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In February 2011 WFP conducted, together the NGO Zerkalo, a survey of wholesale and retail food markets in urban and rural Tajikistan. The purpose of the survey was to improve our understanding of the structure of the retail and wholesale food markets within the country. The efficiency of these markets has a direct impact on the availability and access of food to households in Tajikistan and therefore also has a direct impact on the food security of all members of the population. The results are compared with those from a survey of rural markets carried out in 2008 which were published in the 2008 Emergency Food Security Assessment (EFSA) Report.

## Highlights

- Retail food prices are at their highest since WFP started to monitor food prices in 2002
- None of the wholesale traders in the survey reported trading in local wheat flour
- Wholesale and retail traders are highly dependent on Dushanbe's markets for the supply of food commodities
- High taxes, high competition and lack of capital are the main constraints for business according to traders
- An average of 60% of the traders take credit to purchase the commodities they sell
- Fuel prices are at their highest and are not envisioned to go down in the near future, impacting further food prices

## Characteristics of the traders interviewed

The survey focused on markets where there was a concentration of wholesale and retail traders. It covered some 30 markets nationwide and included wholesalers and retailers of cereals (wheat and wheat flour, rice) vegetable oils, pulses, sugar, bread, pasta and livestock. In total, 394 retailers and 161 wholesalers were interviewed. Most traded mainly in cereals (20%), oils (21%) or pulses (16%). Two thirds of those surveyed had been operating for more than 3 years and were therefore able to give a fairly accurate picture of the trends, constraints and opportunities in their respective businesses.

### Wholesale traders

Among the wholesalers interviewed, cereals were the most commonly traded commodities (26%) followed by oil (25%) and pulses (20%). Most cereals wholesalers (41%) were found in Dushanbe and in DRD. The most commonly traded cereals were imported wheat or wheat flour (38%) and rice (24%). None of the wholesale traders in the survey reported trading in local wheat flour.

	Wholesaler wheat (42)	Wholesaler oil (41)	Wholesaler pulses (33)	Wholesaler livestock (45)
Dushanbe	41%	28%	17%	14%
Sogd	30%	27%	18%	24%
Khatlon	19%	23%	25%	33%
Gbao	21%	32%	25%	21%
Rasht Valley	22%	17%	13%	48%
<b>Total</b>	<b>26%</b>	<b>25%</b>	<b>20%</b>	<b>28%</b>

### Retail traders

The structure of the retail market varies between regions. A significantly higher proportion of the retail traders in Dushanbe and Rasht Valley sell mainly wheat flour compared with those in other regions, while a significantly lower proportion of retailers in Gbao and the Rasht Valley sell meat. It is worth noting that some 48% of all retailers in the sample were retail butchers and only 2% of theretailers sell flour milled from locally grown wheat.



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Whether or not these regional differences reflect different underlying consumption patterns, different seasonal demand patterns or differences in the ease of entry into the retail market between regions (or none of these) only further studies will determine.

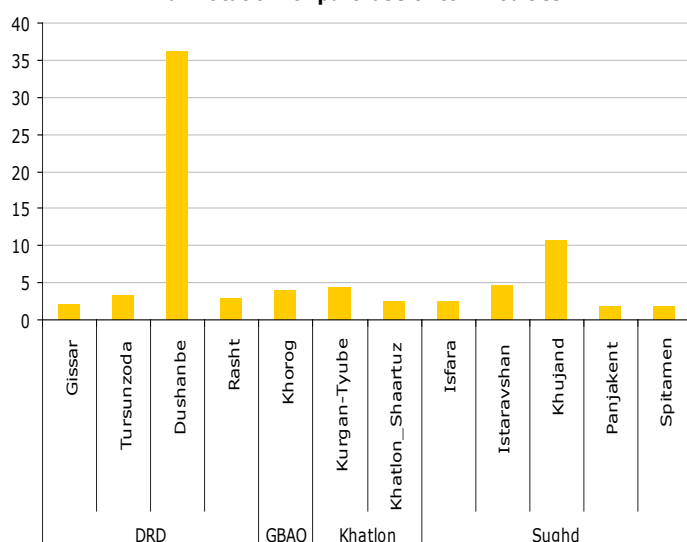
	Retailer wheat (65)	Retailer oil (76)	Re-tailer pulses (59)	Retailer vegetables (5)	Retailer live-stock (189)
Dushanbe	23%	14%	12%	0%	51%
Sogd	16%	16%	15%	0%	52%
Khatlon	14%	14%	18%	0%	55%
Gbao	13%	29%	16%	5%	38%
Rasht Valley	22%	32%	10%	2%	34%
<b>Total</b>	<b>16%</b>	<b>19%</b>	<b>15%</b>	<b>1%</b>	<b>48%</b>

