



WORLD BANK

Kyrgyz Republic

**Soaring Food Prices: Food
Security Challenges and
Opportunities for the
Agricultural Sector**

**Bishkek - June 26, 2008
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Content

1. Food security

2. Will the agricultural sector seize the opportunity?

3. How can the Government help?

4. Conclusions



Facets of food security

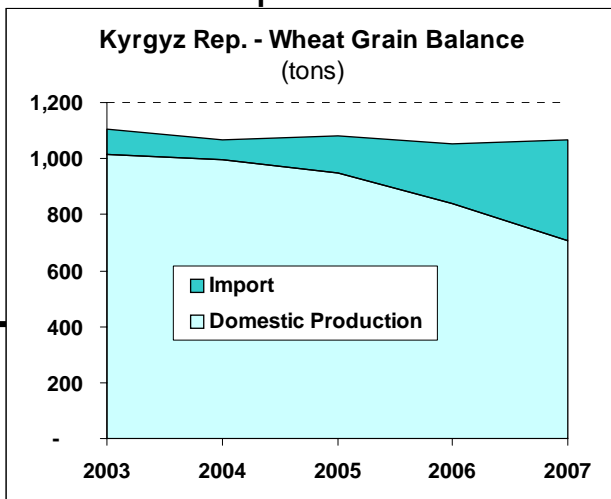
- **Availability:** *food security exists when all people, at all times, have access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life (FAO)*
- **Affordability:** *[...] assured ability to acquire acceptable foods [...]* (USDA)
- **Levels:**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

Food security in the Kyrgyz Republic

Issues

Availability presents some risks because of the Kazakh ban to export wheat grains (and to a lesser extent vegetable oils and oil seeds)

Affordability was significantly reduced by recent food price increases



Possible approaches

- Where possible, consider alternative sources of import (challenging for wheat)
- Increase domestic production

- Continue to foster growth to increase income and salaries
- Inflation and exchange rate management
- Support vulnerable groups
- Reduce drastic price fluctuations

