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## Article

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## The Impact of the Oil Price Fluctuations on the Agrarian Policy in Azerbaijan

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**Abstract** Azerbaijan passed into market economy after independence as well as other post-soviet countries. Azerbaijan acquired huge revenues from oil being oil exporting country like Russia and Kazakhstan and those revenues were pooled to make fund for transit period. But other sectors, especially agriculture shrank down despite its traditional and special place. Nevertheless losing revenues with fall in oil prices since end of 2014, Azerbaijan realized the important share of agriculture sector and agricultural export. . This study investigates Azerbaijan agricultural policy in 2016 due to oil price fluctuations and main steps that government should take in order to eliminate Dutch Disease and increase non-oil sector and also applicability of agricultural policy of main CIS agricultural product export countries. At the end some suggestions are given on agricultural policy. Despite successful results on reconstruction economy on market based economy, integration into global economy through huge projects, there are still questions like efficiency management of free market economy; required reforms in oil price volatility need answer. In this study, comparatively analysed agriculture sector and agricultural export in Azerbaijan the period 2014-2016.

**Key words** Oil price fluctuations, agriculture sector, agricultural export, Dutch disease, agricultural policy

**JEL Codes:** F31, C31, Q43

### 1. Introduction

Oil export revenues are an important source of income for post-Soviet countries such as Azerbaijan and countries with rich natural resources have achieved significant petroleum projects, especially after the independence period, and these projects with time have gained huge oil revenues. As a significant proportion of exports of all three countries were petroleum and petroleum by-products, they gained huge profits in the post-2000 period, especially due to oil price increases. With the obtained income as a source of economic activities many important social and economic problems that have been waiting for many years have begun to be solved. This process has been important in overcoming the difficulties of the economic system change which is the common feature of these countries and has accelerated the transformation called transitional process. Of course, while the use of natural resource revenues facilitated the solution of some basic problems and the process of change in the socio-economic structure accelerated, undesirable consequences too. This phenomenon, which entered to the literature as "natural resource curse", has also manifested itself in three countries. While the countries have gone beyond structural anticipation and reached significant levels of relief in the economies, the easy acquisition of resources and expectation that ease will continue could prevented the effective using and cautious approaching. Azerbaijan is located in the southern part of the Caucasus mountain range, consisting of The Republic's physical geography includes nine out of the Earth's eleven climate zones, and in turn enables the country to produce a variety of high-quality fruits, nuts, vegetables, tea leaves, citrus, and field crops that include wheat and cotton, among others. In addition to farming, planting, horticulture, fishing, and livestock, the ability to sustainably use its land for food production gave Azerbaijan a prominent position amongst the Soviet republics The agricultural sector has good potential to make important contributions to economic growth, diversification, poverty reduction and employment creation in rural areas of Azerbaijan, but to realize this potential more must be done to improve markets. A major challenge for Azerbaijan today is to diversify its economy away from oil and to spread the benefits of economic growth to rural areas. Agriculture can help the country to reach these goals because it is the largest economic sector in Azerbaijan after oil, and is the largest employer in the country, providing 36% of employment in compared to only 1% for oil.

Azerbaijan is one of the most oil-dependent countries in the world. In 2016, the oil sector generated 31% of the country's GDP (compared with 52% in 2015), and oil revenues accounted for 63% of the state budget and amounted to 86% of total exports. In the last 10 years, the size of the country's economy has increased more than 7 times. During this period, per capita GDP increased by about 6.7 times. As it can see, the Azerbaijan economy has surpassed other Caucasus countries twice according to the growth tempos; it ranked first in the CIS. In addition, there were variations in the factors that economic growth was based on during that period Similar to other oil-rich Caspian Basin states, Russia and Kazakhstan, Azerbaijan's national currency lost its value relative to the U.S. dollar and Euro. However, whereas Russia and Kazakhstan began to weaken their national currencies in 2014, Azerbaijan held its currency at a firmly stable rate in the hope of a return to favorable oil prices.