### Main locations of procurement and sales

#### Purchases

Some 35% of wholesale and retail traders cited Dushanbe as the main centre for purchase of food commodities. Khujand is a distant second (11%). Only 2% of the traders reported getting their commodities from abroad (Kyrgyzstan, Kazakhstan and Uzbekistan). The traders interviewed were physically located in markets all over the country and are not the ones importing wheat from abroad. Rather, those are the large wheat millers, private traders and companies through which interviewed traders buy their stocks.

Main location for purchase of commodities



Wholesalers - When broken down by type of traders, wholesalers from Dushanbe and surrounding districts

tend to purchase mostly from wholesale markets in Gissar, Tursunzoda, Dushanbe and Faizabad. Wholesale traders in Sughd are mostly reliant on the markets in Khujand and Istaravshan. For wholesalers from Khatlon, GBAO and Rasht, the dependence on markets in Dushanbe is striking: more than half of the wholesalers in Khatlon, 67% of the wholesalers in Rasht and 70% in GBAO reported that they purchase their supplies in Dushanbe. For wholesalers, in terms of purchase locations, the markets in Kurgan-Tyube, Khorog and Rasht are secondary.

Retailers - An unexpectedly high proportion of all retail traders source directly from wholesale traders in Dushanbe and thus by-pass the wholesale traders in their own region. This is especially true in Rasht (70% of the retail traders), GBAO (67%) and Khatlon (52%). Only 2% of retail salers in Sughd depend on Dushanbe. In Rasht, retailers rely on two main sources for the procurement of their food commodities - Dushanbe (70%) and Rasht (30%). In GBAO, three main sources are used by retailers: Dushanbe (where 55% of the retailers source their food), Khorog (22%) and Shugnon (11%). Very few in GBAO get food from Kyrgyzstan and none from Afghanistan. In Khatlon, Kurgan-Tyube and Shaarituz together account for only 29% of the preferred source wholesale markets.

The ease of access to and dominance of Dushanbe for the procurement of food commodities by traders explain why the market seems so 'integrated'. Most of the food commodities in Tajikistan transit through Dushanbe. Thus any changes in supply; price etc in Dushanbe will be quickly reflected in the other major markets. The livestock market is the main exception to this rule as procurement is done mostly in nearby markets.

The dominance of Dushanbe for the products covered by the survey can also be explained by the fact that a very high proportion of these goods are imported (except livestock). Very little was purchased from local producers. Most production of staple foods (especially wheat) is grown for own consumption - very little is sold into the market. These conclusions are similar to those for the Emergency Food Security Assessment in 2008. It should be noted that a survey of the market for perishable foods - fruit, vegetables, potatoes etc - may show very different trading patterns.

#### Sales

While the wholesale traders in Dushanbe may have a significant proportion of their customers outside Dushanbe, the wholesale traders in other provinces sell mostly within the region where they are based. Very few wholesalers interviewed sell their commodities outside the country.

Retail traders in the sample mostly sell to customers within their communities or in the local vicinity. This pat-





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tern of retail sales is to be expected.

#### *Changes in sources of procurement*

Both wholesale and retail traders were asked if they had changed where they bought their commodities during the previous three months.

Some 41% of wholesale traders reported that they had recently changed their procurement source. The reasons given for this were prices and the availability of food at their normal source and the price of fuel. Although some wholesalers interviewed in Gharm reported that they now buy wheat flour in Sughd instead of Dushanbe due to the high price of fuel, a majority in Gharm had simply exchanged their usual source in Dushanbe for a different source in Dushanbe or outside. Very few had turned to sources from abroad or sources inside their district – largely because of the limited choice for most of them.