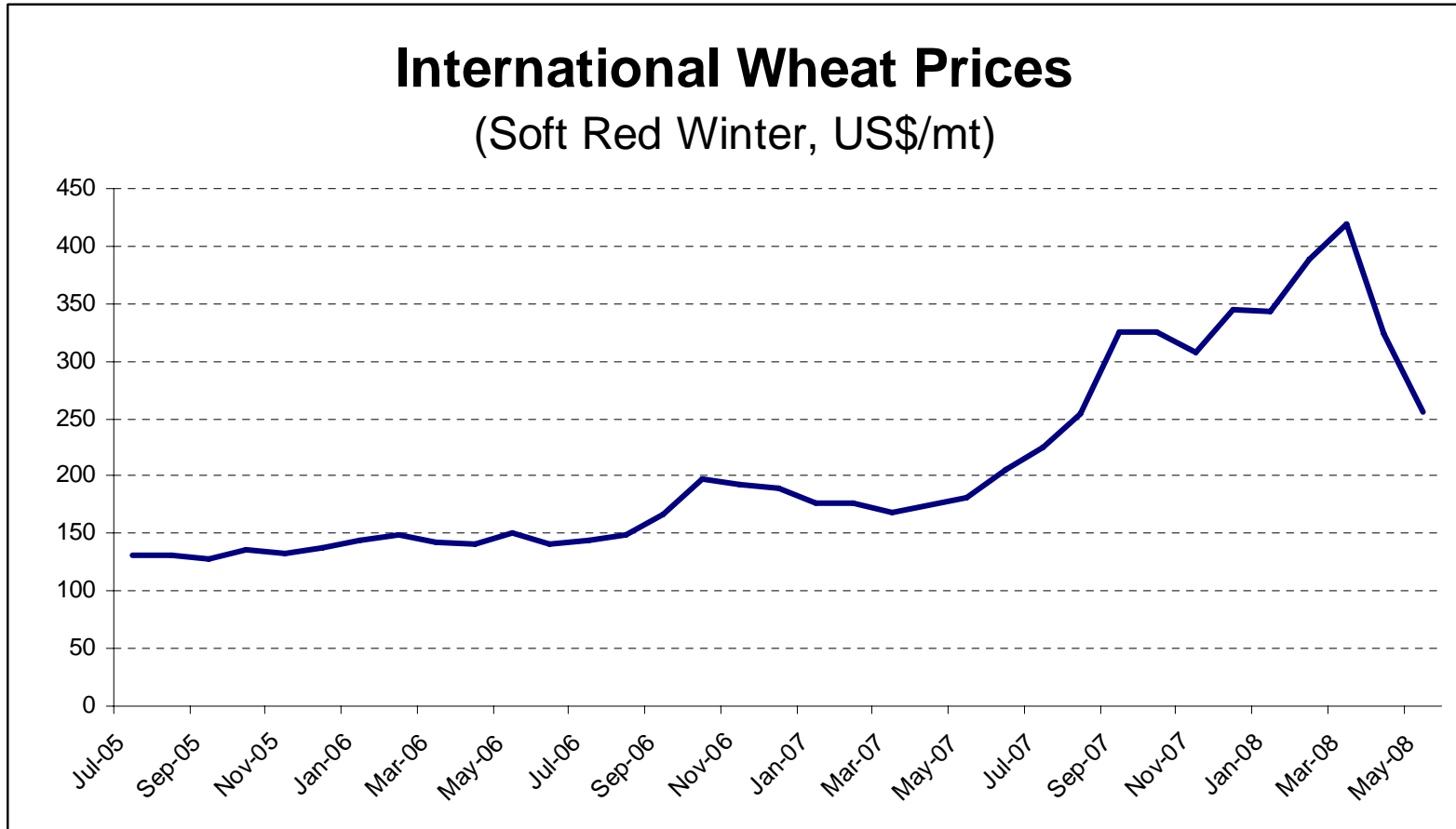
Domestic production of food

- 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)

Food security and trade

- Countries with closed trade regimes suffer more food security problems than countries with open trade regimes (e.g., North Korea)
- Self sufficiency does not insulate from price fluctuations (e.g., Uzbekistan)
- Still Kyrgyzstan could be self sufficient in wheat or vegetable oils, but farmers should achieve this based on responses to market signals, not because of a Government decision
- The Kyrgyz Republic could become wheat self-sufficient just by increasing yields, without increasing the area. But quality remains the challenge....

International Wheat Prices



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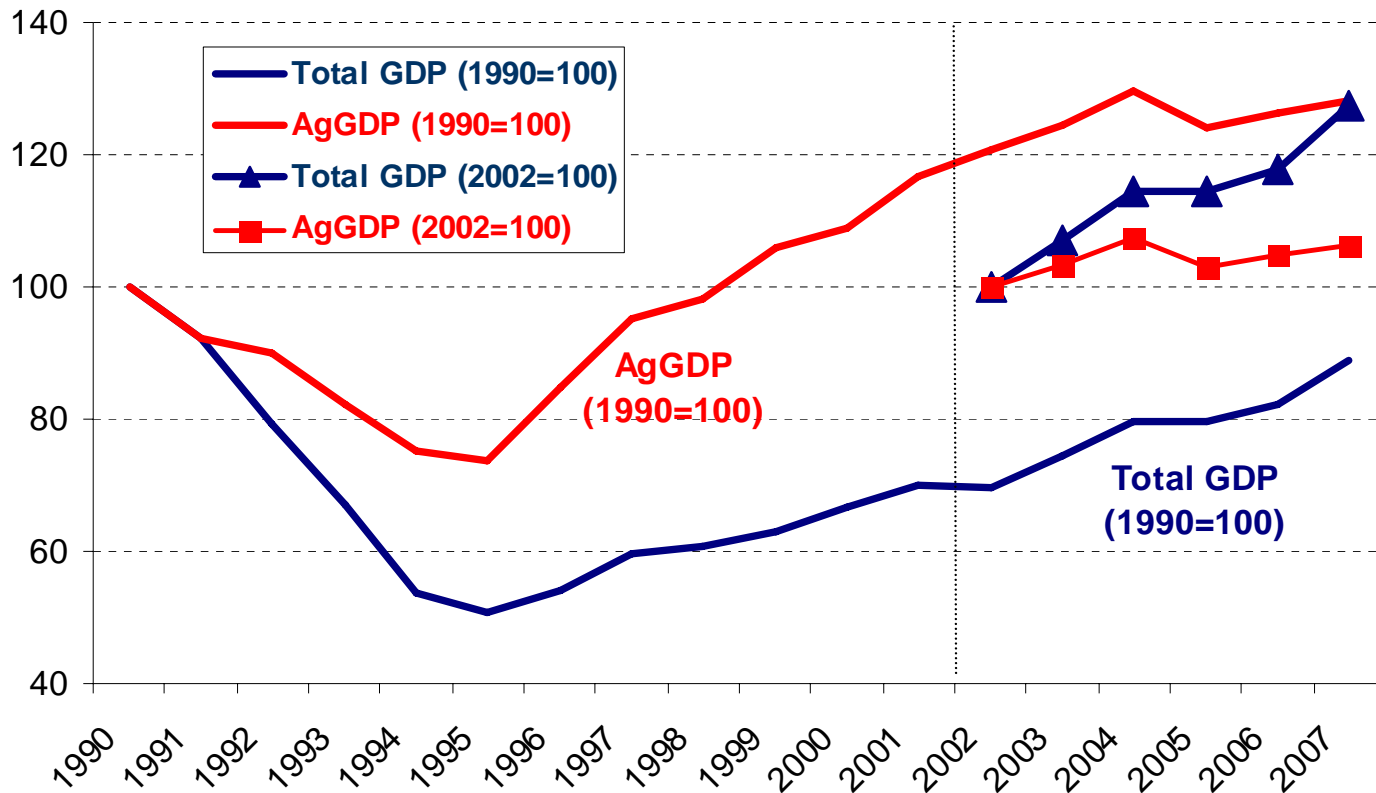


