



# Workshop on Horticultural Value Chains Development

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# Review of the Progress with Food and Agriculture Development in AZERBAIJAN & Challenges for the Future

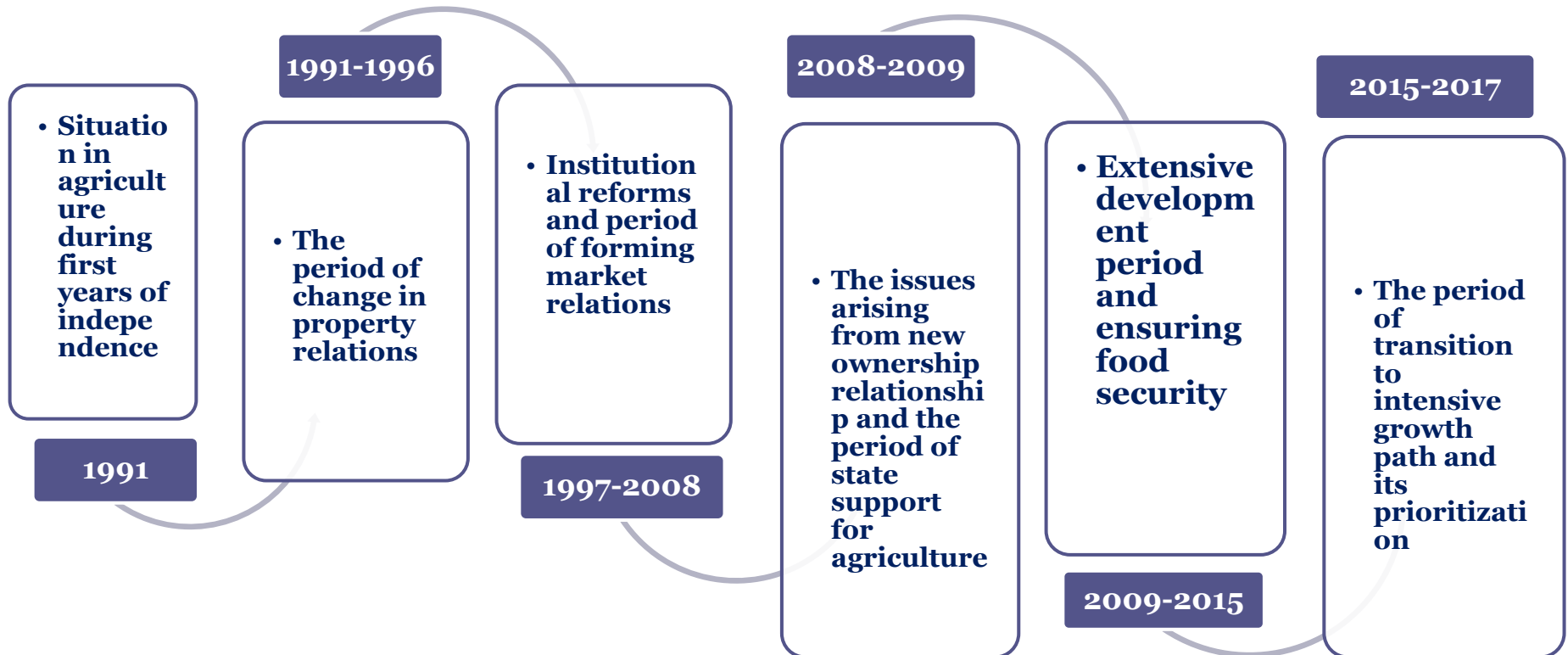
## OUTLINE

- Development of agro & food security strategies:  
*socio-economic & institutional policy*
- Main challenges in the strategies adopted by government:  
*national trends, medium & long-term strategies*
- International projects, technical assistance

## AZERBAIJAN

- 2<sup>nd</sup> independence: 1991
- 20% of territory occupied by Armenia  
(ongoing conflict between two countries)
- Population: 9,762 mln (2016)
  
- The actual cost of gross output of agriculture in **2016** amounted to **5632.1 mln manats**, of which **3055.2 mln manat** was livestock and **2576.9 mln manat** fell on plant products.
- In 2016, **252.4 mln manat** of total capital was spent on ***agriculture, forestry and fishing***.
- ***Crop production***. According to preliminary data, 961,800 hectares of autumn and summer cereals and cereal legumes were harvested and harvested in 2016, with an average annual yield of 29.5 centners per hectare (2,985.3 thousand tons in 2015) was harvested.

