviewees. As one respondent noted, the country's shift from a state economy to a market economy requires a radical change in the roles and skillsets within the government.

Government policies for agriculture and rural development include nascent targeting of particular groups and regions, as noted by all of our interviewees. Uzbekistan's long-term agricultural strategy (2020–2030) aims to improve land rights and ensure greater access to subsidised credit for smallholder farmers. The strategy also includes targets to support women and youth-led enterprises as part of its objective of improving rural development, and its food security goals include programmes that target socially vulnerable segments of society.

Government officials talked about how some agricultural programmes have focused on disadvantaged regions like Karakalpakstan, Khorezm and the Fergana Valley. This focus has been supported by a strong donor interest in addressing poverty in these regions. Government officials also noted that the government intends to establish a specific gender strategy for agricultural development.

The crisis prompted by the Covid-19 pandemic is not expected to change the government's existing priorities for rural development and agriculture. On the contrary, according to most of our interviewees, it could even enhance the government's focus on these sectors. One interviewee, in particular, noted that, as demand for commodities falls in the wake of the Covid-19 crisis, the government may put more emphasis on improving agricultural exports as a way to boost growth and gain foreign currency.

As of 18 June 2020, Uzbekistan had reported 5,697 cases of Covid-19 and 19 deaths (IMF, 2020). The government has imposed extensive measures to contain the virus, with restrictions on the movements of its citizens and the closure of schools and all non-essential shops. The pandemic has already had an economic impact, with a drop in exports, remittances and public revenues, along with an unexpected rise in public expenditure.

The government has been quick to take action, bringing in $1 billion in external crisis financing from development partners to tackle both the pandemic and its economic and social impact.[6] This funding has been used to establish an anti-crisis fund with three main focus areas – supporting healthcare, building hospitals and protecting the population from unemployment.

Uzbekistan's economy is expected to manage relatively well, compared to many other countries in the region (ADB, 2020a). The ADB projects that GDP growth will fall to 1.5% in 2020, but then pick up again in 2021. The IMF also projects a widening of the fiscal deficit to 4% in 2020, and a current account deficit (IMF, 2020).

6 The government has taken out a $500 million ADB emergency loan, $200 million additional World Bank development policy finance, and $375 million from the IMF as part of its Rapid Credit Facility (World Bank, 2020a).

Financing for rural development and agriculture

Public finance

The government has a history of being prudent when it comes to macro-economic management. On-budget expenditure (funding that is recorded in the central budget) declined marginally from 26% in 2014 of GDP to 25% in 2019, in response to a fall in revenues[7] from 28% to 25% over the same period (World Bank, 2020c). As a result, the on-budget deficit stood at –0.6% in 2019 (IMF, 2019).

There has, however, been significant off-budget expenditure by state-owned enterprises, funded by policy-based lending from the Uzbekistan Fund for Reconstruction and Development (UFRD) and foreign loans.[8] If off-budget expenditure is added to on-budget expenditure, then Uzbekistan's government spending accounted for 35.2% of GDP in 2018 (this rises to 41.2% if quasi-fiscal losses are included) (World Bank, 2019d). This is above the average for LMICs and close to the average for upper-middle-income countries (UMICs), reflecting Uzbekistan's heavily state-led economic model (World Bank, 2019d). Once the off-budget expenditure is taken into account, the consolidated fiscal deficit is estimated to have stood at –2.1% in 2018 (IMF, 2019).

The Government of Uzbekistan spent 1.85% of its GDP on agriculture in 2018; far higher than the average for most non-OECD countries, which stands on average at 0.71% between 2015–2017 (World Bank, 2019d). The Food and Agriculture Organization (FAO) also notes that, on average, Uzbekistan allocated 11.9% of its total public expenditure to agriculture between 2012 and 2016 (FAO, 2019) ranking it as the country with the third largest share of public spending on agriculture worldwide.[9]

While Uzbekistan may allocate a larger share of its public expenditure to the sector than many other countries, the World Bank is highly critical of the effectiveness of this expenditure, noting in a recent review, that government funding has had 'limited impact on farm incomes, sustainability, and competitiveness' (World Bank, 2019d: 91). The review highlights that most government funds

> are directed to the production of cotton and wheat, preserving a status quo rather than accelerating agriculture's transformation into higher value-added activities that are part of food value chains. The mix of farm support instruments … are largely offset by the lack of other programs and low – although substantially increased of late – state procurement prices for cotton and wheat (World Bank, 2019d: 9).