Of retail traders interviewed, 35% had changed their procurement source mostly because of the high prices of the commodities bought. Like for wholesale traders, the trader supplying the food was changed but the location of the market remains the same (after change of source, 49% of the retail traders still buy from Dushanbe).

Traders in Sughd (and more importantly in Rasht), seem to have changed their procurement sources recently because of high prices of the food bought in these places and because of the lack of available products at their usual source.

Traders engaged in the commerce of pulses, oil and livestock appear to be the ones changing their sources the most in the past four months but changes were not significant compared to other commodities.

#### *Export of food commodities*

The survey reveals that few wholesalers are engaged in exporting their food abroad. The few that do are based in Dushanbe. The recent increase in export fees and taxes and the increase in import prices were the two main changes which had affected the export market.

#### **Current and planned stocks of food**

At a time when the prices of food commodities and fuel are higher in real terms than during the food crisis of 2008, it is important to understand if traders have been, are still and will be able to stock food commodities to offset rising prices at source or take advantage of the high prices at the selling point.

In general, the survey shows that both wholesale and retail traders in remote regions (GBAO, Rasht) held higher stocks of staple foods (especially wheat, pulses and oil) than traders in other regions. It should be noted, however, that traders (both wholesale and retail) in remote areas usually hold higher stocks in winter (the time of the survey) because roads at this time are often impassable

and access to normal supply sources is more difficult and expensive. This difference, therefore, probably reflects a normal seasonal difference between more remote areas and those more easily accessible. It is unlikely to be explained by changes in relative prices at source and sale points, better market intelligence or greater access to working capital by traders in more remote areas.

#### *Stocks of local and imported wheat and wheat flour*

The main finding is that most wholesale and retail traders were unsure whether their present stocks would be sufficient to meet current demand (71%). The remaining traders reported that present stocks of wheat and wheat flour were just enough to meet current demand at present price levels.

In terms of planned stocks until the end of the spring (June) and until the next harvest (July/August) most traders (60-65%) reported that they plan to carry just enough stocks to meet demand. They either cannot afford to hold higher stocks or are not confident in the ability of customers to buy more than usual in the coming months.

A quarter of all traders surveyed (wholesale - 26% and retail - 26%) reported that they will not have enough stocks to meet expected demand, possibly leading to availability and access problems for other traders and retailers. This is especially true for remote areas in Kathlon, Rasht and GBAO. Some continued overall upward pressure on prices must, therefore, to be expected.

#### *Stocks of local and imported vegetable and cotton oils*

Although the survey indicates that some traders in the Rasht Valley may have problems in liquidating pre-winter stocks of cooking oils due to "lack of demand", wholesalers and retailers generally reported that they are holding just sufficient stocks of local and/or imported oil to meet expected demand.

Expectations with respect to the availability of stocks during the coming months are more optimistic than for wheat but differ between local and imported oils and between types of oil. Stocks of local vegetable oils are expected to be just sufficient to meet demand at current prices. However, supplies of imported vegetable oil and local and imported cotton oils in the market are expected to fall. If these expectations are confirmed then it is reasonable to conclude that the prices of all cooking oils may rise at both wholesale and retail levels.

#### *Stocks for other commodities*

While traders' warehouses and stores seem to be full with local pulses for now, the coming months will see an adjustment to the coming harvest. The volumes held in stock by traders are expected to fall during and after the harvest as local demand falls. No shortages of sugar are foreseen and few traders interviewed carried stocks



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of vegetables or fruits, which is to be expected at this season.

#### Product shortages

Although the majority of all traders report that most products will be available in the coming months in their stock and shop, some 10-15% mentioned that wheat flour might not be available at all in their shop in the coming months depending on their situation and prices at their source.

The EFSA 2008 already reported that local wheat was normally in short supply in winter and early spring.

