

DEVELOPMENT OF AGRICULTURE IN TAJIKISTAN: PECULIARITIES AND PROSPECTS

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Central Asia has entered into a dramatic stage of its development. After the first shock the region experienced following the break-up of the Soviet Union and the ensuing conflicts and radical restructuring, the region seems to have turned the corner. All the countries have embarked on a broad program designed to build new life and shape new relations for a better future of their nations. How prospering it will be largely depends on the policies they choose in their strife to raise the living standards of the population and alleviate poverty.

I am confident that during these debates the conference participants will put forward realistic ways for integrating Central Asian economies, ways that will be of benefit for all Central Asian countries.

Central Asia is known to be the poorest part of the former Soviet Union, with a number of extremely impoverished regions. Most countries in Arica are far better off than, say, Tajikistan as evidenced by the fact that 30 African countries collect higher budget revenues than Tajikistan. Even if you compare Tajikistan with some other poor regions like Southeast Asian countries, the comparison will be somewhat against Tajikistan. In Bangladesh or India per capita income is 35 per cent higher than in Tajikistan.

There are estimates putting the number of the poor in Central Asia at 28 million people. The poverty rate stands at 30 per cent to 35 per cent in Uzbekistan and Kazakhstan, 50 per cent in Turkmenistan, 60 per cent in Kyrgyzstan and about 70 per cent in Tajikistan.

The situation that has taken shape in the Central Asian countries, especially in Tajikistan, predetermined the need for agrarian reform.

Unlike the other Central Asian economies, which launched reform in the agricultural sector as early as 1991, Tajikistan was not able to come to grips with the belated reform until 1993-1994 due to the civil war.

Agriculture is Tajikistan's major sector endowed with considerable resources and production potential. The geographic and climatic environment makes it possible for Tajikistan to cultivate virtually all agricultural crops: cereals, legumes, cotton, tobacco, geranium, potatoes, vegetables, fruit, grapes, citrus plants, etc. Pastures and hayfields (accounting for 80 per cent of its farmland) open the way for developing cattle raising based on natural fodder supplies.

Despite the difficulties that Tajikistan's agriculture has been confronted with during the last decade, this sector continues to add significantly to the national economy - its contribution to the GDP accounting for about 30 per cent. In addition, it is responsible for more than 30 per cent of exports, with cotton alone providing 30 to 40 per cent of budget revenues in taxes.

Agriculture provides employment for 50 per cent of the republic's labor, being home to around 80 per cent of the country's population and offering them means of subsistence.

Facing severe disruption in the rest of the national economy Tajikistan placed agriculture high on the national agenda.

During the years that followed the disintegration of the Soviet Union and the period after independence, the agricultural sector witnessed dramatic transformations.

The disarray of Tajikistan's traditional relations with the former Soviet Union republics, the political turmoil and concurrent natural disasters all severely hit material and technical supplies to the agricultural sector. Stoppages of previously centralized supplies of agricultural machinery and spare parts, fuels, mineral fertilizers, pesticides and seeds

combined with the absence of capacities for Tajikistan to arrange its own domestic production have dramatically reduced agricultural output in the republic. In 2000, cotton output accounted for 37.5 per cent, tobacco 10 per cent, fruit and berries 50.1 per cent, grapes 70 per cent, meat 40 per cent, milk 17 per cent and wool 16.8 per cent as compared with the 1990 level.

Changed specialization of agricultural production and its orientation at food self-reliance have brought about a 1.5-fold rise in the production of cereals, including a 2.5-fold increase in wheat output.

In 2001, agriculture showed a trend towards boosting the output of most crops. Gross output of cotton grew by 35 per cent that of potatoes by 5 per cent, other vegetables by 12.4 per cent, milk by 2 per cent, eggs by 70.5 per cent, and wool by 4 per cent in comparison with 2000.

Stabilization in the republic's agricultural sector can well be identified as an immediate result of the agrarian reform.

In the few past years, around 400 agricultural producers (more than 72 per cent of all farms) have been restructured into over 14,000 farms to which more than 3.8 million hectares of cropland was transferred, including approximately 293,100 hectares of dry and irrigated farmlands.

An estimated 41 farms have been reorganized into leasing enterprises, 28 farms have been reformed into open joint-stock companies and 77,700 hectares of land previously used for pastures have been transferred to 114,000 citizens for producing agricultural goods individually. An additional 30,000 hectares of land lying in-between gardens, along channels and drain pits have been given to some 180,000 citizens.

