

# **Kyrgyz Republic**



**WORLD BANK**

## **Soaring Food Prices: Food Security Challenges and Opportunities for Agriculture**

**Bishkek - June 25, 2008  
Maurizio Guadagni, the World Bank**

# Content

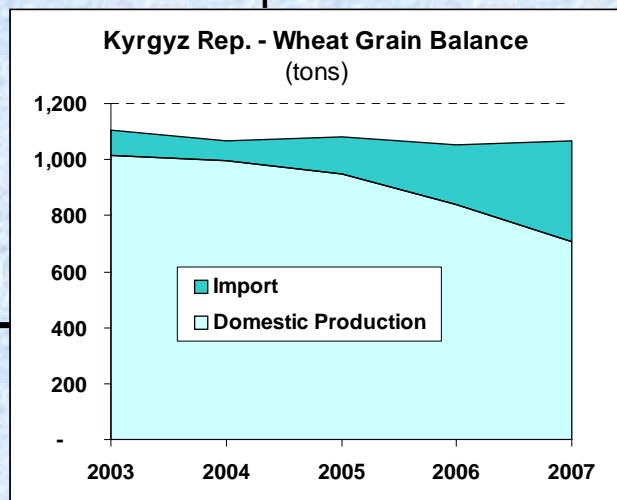
- 1. Food security**
- 2. Will the agricultural sector seize the opportunity?**
- 3. How can the Government help?**
- 4. Conclusions**

# Facets of food security

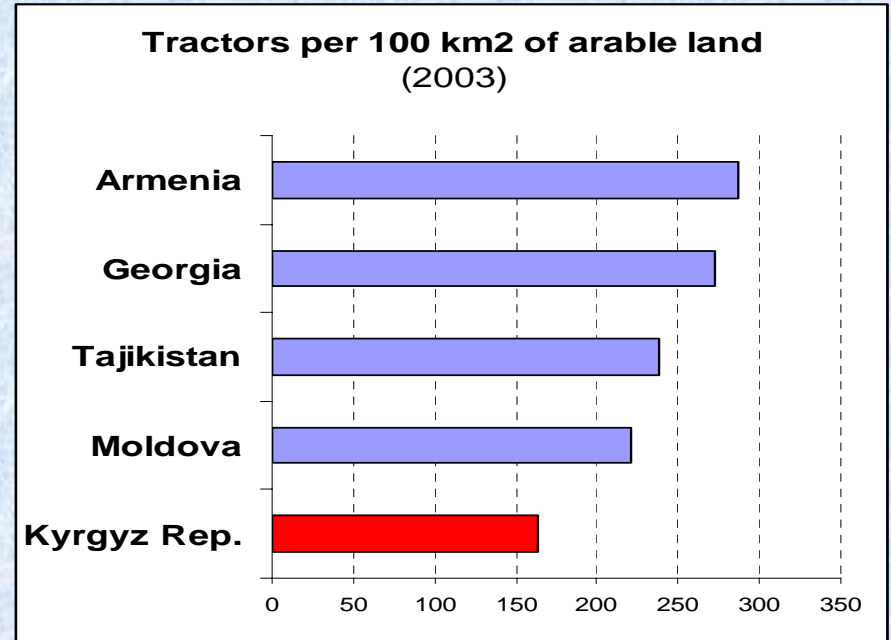
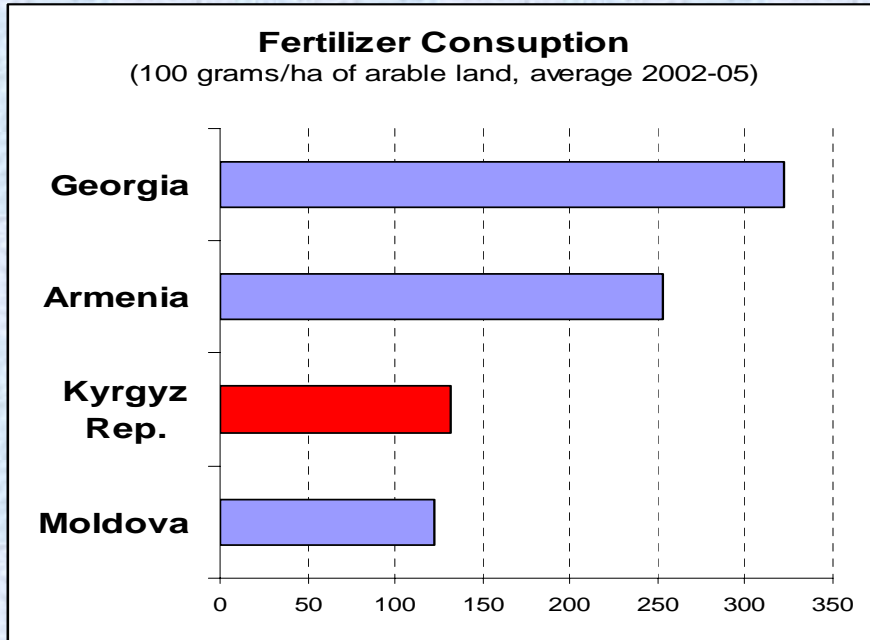
- **Availability:** *food security exists when all people, at all times, have access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life (FAO)*
- **Affordability:** *[...] assured ability to acquire acceptable foods [...]* (USDA)
- **Levels:** National and Household