Products are always available at a price – the analysis in the paragraphs above seems to indicate upward pressure on the prices of wheat, wheat flour and cooking oils. Price analysis shows that prices of food normally increase at this period but that they have increased more than usual in the first months of 2011.

#### Changes in volumes of sales in the last quarter

Traders were asked to describe in detail how their sales had evolved over the previous months. The purpose was not only to contextualize the stocks situation but also to see whether or not the current global and national increase of food prices had had an impact on the sales of the traders in all regions.

Some 35% of all traders reported a fall in sales over the previous months. The decrease in sales had mostly affected traders in Sughd (41% of total traders) and GBAO (43%) and was mainly due to the seasonal (but above-average) price increase and the poor economic situation of households at this time of the year. The overall decrease in sales seemed to mostly affect retail traders whose main business was the sale of meat.

#### Consumer behavior

In order to better comprehend the link between consumers and the market, their coping strategies and adaptation to change, the traders were asked about their clients and their responses to the recent food price increase.

In response, retail traders noted that purchasing patterns of households in some regions during recent months had been different from the normal pattern for that period of the year. This had been especially true for customers in GBAO and Rasht. Not only had total quantities purchased by customers in GBAO and Rasht fallen, but they had spent a higher proportion of their households budget on wheat and oil (essential to the basic diet of Tajik households) and relatively less on meat and milk products than was normal. The purchases of confectionary products had also lower been than normal. In Khatlon and Sughd purchasing patterns had remained relatively unchanged.

#### Main constraints with business

To clarify how the market functions and how traders can cope with difficult situations, wholesalers and retailers were asked what had been the main constraints to their business since they started.

For 42% of the wholesalers interviewed, taxes appear to be the major constraint to their business, closely followed by high levels of competition (41%). The latter confirms WFP/FEWS Net's conclusions that the food trading market is fairly competitive. Low profit margins (38%) and lack of own capital (36%) were the two other main difficulties for food wholesalers.

Retail traders reported fairly similar constraints: low profit margins (41%), high competition (39%) and lack of capital (32%) were all important. The main difference lay in the fact that retailers reported lack of demand as a major constraint (33%). This was mostly attributed to the fact that prices had increased and the number of buyers had fallen and was particularly pronounced for meat retailers (45%) (since meat is often the first item to be dropped when incomes fall). Retailers of oil had been the second most affected group (40%).

Only 6% of all the traders reported that food aid or free assistance had been a constraint to their business; this is in line with the results of the EFSA 2008.

#### Credit given and taken

Low effective demand is often linked to poor access to food by households. In rural Tajikistan a high proportion of consumers buy some of their food on credit - especially during the winter months (around 75%).

Traders commonly use credit to finance their activities: 61% of the wholesale traders and 57% of retail traders reported that they take credit to purchase the commodities they sell. The most common sources of credit are other traders (52%) and the banks (39%).

Wholesalers involved in livestock and in pulses seem more inclined to take credit than others. Wholesale traders whose business is mainly cooking oils seem to take more credit from banks than from other traders.

This is also true for retail traders whose main business is cooking oils. The high cost of the commodity (and consequent higher working capital requirements) might explain this. In addition, 63% of the retail traders of wheat usually take credit to purchase their commodities.

Two-thirds of all traders interviewed reported that they sell food on credit (especially in GBAO and in Khatlon) and 56% of the traders giving credit reported that the demand for the purchase of food on credit had increased compared to last year during the same period (especially in Khatlon). Wholesalers specializing in wheat and wheat





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flour and retailers selling mostly meat seem to be less inclined than their colleagues to give credit to consumers.

Traders reported that the reasons for the increase in demand for credit are mostly economic (e.g. decreases in remittances, reduced income and general chronic unemployment). The recent price rises are also among the main reasons which were given. Although many traders give credit, the percentage of sales on credit rarely exceeds 25% of total sales. This is consistent for all regions and all categories of trader included in the survey. The majority of traders had not noticed any change in their access to credit or in the interest rates paid for their credit during the past year. These findings broadly confirm the findings of the EFSA in 2008.