Our interviewees were unsure whether public spending for agriculture would increase in the near future, given that it is already high when compared to other countries. The Agricultural Development Strategy 2020–2030 does not have a costed future budget envelope attached to it, but instead includes targets for the percentage of the government budget to be spent on specific funding lines in a drive to enhance the effectiveness of that spending.

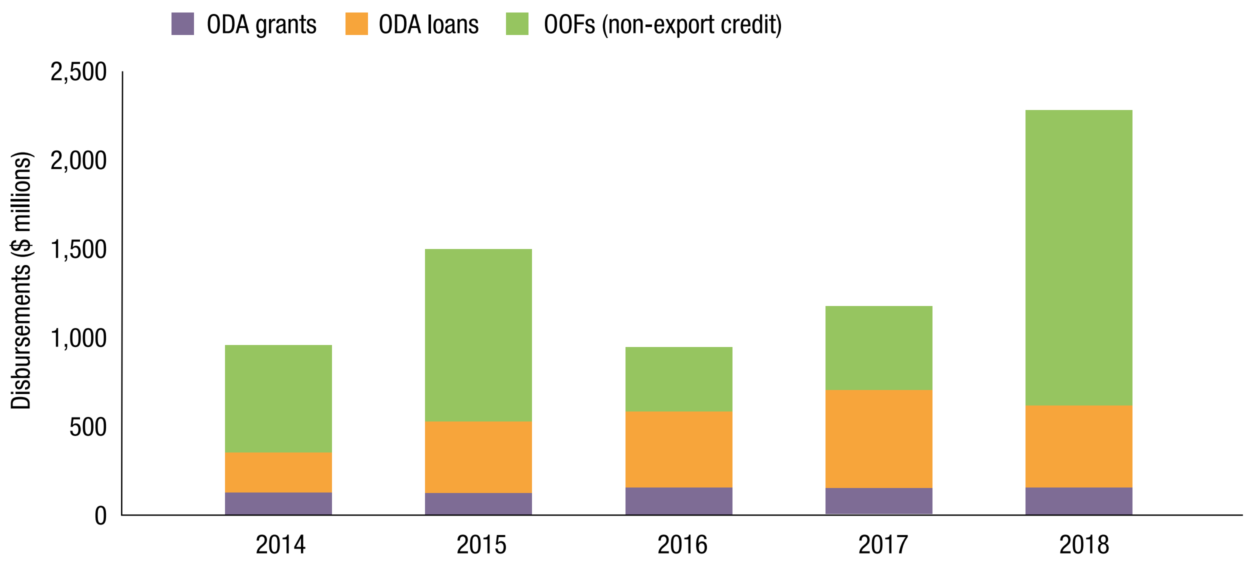
Key targets include a phased reduction in the share of funding spent on cotton and cereal subsidies, energy costs of irrigation and agricultural mechanisation. In contrast, phased increases are expected in the percentage of government spending going to livestock, horticulture and fisheries development

7 The fall in revenues has been a result of economic shocks, including lower commodity prices, the economic slow-down in Russia and China, and bad weather conditions that reduced agricultural production and exports (IMF, 2019).

8 According to the World Bank, off-budget spending includes the remaining extra-budgetary funds (EBFs) that have not been put on-budget; off-budget accounts of budgetary organisations; government investment spending financed by foreign project loans; policy lending by the UFRD, the government, and foreign lenders; and estimates of the quasi-fiscal losses of state-owned enterprises (SOEs) (World Bank, 2019b)

9 This funding does not include development partner spending, which is estimated to be, as of 2019, $2.5 billion (time-frame unclear) (World Bank, 2019d).