# Food security in the Kyrgyz Republic

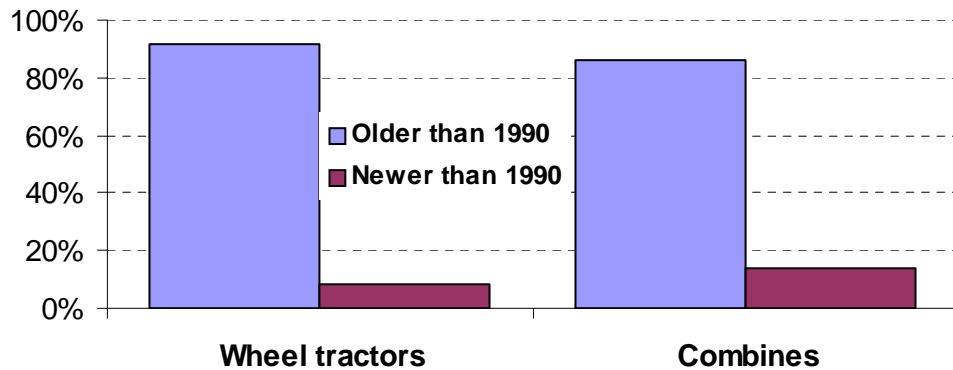
<b>Issues</b>	<b>Possible approaches</b>
<p><b>Availability</b> presents some risks because of the Kazakh ban to export wheat grains (and to a lesser extent vegetable oils and oil seeds)</p>	<ul style="list-style-type: none"><li>•Where possible, consider alternative sources of import (challenging for wheat)</li><li>•Increase domestic production</li></ul>
<p><b>Affordability</b> was significantly reduced by recent food price increases</p>	<ul style="list-style-type: none"><li>•Continue to foster growth to increase income and salaries</li><li>•Inflation and exchange rate management</li><li>•Support vulnerable groups</li><li>•Reduce drastic price fluctuations</li></ul>