# Development of agro & food security strategies: *socio-economic & institutional policy*



## Situation in agriculture during first years of independence (1991)

- Mainly collective and state enterprises, also yard farms were operating in agriculture.
- Close to the end of 1990's, accordingly to traditional Soviet system 808 sovkhoses and 608 kolkhoses were existing in Azerbaijan.
- Lands for agriculture were 4.1 mln hectares, sown areas were 1.4 mln. hectares, pastures were 2.1 mln. hectares. Irrigated lands were 1.33 mln hectares.
- ***The structure of sown areas during last periods of Soviets shows the complex development of agriculture sector.***
- The cotton characterizes the development of the cropping area and viticulture specialized with technical crops, as well as the cultivation of grain and grain legumes, feed crops and potatoes, vegetables and melons.
- Plant products' share in total agricultural products was 70%.
- Agriculture sector was mainly specialized in ***vine growing*** (mainly in mountainous and foothill regions) and ***cotton-growing*** (Aran regions). All stages of cotton and grape from its planting to processing was organized. Main technical plants were cotton (784 thousand tons in 1986) and grape (1.5 mln. tons in 1986).
- The number of total population was 7131, 9 thsd. Person and share of the population in rural areas was 46%.

## The period of change in property relations (1991-1996)

- **Reasons of changes.**
- The main reason for the change was the violation of production, distribution, exchange and consumer relations at all stages of public production as a result of the collapse of USSR.
- Though there was an opportunity to direct the agriculture sector to provide the food security of the country during a short period of time (1 year), the war on Armenia-Azerbaijan Nagorny Karabakh conflict and tense political condition did not allow to it.
- A great material-technical base of the Soviet era was destroyed as a result of the chaos in the country. The country receiving over a million refugees and internally displaced persons faced with huge problems with food security.

## The period of change in property relations (1991-1996)

- **Searching for new development ways.**
- A search of solving ways started after providing of economic stability in the country. According to the constitution adopted in 1995 property can be formed as public property, private property, and municipal property.
- Forming of new property relations demanded complex process. Therefore, property in agriculture mainly consisted of collective and public property.
- In order to adopt such relations to market-oriented market relations, it was necessary to initiate agrarian reform, first of all, with the formation of new property relations on land and property, changing the production relations with the creation of different types of farms in production and infrastructure, corresponding to the market economy.
- In 1990-1995 production of agricultural products decreased by 58 percent.

## **Institutional reforms and period of forming market relations (1997-2008)**

- Before this period government announced ***only the principles of the reforms.***
- But in this period laws in agrarian field were developed, their working mechanisms were established and implementation of agrarian reforms were provided.
- As a result of adopted a number of normative legal documents **in 1997-2008** economic development in agriculture sector had been possible:
- *Such as, Law on Seeds; State Program on Deepening Agrarian Reforms and Assisting the Development of Entrepreneurship; The Law on Land; Decree of the President on measures to improve the agrarian sector management system; Food Security Program; The Law on wine growing and winery; The Law On stimulation of insurance in agriculture; Law on Tea-Making and others*



## **Institutional reforms and period of forming market relations (1997-2008)**

- In addition to the mentioned documents reflecting the state's main strategy in the field of agriculture in 1997-2008, ***the State Program on Family Farming and State Program on Reliable Provision of Food in the Republic of Azerbaijan for 2008-2015*** and some other normative legal documents have been adopted which the following significant progress has been achieved in the development of agriculture on the basis of these documents:

### ***Measures implemented in the field of agricultural development strategy:***

- *Activities on land reform:*
- *Measures taken for improving the use of soil and natural pastures:*
- *Proper measures were taken towards the melioration and irrigation in the following listed directions:*
- *The measures were implemented as contribution to the private entities operating in food production field*
- *The measures towards ensuring food security and food accessibility, healthy nourishment and the improvement of food quality,*
- *Data system (“observations”) of food security has been created (2001).*

## **The issues arising from new ownership relationship and the period of state support for agriculture (2008-2009)**

- 2008-2009 years were characterized as systematic state support period for agriculture in Azerbaijan. Stagnation and reduction in agricultural production in this period made the Government to take a number of policy decisions covering state support measures.