Table 1. Countries with the largest Proven Oil Reserves in 2016

Rank	Country	Barrels (bbl)
1	Venezuela	298,400,000,000
2	Saudi Arabia	268,300,000,000
3	Canada	171,000,000,000
4	Iran	157,800,000,000
5	Iraq	144,200,000,000
6	Kuwait	104,000,000,000
7	Russia	103,200,000,000
8	United Arab Emirates	97,800,000,000
9	Libya	48,360,000,000
10	Nigeria	37,070,000,000
11	United States	36,520,000,000
12	Kazakhstan	30,000,000,000
13	Qatar	25,240,000,000
14	China	24,650,000,000
15	Brazil	15,310,000,000
16	Algeria	12,200,000,000
17	Mexico	9,812,000,000
18	Angola	9,011,000,000
19	Ecuador	8,832,000,000
20	Azerbaijan	7,000,000,000

Source: <http://www.worldatlas.com/articles/the-world-s-largest-oil-reserves-by-country.html>

Another peculiarity in this case is that both times that Azerbaijan devalued its currency, it did so sharply and not smoothly, which differs from the approach taken by Russia and Kazakhstan. Of course, in the Russian case, sanctions have had a significant impact on the ruble as well. Azerbaijan has huge natural resources, which triggered the development of economy. Following the manat's devaluation, the country's ranking in the world economy fell sharply: GDP per capital dropped 56%. By the end of 2015, annual GDP per capita in Azerbaijan stood at US\$ 7,986; at 2016, that amount is only US\$ 3,490. Two other indicators are noteworthy as well. Before the national currency devaluation, Azerbaijan's public debt to GDP ratio was one of the lowest among oil-producing states, but today this is no longer the case. Public external debt to GDP (as of January 1, 2017) stands at 20.8%, whereas it was only 8.6% one year before (Ministry of Finance of Azerbaijan). Institutional reform seems to be the most difficult task but is crucial if Azerbaijan is to adapt to the new low oil price era and build a desirable model of development that is sustainable in the long term.

Oil and gas resources are the most important wealth of Azerbaijan. In 2016, 85% of the export belongs to the energy carriers. This figure also shows the importance of the energy sector in Azerbaijan economy. For this reason, energy resources should be used relevantly. The most important trade relationships were realized via the Mediterranean and Black Seas in ancient times and medieval. The caravan routes, especially Great Silk Way were extended from China and India to Mediterranean and Black Seas and passed through Azerbaijan. Well-known caravan route which made connection between Eastern Europe and South Caucasus, Iran, and Central Asia via Darband passage also crossed Azerbaijan. Thus, abovementioned international caravan routes attracted the other countries from ancient times. Azerbaijan played "Golden Bridge" role in the region. Important aspect in terms of economic development and integration to the world economy is characterized by the climate and suitable geographical position. 9 climate types of 11 are observed in Azerbaijan. Azerbaijan has suitable geography for the development of agriculture and tourism, fertile lands, long coastlines, large pastures, forests, and nice climate (Aras and Suleymanov, 2016). Great Silk Way, the oil and gas pipelines, which carry Central Asian energy resources to the world market also cross Azerbaijan. The relevant geographical position of Azerbaijan plays more important role between Asia and Europe. One of the most important aspects due to realize the economic development is the natural resources. The political stability should be provided in order to attain macro-economic stability in any country. Public policies and economic reforms, as well as the operation of Baku-Tbilisi-Ceyhan pipeline resulted with the growth in economy. Azerbaijan economy attained more achievements in comparison with the other former Soviet Republics during the transition period. The existence of rich natural resources caught the attention of foreign investors. Foreign investments were one of the most important factors which stipulate economic growth. The economic development continued in the stable environment in terms of the macro-economy. According to the information of International Monetary Fund, the growth rate of the world economy was equal to 3.4% in 2016 (Aras and Suleymanov, 2016).

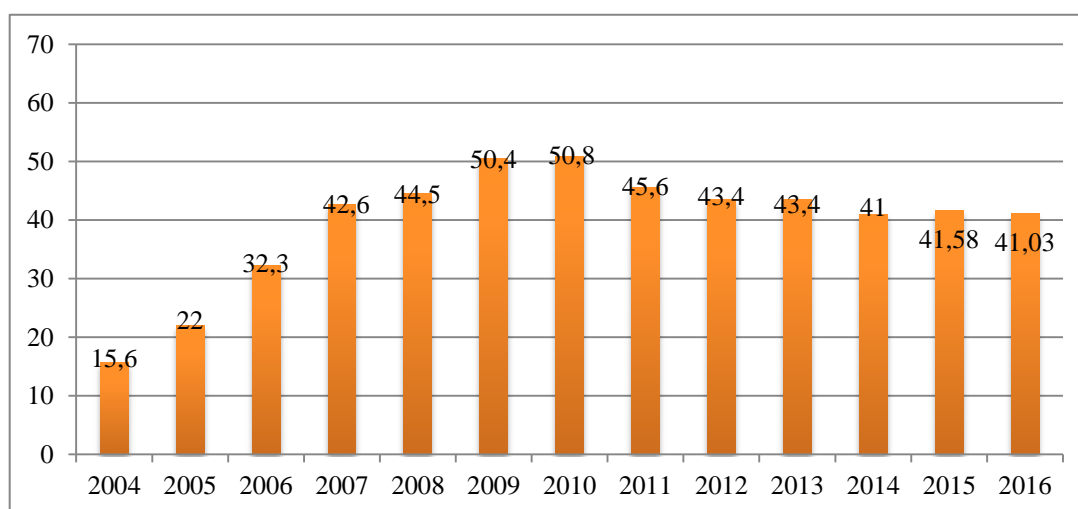
## 2. The impact of the oil production in Azerbaijan