# Agriculture is under-invested

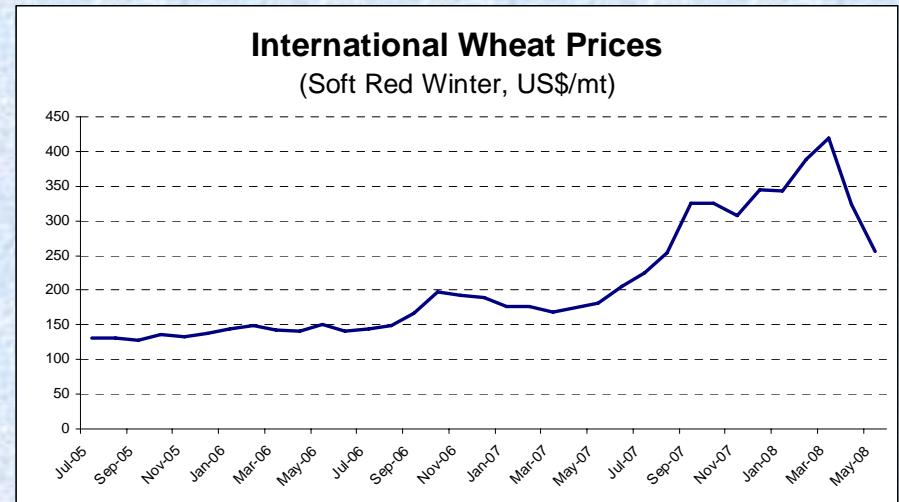


**Kyrgyz Republic - Age of Agricultural Machinery**  
(2003 Ag. Census)



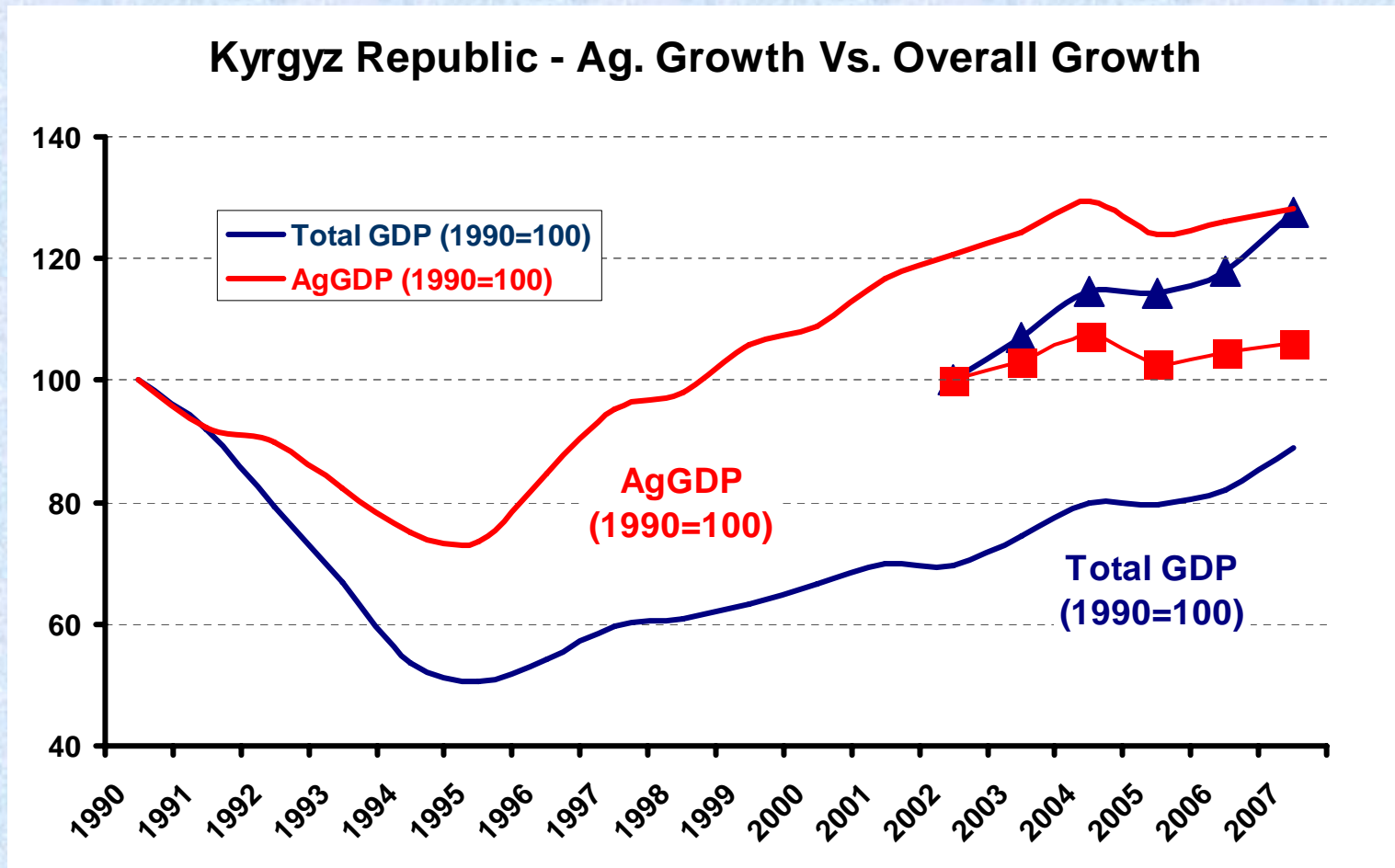
# Opportunity for agricultural growth

- Food price increase is an opportunity for agricultural producers (farmers)
