



Azerbaijan
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Recommendations to reorient the agricultural subsidy policy so that it further contributes to growth, food security and poverty reduction

Key messages

Azerbaijan has successfully risen to the challenges to increase agriculture, reduce poverty and food insecurity. However there are actions that could be taken to ensure more impact of the agricultural subsidies in future. These include:

- Increase grain production through raising productivity instead of expanding planted areas, at the expense of cotton, tobacco, grapes, tea and other more profitable products.
- Increase the quality of the wheat so that it meets the needs of the milling industry.
- Improve and promote the production and productivity of other commodities which have greater comparative advantage and are more labour intensive, which will increase growth as well as employment and rural incomes.
- Improve the transparency of the subsidy mechanism so that it reaches all intended beneficiaries.
- Ensure that the subsidy policies do not encourage damage to the environment through expansion into fragile pasture areas, or by increasing salinization through inappropriate irrigation systems.

It is further recommended that the Government focus on improving the value of agriculture by the small producers as they account for 96% of production. This will contribute to increase employment, reduce rural poverty, increase household food security and reduce rural-urban migration. The priorities are to improve the technologies available for small farmers and establish technology and market information systems that are accessible to them, together with better access to markets through improved infrastructure and the development organization of small farmer organizations to give them better access to markets.

The analysis of agricultural subsidies in Azerbaijan was carried out by the [Graduates of the University of Catalonia, Food Security Action and Analysis course](#) and presented at a workshop in Baku on 19 March 2013. The focus of this workshop was on how to ensure that agricultural policies increase agricultural growth in Azerbaijan and at the same time address poverty reduction and food security. The workshop was facilitated by FAO international experts¹. The discussions resulted in recommendations outlined in this Policy Brief.

Background

Agriculture only accounts for 5.5% of GDP but is important to reducing poverty, rural-urban migration and national food insecurity as 40% of the country labour force is employed in agriculture. As a result of impressive economic growth in the previous decade due to the development of the oil sector, poverty rates declined from 46% in 2002 to 6% in 2012. Government is now giving priority to non-oil sectors, including agriculture, to diversify economy and decrease reliance from oil. State farms were redistributed to form 850 000 individually-owned farms after the collapse of the socialist farming system in the mid 1990s and almost all (96%) of the agricultural output in Azerbaijan comes from small farms. Some 42% of agricultural producers own 1-2 ha and 54% 2-5 ha farms. In response to privatization and despite the dislocation, agriculture has been growing by some 5% per annum. However, while wheat area planted has increased by 68% (since 1990), yields have remained static at around 2.5 tonnes per hectare (1990, 24 centner per hectare and 25 in 2011). The average calorie intake decreased initially in the 1990s, but has made significant recovery and now only 5% of the population is estimated to be undernourished, although the prevalence of stunting among children under 5 years remains high at 25%.

¹ The workshop was supported by the "EC/FAO Programme on Information Systems to Improve Food Security Decision Making in European Neighborhood Policy: East Area".

The Subsidy Policies

Reducing poverty and food insecurity is core to Azerbaijan's "Azerbaijan 2020: look into the future" Development Concept, approved by presidential decree in January 2013, and agriculture has a key role to play to achieve this objective. The goal of 100% food self-sufficiency in main food products reflects the strategic value of food independence and has driven agricultural policy. Azerbaijan has provided resources to the agricultural sector primarily through subsidies on fertilizer, seed production, machinery, direct transfers based on area planted (40 manat per ha per year with an additional 40 manat to wheat and rice producing farmers), and tax breaks for agriculture. Wheat and rice producers have benefited in particular. In 2012 they received AZN 25 million from the additional payment per hectare plus AZN 64 million for inputs and higher prices were set for providing good quality grain to the State Grain Reserves. The producer price was US\$ 288 per tonne in 2010 when it was US\$127 in Russia, US\$ 136 in Ukraine and US\$ 148 in Kazakhstan. The government is also proposing a program to subsidize the establishment of 50 farms of 200 000 hectares as part of the drive for wheat self-sufficiency.

Challenges

Azerbaijan has successfully risen to the challenges to increase agriculture, reduce poverty and food insecurity. However there are actions that could be taken to ensure more impact of the agricultural subsidies in future. These include:

- Increase grain production (and self-sufficiency) through raising productivity instead of expanding planted areas, at the expense of cotton, tobacco, grapes, tea and other more profitable products. Some 60% of the total cultivated area is currently planted to grain, whereas the gross margin for grains is only AZN 237 per hectare.

This is very low compared to potatoes (AZN 2 543), vegetables (AZN 2 113) and melon crops (AZN 1 450).

- Increase the quality of the wheat so that it meets the needs of the milling industry.
- Improve and promote the production and productivity of other commodities which have greater comparative advantage and are more labour intensive will increase growth as well as employment and rural incomes.
- In line with calls from the President, improve the transparency of the subsidy mechanism so that it reaches all intended beneficiaries.
- Ensure that the subsidy policies do not encourage damage to the environment through expansion into fragile pasture areas, or by increasing salinization through inappropriate irrigation systems.

Recommendations

The main recommendations to improve agricultural subsidies and contribute to the national objectives of the “Azerbaijan 2020: look into the future” Development Concept and “The State Program on reliable food provision in the Republic of Azerbaijan in 2008-2015” are directed towards the wheat subsidies because they account for the largest proportion of the subsidy. These recommendations include the following:

- Modify the current subsidy system for grain so that it provides incentives for higher yields and improved quality versus increased planted area. Further increases in the area planted to wheat risk negatively affecting the environment by degrading the pasture lands. It also reduces the potential for agriculture to contribute more to growth through higher value root, fruit, vegetable and industrial crops.
- The subsidies need to be made transparent and available to all farmers, including those producing for home consumption since they contribute to reducing imported wheat.
- Redesign the subsidy system so that it addresses agriculture more broadly, including support for livestock, organic farming and other commodities that can be processed or exported.

- Ensure that the subsidies are environmentally sustainable and do not threaten fragile pasture systems which are easily degraded.
- Consider establishing a food supply policy over time that does not exclusively rely on increased wheat production for self-sufficiency but also takes into account stocks and diversification of trading partners.

It is further recommended that the Government focus on improving the value of agriculture by the small producers as they account for 96% of production. This will contribute to increase employment and household food security, and reduce rural poverty and rural-urban migration. The priorities are to improve the technologies available for small farmers and establish technology and market information systems that are accessible to them, together with better access to markets through improved infrastructure and the development of small farmer organizations. In particular to:

- Invest in infrastructure, research and extension, and marketing – especially for small farms to develop the potential of agriculture and reduce rural-urban migration.
- Provide support to agricultural commodities that increase value-added and employment opportunities including livestock, root crops, oilseeds, tea, vegetables and fruits.
- Provide support for the introduction and adoption of technologies that are environmentally friendly.
- Promote policies that address the particular issues of the rural poor, so that the subsidies improve agricultural competitiveness and reduce rural poverty.
- Monitor the effects of policies on food security and also on growth, poverty and the environment.

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