

Key Messages

- Digitalize the Agriculture Support Fund (ASF) for ensuring information transparency, and focus its activities on information, planning and coordination
- Link the wheat subsidy to regular soil analysis, soil protection measures, use of environmentally friendly technologies and crop insurance
- Liberalize the wheat price and replace the subsidy with other incentives
- Build infrastructure and prepare human resources for wheat trade via commodity exchange
- Determine the quality of wheat delivered to flour mills by independent laboratories
- Support initiatives for soil protection, environmentally friendly technologies, rehabilitation of the seed and variety system, crop land fencing and windbreaks, technology renewal in horticulture, import-substituting production, horticulture cooperatives, fodder cropping and smart crop farming through soft loans
- For machinery modernization, the needs and technical requirements should be determined by ASF, soft loans provided through banks, and the choice should be made by crop farmers themselves
- Continue tax reduction for cropping
- Embed these recommendations in relevant laws and enforce their implementation

POLICY RECOMMENDATIONS FOR IMPROVING ECONOMIC INCENTIVES OF THE GOVERNMENT POLICY TO SUPPORT CROP SECTOR DEVELOPMENT

1. Ensuring policy implementation

- 1.1. The government should support the development of the agricultural sector including the crop farming sector by analyzing and evaluating the effectiveness and efficiency of economic incentives through external experts every two years. It should, furthermore, take the appropriate measures required.
- 1.2. The government should establish a unified schedule for financing the implementation of the state policy to support the development of the crop farming sector reflected in the implementation plans of Mongolia's long-term development policy "Vision-2050", its national programs "State policy on Food and Agriculture", "Vegetables" and "Fruits" as well as the "Virgin Land-4 Campaign for Sustainable Agriculture Development" through state budget, local budgets, foreign projects and programs as well as donor funds, and provide financial guarantees.

2. Improving the legal environment

- 2.1. Emphasize the implementation of the following laws on support and incentives for the development of the sector in the relevant laws regulating crop sector development:
 - Protect and rehabilitate the fertility of crop soil
 - Increase the production of irrigated crops and introduce environmentally friendly machinery and technologies;
 - Intensify modernization of the crop seed and variety system;
 - Update machinery and technologies in horticulture, where farmers have weak financial capacity

Implemented by



- Expand the production of foods for substituting imports such as vegetables and fruits
- Increase fodder cropping to support the development of intensive livestock farming
- Introduce smart technologies in crop production
- Support horticulture cooperatives aiming to improve sales through marketing in a cohesive manner
- Gradually liberalize the wheat price and introduce alternative forms of incentives
- Encourage crop insurance
- Improve the operational and information coherence between the Agriculture Support Fund and the SME Development Fund, and increase the effectiveness of the support provided by these funds.

2.1. The following laws and regulations that govern issues concerning the crop sector development shall be amended to reflect the recommendations in this policy brief:

- Law on Seed Production Insurance
- Law on Crop Seed and Varieties
- Insurance Law
- Law on Index-based Crop Insurance (currently in elaboration)
- Regulation on providing monetary incentives and non-monetary support to individuals and legal entities engaged in crop production.

3. Regarding the activities of the Agriculture Support Fund

To improve the Fund’s activities, it is recommended to:

- 3.1. Ensure greater openness and transparency through equal access of the public to information through digitalization of the Fund’s operations and introduction of smart technologies
- 3.2. Refrain from engaging in business operations as much as possible, provide farmers with necessary information in accordance to the appropriate policies, rules and procedures, and focus on the implementation of planning and regulatory functions
- 3.3. Ensure prompt decision-making and timely delivery of inputs such as seeds, fertilizers and fuel
- 3.4. Revise the “Procedure for providing monetary incentives and non-monetary support to individuals and legal entities engaged in crop production” as to reflect the main points of this policy brief.

4. Wheat subsidy

Farmers are not pleased with the government’s policy of subsidizing wheat production with one hand while setting the wheat price with the other. There are several reasons for this:

- 1) In focus groups on this topic, most farmers agreed that it would be better to liberalize the wheat price and work according to free market principles.
- 2) Farmers import most of the equipment, spare parts, fuel, fertilizers, pesticides and seeds used in their production, and while their prices tend to increase, the market price of wheat does not increase to keep up. This is due to the government’s control over the price of the product.



3) The main consumers of wheat are the three main domestic flour mills, in an oligopsony market, which provides them the ability to control the wheat price to a certain extent, limiting the growth of the market price.

4) Every year after the autumn harvest, there are conflicts between the government, farmers and flour producers over the pricing of wheat, in which one party loses because the decision does not conform to market principles.