Opportunity for agricultural growth

- 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:
 - farmers have been rationally responding to market signals

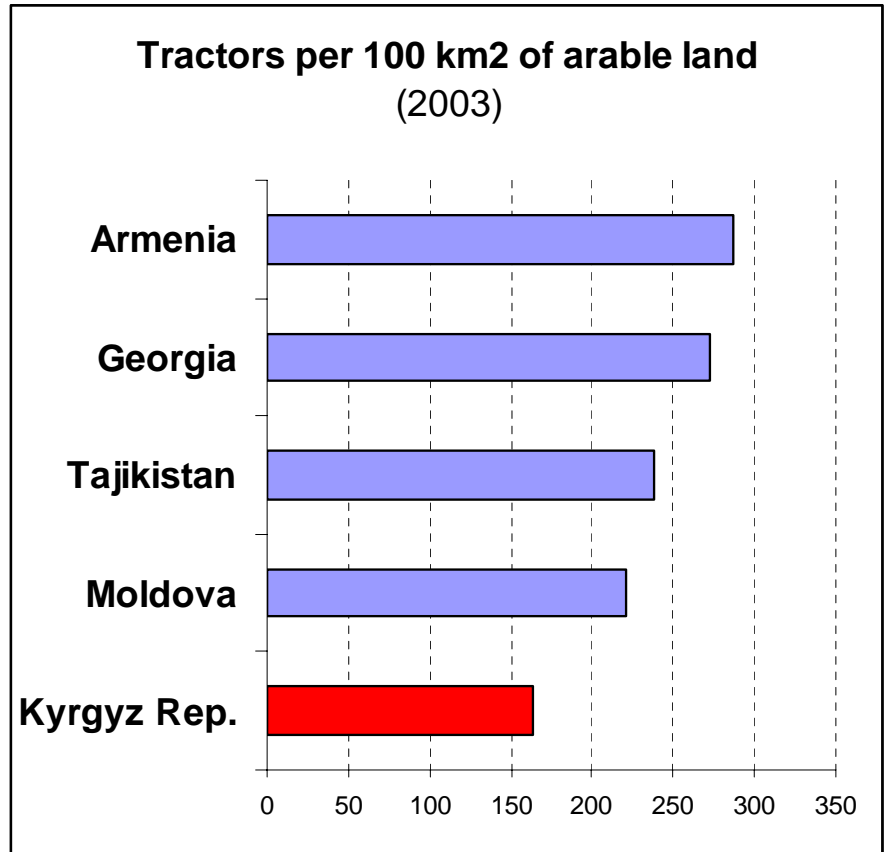
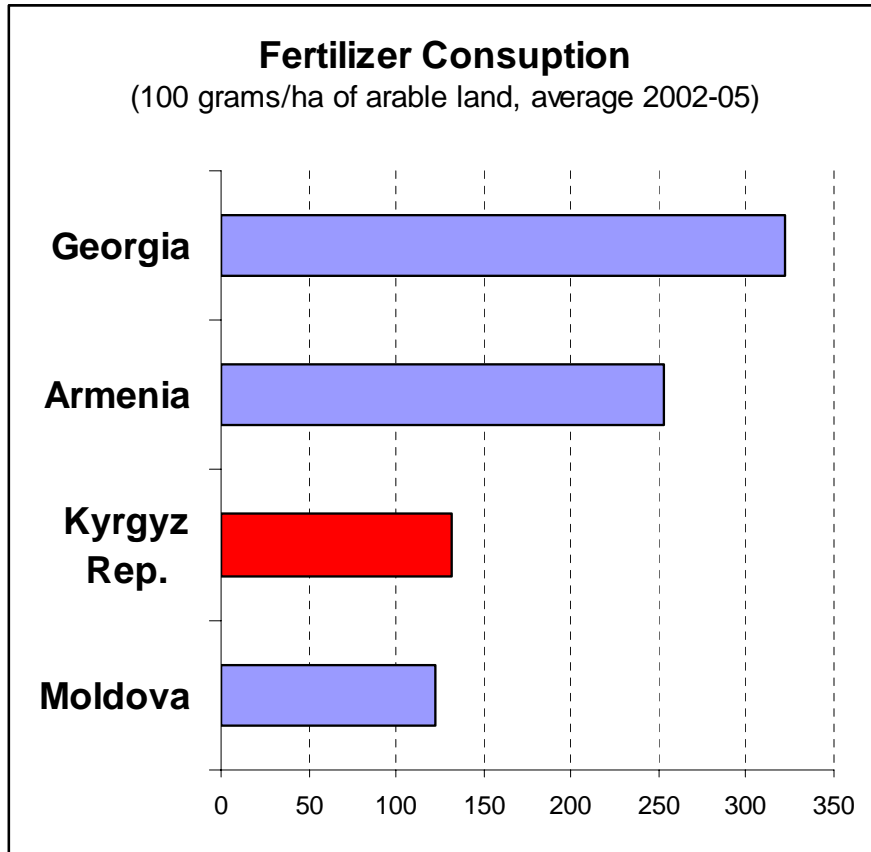
Agriculture has been the motor of growth only until 2002