Despite the accumulation of significant revenues from crude oil exports and remarkable economic growth over the past 25 years, Azerbaijan's economy has been hit hard by the recent drop in global oil prices and has experienced a period of painful economic adjustments. The government has attempted to change the traditional distributive approach that is based largely on oil revenue distribution in favor of a new earning –oriented model that is expected to benefit from a robust non-oil sector (Aras, 2007). It is clear that the oil price slump caught the government off guard and poorly prepared to cope with the new low price environment (Suleymanov *et al.*, 2014). Clearly, it will be difficult to build a new model of development quickly and thoroughly in a short period of time. Main Countries in Export (2016) Azerbaijan has business relationship with more than 170 countries. Italy, Israel, Russia, Georgia, Turkey, Iran, Turkmenistan, Indonesia, Croatia and France provide 87% of the export. The volume of the foreign trade: Italy (25%), Russia (12%), the United Kingdom (6%), Turkey (6%), Turkmenistan (3.6%), Israel (4.65), Kazakhstan (3.5%), Germany (3.3%), Iran (3%), Georgia (3%), France (2.6%), China (2.5%), and the Netherlands (2.3%). Italy is in the first place in terms of export because of the oil transportation via Trieste port (Bulut and Suleymanov, 2012). As a result of the financial crisis in Russian Federation in 1998, and the devaluation, the Russian goods attained price advancement in Azerbaijan market. Russia attained one of the first places in terms of the foreign trade of Azerbaijan. Main Countries in Import (2015) Russia, Turkey, the United Kingdom, Kazakhstan, Germany, Ukraine, the Netherlands, China, the United States and Japan provide the 70% of the import.



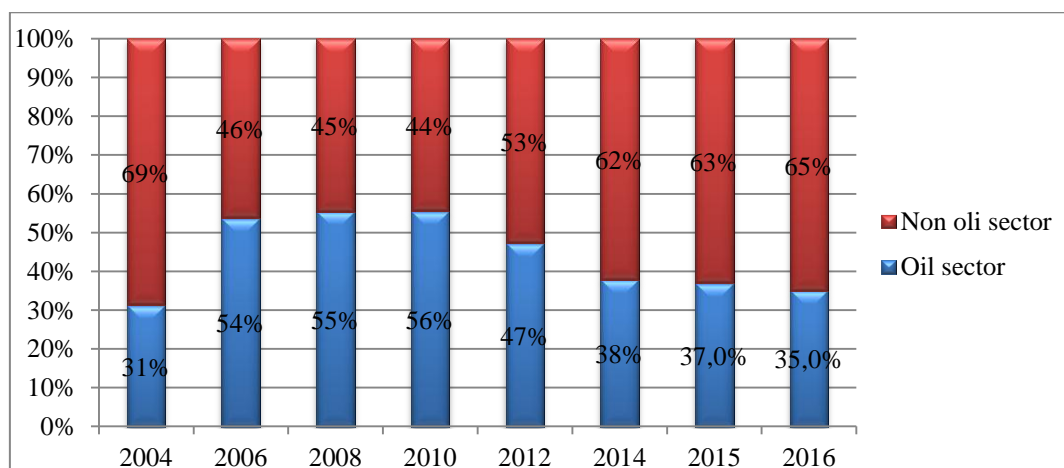
Figure 1. GDP of Azerbaijan (2005-2016), mil. USD

The increase in oil revenues led to an increase in budget expenditures. While 2005 budget expenditures were 2.1 billion manats, in 2015 were approved as 21 billion manats. So it has increased 10 times. In 2015, this figure was around 19 billion manats.