Figure 1 Official development finance to Uzbekistan across all sectors



Note: constant 2018 prices. ODA, official development assistance; OOF, other official flow.
Source: OECD (2020)

programmes, irrigation building and maintenance, seed quality control and inspection, and research and development. Some new spending areas are included, such as support for cooperatives, PPPs, advisory services and rural development more generally (GOU, 2020a). The strategy makes it clear that, beyond government funding, there is also an appetite to attract more private sector funding to the sector to modernise it and make it more market-oriented.

While the overall amount of government spending on rural development, beyond agriculture, is not known, it is likely that funding for the government's village prosperity fund programme *Obod Qishloq* will increase in the future. As noted, the programme is currently being rolled out to four villages in each district, which will cost $359 million. If this is successful, the plan is to scale the programme up to every village in the long-term, at an estimated cost of $6 billion (World Bank, 2019b).

External development assistance

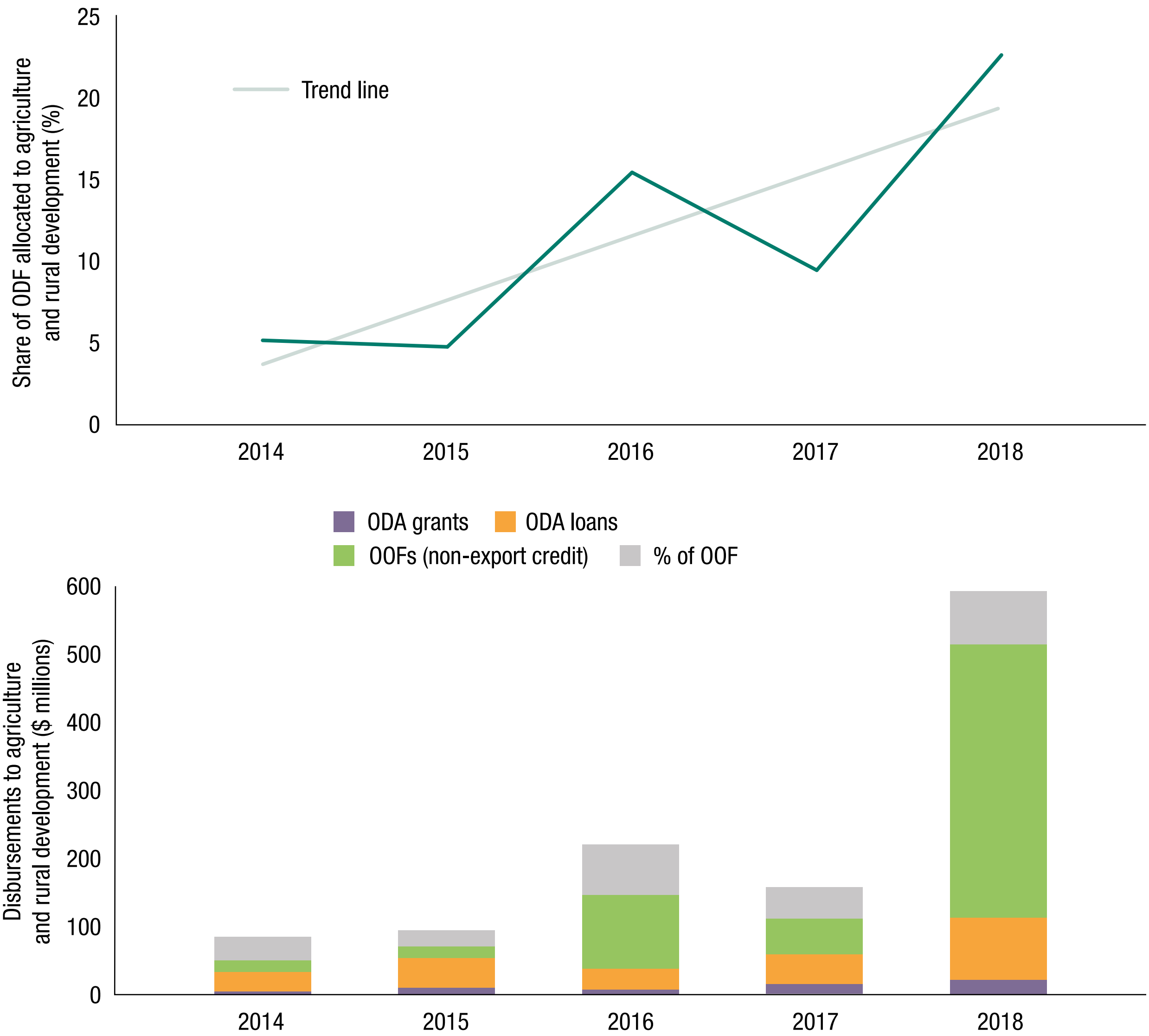
The volume of ODF to Uzbekistan more than doubled between 2014 and 2018, from $994 million to $2.2 billion in constant prices (Figure 1). Uzbekistan is a relatively recent recipient of ODF from official creditors as a result of its Soviet past, with ODF flows only recorded from 2002 onwards and at relatively low levels between 2000 and 2010. Following the election of a new government in 2016, there was a surge in funding in 2018, with a substantial increase in external financing from the World Bank and the ADB to support Uzbekistan's ambitious reform plans. This increased funding focused on infrastructure, energy and agriculture.