Kyrgyz Republic - Ag. Growth Vs. Overall Growth



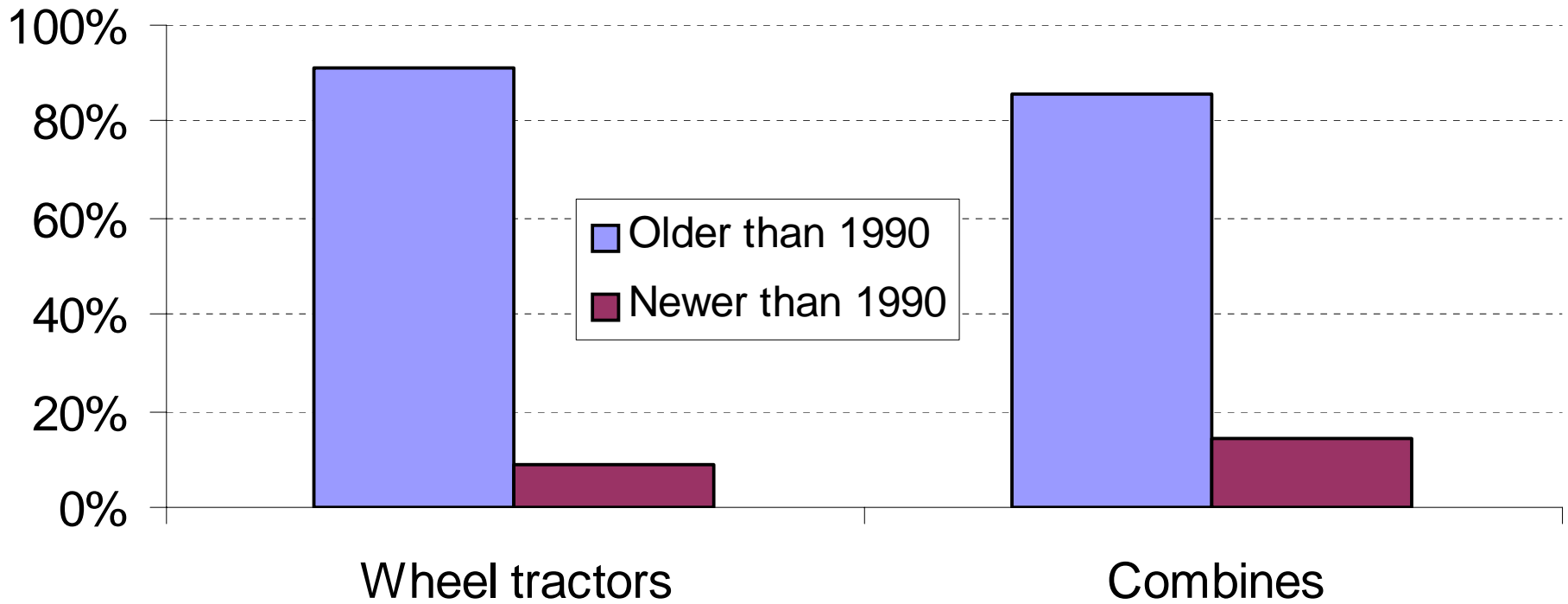
However statistics do not capture important agricultural exports, particularly in livestock