Source: [www.socar.az](http://www.socar.az)

Figure 2. Volume of oil production in Azerbaijan in 2004-2016 (million tons)



Source: <http://www.maliyye.gov.az/sites/default/files/2017-1.pdf>

Figure 3. Oil and non-oil sector share in GDP (%)

### 3. The impact of the oil price fluctuations

Furthermore, the denomination process has been realized since 1<sup>st</sup> of January, 2006. The nominal value of the Manat was diminished 5000 times and New Azerbaijan Manat was created. The New Azerbaijan Manat was released to circulation and this process continued until 1<sup>st</sup> of January, 2007. New Azerbaijan Manat was similar to Euro in terms of the physical characteristics and value. Therefore this process blew the dollar hegemony in the country. Because the most important part of the cash transactions were realized by dollar and this limited the circulation market of the Manat. However this situation was changed in line with the severe dropping in the oil prices in 2015. In February, the equivalent of \$1 dollar increased from 0.79 AZN to 1.05 AZN. In December new devaluation was realized and the equivalent of \$1 dollar increased from 1.05 AZN to 1.55 AZN. The second one planned the fluctuating exchange rate. According to that, the rate of the Manat will be formed according to the real aspects of exchange market. On January 01, 2017 Azerbaijan's foreign public debt was 6,913.9 million \$ (12,241.3 million manat), external public debt of the Gross Domestic Product (GDP) ratio is 20.4 percent. Debt statistics from the government's direct liabilities and contingent liabilities on loans borrowed under the state guarantee are included. Transfers to the state budget. In 2004, the transfer to the state budget accounted for the major part (92%) of the State Oil Fund's budget spendings. In 2014, the amount of 9337.0 billion manats were transferred to the state budget from the Oil Fund. The total amount of the transfers made to the state budget from the Oil Fund have been over eighty billion manats during 2003-2016. In general, the volume of this transfer have been more than half the budget until 2016. In the budget of 2016, the level of this transfer has been 6 billion manats decreasing by 40% compared to previous years because of the fall of oil prices. Thus, at the beginning of 2016, more than 120 billion manats are collected in Azerbaijan's State Oil Fund. Since its foundation, about 85 billion manats have been spent from the Fund, 80 billion manats of which have been transfers to the state budget.

Institutional reform seems to be the most difficult task but is crucial if Azerbaijan is to adapt to the new low oil price era and build a desirable model of development that is sustainable in the long term. Like many other oil dependent countries, the government of Azerbaijan is also considering privatization of state property as leverage and as an incremental source of budget income. Notably, the government did not pay adequate attention to privatization during the super-cycle oil boom of the 2000s, neither as leverage for business development nor as a source of revenue for the state budget. In the case of the budget, this was not necessary as oil revenues covered the budget needs with excess remaining. Thus, most of the state property inherited from the Soviet legacy had little business potential and was essentially trash. In this regard, the Presidential decree on privatization of February 16, 2016 should be considered a continuation of the "State Program of Privatization of State Property" dated 10 August 2000. All these efforts are necessary, but not sufficient. The government should recognize that the weak currency opens up enormous opportunities for local business, particularly farmers. However, in order to fully realize the potential of the emerging new environment the government should undertake fundamental liberalization reforms that would streamline the work of customs services and address the omnipotence of local authorities. Since its inception in January of 2001, the State Oil Fund provides information on income and expenses every three months. The income of the Oil Fund was 1614.3 billion manats in 2004 and its expenses were 871.2 billion manats (before the denomination). Thus, at the beginning of 2016, more than 120 billion manats are collected in Azerbaijan's State Oil Fund. Since its foundation, about 85 billion manats have been spent from the Fund, 80 billion manats of which have been transfers to the state budget.

#### 4. Agriculture and cattle-breeding

Agriculture and cattle breeding are the most important sectors among the non-oil sectors in socio-economic development of Azerbaijan. This diversity extends from subtropical climate to tundra climate. It is possible to get a product more than once in a season (Aras *et al.*, 2013). The variety of climate makes possible to grow various sorts of harvest. In short, being favorable for agriculture Azerbaijan's main agricultural products are wheat, tobacco, tea, olive oil, fruit and vegetables. The country has enough potential to produce grain and satisfy internal demand.

