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Leibniz Institute of Agricultural Development
in Transition Economies



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Development problems in Central Asia: The example of agricultural service cooperatives

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Land reform and farm restructuring

More than two decades since independence, all five Central Asian countries are agrarian nations. A high proportion of the rural population is primarily dependent on agriculture (Table 1) and, with a growing population, competition for scarce productive land and water is becoming tighter. But agricultural production is not only a key factor in securing the nation's food supply, it also accounts for a significant proportion of export income. After the collapse of the Soviet Union in 1991, all five countries experienced a dramatic slump in agricultural production. It was thus one of the first tasks of the new governments, using state-controlled agricultural reforms, to get production going again and increase rural incomes. In the new circumstances, collective and state farms, which were constantly running up ever greater debts, were restructured into more suitable business forms in the so-called "decollectivisation" process.

More than 20 years after independence, the results of transition in the agricultural sectors of the individual countries in the region are very varied. Each country

took its own approach to reforming agricultural markets and access to land, and to shaping institutional parameters. The reforms varied between countries in type and scope, as well as in how quickly they were implemented (LERMANN, 2009). At the start of transition the emphasis was on liberalising agricultural markets and product prices; farm restructuring only started later. Within a few years some countries accelerated this process. They introduced individual land ownership or land use rights, and allocated a proportion of the land belonging to large agricultural enterprises to small family farms (Table 1). This process went furthest in Kyrgyzstan, where newly created family farms operate on average only 2.8 ha. In Kazakhstan large farms can be found in the northern rainfed farming regions, whereas in the southern irrigated regions small farms tend to predominate. Small farms also predominate in Uzbekistan and Tajikistan, although restructuring is not yet complete in Tajikistan, while there is still a long way to go in Turkmenistan, too. Around 94 % of agricultural land in Turkmenistan is farmed by state-managed farmers associations, which are very similar to the socialist collective farms.



Rice fields in Vietnam

In the short term the initial phases of land reform brought about growth. In the medium to long term, however, the growth-inhibiting disadvantages of farm fragmentation came into play. The key reason for this is that the restructuring of institutional parameters to support new small farmers takes considerably longer than farm restructuring. The new (very small) farms have to fend for themselves, while the classic services for former Soviet agriculture, such as large-scale machinery, intensive fertiliser application, centralised irrigation facilities or extension services, have been cut. The lack of suitable access to financial services, marketing, the delivery of supplies and equipment, and extension and information services, makes it difficult for the newly established small farms to operate efficiently. These problems are particularly prevalent in the more densely populated regions, where the farms are very small, reliant on irrigation facilities and focus on labour-intensive sectors such as fruit and vegetable or livestock farming.

Membership in an agricultural service cooperative for joint machinery use, marketing, saving and obtaining credit as well as purchase of supplies and equipment would give small farmers in Central Asia the opportunity to realise certain economies of scale. This sort of cooperative has played an important role in the development of agriculture not only in Western and Central Europe, North America or Japan, but also in Tsarist Russia. There,

cooperatives were formed because there was either no other way of accessing services, or only at horrendous prices. In short, service cooperatives tailored to small farms can provide an important function in correcting market failure, as they have been able to in the past. In general different people group together voluntarily to exploit the advantages of potential economies of scale or to strengthen their negotiating position. Successful service cooperatives are founded on three fundamental principles: self-help, self-management and self-responsibility. As owners of the cooperative firm, the members fulfil three roles; they are users/beneficiaries, supervisors and financiers (GOLOVINA and NILSSON, 2011).

Agricultural service cooperatives in the region

In spite of the great efforts made over farm restructuring, the policies underlying agricultural reforms remain inconsistent. Land reforms created different forms of property rights and land tenure across the countries: With basically family-oriented agriculture very different land tenures emerged:

- 1) Leased land and a constantly developing land market (Kyrgyzstan and Kazakhstan)
- 2) Long-term leases from the state with usufructary rights, and transferability restrictions, but with operational autonomy (Tajikistan and Uzbekistan)

Table 1: Rural population, agricultural employment and private farms in Central Asia