Agriculture is under-invested



Aging Ag. Equipment

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



To replace the old combine harvesters alone would cost around \$100 million

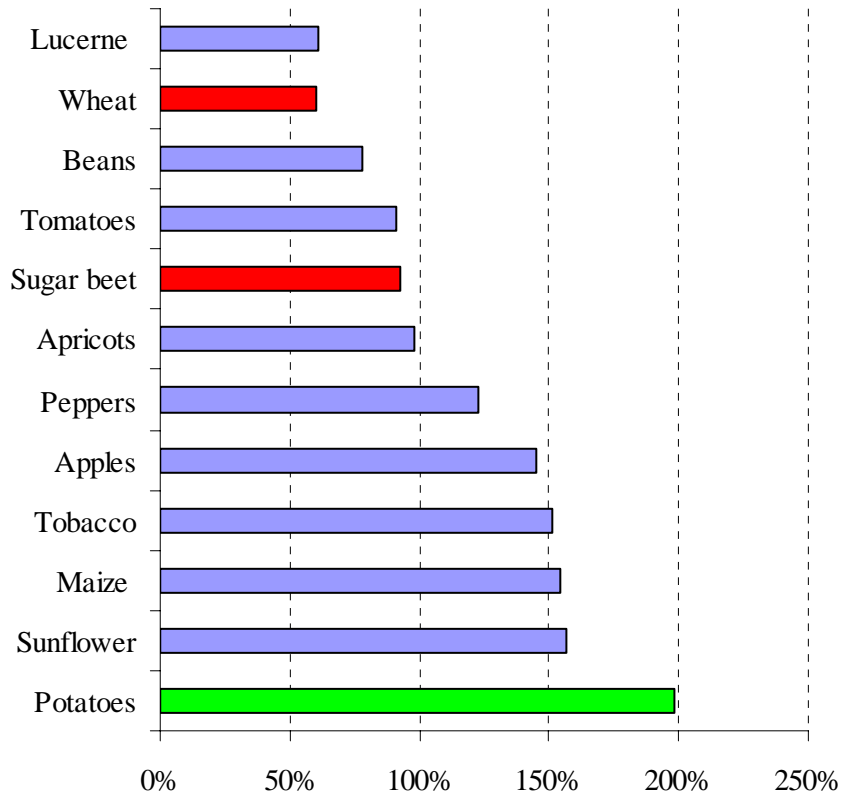
Wheat specific technology



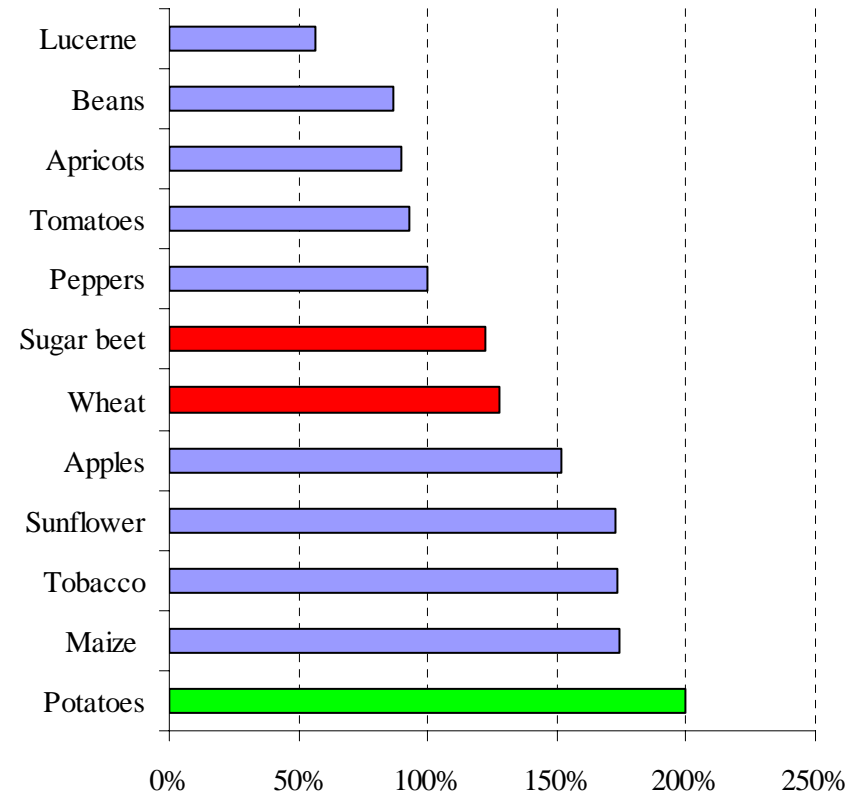
A battery of combine harvesters

Changing Market Signals (north)

North- Profitability of Irrigated Crops (2006)