**Physical access to market**

Parts of Tajikistan are often inaccessible for some period during the year. Snow, avalanches, mud slides and harsh weather conditions combine to make roads impassable and households and villages in remote or higher areas can be cut off from the larger centres for some period or periods in winter and spring. However, in general and for most of the year, markets are physically accessible by traders and consumers. Nonetheless, the survey confirmed that as many as 20% of the markets included in the survey are not accessible at some point in the year, mostly during the period from December to March/April. The lack of access was attributed to bad weather

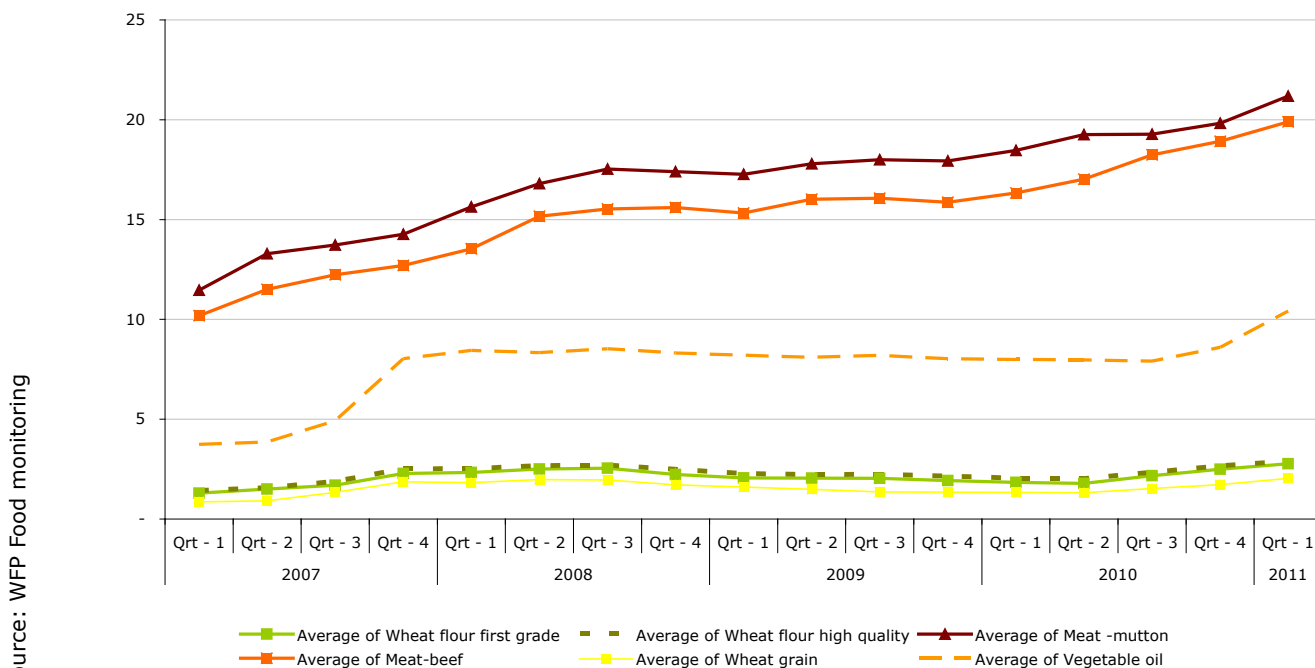
conditions (27%), high transport costs (21%), the long distance to the market (13%) and the annual closure of the market (10%). On the other hand, when markets are open, they are so most days of the month. These findings confirm the findings of the EFSA in 2008.

**Current prices and price trends**

WFP has monitored weekly food prices in five main markets in Tajikistan since 2002. Average retail prices for wheat, meat, and vegetable oil are presented below. Tajikistan imports between 50-60 per cent of its annual wheat requirements. Prices are therefore very sensitive to both global prices and to events in the neighbouring countries through which its imports travel (Uzbekistan) and from which it purchases the majority of its requirements (Kazakhstan). Since August 2010 the prices of wheat flour in Tajikistan have been steadily increasing. There are several reasons for this, the most important being (i) increases in the prices of fuel and transport, and (ii) an increase in Russian export taxes and a ban on their wheat exports. The ban on Russian exports has resulted in greater competition for wheat grain and wheat flour in Kazakhstan pushing up prices and reinforcing global price trends. (iii) Uzbekistan has also recently increased its transit fees to Tajikistan thus putting further upward pressure on prices of food.