The agrarian reform underway in the republic gave a significant impetus to considerable institutional transformations in Tajikistan's agricultural sector. The private sector's share in the manufacture of major foodstuffs is rather encouraging: 85.3 per cent of meat, 86.5 per cent of milk, 81.5 per cent of eggs, 56.7 per cent of vegetables, 62.9 per cent of potatoes and 66.3 per cent of fruit and berries were produced by the private sector in 2001.

Nevertheless, the major part of the most valuable irrigated land is still controlled by state and collective farms hampering economic reform in agriculture. As of January 1, 2002, an estimated 500 similar farms were still operating across the republic controlling 41.6 per cent of total farmland.

Cotton, whose cultivation area covers over 50 per cent of the country's irrigated land, remains the major crop in Tajikistan dominating its agriculture and being the sole important item sent for export in large quantities.

In the Soviet days, Tajikistan's cotton yield per hectare was highest in Central Asia (over 30 centers per hectare), its average annual output being over 800,000 tons (1,000,000 tons in 1980) with an earning capacity of 60 to 70 per cent of production costs.

However, cotton production declined dramatically, its yield contracting more than twice, following the disintegration of the Soviet Union and halt of centralized supplies of material and technical resources. As a result, the cotton-producing sector ended up in desperate financial straits. Cotton-dependent farms were unable to continue production due to a lack of funds and technical resources.

Although the government of Tajikistan decided to restructure farm debts this step had no significant effect on the economic situation of cotton producers.

From 1992 to 1995 cotton-growing farms were operating unsubsidized. By 1996 cotton output dropped to 317,000 tons, and nobody could say for sure whether that was the limit.

In that situation, the government of Tajikistan adopted a resolution "On the Use of Futures Contracts Covering the Production and Sales of Agricultural Goods" No. 458 of 8 April, 1996. This was followed by an agreement on arranging a US \$60-million secured credit from the bank consortium "Credit Swiss First Boston" backed by the Paul Reinhart company, the second largest cotton exporter in the world.

Also, there were loans extended by other foreign financial companies and joint trading firms.

Since 1996, the economic activities of most cotton producers in Tajikistan have been governed by joint cotton production and sales contracts (futures contracts) concluded with foreign institutions represented in Tajikistan by their agents.

In 1997, as many as 295 futures contracts were concluded with 19 investors, the total value being US \$65.2 million. Investment was used to cultivate 147,800 hectares of cotton sown area (68.8 per cent of the total land under cotton) with a projected yield of 23 centners per hectare. The investment was estimated at US \$357 per hectare. Of the total investment sum, US \$57.6 million was earmarked for purchasing material and technical resources and US \$6.6 million for wages.

The 1997 results indicated certain economic improvements in cotton farms: out of the total 720 operating farms, the number of inefficient producers (suffering losses by the yearend) dropped to 185 (26.7 per cent) from 335 (45.6 per cent) in 1996.

Despite their efforts, the cotton farms could not overcome the financial meltdown they were confronted with at the time. They failed to repay the initial loan and so they had to continue cultivating cotton jointly, as they did before. Their debt to investors has piled up every year since then, although the government ceased to guarantee loans. With time the Agroinvestbank came to be the only agency financing the cotton sector, thus accounting for 95 per cent of overall investment in cotton production.

In 2001 earnings from the cotton sector were estimated at approximately US \$111.2 million, of which US \$54.2 million was contributed to the investor group in interest payment. The remaining US \$57 million was allocated to cover operating costs. Meanwhile, actual costs rose to US \$65 million thus generating a deficit of US \$8 million, or US \$30 per hectare.

Such were the results of a relatively good production year with an average cotton yield of 18 centners per hectare. In the years to follow the yield averaged 13 centners per hectare.

By 2002 the number of futures contracts increased to 656 with a sown area totaling 228,000 hectares (or 80 per cent of the total area under cotton) and the combined value of contracts reached US \$66 million.

The analysis of cotton farming based on futures contracts shows that futures contracts are not paying as well as expected, but operating farms cannot do without them at this stage.