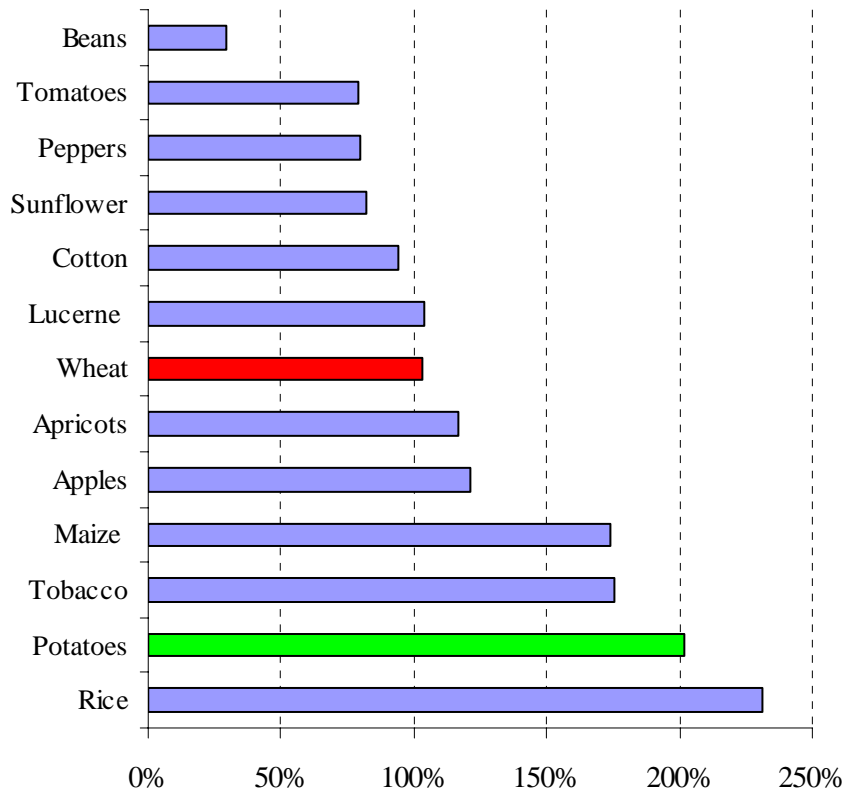


North - Profitability of Irrigated Crops (2007)

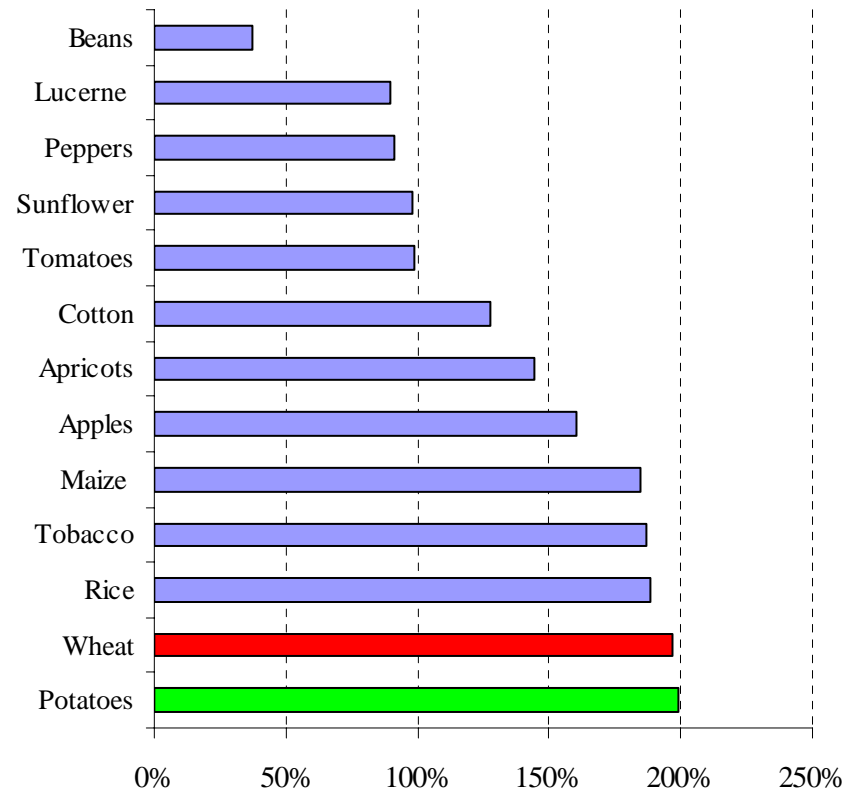


Changing Market Signals (south)