5) In the event of liberalization of wheat prices, farmers will be able to bear the risk of falling market prices of wheat and operate according to market principles.

The economic significance of government subsidy per ton of wheat delivered by farmers to flour mills is a transfer from taxpayers to producers and a support for market price. This support must be economically efficient.

4.1. One of the main criteria for granting wheat subsidy under the relevant laws and regulations is the responsibility to not degrade soil fertility. However, it is difficult to monitor and evaluate the implementation of this condition. Therefore, it is recommended that farmers conduct a survey by a professional organization every five years to assess the soil fertility of the land they own or use, and submit this assessment as a basis for the criteria.

4.2. It is important that the criteria for government subsidization of wheat and other crops include the implementation of good soil protection measures, the introduction of environmentally friendly technologies in production, and insured crops and seeds.

4.3. By creating conditions for introducing wheat to the commodity exchange system and allowing prices to be set through market competition, the quality of wheat will improve and farmers and flour producers will be able to negotiate effectively.

4.4. To trade wheat through commodity exchange, it is necessary to create the required hard and soft infrastructure such as transportation, storage, measurements of quality standards, laboratory, and logistics network with price information. Emphasis should also be placed on the supply of skilled labor.

4.5. The quality of wheat delivered to flour mills should be determined by an independent laboratory free of conflicts of interest.

4.6. Therefore, the wheat subsidy should be phased out as wheat is introduced into the free market. It would be more efficient to use the funds released from the wheat subsidization for soil protection and introduction of advanced production technologies.

5. Price, loan and tax exemptions and discount incentives

Loan and price discounts should be provided in the following areas.

5.1. Soil protection. One of the biggest challenges facing farmers is declining soil fertility. The reasons for this are: 1) Arable land is state-owned and its owners do not pay much attention to protecting soil fertility. 2) Due to the weak financial capacity of crop producers, they spend their funds on running costs of the current year and do not have enough resources to spend it on long-term issues such as soil protection. 3) Farmers believe that price discounts and soft loans to support soil protection are more beneficial than incentives to support production. In this regard, it is necessary to introduce new technologies and innovations aimed at soil protection, and to support the use of



environmentally friendly fertilizers through soft green loans. This will require the use of other possible sources of domestic and foreign funding, in addition to the Agriculture Support Fund.

- 5.2. Crop land fencing and establishing windbreaks. The establishment of crop farming zones did not resolve the conflicts between livestock and crop producers. 1) According to the crop farmers, the implementation of the Government Resolution for establishing crop farming zones is insufficient. 2) Livestock continue to enter farms and destroy crops, further fueling conflict between farmers and herders. Therefore, one of the top priorities of support through soft loans is to provide loans for the establishment of fences and windbreaks around large areas of crops.
- 5.3. Technical supply. Crop farmers are unsatisfied with the price and quality of tractors, combines and equipment provided on loan by the Agricultural Support Fund. The reason was that the price of the machines purchased through the fund was higher than the market price and the brand desired by the farmers was not imported. Farmers should have the choice to buy machines and equipment that are suitable for their production.

Therefore, it is important for the Agricultural Support Fund to be responsible for planning agricultural machinery needs and determining general economic and technical requirements and procedures, and to provide loans to farmers through banks so they can purchase the machinery themselves. Compared to other types of incentives and subsidies, farmers believe that soft loans are granted more fairly because they are not influenced by external interests.

- 5.4. Tax discounts for imported goods. Farmers are satisfied that taxpayers who grow grains, potatoes, vegetables, fruits and berries, and fodder crops can reduce taxes on their income by 50 percent under Mongolia’s Personal Income Tax and Corporate Income Tax Laws. Therefore, it is recommended to continue this discount. However, farmers were unaware of the effects of value-added tax and customs duty exemptions on the supply of seasonal inputs such as fuels, seeds, and fertilizers, and believed that benefits of the exemptions were received by the merchants who imported these goods. Therefore, this type of tax discounts may not be required.

There is little government support or incentives for potato, vegetable, fruit and berry producers. Most of the producers of these commodities are not supported due to their informal employment status and lack of unified official registration. Experts are also concerned that the farmers’ occupational safety and health issues have been neglected due to the uncontrolled usage of pesticides and chemicals during production. So, the money earned from production is returned to cover medical treatment expenses. Therefore, there is a need to provide more support to vegetable and fruit producers who depend on imports by connecting them to an integrated sales system to deliver their produce and by including them in an online registration system.

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Disclaimer: The author is responsible for the accuracy of the facts and conclusions contained in this policy recommendation. This recommendation does not reflect the official position of the Ministry of Food and Agriculture, which finances the German-Mongolian cooperation project on “Sustainable Agriculture” (MNG 19-01).