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“Bridging the gap between increasing knowledge and decreasing resources”

Agricultural Incentives in Kyrgyzstan: The Impact of Domestic Policies and Changing Macroeconomic Conditions

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Abstract

Together with the rest of the economy, the agricultural sector in Kyrgyzstan has undergone crucial reforms during the transition period following the collapse of the Soviet Union. The policies influencing agricultural incentives, i.e. farmers' earnings, through the influence on farm-gate prices have also changed substantially. Recent macroeconomic developments, such as the booming gold mining sector and an increasing inflow of workers' remittances on the one hand, and increasing import prices on the other hand, are also likely to have an impact on agricultural incentives through the influence on the exchange rate. This paper aims at investigating the impact of both direct agricultural policies and changing macroeconomic conditions on agricultural incentives for the case of Kyrgyzstan. Nominal Rates of Assistance (NRAs) are estimated in order to quantify direct distortions to agricultural prices resulting from the policies in the agricultural sector. In the second step, True Protection Concept is employed in order to analyse relative incentives between importable, exportable and nontradable sectors in the Kyrgyz economy. Empirical results show that first, direct distortions to agricultural prices do not seem to follow a certain pattern implying that governmental policies in the agricultural sector apparently have not attempted to protect a particular branch of agriculture. The only exception are grains, NRAs for which are generally positive, but not large, pointing at a general encouragement for grain growers from the government probably following food self-sufficiency goals. Second, the true protection analysis shows that around half of the burden of the price increase for importables is shifted to the exportables sector, including agricultural exportables. This means that if prices in the importable sector increase in response to exogenous factors or certain trade policies, domestic exporters, both agricultural and non-agricultural, would be taxed implicitly. Since the Kyrgyz government seeks to promote exports, findings from the present study could serve as a useful scientific background for future trade and agricultural policy development.

Keywords: Agricultural distortions, Kyrgyz Republic, true protection