- Will farmer seize this opportunity?



- Risks:
  - Recent stagnation of the sector (could this be an indication of major structural problems?)
  - Under investments, particularly from the private sector
  - Small farm size
- Good prospects:
  - **Kyrgyz** farmers have been rationally responding to market signals

# Agriculture has been the motor of growth only until 2002



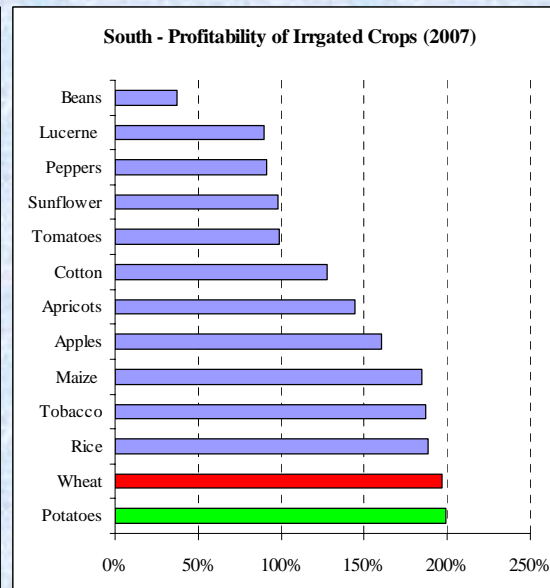
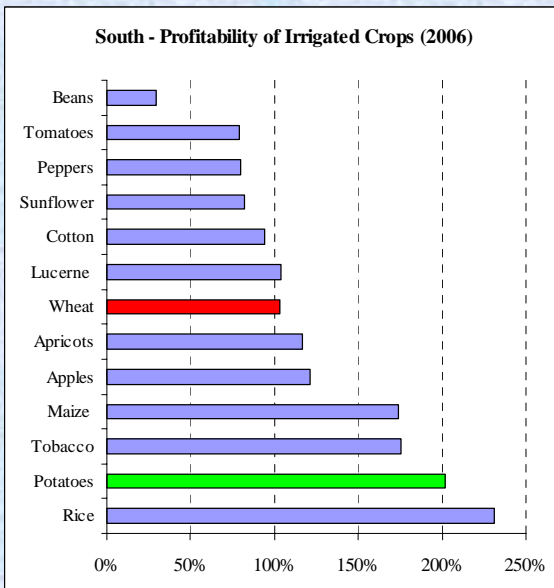
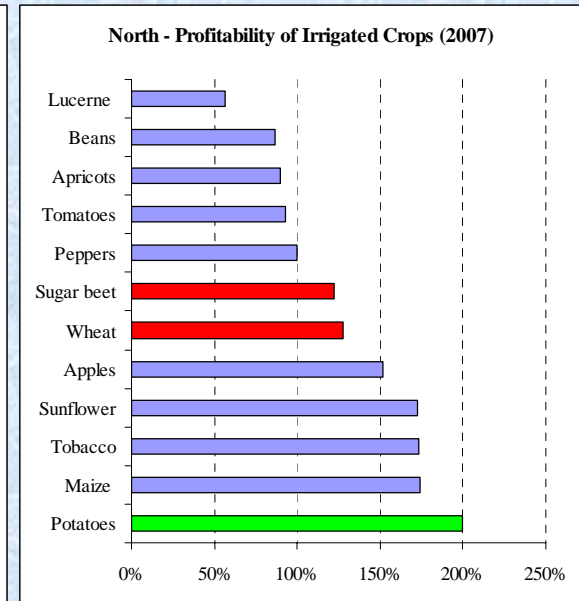
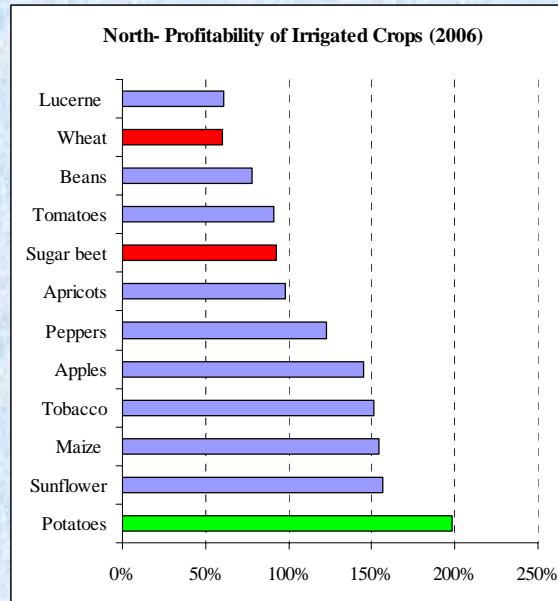
However statistics do not capture important agricultural exports, particularly in livestock