### ***Policies, such as:***

- *Wide-scale implementation of Presidential Order about the state support for producers of agricultural products with the aim of increasing efficiency of agricultural production and providing financial aid to agriculture producers in January 2007;*
- *Implementation of Azerbaijan Republic Cabinet of Ministers decision about the “Rules of paying subsidies from state budget to farmers for the 1<sup>st</sup> and 2<sup>nd</sup> grade reproduction seeds and sapling sold from the entities engaged in Weaving and sapling” in June 2007;*
- *And others*

## **Extensive development period and ensuring food security (2009-2015)**

- To accelerate development of industry and agriculture by efficient use of existing potential of regions, to support entrepreneurs in this respect, to attain solution of poverty by improving population living condition and wide scale development of country economically have become key targets before the government; legal and normative documents accepted by the government
- ***Following key improvements*** were attained based on policy decisions referring key state strategies in agricultural sector ***in 2009-2015 years:***
  - *Complete accounting of sowing areas with the purpose of increasing efficiency of utilization of land and water*
  - *Measures for development of plant-growing*
  - *Activities on animal husbandry*
  - *Activities on improving infrastructure provision for agricultural goods production*
  - *Readiness for emergency situations and activities on creation of state food reserves*
  - *Continuing financial support to food products manufacturing*
  - *Activities for increasing academic and research basis and human resources development for agriculture sector*

## The period of transition to intensive growth path and its prioritization (2015-2017)

- **2015 was a “Year of Agriculture”.** The objective was to provide new stimulus for agricultural development, facilitate its modernization, and ensure a cohesive and consistent resolution of the problems in agriculture sector, to efficiently use the government’s administrative and financial resources for the sector and to widely promote the countries agricultural potential.
- In general, Azerbaijan has undergone through an extensive growth path in agriculture **in 2015-2017 period.**
- A number of policy documents on providing incentives for the development of agriculture and its individual areas including decrees, orders and state programs were adopted.
- **The key target of the policy documents** adopted in this period is to achieve the expansion of the cultivation areas of plants and the increase in meat and dairy production based on productive cattle breeds, while deepening agricultural activities and broadening value chains.

**Main challenges in the strategies adopted  
by government:**

*national trends, medium & long-term strategies*

- Overall, academic and empirical research for the agricultural field has proved that production relations have their own unique development path for this field. This specificity is derived from the following conditions:
- *Agricultural development leads to the growth of the other fields and plays a significant role in meeting the demand for food*
- *This field requires continuous government support in order to protect food security*
- *This field is considered to be the main field of free competition. Supply and demand relations is formed in free market.*
- *Agriculture is being developed with undergoing externalities.*
- *These features create short-term and long-term problems in the development of agriculture. There are signs of these problems.*

- Proper observation and timely detection of these traits play an important role in making proper policy decisions to address these problems.
- The SWOT analysis shows that, Azerbaijan faces ***short and long-term problems in the development of agriculture.***
- Formation of short-term and long-term economic problems in agricultural development is almost the same for each country. However, depending on the stage of development, they appear in different ways.
- These problems are classified and were concluded to occur as short-term and long-term. Our goal is not to investigate theoretical issues related to these problems, but to investigate these issues specifically, in Azerbaijan.
- In general, the properties of agriculture for a long and short-term in the economic theory are grouped as shown:

# Short-term and long-term problems of agriculture development

**Short-term problem:**  
Non-dynamic changeable production

Non-elasticity of demand from price

The volatility of product volume

the volatility of domestic demand for the product

the volatility of foreign demand for the product

**Long-term problems:**  
shrinking area due to time passing

Increase in technology and supply

Decline in demand for the product on the time, or non-elasticity of an income from demand



## **Analysis of key problems in the medium term**

- SWOT analysis of agricultural products production and processing, strengths and weaknesses of agriculture, as well as opportunities and threats in this area have been identified in the "Strategic Road Map for the Production and Processing of Agricultural Products in the Republic of Azerbaijan".
- The accomplished SWOT analysis is summarized and presented as follows:

## SWOT analysis of production and processing of agricultural products

### Strong Sides

- Capability of access to existing natural resources (land, water, agriculture);
- Availability of a government-supported government support system for the development of agriculture;
- Availability of a reliable food security system;

### Weak Sides

- The inability of the value chain to expand due to the lack of inter-field relations between the agricultural sector and other sectors of the economy;
- Restrictions on the application of more efficient technologies in family-peasant farms based on small land ownership;
- Shortage of actuarial insurance in the agrarian sector as a result of lack of long time climates;

## SWOT analysis of production and processing of agricultural products

### Threats

- the state support system is aimed at increasing the amount of sown areas and increasing the number of cattle, as a result of the irrigated land;
- Desertification of useful land as a result of non-coordination of balanced development in the field of climate, energy, land and agricultural production;
- slowdown in the demand for agricultural products as a result of lack of flexibility between the income of the population and the production of agricultural products