Although the Government intervened in the market in February/March by selling wheat and other types of food

**Tajikistan Market Prices for Food Commodities (TJS/KG) - March 2011**



Source: WFP Food monitoring

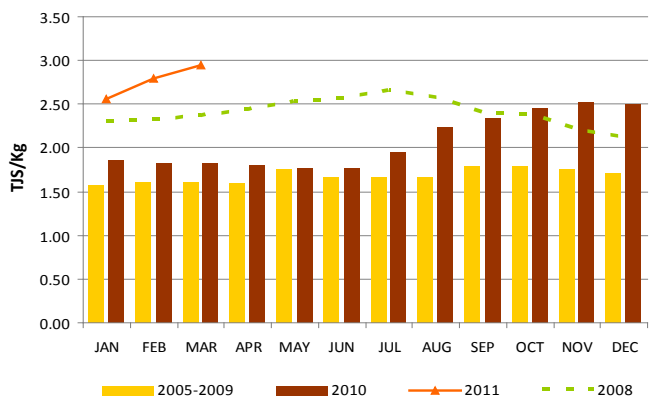


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from its strategic reserves into the market at lower-than-market prices, the scale of the intervention was too small to significantly influence price trends. The interventions took place mainly in major urban centres rather than in more remote markets although in Khorog (GBAO) some 10 tons of wheat flour and sugar were sold into the market by the Government at lower than market prices in the first quarter.

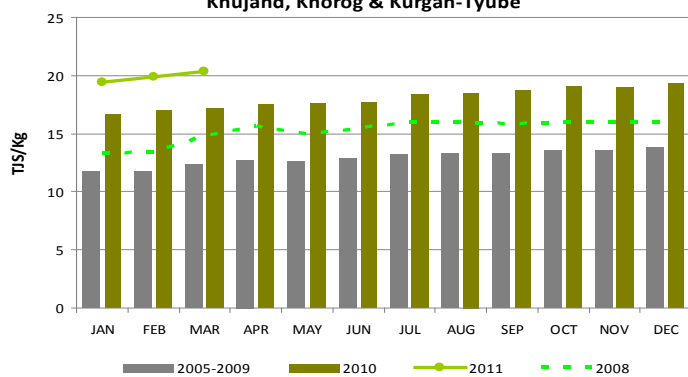
The prices of wheat flour, oil, pulses, meat and fuel are now at their highest levels since WFP began monitoring food prices in 2002. Price data for vegetable oil and wheat flour show the exact same trends as during the 2008 crisis.

**Wheat flour first grade: Average nominal retail prices in Dushanbe, Gharm, Khujand, Khorog & Kurgan-Tyube**



The graph above shows the evolution of prices for wheat flour first grade since 2005 using 2008 and 2010 as reference years. The price for wheat flour in the first quarter of the year is well above the high prices observed in these two years. The prices of beef show the same trends.

**Beef: Average nominal retail prices in Dushanbe, Gharm, Khujand, Khorog & Kurgan-Tyube**



### Trader Expectations of the Evolution of food prices until the end of spring

Two-thirds of all traders surveyed reported that their prices have increase in the past quarter (January-March). They report that the price increases are the result of a combination of factors including (i) an increase in the prices of commodity at source (33% of the traders), (ii) the increase in fuel prices (14%), (iii) higher prices of products sold by other wholesalers (14%), (iv) lower importation by large traders (9%), and (v) low national production (5%). Traders report an increase in transport and taxes compared to last year.

Using the traders' experience, the survey tried to determine what the evolution of the food prices is likely to be during the next few months. While in GBAO, Khatlon, and DRD (including Dushanbe) merchants agree that prices are likely to continue rising, fewer traders in the Sughd region tend to think so. The reason for this difference is not clear.