# Domestic production of food

- Domestic production does not totally isolate the country from international price fluctuations
- Even Kazakhstan, which is a large wheat exporter and has a well-funded wheat price regulation mechanism (FCC), suffered food price hikes similar to the Kyrgyz Republic
- Domestic food production has many benefits:
  - reduce availability risks
  - help domestic farmers capitalize on the opportunity
  - Increase rural incomes and salaries
- ... but this should not induce any country to produce domestically when there is no competitive nor comparative advantage (e.g. better to import sugar produced from sugarcane)

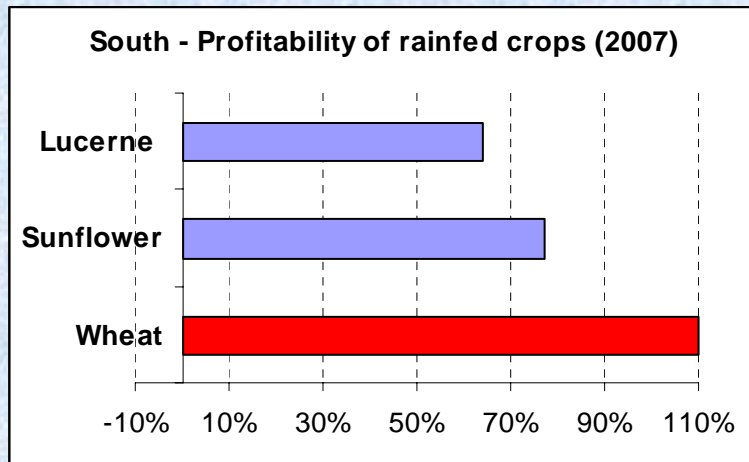
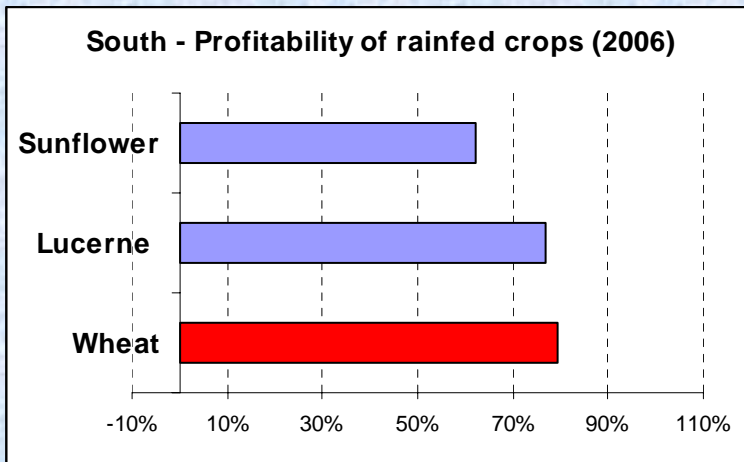
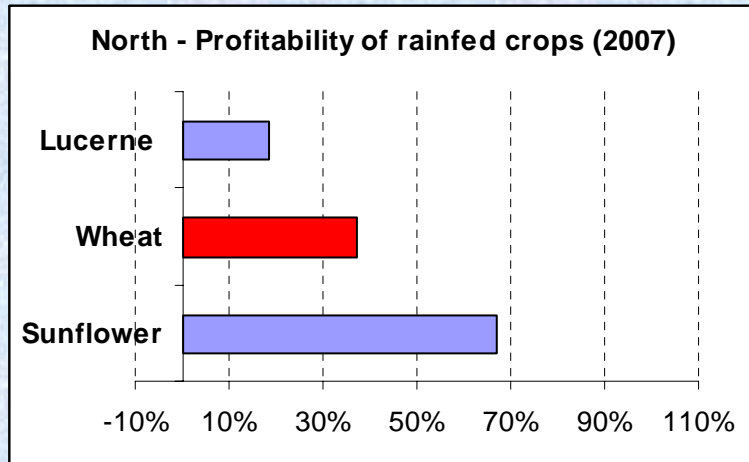
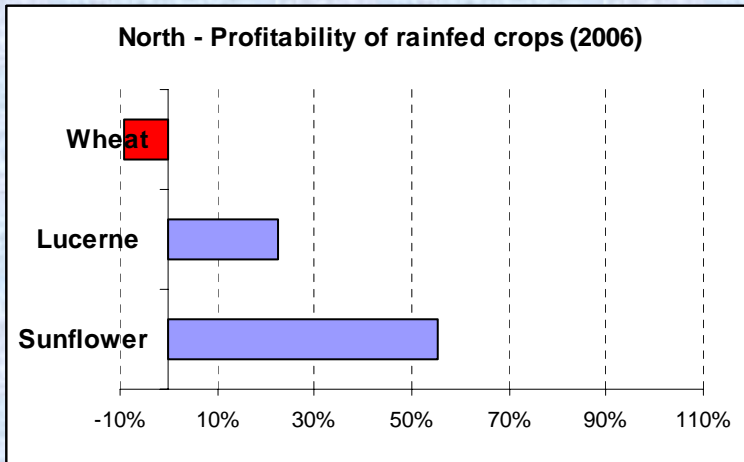
# Changing Market Signals (Irrigated)