### Opportunities

- Availability of ancient farming and livestock cultivation to increase the production of agricultural and food products;
- Availability of sufficient human resources for agricultural products;
- Potential high competitiveness of agricultural production;
- Potential development opportunities such as, environmentally clean (organic) agriculture, rural tourism

## **Medium and long-term strategies adopted by the Government**

- In the medium-term, a support mechanism is being set up to implement measures to maximize the production of resource-consuming resources.
- As the depletion of resources in the short term requires the intensive development of the production, the support mechanism is completely directed to that end.
- The 25-year policy pursued by the government in the field of agriculture and food security ultimately aims to fully support this area in the following areas:

## Medium and long-term strategies adopted by the Government

- **State support measures in the general area**
- Manufacturers are given preferential loans from the budget;
- Customs reductions apply to most imported production vehicles in agricultural production and processing industry;
- 40% of the cost of agricultural machinery, equipment and equipment sold by Agroleasing JSC are paid from the budget and sold through leasing;
- 50% of insurance premiums on insurance of agricultural property and certain insured events are paid by the state.

## Medium and long-term strategies adopted by the Government

- **Government support measures in the area of crop production**
- 50 manats for every hectare of arable land (including re-planting) for the purpose of ensuring 50% of the cost of fuel and motor oils spent on production of agricultural products by the state;
- *0,1 manats per kilogram for each kilogram sold for processing enterprises, 0,1 manats for each kilogram of dry tobacco and 0,05 manats for every 10 kilograms of wet tobacco; For those engaged in agricultural production, the cost of each 1000 cubic meters of water was set at 0.5 manats;*
- 40% of the cost of modern irrigation equipment sold by "Agroleasing" JSC is paid from the budget;
- 70% of the cost of fertilizers, pesticides and industrial biohumus are paid from the state budget;
- subsidies for seed and tissue production and sales;
- Measures to combat quarantine of agricultural crops and to combat specifically dangerous pests are funded by the state budget.

**Recommendations for  
target indicators of agriculture and food safety  
up to 2030**

*“Strategic Road Map”  
for the production and processing of agricultural products in the  
Republic of Azerbaijan*

- **9 Strategic targets, 36 priority directions and 177 measures** were approved in the “**Strategic Road Map**” for the production and processing of agricultural products in the Republic of Azerbaijan.
- The Strategic Road Map reflects a strategic review of the country's **agricultural sector development by 2020, a long-term vision for the period up to 2025 and a targeted view for the post-2025 period**, both in the medium and in order to achieve its long-term strategic development goals, the state has a clear roadmap to be pursued in consecutive stages.
- Based on the Strategic Road Map implementation in 2016-2020, it is planned to implement 9 strategic goals to create a favorable environment for achieving the formation of a competitive agricultural production and processing sector based on sustainable development principles in the country.



## ***These strategic goals are:***

- Strengthening institutional capacity to ensure food security;
- Increase the production potential of agricultural products through chains of value;
- Facilitating access to finance;
- Development of agricultural products market and improvement of services;
- Improving the quality of scientific provision and education in the field of agriculture and developing the system of advisory services;
- Development of market infrastructure for agricultural products and facilitating market access to producers;
- Environmental protection, sustainable use of natural resources and managing the effects of natural factors on agriculture;
- Improving the effectiveness of state regulation of the agrarian sector and improving the business environment;

## ***These strategic goals are:***

- Increasing employment and raising the welfare of the population in rural areas.
- Priority directions for 2016-2020 were justified for each strategic objective.

The priorities to be implemented in the sector of agricultural production and processing are as follows:

- *Strengthening production capacity in competitive agricultural and processing industry products both in domestic and foreign markets*
- *Development of public-private partnerships for implementation of complex projects*
- *Formation of support for the development of agribusiness*
- *Improvement of financing mechanisms in the agricultural sector*
- *Promotion and support of exports on agricultural and processing industry products*
- *Development of environmentally sound agricultural production*

# Technical assistance, international projects ...

*Learning best practices, and  
preparation applicable models for Azerbaijan*

## Technical assistance, international projects

- **UN Food & Agriculture Organization (FAO)**
- Azerbaijan is a member since **1995**
- **23 projects** were implemented by FAO in Azerbaijan in **1995-2015**
- *Areas of activity in Azerbaijan:*
- At present, the FAO is implementing a total of 8 projects, including 2 regional and 6 local, aimed at seed production, organic agriculture, livestock breeding, fertility improvement, breeding work, strengthening of phytosanitary services, improving the fight against locusts and other areas.
- Within the framework of a joint project of the Ministry of Agriculture with FAO, an electronic price database of agricultural products ([www.azagro.net](http://www.azagro.net)) has been created.