In February most traders also believed that the prices of fuel would continue to increase until the end of the spring. Their belief was well justified since the prices of both petrol and diesel both increased by 15% between February and March. Traders believe that the costs associated with transport, taxes and storage (especially in Khatlon) will continue to increase, further influencing the prices of the commodities they sell.

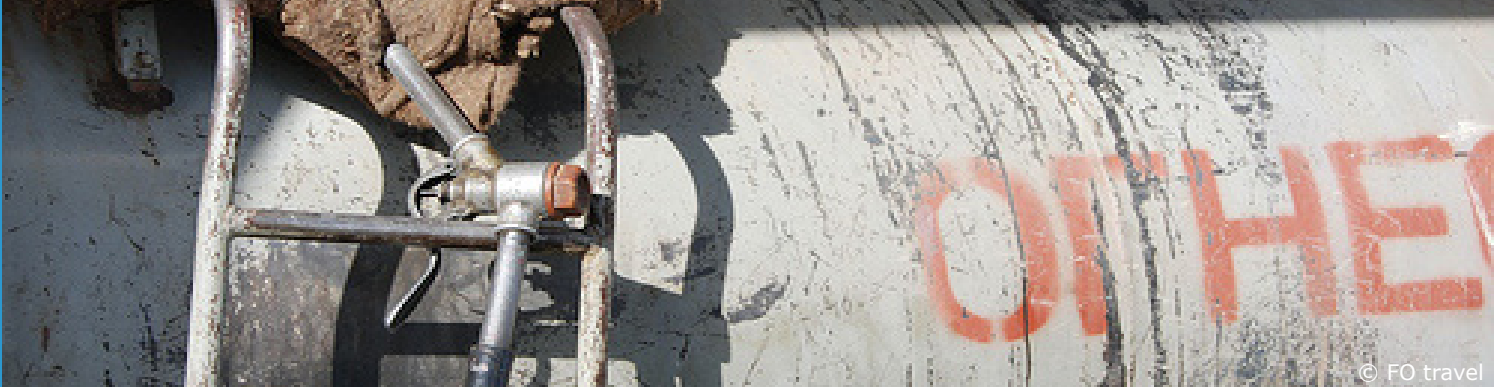
### Survey of fuel prices<sup>1</sup>

#### Fuel prices hit high

Fuel prices in Tajikistan rose by around 30% during the first quarter compared with the same period last year: in March-April 2010 fuel prices were USD 0.85 – 0.90 per litre while in March-April 2011 prices reached USD 1.12 - 1.16 per litre. The price increase is the result of a combination of factors including an increase in world oil prices (26-28% increase), an increase in Russia's tariffs for oil products exported to Tajikistan and the increase in transit duties charged by Uzbekistan on Tajikistan-bound cargoes.

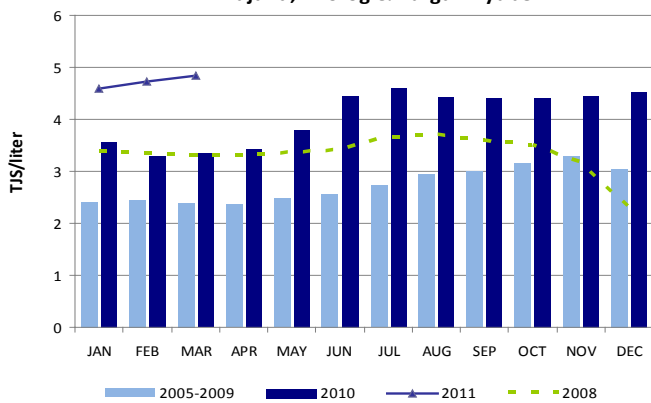
As can be seen on the graphs below, the increase of fuel started on May 1, 2010 when Russia imposed export duties on its oil products to countries not members of the Customs Union - Tajikistan and Kyrgyzstan. As a result, fuel prices in Tajik fuel stations increased regularly until July to then stabilise. Russia increased its export duty fees in March - 5.3% and in April - another 5.3%. Export duties are now as high as USD 284 per MT of fuel imported from Russia compared with USD 207 in May 2010 – an increase of 37%.