North

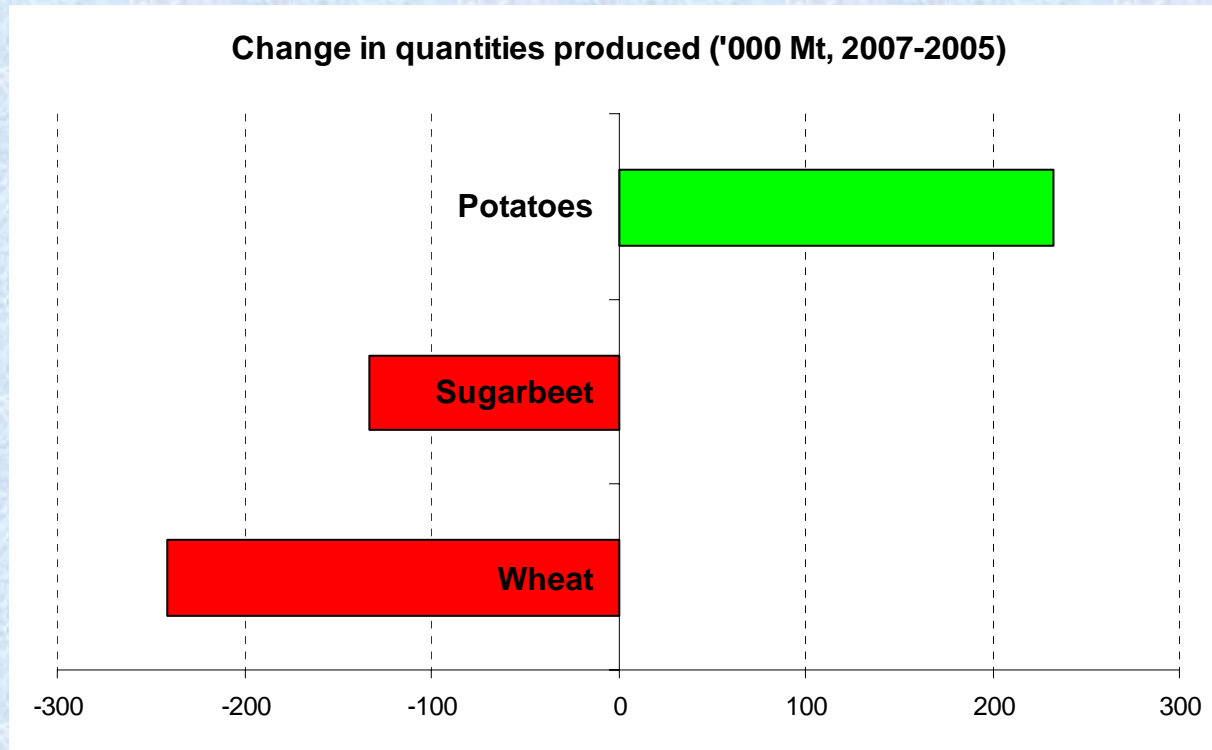


South

# Changing Market Signals (rainfed)

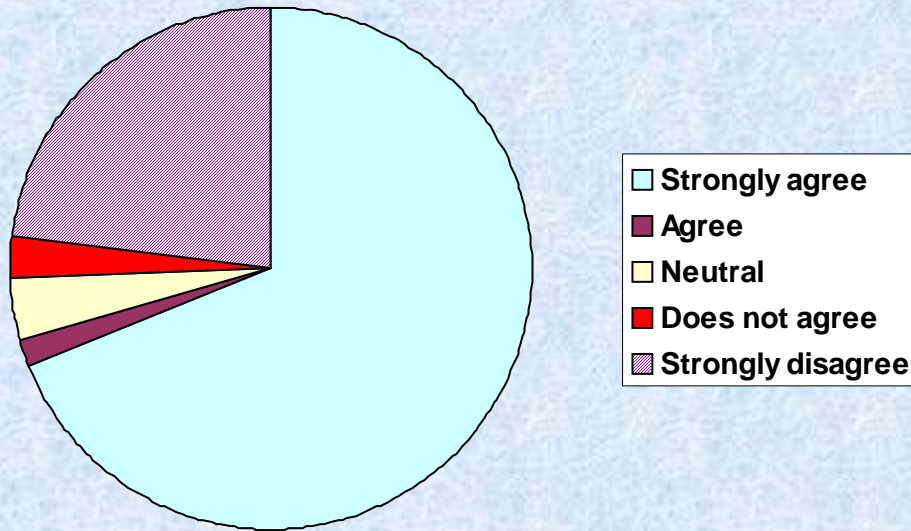


# Kyrgyz Farmers' rational response

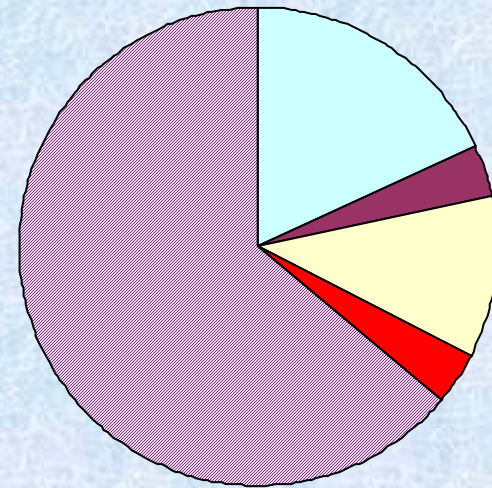


# Only a small share of farmers perceive new prices as opportunity

The recent increase in food price has reduced my income



The recent increase in food price created an opportunity to develop agriculture



- Subsistence farmers do not sell their products, so they just perceive the negative effects of increased input prices
- Because of seasonality, sales of products has barely started in June 08, so higher inputs prices produced negative effects not yet counterbalanced by higher product prices

# Government role in supporting agricultural production

- Continue to reduce obstacles to private investments. Example of some recent good steps:
  - i. VAT on leasing eliminated
  - ii. Some import duties reduced or eliminated;
  - iii. Continued effort to improve business environment
- Agriculture has higher risks and longer return periods than other sectors. Thus the Government can help the sector access credit from IFIs in the interim period (but not target lending to a specific crop: farmers should decide that on the basis of market signals)
- Help financial intermediaries introduce/strengthen financial products designed to support increased lending in agriculture (contract farming, transaction finance, warehouse receipts system)
- Help reduce sector risks by developing insurance schemes
- Continue to invest in public sector activities (veterinary and advisory services for technology adoption, contract enforcement)

# Effective Sector Support

- Transparency and predictability are key elements

## **Direct Subsidies**

*-effective in short-term-*