During 2015-2016s, quite impressive processes taking place in Azerbaijan's economy. Thus more than ninety percent of exports were oil products. The development of agriculture and diversification of the country's exports increased its significance due to significant decrease in oil prices in the world market. 55.1% of the country's territory is arable land. 30.1% of this area is used as pastures and hayfields. In 2016 the total sown area of agricultural crops was 1.6 million hectares

Since oil and gas in Azerbaijan's mining industry production takes the essential place, the share of agriculture in GDP is not so high. In 2016 total agricultural products were 5.6 billion AZN or 6.2% of the country's GDP. The 53.1% of total production establishes cattle-breeding products and 46.9% are plant-raising products. In terms of economic categories, 92.3% of agricultural products produced by individual entrepreneurs, family and households, 7.7% of them were produced by agricultural enterprises and other organizations. Although the share of agriculture in GDP is little, it plays an important role in ensuring employment in the country. According to official statistics, 37.1% of the employed population works in the agricultural sector. Out of the major factors of production, the small number of officially registered, specialized individuals and legal entities who can act as a coordinator or direct executor in export and foreign trade are one of the main obstacles in front of the growth of international trade of agricultural products. In general, the country's total exports in 2016 were \$ 11.4 billion, and imports - \$ 9.19 billion. The following table shows foreign trade statistics for agricultural products of the Republic of Azerbaijan for 2014. The main agricultural goods groups in the country's export are vegetables, roots and tubers, edible fruits and nuts, citrus fruits, animal or vegetable fats and oils make \$ 481.4 million together (89.3%). Cereals (52.7%), animal and vegetable fats and oils (13.7%), live cattle (8.1%) and dairy products, poultry, eggs, natural honey and other food products of animal origin (10.7%) goods groups have more weight in import. Overall, in 2014, the trade of agricultural products accounted for 2.5% of exports and 7% of imports.

According to the geographical structure of trade in agricultural products, Russian Federation, the Commonwealth of Independent States (CIS) countries, Iraq, Iran, Indonesia, Turkey, European Union countries occupy an important place. In exports Russian Federation with \$ 249.73 million (46.32%), Iraq with \$ 94.62 million (17.5%), in import Russian Federation (28.7%) with \$ 185 million in the Kazakhstan \$135.8 million (21.1%) are the largest partner countries of Azerbaijan. During the 2015-2016 periods, the most significant impact on trade in agricultural products was economic problems in Russia that began with the fall in value of the ruble. As a major partner in this area, it will have negative effects on exports in 2015-2016. A bill regulating trade of agricultural products in the country is also missing.

The agricultural sector in the Republic of Azerbaijan is strongly supported by the government. Apart from the tax incentives, support covers financial and technical assistance. Individual entities are exempted from income tax revenues from the production of agricultural products. In 22 November, 2013 implementation of tax incentives in agriculture were extended for 5 years and has been launched since January 1, 2014. As a result of tax incentives in agriculture costs reduced up to 10%. In general, those engaged in agriculture are exempted from 8 out of 9 types of taxes. According to Tax administration the amount of taxes granted to the public by concession establishes 25-30% percent of collected taxes.

#### 5. Agrarian policy in Azerbaijan after oil price fluctuations

##### 5.1. Year of agriculture

President of Azerbaijan has signed an executive order declaring 2015 the "Year of Agriculture" in the country. The order hails agrarian reforms in the country, saying they paved the way for the rapid development of agriculture in the country. It lauds the role of electronic agriculture system in increasing effectiveness and transparency in management. "Year of Agriculture" is aimed at giving a new stimulus to the development and modernization of agriculture, ensuring a complex and systematic approach to settlement of problems in the agrarian field, involving the government's administrative and financial resources in this sector, and promoting the country's agrarian potential.

The government of Azerbaijan has a state program for the "Reliable supply of population with food in Azerbaijan Republic from 2008 to 2015" that is being undertaken to satisfy food security for the population of the country with higher quality products and to create reserves of consumer goods. The state program has defined the following goals for 2015: to increase the plantation crops to 900 thousand hectares, oil crops to 135 thousand hectares and productivity to 32 quintals per hectare, general production to 2.8 million tons, sugar beets to 20 thousand hectares, potato production to 1.12 million tons, vegetables and other plantation herbs to 1.72 million tons, fruit production to 800 thousand tons, tea leaves production



to 3 thousand tons, meat production to 340 thousand tons, milk and dairy products to 2.4 million tons, industrial poultry production to 80 thousand tons, and egg production to 1.3 billion pieces. It is very interesting to see how these goals have been followed as there is only a year left until the end of the program. We come across a different situation when we look at the balance for potato production. Although there was a planned increase in potato production from 1037.3 to 1120 thousand tons by 2015, the opposite actually occurred and in 2013 output had dropped to 992.8 thousand tons. In addition, potato exports fell and the dependence on imports remained the same at around 8% of the demand. The situation with dairy products is also paradoxical; the goal was to increase the production by 80% to 2400 thousand tons from 2007 to 2015, however the production increased by just 36%, which was less than the growth of internal demand.