In fact, joint cotton production could be quite profitable had contract commitments been strictly adhered to. But in this case it did not work out that way. Investors' participation in cotton production via their agents ended in a serious violation of contract obligations including pushing prices of material and technical resources too high (far exceeding those inside the republic), delayed and incomplete supplies, high interest rates, delayed contribution of funds earmarked for wage payment, etc. Moreover, in some instances farm managers misused advances contributed by investors. Add to this a dramatic, two-fold and more, plunge in cotton prices throughout the world. Cotton prices fell to US \$1,500 per ton in 1998, US \$1,040 in 1999, US \$1,190 in 2000 and US \$730 in 2001 from US \$1,700 to US \$1,800 in 1996.

Meanwhile, cotton production costs grew increasingly every year during the same period from 105 somoni in 1996, 183 somoni in 1997, 224 somoni in 1998, 300 somoni in 1999, 416 somoni in 2001 to 563 somoni in 2002 for the reasons mentioned above.

The cotton farms wound up unable to repay the loans, their debt totaling US\$148.8 million by 1 July, 2002.

Hardly can cotton production ever prove paying in this republic in a situation like this.

In our view, it would be wiser to repay loans provided under futures contracts in kind as recommended by the republican Ministry of Agriculture.

This proposal, if approved, would make it possible for producers to pay for seed cotton according to prices based on actual production costs with regard to the need for extended reproduction, that is according to standard costs plus producers' profits. In that event the cotton producer would cease to be an 'ultimate beneficiary'. Instead, like any other participant in the chain of cotton manufacture, the producer would have a real stake in the world cotton price. The efficiency of cotton production would grow while cotton producers would be given an opportunity to clear a backlog of debts to investors as soon as possible and direct their efforts at improving cotton yields, raising output and cutting production costs.

Free trade in seed cotton would further strengthen the competitive capacity of the cotton sector. Competition could be extended to cotton gin plants to raise their efficiency and reduce operating costs.

Serious thought should be given to Agroinvestbank's activities so as to put an end to its monopoly on funding cotton farms. Considering that the state is for the time being unable to provide loans for the agricultural sector Agroinvestbank should search for alternative sources of finance and elaborate an alternative lending policy. This may include assistance in creating commercial banks, lending cooperatives or offices of international banks in the rural areas, which can help settle the problem of providing loans for farming operations. Peasant farms would be enabled to get the small loans they badly need.

Under Soviet rule Tajikistan's trade was principally reduced to the USSR constituent republics. In 1991 cotton accounted for one-third of Tajikistan's total export, which was 3.9 billion rubles. In addition, Tajikistan contributed 29 tons of vegetables, 3.5 tons of potatoes and 12 tons of fruit to the Soviet Union joint stock of resources supplied to the other constituent republics. Tajikistan's exports also included tobacco, wines and silk. In turn, this republic imported such vital foodstuffs as wheat and sugar, which accounted for 40 per cent and 70 per cent respectively of the 3.7-billion-ruble import. The list of imported goods also included grains, meat, dairy produce, potatoes and finished foodstuffs.

Responding to the changed situation during the post-independence period Tajikistan started supplying to non-CIS countries around 70 per cent of its exports. Staple export items like cotton and aluminum were mainly supplied to world markets while exports to CIS countries included electric energy (to Uzbekistan seasonally) as well as fruit and vegetables to Russia. Onions have been the major crop within the past three years exported annually in the amount of 20,000 tons to 30,000 tons. Annual exports of potatoes, grapes and apples are 5,000 tons to 10,000 tons. Other goods exported in smaller quantities are apricots, berries, tomatoes, tobacco, skins and wool.

The proportion between Tajikistan's import from CIS and non-CIS countries is approximately 60:40. Tajikistan imports foodstuffs like wheat, flour, fowl, potatoes, eggs, rice, buckwheat, sunflower-seed oil, etc. Also, Tajikistan imports finished goods from Russia and Europe.

Due to the fact that the narrow structure of Tajikistan's economy relies heavily on a very few vital export and import items it is very sensitive to trade disruptions. Just two goods – cotton and aluminum – account for 60 per cent of national income the country derives from export. Cotton is grown and processed inside the country into the cotton fiber, lint, which goes for export. Cotton production requires intensive use of imported material and technical resources.