- Raise Income
- Contribute to income stability
- Facilitate transition
- Reduce price distortions

### **But**

- Do little to raise competitiveness
- Reduce incentives to restructure
- Administration costs
- Risks of irreversibility

## **Investment Programs**

*-effective in medium- to long-term-*

- Improve competitiveness
- Economic diversification
- Raise income: farm & non-farm
- Reduce Income disparities
- Sustainable development

### **But**

- Access can be difficult for smaller farmers/entrepreneurs

# Small farm size and economies of scale

- Development of farmer organizations
  - Sharing equipment and machinery
  - Improved bargaining capacity
- Provision of financial instruments designed to encourage agricultural production and processing (transaction finance, contract farming)
- Encourage land consolidation through renting and/or sale
- Help access to investment and working capital finance for farmers and agro-processors
- Tax breaks on investments in agriculture
  - storage facilities
  - Farmers organizations/cooperatives
- Alternative employment programs for those willing to leave ag. sector

# Current Agricultural Programs

- Subsidies may be useful when demand is lagging, which is not anymore an issue in the Kyrgyz Republic
  - Aiyl Bank has a lending portfolio of \$14 million approved but without available funds
- State programs provide benefits to a small share of farmers (whose selection is not necessarily done on efficiency basis)

# Conclusions

- **Continue to improve quality and quantity of public investments in agriculture**
- **Promote private investments in agriculture to increase productivity (credit lines and insurance schemes for agriculture)**
- **Promote cooperatives (tax brakes for the first few years of a service and trade cooperatives)**