The internal demand of fish, pork and dairy products is not satisfied by domestic production, especially in untraditional pork production, where only the 36% of internal demand is met. Though Azerbaijan still does not have an export potential with cattle products, it may be possible to satisfy in the future the internal demand and generate export potential in cattle products. Because Azerbaijan is suitable for small livestock, traditional industry gives the country a comparative advantage in this sector. At the same time, attracting investment and reconstructing infrastructure in Azerbaijan makes possible to develop the poultry industry. Thus, it is possible to generate more productivity and strengthen the export potential of Azerbaijan in both sectors with little effort and capital.

## 5.2. The Law on "Agricultural Cooperatives"

In this regard, the National Assembly began to adopt appropriate decisions and laws. On June 14, 2016, the law on "Agricultural cooperatives" was passed in the plenary session of the National Assembly. Cooperatives should be based on the principles of volunteerism, rather than the methods applied in the establishment of collective and state farms (*kolkhoz and sovkhoz*) system. For this purpose, targeted programs with definite financial capacity should be developed and implemented with a view towards establishing large farms in the lands belonging to the state and municipalities and consolidating lands that are divided into small pieces Advantages of Agricultural Cooperatives:

- a profit-making business;
- the expansion of the wealth and property of agricultural farmers;
- Collective management is important moment to establish political equality and democratic institutions to gain experience;
- Employees of Agricultural Cooperatives enjoy their job;
- Labor security (Once profit decreases, employees is retained by reducing working hours);
- Social justice, mutual trust and understanding make this business more attractive;
- Spending funds efficiently and financial transparency;
- Property and democratic management, increasing income;
- Increasing quality products;
- Increasing competitiveness and markets;
- Decrease in main capital of product;
- The development of agriculture supports enhancement of communities' life style;
- Free subsidies allocated by the government are kept in the budget and assigned to other important areas.

## 5.3. Increasing Customs Duties

The Azerbaijani government has decided to change the import procedures of certain goods to protect the domestic production. "Domestic production of persimmon, for example, exceeds the demand threefold, while the level of self-sufficiency on such products as nuts, apples, tomatoes, onions poultry meat exceeds or stands near 100 percent. As of construction materials, the level amounts to 99 percent in production of brick, 95 percent in manufacture of cement and clinker." The changes, which were taken with a view to stimulate growth in the volumes of local production, will enter into force on November 1, 2016. Moreover, the deputy minister said the government may soon revert to the issue of increasing customs duties, should increase of domestic production in other spheres be recorded. In particular, the changes will be applied to meat and edible meat offal (fresh, chilled and frozen poultry meat), eggs, vegetables (cucumbers, tomatoes, onions, garlic), fruits and nuts (walnuts, hazelnuts, grapes, apples, pears, quinces, persimmons), fruit and vegetable juices, alcoholic and non-alcoholic beverages (mineral and soda water), construction materials (bentonite, gypsum, cement, clinker), stone, plaster, cement, asbestos (slabs, bricks, building blocks) and ceramic products.

The customs duty to be applied in reference to the import of poultry meat is defined at the rate of \$1 per kilogram, while the rate for 1,000 chicken eggs will stand at \$100. The duty of \$0.2 and \$1.5 per kilogram will be imposed on import of onions, cucumbers and nuts respectively. Grapes and persimmon will be imposed by the duty of \$0.4 and \$0.3 per kilogram. The duty for the import of mineral and sparkling water, as well as juices will stand at the rate not less than \$0.7 per liter. Since 2001, Azerbaijan has been using a multi-stage differentiated tariff system with a rate of 0, 0.5, 1, 3, 5, 9 and 15

percent. Currently, a number of imported goods are subject to the maximum rate of customs duty (15 percent) to protect domestic products from the negative impact of foreign competition.