The majority of ODF received between 2014 and 2018 was non-concessional (averaging 60%). However, the share fluctuated during that period, with concessional finance making up the majority of ODF in 2016 and 2017. This reflects Uzbekistan's status, with its access to blend terms from multilateral development banks enabling the country to access both concessional and non-concessional finances.

The main providers of ODF between 2014 and 2018 were (in order of volume) the ADB, Japan and the World Bank (IBRD and IDA). It should be noted, however, that the ODF figures do not reflect Uzbekistan's full access to concessional and non-concessional external finance, as they do not include lending from providers like China. According to the government, China is the second-biggest lender to the country, after the ADB, and has lent a total of $3.6 billion as of April 2020 (GOU, 2020a).

Uzbekistan is not an aid-dependent country, with concessional flows (ODA) representing

Figure 2 Share and composition of official development finance to agriculture and rural development



Note: ODA, official development assistance; OOF, other official flow.
Source: OECD (2020)

just 1.1% of Uzbekistan's gross national income (GNI). However, the share of ODA that it receives more than doubled as a percentage of government expenditure between 2014 and 2017, from 2.7% to 7.2%.

The share of ODF received for agriculture and rural development is high and has increased steeply since 2014. In 2018, the government received 22% of its ODF ($514 million) for these sectors (Figure 2). This is far above the global average, which stands at 5%. This large share is driven by the specific nature of ODF lending to agriculture in Uzbekistan, which is predominantly in the form of credit lines. These credit lines are repaid by sub-loan beneficiaries, not tax payers and, as a result, the size of the typical agricultural loan to the country is far higher than that provided to other countries.

Most ODF to agriculture and rural development (67%) was received in the form of non-concessional finance between 2014 and 2018 – a share that is higher than the share received across all sectors (60%). The vast majority of non-concessional finance received during that period came from the World Bank and supported a horticultural programme that aims to enhance productivity and profitability. The largest funding component of the project revolved around the provision of financial credit to banks that then lend on to horticultural farmers (agricultural financial services).

More recently, in 2017/2018, there has been an increase in non-concessional funding for agricultural research and development. The majority of grant financing for agriculture aims to support agricultural water resources in disadvantaged areas, agricultural livestock and agricultural land-use projects.

Most of our interviewees and survey respondents strongly expect that government demand for grants, concessional and non-concessional loans for agriculture and rural development will continue to increase over the next five to 10 years. Interestingly, they are most confident about a growing demand for grants. One government official noted that Uzbekistan had received a lower level of grants than its Central Asian neighbours and that the government was keen to use grants to support technical assistance that would build government capacity as part of its ambitious reform agenda. While demand for grants may increase, there was skepticism about whether this demand would be met in the future.

The impact of the Covid-19 pandemic is anticipated to compound the government's demand for more ODF (concessional and non-concessional) as fiscal space becomes more limited and agriculture reforms provide a pathway to future growth. There was far less certainty, however, around whether there will be greater government demand for commercial loans in the future.

Uzbekistan's strong economic performance and recent opening up to foreign investment means the government is beginning to have access to a wider set of external resources beyond external ODF. It has issued Eurobonds, for example, for the first time, to encourage greater foreign direct investment in the country.