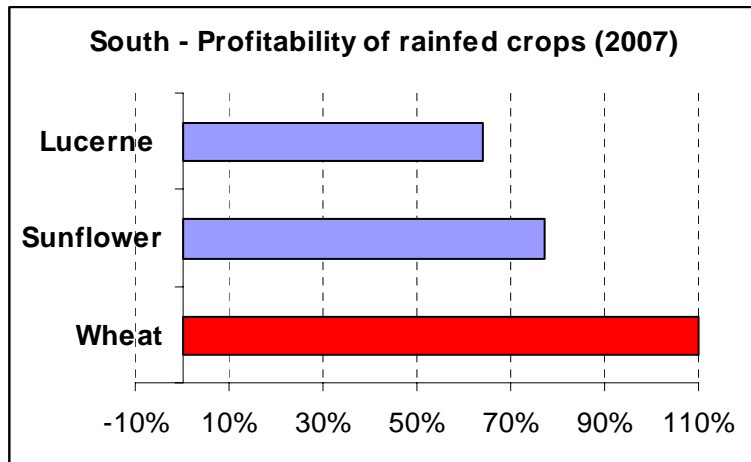
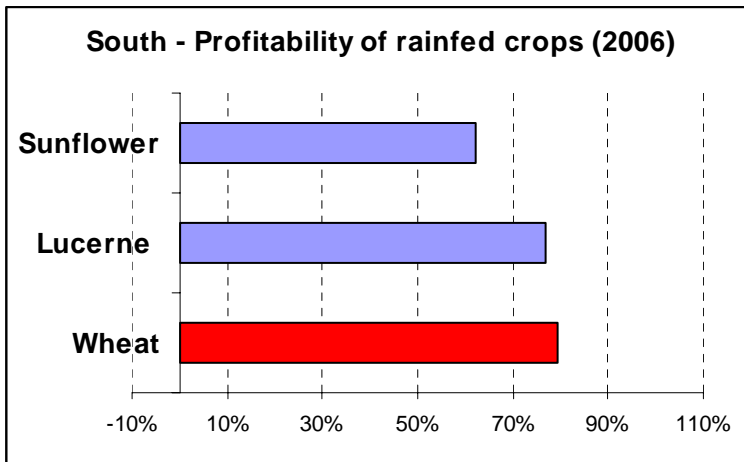
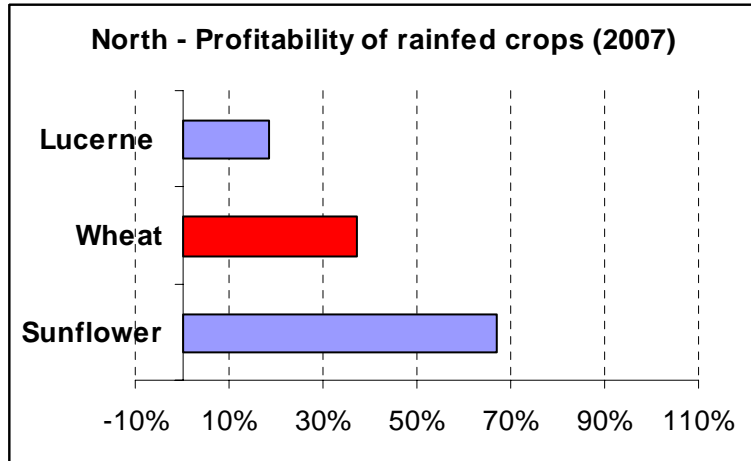
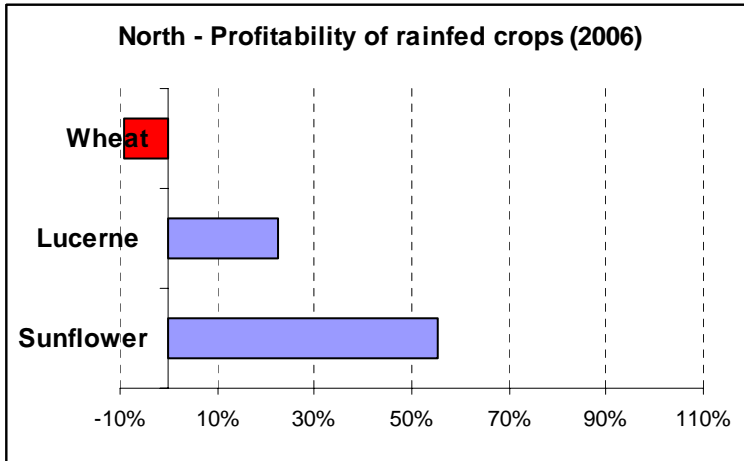
South - Profitability of Irrigated Crops (2006)



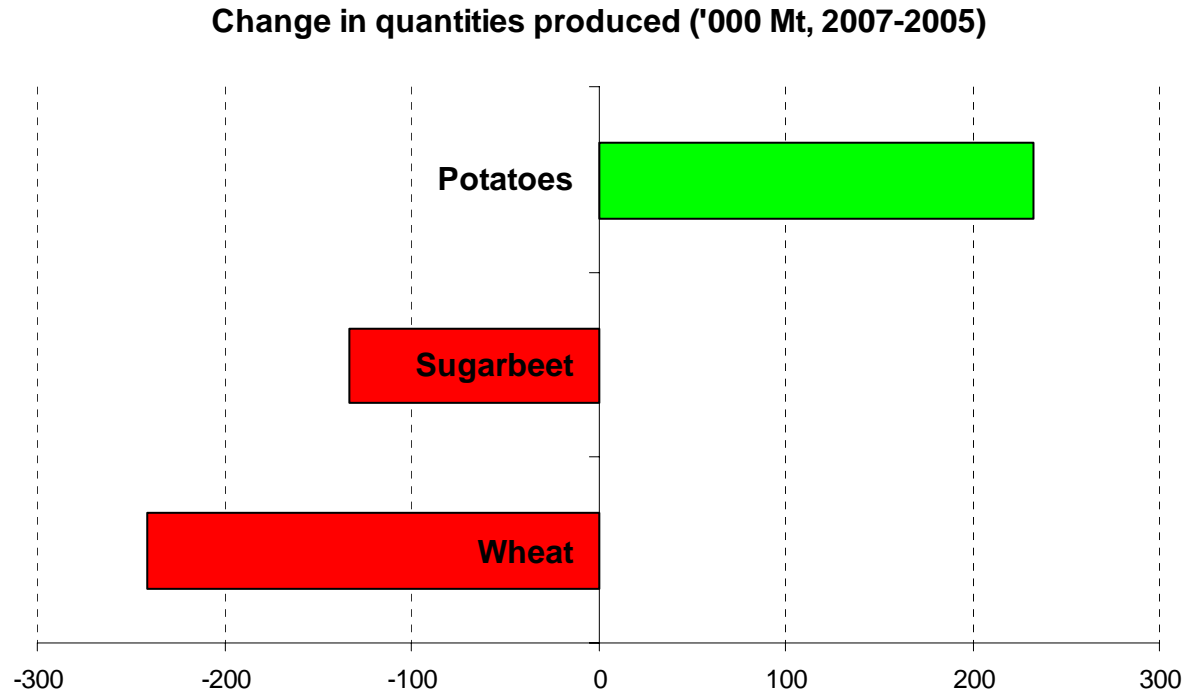
South - Profitability of Irrigated Crops (2007)