## Technical assistance, international projects

- **Turkish International Cooperation Agency (TIKA)**

- *Up to 25 years*

- *FY 2011-2012*

- *Study on organic agriculture development in Azerbaijan*

*SWOT analysis, a number of awareness events conducted, book for schools published, outcomes of the project used as a basis for the next projects ...*

**THANK YOU for ATTENTION!**

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# Announcement



## Baku Conference | Call for Submissions

### Agriculture Trade and Foreign Investments for Sustainable Regional Integration in Caucasus and Central Asia

6-7 September 2018 | Baku | Azerbaijan



#### Background

The recent years witnessed profound socioeconomic changes in Caucasus (Armenia, Azerbaijan, Georgia) and Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan). Several reforms such as economic diversification and bilateral trade agreements were implemented in order to achieve economic diversification and make the economies robust to external shocks and fluctuations in oil prices. Especially Caucasus and Central Asian countries are considering to increase bilateral trade between each other as one of the best possible strategy to overcome the negative effects of Russian economic slowdown and low gas and oil prices. Organized delegation visits between the countries and agreements in rail cargo transits are considered to be one of the important instruments to boost bilateral trade between the countries.

Agricultural export is considered as one of the fields which can be potentially increased in short time horizons. Although considerable achievements have been made in the agricultural sectors of these countries, supply chains and trade infrastructure needs to be further developed in order to allow for a boost of agricultural exports. Therefore, these countries nowadays are inviting international investors to support in the development of export infrastructure, including processing, packaging, storage and certification. So far, there is a lack of scientific literature towards the developments on these markets, general investment climate as well as possible opportunities for agricultural trade. Therefore, this conference will facilitate the discussion of these reforms in agricultural trade and emerging investment opportunities and serves as a platform for information exchange between regional and international experts.

#### Conference structure and topics

The conference provides opportunity for knowledge exchange to junior and senior researchers as well as policy makers from Caucasus and Central Asia. Furthermore, also researchers from Europe and other countries are invited to present the results of their studies and participate in the discussions. The conference is organized in close cooperation with the Institute for Scientific Research on Economic Reforms (ISRER) under the Ministry of Economy of Azerbaijan.

The research results and project finding related to following topics will be discussed:

- Options for facilitating intra-regional and international trade of agricultural commodities
- Food security and availability under conditions of regional disputes
- Policy regulation and trade distortions
- Transformation of supply chains under global and regional integration policies
- Productivity and efficiency of agricultural production
- Effect of climate change on rural livelihoods
- Risk management and agricultural insurance
- Impact of production technologies on agricultural production
- Foreign direct investments, especially in agricultural sector

#### Conference language

The official conference language is English.

#### Call for extended abstract and essays

We request the submission of extended abstracts with up to 1,000 words, which needs to include an abstract of up to 150 words plus a concise summary of the major research questions, data and methods, findings and key literature.

All contributed paper proposals will go through a peer review. Notification of selected proposals for an oral presentation will be sent **by 12 June 2018**.

#### Important dates and deadlines

11 May 2018	Deadline for paper submission (extended abstracts)
12 June 2018	Notification of accepted papers
23 July 2018	Deadline for registration
6-7 September 2018	Conference

#### Registration and funding opportunities

The fee for participation in the conference is 60 euros, which mainly covers the conference catering and field trips. IAMO provides conference grants for selected participants. This grant includes travel and accommodations as well as a conference waiver.

Applications for the travel/accommodation grants should be sent to [baku.conference@iamo.de](mailto:baku.conference@iamo.de) with short CV and a cover letter explaining your motivation to apply for funding.

#### Visa for Azerbaijan

The participants of the conference will receive an official visa support letter from Institute for Scientific Research on Economic Reforms (ISRER), which is one of the main organizers in Azerbaijan.

#### Conference location

The conference will be held in ancient city of Baku in Azerbaijan in the conference facilities of the Scientific Research on Economic Reforms (ISRER).

#### Field trip

Guided tour to the historical city of Baku, especially with the detailed focus on the role of Great Silk Road in trade and regional cooperation will be provided.

#### Contact

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