In the recent few years Tajikistan's agricultural economy faced an embarrassing trade situation triggered by a slump in cotton and the soaring prices of fuel, machinery, mineral fertilizers and other resources throughout the world. World lint cotton prices have dropped by more than 50 per cent in the past five or six years while prices of material and technical resources keep growing – a factor rather discouraging cotton production. In 1997, for example, Tajikistan could buy a barrel of oil for approximately 28 pounds of lint cotton; in 1999 a barrel of oil was equivalent to about 40 pounds of lint cotton while today it equals 60 pounds of lint cotton.

The proportion between lint cotton exports and wheat imports is changing too. If the prices of these goods in Tajikistan follow the world price trend, which is what is happening now, one can expect the value of cotton exports to outpace that of wheat imports in the decade to come.

The above-mentioned situation in trade hampers the development of trade and free enterprise on a competitive basis. Unlawful charges are a widespread practice that makes the cost of transportation much higher.

There are a number of setbacks in cotton marketing impeding progress in the agricultural economy. The point is that marketing and cotton production are subject to the state administrative system, which imposes extra charges on making deals thus running counter to the interests of cotton producers. Lint cotton prices are accepted in accordance with world prices without regard to actual cotton production costs. Deals made inside the

republic are based on prices established by the Tajik commodity exchange, which has monopolized cotton trade. Yet, these prices cannot suit cotton producers. The administrative system demands that cotton producers and consumers stay in contact with the authorities for patronage. Competition among cotton consumers is non-existent.

Thus, even though the cotton trade proceeds in the private sector the market system is still controlled by the state. Primarily it focuses on monitoring the production sector and boosting collection of taxes from cotton sales.

Western futures markets provide a mechanism protecting cotton producers from price fluctuation risks. This country's market is playing a somewhat different role. Contracts signed on Tajikistan's future market typically tie up cotton producers to cotton consumers providing the former with material and technical resources on the basis of funds advanced by consumers. Moreover, the value of goods supplied under futures contracts is characteristically unidentified – a circumstance suggesting that local administrations do not envisage measures necessary to safeguard the interests of cotton producers while signing contracts on joint cotton production.

Consideration should also be given to the interests of cotton gin plants whose privatization was accompanied by the upswing of cotton processing charges due to the fact that the plants demanded that charges reflect real costs of lint cotton processing. Experts in the Ministry of Agriculture, though, claim that new owners of cotton gin plants cover up the real costs of cotton processing, indicating that the plants' activities are not transparent and they essentially act as local monopolies.

The prices of other agricultural produce vary widely with the market situation. A drop in domestic prices reflects low demand for foodstuffs in a rural community producing food specifically for its own consumption.

Worse, there are instances indicating that authorities and personnel managing the peasant market and other market structures abuse their powers. Apparently, as long as managing agencies are directly involved in trade, which is the case in Tajikistan, there can be no fair competition to speak about.

A multitude of informal obstacles existing in Tajikistan's trade now are anything but facilitating a business boom. If the situation is not straightened out as soon as possible the adverse effect on trade will be inescapable. This makes reform in trade a must, considering that:

- ▶ Cotton producers are suffering in a situation where cotton gin plants have become monopolies. Therefore, it is necessary that cotton producers purchase part of the plants' shares;
- ▶ It is an imperative of a market economy that administrative control of trade in agricultural produce, especially cotton, should be minimized. Local administrations should promote competition and provide freedom of choice for consumers.

Tajikistan's agriculture has abundant resources for further growth of the economy, export, employment and alleviation of poverty.

In 2000 President of the Tajik Republic E. Rakhmonov approved a medium-term Program of Recovering the Agroindustrial Complex of Tajikistan From the Crisis and Top-Priority Strategic Guidelines for its Development for the Period Until 2005, which outlined a number of steps focusing on the further deepening of land reform and restructuring of agriculture.

The President's decree contemplates a total restructuring of state and collective farms into new market economy entities.

The strategy of poverty alleviation in agriculture highlights measures designed to safeguard agricultural producers from exorbitant futures contracts.

Currently, with support from the Asian Bank, training courses have been arranged to teach peasants advanced farming methods.

In addition, a broad program has been launched to give a boost to the development of domestic seed farming, veterinary service on a commercial basis, information support for

peasants and advanced marketing systems. The unofficial cotton sale quotas imposed by local authorities have been repealed.

The above measures are expected to help realize the huge potential of the republic's agriculture, ensure employment of the rural workforce and thus raise living standards.

(3,255 words)