1 Sources: WFP assessment of fuel stations and transporters, Avesta.tj, Asiaplus.tj



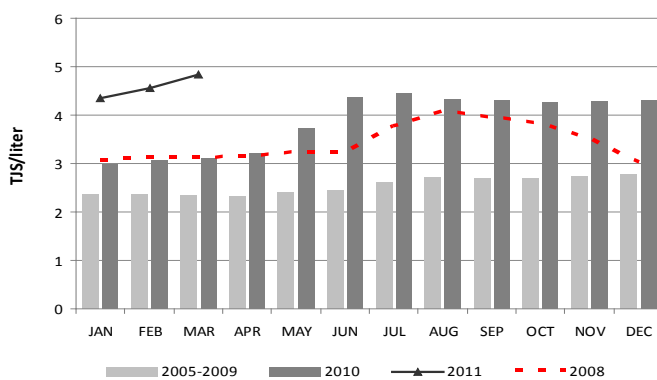
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**Petrol: Average nominal retail prices in Dushanbe, Gharm, Khujand, Khorog & Kurgan-Tyube**



The Ministry of Energy and Industries of Tajikistan reported that imports of Russian oil for the first two months of 2011 amounted to 62,012 tons, which accounted for 78.6% of all oil delivered to Tajikistan. Gazprom-Neft Tajikistan reports that the national requirements for petroleum products are 985,000 tons per year. This could mean that the cost of export duties alone would amount to USD 279 million this year. This cost is directly transmitted from traders to consumers and contributes to the overall level of inflation.

**Diesel: Average nominal retail prices in Dushanbe, Gharm, Khujand, Khorog & Kurgan-Tyube**



Gazprom-Neft also reports that the differences in costs for fuel between Kyrgyzstan and Tajikistan (higher import fee, higher VAT, higher tax on petroleum products) lead to major differences between the domestic prices of petrol in Kyrgyzstan and Tajikistan, with prices in Tajikistan being approximately TJS 1.30 per litre higher. Given the porous nature of the border between the two countries experts fear that the illegal movement of fuel from Kyrgyzstan into Tajikistan will increase.

**Alternative options for imports of petroleum products**

Within the Central Asian region, only Turkmenistan, Azerbaijan, Kazakhstan and Iran are potential alternative suppliers of oil to Tajikistan. Iran is an exporter of crude oil rather than light oil products. Turkmenistan is also unlikely to be a viable partner. Unlike Russia, which fixes prices on a monthly basis, Turkmenistan changes prices daily and has a shortage of railway rolling stock (insufficient number of tank wagons and difficulties in export procedures). For the moment, Turkmenistan is mainly working with neighbours Iran and Afghanistan. Turkmenistan's main oil refinery is located on the shores of the Caspian Sea, and it is more profitable trading oil by sea than overland by rail. Finally, as of March 2011, Russian oil is still cheaper than Turkmen. Azerbaijan is the same as Turkmenistan but even further away and with important problems with its railway rolling stock. Kazakhstan lacks refining capacity and also is a major importer of Russian oil (3 million tons of petrol per year).

**Increase of rail tariff by Uzbekistan**

On 20 March, the Government of Uzbekistan decided to raise tariffs for the transit of exported food and goods to Tajikistan: 15%– for wagons and 74%– per container.

**Impact of high prices of fuel on other prices**

Higher prices for fuel and lubricants directly affect the cost of food. The prices of fuel not only directly affect the costs of transporting food commodities and products, but also the costs of producing food (fuel is widely used for irrigation pumps and tractors). Rising prices for petroleum products will also ultimately work their way through to the prices of vegetables and animal fodder; and prices for milk and dairy products can also be expected to increase at an accelerated pace.

**What can be done to curb the fuel price increase?**

Apart from looking at alternative suppliers, not much can be done. The Government of Tajikistan also imposes a duty tax on the import of fuel (USD 70 per mt) and recently mentioned reducing this tax if the situation continuation to deteriorate. However, this measure would only have an effect in the short term and without this source of revenue it might be forced to reduce expenditures in other sectors of the economy.

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