Changing Market Signals (rainfed)

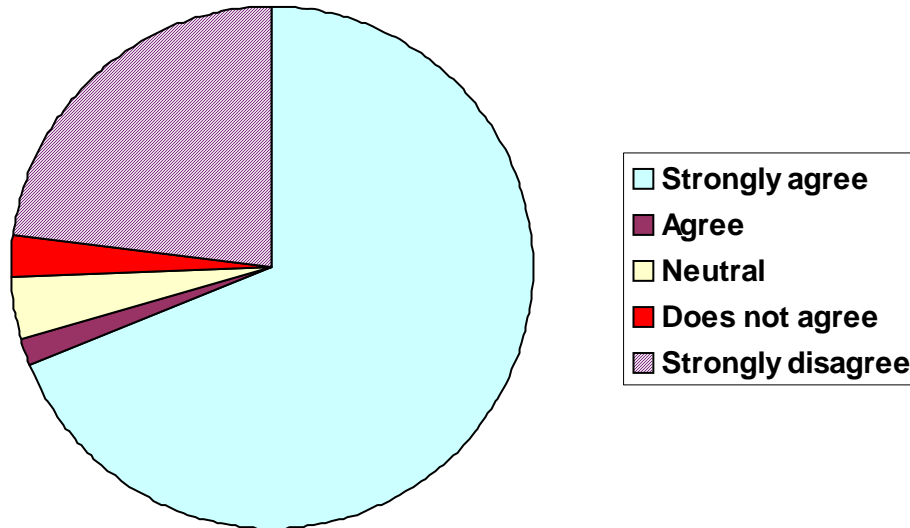


Farmer's rational response

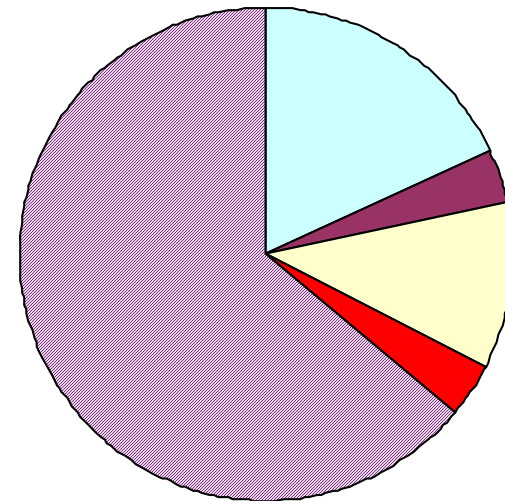


Only a small share of farmers perceive new prices as opportunity

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

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Public – Private Roles

Public

- Policy/legal framework
- Investments with high externalities such as infrastructure (roads etc.)
- Extension/training/information
- Anti-trust
- Food safety for public health
- Safety nets
- Incentives to private investments/Subsidies

Private

- On farm investments (inputs such as fertilizers, seeds, farm equipment)
- Processing infrastructure

IDA cannot directly finance the private sector, differently from IFC!

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

Government role in supporting agricultural production (1)

- To achieve tangible supply response in the short term is challenging because of seasonality and risks of agriculture (e.g. April frost, current draught)
- Because of the good prices and good prospects, farmers *now* want to invest
- This will help reverse the long period of underinvestment in the sector

Government role in supporting agricultural production (2)

- 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)

Improve Efficiency of credit schemes

- Support economically and financial promising ventures (the initial push)
- Or should support the vulnerable groups of the population
- Sunset provision – the subsidies should be phased out

Small farm size

- 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

How to increase Economies of Scale?

- Help access to investment and working capital finance for farmers and agro-processors
- Tax breaks on investments in agriculture
 - storage facilities
 - Farmers organizations/cooperatives
- Financial initiatives to farmer cooperation
- 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)