#### 5.4. 'Made In Azerbaijan' brand

Azerbaijan's President signed a decree on October 5 to approve the "The rule of defining and regulating the mechanism of paying a part of the expenditures from state budget, organizing export missions to foreign countries, exploring foreign markets and marketing activities, promoting 'Made in Azerbaijan' brand in foreign markets, local companies' receiving certificates and patents in foreign countries for export, research programs and projects for development of export." The decree also approves the form of the report "On the work carried out to encourage the export of non-oil products of Azerbaijani origin. In order to finance the support measures envisaged in the above-mentioned rule, 3 million manats have been allocated from the Azerbaijani President's Reserve Fund in the 2016 State Budget. To respond to these challenges the Government developed the "Development Strategy of Agribusiness in the Republic of Azerbaijan 2014-2020", which sets the following priorities for the agricultural: a sector innovative agricultural policy; resource management; private sector development; enhanced safety, quality and supply-side security of agricultural products, assets and resources; advisory services and transfer of know-how. In order to give a new momentum to the development of agriculture and accelerate its modernization, the Agricultural development is a priority area in Azerbaijan.

Today, farmers are exempted from all taxes except for the land tax. Major subsidies are paid. Farmers are provided with funds amounting to 900 million manats in the form of subsidies. Agricultural machinery, fertilizer and fuel are acquired and given to farmers on easy terms. There should also be serious political and social oversight. At the same time, local executive authorities should be more active in this, so that the funds allocated by the state reach their destination and there is a result. We are now analyzing the issues related to subsidies and preparing new proposals. The number of agricultural producers is 1.208,7 thousand units, 99.98% of which is comprised of private and 0.02% public farms. In addition, there are 78.648 cottage farms dealing with production, processing and sale of agricultural products. 66.8% of specialized agricultural producers are consisted of family-villager, 32.8% housekeeping, and 0.2% farming. Special weight of surplus value created in field of agriculture, hunting and forestry in GDP of 2016 was 6.2%.

The tireless efforts of the great leader and the great dedication of the workers in the 1970-1980s, Azerbaijan harvested a million tons of cotton, while now the figure is only 35,000 tons. In those years cotton was seeded on an area of 300,000 hectares, while last year it was planted only on 18,000 hectares. This means a destruction of cotton production. This is intolerable and we have to take serious measures. This year we are a little late, but still some good results are already expected this year. Those representing districts here today will talk about this in their speeches. This year, on the whole, cotton was sown on an area of 51,000 hectares. This is about three times more than last year. The agricultural sector suffered during the transition. Azerbaijan has a wealth of natural resources for agriculture, including a favorable and diverse climate, and it has long been a major agricultural producer and exporter. However, under the Soviet economy, the agricultural sector was pumped up on an artificial diet of heavily subsidized inputs like fertilizer and irrigation. When these subsidies stopped flowing after the breakup of the Soviet Union, the area cultivated and yields fell, and agricultural GDP was cut in half. Meanwhile, due to a lack of employment opportunities in urban areas, labor flooded into agriculture, resulting in a sharp decline in productivity and wages, and an increase in rural poverty. Agriculture, tourism, information and communication technologies, processing industry are considered to be basic priority areas in the development of non-oil sector in Azerbaijan. The international finance institutes especially note the importance of agriculture and tourism among these sectors. Thus 44 percentages of the employed population of the country namely are engaged in agriculture sector. For that reason the attraction of the systematic state programs, reforms and new technologies are implemented. The causes of high transaction costs include the absence of producer organizations and professional associations, and a lack of appropriate standards, grades and packaging.

Poor public services and institutional capacity: the general lack of public services, such as agricultural extension services, appropriate research and market information systems, further increases transaction costs for investors if they have to then provide these services themselves. Business advisory services are also needed because the inadequacy of business and marketing skills among both producers and agro-enterprises reduces their ability to take advantage of market opportunities. Low institutional capacity hinders the ability of Government to respond to the needs of the sector with appropriate policies, investments and services. Inadequate public investment: the lack of investment in electricity and gas supply imposes higher production costs on processors and producers. In some places, poor transportation and communications infrastructure are also constraints. These have the effect of further reducing investment. The lack of public marketing infrastructure such as wholesale markets increases transaction costs and also reduces market opportunities for producers to land privatization and other reforms; agriculture has since rebounded from its depths. With the abolition of input subsidies and restructuring of farms, the comparative advantages of agricultural production changed. Due to the small farm size, abundance of labor, and favorable natural resource endowments of the country, Azerbaijan's comparative advantage lie in the production of fruits