Despite taking these steps, the government still relies heavily on ODF as its primary source of external funding. Our interviewees and survey respondents noted that the government values ODF in general for the funding it provides at below-market rates and for the knowledge and project expertise that accompanies finance from development partners.[10]

Borrowing for rural development

Debt trends and composition

Uzbekistan is classified as being at a low risk of debt distress (IMF, 2019), with debt standing at 23% of GDP in 2019. The country's low levels of public debt are the result of a history of prudent fiscal policy and a state-led growth model that has actively targeted external and fiscal surpluses (ibid.).

Even so, Uzbekistan's debt has increased significantly since 2014 when it stood at just 4% of GDP. External borrowing has ramped up in the last four years, largely as a result of the desire of the President, elected in 2016, to pursue an ambitious set of reforms to improve the welfare of Uzbek citizens and create an open, modern, competitive and market-led private sector economy (ADB, 2019). The IMF's debt sustainability analysis suggests that the most significant risks lie in worse-than-expected remittances and significantly lower exports. The economic fallout from the Covid-19 pandemic is already having an impact in Uzbekistan, with falling remittances and exports (IMF, 2019).

The vast majority of Uzbekistan's public debt (97%) is external and is owed to official multilateral and bilateral creditors (58% and 39%, respectively) (World Bank, 2020d). The government paid off all of its domestic currency debt in 2011 and, as a result, its domestic debt accounted for only 0.7% of its public debt in 2018 (IMF, 2019). In early 2019, the government issued Eurobonds worth $1 billion (ibid.).

According to government data, most public sector borrowing has been for the energy sector ($4.1 billion), followed by the transport sector ($2.1 billion). Agriculture is the third largest sector, with the government borrowing $1.8 billion to date (GOU, 2020a). It is important to note, however, that the data do

10 It should be noted that the ODF lending for agricultural credit lines is not below market prices but at global market rates, as international financial institutions do not want to distort markets. The credit lines do, however, allow Uzbek farmers access to finance at low global market prices.

not reveal the types of debt taken out for each of these sectors i.e. whether it is predominantly bond-based borrowing or from official creditors, or whether it is concessional or non-concessional in nature.

Policies and preferences for borrowing and debt management

Uzbekistan has, for the first time in its history, adopted a law for debt management. The law, adopted in January 2020, is major departure for a country that has been reluctant to take on foreign debt (GOU, 2020b).[11] The law contains some key thresholds and lays out a plan for the development of new regulations, processes and strategies to establish a more comprehensive set of policies for effective debt management. This includes the development of a strategy to identify the selection criteria for the use of external debt for projects. The key thresholds included in the new state law are as follows:

- a debt to GDP ratio below 50%
- the volume of foreign loans in 2020 to be maintained below $4 billion (a threshold amended to $5 billion as a result of the Covid-19 pandemic)
- foreign loan drawdowns in 2020 to not exceed S1.5 billion (GOU, 2020b).

As of February 2020, the law also requires all legal entities in which the state has a stake of 50% or more to notify the Ministry of Finance if they attract foreign debt obligations.

While there is no formal policy to guide officials on what types of projects should be supported by non-concessional loans, nearly all of our interviewees noted that the government has adopted a prudent approach, with a preference to use non-concessional finance for projects that can deliver economic or financial returns. In the case of agriculture and rural development, nearly all non-concessional finance has, until recently, supported agricultural financial services (credit lines for farmers) in the livestock and horticulture sectors. This reflects the government's fiscally prudent approach, with the project providing a direct revenue stream for repayments. In line with this approach, most of our interviewees and survey respondents expect the government to only consider borrowing at less concessional rates for projects that support value chain development, rural financial services and basic rural infrastructure – all of which deliver financial or economic returns in the short to medium term.

There are, however, some signs that things are changing as a result of the government's ambitious plans to open up and reform Uzbekistan's economy and society. For example, the signing of a new $500 million blended loan from the World Bank (IBRD and IDA) in March 2020 for agricultural modernisation (World Bank, 2020b) signals a far more holistic approach to supporting reform in in the sector and includes support for public goods and capacity-building.