and vegetables such as oranges, apples, olives, tomatoes, cabbage, and chickpeas, and livestock products such as beef and milk. Prices of agricultural products are low, and as a result the sector has been unable to make the most of its comparative advantages. Farmers need a place to sell their products and need good prices so that they can make necessary investments to increase production and productivity. Unfortunately, prices received by farmers in Azerbaijan have not recovered and remain substantially lower than international prices. What is more, farm gate prices are lowest for those products where Azerbaijan should have a comparative advantage, such as tomatoes, cabbage, grapes, apples, pomegranates, beef and milk. This reduces the incentive for farmers to invest in the production of these goods. As a result, the area cropped to fruits has not recovered, investment in agriculture has continued to drop to almost nothing and Azerbaijan has remained a net importer of agricultural products. Further, due to a lack of these products and low prices, among other things, investment in agro-processing is low, off farm employment remains limited, and labor productivity in agriculture remains one of the lowest in the CIS. For agriculture to reach its potential, markets must be developed markets have not developed. Although farms were privatized, the market structures and institutions necessary for the shift to a market-based economy in the agricultural sector are still undeveloped. Market channels are fragmented and exist only in a very rudimentary form, and the informal sector dominates.

## 6. Conclusions

Agricultural development is a priority area in Azerbaijan. Today, farmers are exempted from all taxes except for the land tax. Major subsidies are paid. Farmers are provided with funds amounting to 200 million manats in the form of subsidies. Agricultural machinery, fertilizer and fuel are acquired and given to farmers on easy terms. There should also be serious political and social oversight. At the same time, local executive authorities should be more active in this, so that the funds allocated by the state reach their destination and there is a result. We are now analyzing the issues related to subsidies and preparing new proposals. Manat's revaluation process in Azerbaijan continued until 2015 when oil prices sharply declined in world markets. The first devaluation of the Manat rate in February was from \$ 0.79 to \$ 1.05 Manat, with the second devaluation at the end of December to \$ 1.55 Manat. Thus, for the first time in the recent history of the country, the Central Bank has devalued twice a year. The Central Bank while carried out the first devaluation related to the two-currency basket, the second devaluation was carried out for the floating exchange rate regime.

According to this decision, Manat's exchange rate is mainly based on the influence of the main factors determining the supply and demand ratio in the foreign exchange market. The Central Bank has started to make transactions in the foreign exchange market in accordance with this regime. Budget forecasts for the years 2016-2019 have been prepared with anticipation the crude oil sales price on world market will fall to 30-50 dollars. According to this, optimistic (\$ 60), base (\$ 50), and pessimistic (\$ 40) scenarios are prepared for budget basic items and priorities. The total amount of transfers from the Oil Fund to the state budget in 2003-2016 was more than eighty billion manats. Generally, the volume of this transfer has been more than half of the budget until 2016. Due to the decline in oil prices; the volume of this transfer in the 2016 budget has decreased by 50% from previous years to seven billion manats, or approximately 5 billion dollars. Given the size of the oil sector in these countries, recent declines in oil prices has affected both the socio-economic spending of the countries as well as the foreign exchange rates of the national currencies. The fact that their own money lost significant value against the dollar affected the economic policies of 2016 in all three countries. Azerbaijan and Kazakhstan lost important portions of foreign exchange reserves (located in the Oil Fund and Central Bank). At the same time, it was necessary for all three countries to prepare and practice some urgent measures packages for the post-petroleum period.

In this study, the economical losses of the three countries due to oil price declines in recent years and the economic policies they applied to reduce these losses were investigated. It has also been pointed out that the adherence to a single sector, called the "Dutch syndrome", is a threat to the country's economy in the event of price reductions or the depletion of resources. The prevention of similar situations for these countries has been emphasized, and incentive schemes have been sought to create different groups of goods in exports. In three countries, many important reforms have been undertaken for the transition to the free market economy, restructuring in the free market environment, development and integration into the world economy. However, despite significant distances to the integration of the world economy, the impact of oil price fluctuations has created the necessity of some regulation for more efficient operation of the free market economy. Large fluctuations in major sources of income make the budget unequal and risky. Therefore, sectoral diversification of budget revenues, structuring budget revenues without depending on their source revenues should be an important issue in all three oil exporter countries. Accordingly, it is necessary to encourage investments in other productive areas of the economy and speed up the industrialization process. Rapid transition to sector diversification and reduction of budget risk has been considered to be a suitable solution for the creation of more stable income sources. All three economies have great opportunities to improve the mining industry and the business world.

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