Our interviewees and survey respondents noted a government preference for low interest rates for any borrowing for agriculture and rural development, in line with its prudent macroeconomic approach. Three other features were also highlighted as priorities: the volume of resources (with a preference for large loans over multiple small loans, given government capacity issues); the inclusion of grant financing (driven by a desire to ensure that borrowing for big projects is accompanied by grant- financed technical assistance to build up capacity and learning); and the maturity rate (with a preference for long maturity dates to enable stable repayments).

Preferences and instruments for rural development

To date, the Government of Uzbekistan has no formal aid management strategy in place, and has tended to work with external partners on an individual basis (UNDP, 2016). However, our interviewees confirmed that more coordination mechanisms are being introduced as the number of external partners grows, particularly within the

11 Resolution No. 27 'On Measures for Effective Management of the State Debt and Ensuring the Targeted Use of the Attracted Debt'. An unofficial translation is found here: www.mondaq.com/financial-services/889740/resolution-of-the-cabinet-of-ministers.

agriculture sector. The agricultural development strategy, for example, calls for the formation of a development partners advisory group.

The government's preference is for external assistance that is aligned to national priorities, according to our interviewees. The creation of a new long-term strategy in agriculture signals the government's desire to ensure that all financing fits within that strategy. The government also places a high value on flexibility, with some interviewees interpreting this as aid that is not tied to the procurement of goods and services by the donor, with a desire, where possible, to support local procurement. Finally, long-term financing and projects that can leverage private finance were also considered important by the government. This chimes with the government's desire to move towards a more market-oriented economy.

The government also has a preference for instruments that can leverage private sector financing for agriculture and rural development, as noted by most of our interviewees. This is not surprising, given the government's ambition to make the agriculture sector more market-oriented and commercial. The government has set up a new Public–Private Partnership Agency to support its work with the private sector. The government officials interviewed also saw guarantees and risk capital as vital to support innovative ideas in Uzbekistan and overcome market failures, along with insurance schemes.

Conclusions

Our analysis of the experience and perspective of Uzbekistan on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Rural development and agriculture are high priorities for the Government of Uzbekistan and are seen as critical to drive economic growth, improve welfare and ensure food security. The government has embarked on ambitious reforms to move from a state-led to a market-oriented model for agriculture, and is piloting a new rural development programme to address poverty and welfare in rural areas.
- High levels of public spending on agriculture have been driven by the high policy prioritisation for the sector, along with its largely state-led economic model. Uzbekistan is the country with the third-biggest share of public spending on agriculture worldwide.
- Uzbekistan is a relatively recent recipient of ODF as a result of its Soviet past and received very limited volumes of ODF until 2010. However, ODF volumes have increased, particularly since the election of a new government in 2016, with a large share of this increase going to rural development and agriculture. In 2018, just under one-quarter of all ODF received by Uzbekistan went to agriculture and rural development (22%) – a level far above the global average of 5%. The majority of ODF received for the sector has, to date, been non-concessional.
- Government demand for ODF for rural development is expected to continue to increase over the next five to 10 years, with an appetite for both concessional and non-concessional resources. While there is no formal government policy on what types of projects should be supported by non-concessional loans, the government has adopted a prudent approach, with a preference to use non-concessional finance to support rural development projects that have a clear revenue stream, rather than for capacity or knowledge building. This fits with the way in which non-concessional finance for the sector has been used to date, with most of it supporting financial credit lines for banks to lend on to horticultural farmers. Under the new government, however, there appears to be a willingness to borrow for wider set of objectives, with the signing of a new World Bank blended loan (IDA and IBRD) for agricultural modernisation (World Bank, 2020b), which includes support for public goods and capacity-building.

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Annex 1 List of interviewees

Name	Institution
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Lenyara Fundukova	International Fund for Agricultural Development (IFAD)
Ta'lat Nasirov	Asian Development Bank (ADB)
Mansurjon Rasulev	Ministry of Agriculture
Alisher Shukurov	Ministry of Agriculture
Eduards Stiprais	European Union Delegation
Sergiy Zorya	World Bank

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