	Kazakhstan (KZ)	Kyrgyzstan (KG)	Tajikistan (TJ)	Turkmenistan (TM)	Uzbekistan (UZ)
Rural population (% of total), 2013 ^{a)}	47	64	73	51	64
Employed in agriculture (% of labour force), 2012, UZ = 2010, TM = 2007 ^{b,c)}	26	30	47	48	27
Number of private farms, 2012, UZ = 2010, TM = 2008 ^{b,c)}	164.856	356.642	72.000	2.450	66.100
Average size of private farm (ha), 2012, UZ = 2010, TM = 2008 ^{b,c)}	309	2,8	55	10	80
Notes	64 % of farms <50 ha, but operate 2 % of land (ø = 10 ha).	Arable land is mostly evenly distributed to rural families.	80 % of farms <10 ha (ø = 3 ha)	Farmers' association operate ca. 94 % of land; small private farms ca. 1 %	554 % of farms: cotton and wheat (ø = 106 ha), 31 %: fruit and vegetables (ø = 15 ha)

Source: ^{a)} WORLD BANK (2014); ^{b)} NATIONAL STATISTICAL YEARBOOKS; ^{c)} FAO (2012).

Note: ø = Average farm size.

- 3) Short-term lease contracts on state land with complete business subordination to the state-managed farmers' associations (Turkmenistan).

As long-term land use rights often do not exist, the state can take back farmland and allocate it to other users. The land reforms in Tajikistan, Turkmenistan and Uzbekistan are subordinated to national political goals, such as domestic self-sufficiency in wheat (goal of autarky) as well as stable currency receipts through high cotton exports (export goal). In these countries the production volumes for these two strategic products are prescribed to farmers, who have to orient themselves

to central state planning. This means they are also completely dependent on state-organised deliveries of supplies and equipment.

In the past few years the governments of Central Asia have recognised the difficulties of small-scale farming under the prevailing circumstances, and now acknowledge the need for supported services. They lack understanding, however, for the basic principles of successful service cooperatives. Rather than encouraging the setting up of cooperatives as a self-help organisations ("bottom up"), the state introduces hierarchical structures ("top down"). This form of agricultural cooperative

is very often financed by the state. The chief personnel of the cooperatives are appointed by the state administration too. Farmers are invited to become members, but they do not have to invest any of their own money into the mutual organisation or undertake any other obligations. It is no surprise, therefore, that members have no feeling of responsibility for "their" cooperative. One could argue, of course, that without the state initiatives there would be no support organisations for farmers at all. This reasoning maintains that cooperatives established from above are better than none at all, and that these hierarchically structured organisations might turn into member-oriented ones over the course of time. No such transformation has been seen to date, however, neither in developing or transition countries. The overall experience has been that when state and financial support comes to an end, this form of cooperative quickly breaks up (GOLOVINA and NILSSON, 2011; LERMAN, 2013).

Agricultural service cooperatives have been established in almost all Central Asian countries in recent years. They are few in number, however, and many seem to exist on paper only. According to LERMAN and SEDIK (2014), development in this region is lagging decades behind that in Europe. In Kyrgyzstan, for example, around 1,400 agricultural service cooperatives were registered in 2011 under the Ministry of Agriculture. The national office for statistics, however, only had a record of 400 active service cooperatives and, of these, only 20 could be identified that were service-oriented. Precisely six

cooperatives corresponded to the model of an agricultural cooperative in the Western sense (LERMAN, 2013). This shows that many service cooperatives are inactive and that their actual number in the region is terribly low.

One of the fundamental reasons why agricultural service cooperatives set-up on a voluntary basis have failed to make much headway in Central Asia seems to be the legacy of the socialist past. Experiences with Soviet agriculture have given rise to a deep-seated mistrust of all sorts of cooperatives. In all states of the former Soviet Union, when both politicians and farmers hear the word "cooperative" they generally think "production cooperatives". In post-independence legislation production cooperatives are defined as commercial organisations that sell their products to third parties only and which are primarily reliant on the labour of their members (LERMAN, 2013).

Because of their negative experiences with the Soviet cooperative model imposed from above and the lack of information about service cooperatives in a market economy, farmers' support for the cooperative idea is marginal. This impedes the development of social capital and attempts at joint action. The new farmers lack knowledge and experience of how service cooperatives based on self-help need to be organised to generate economic advantages for their members. As many farmers in the region have only very limited business freedom and have to fulfil prescribed production

goals, there does not seem to be any reason for the establishment of voluntary cooperatives either. The long drawn-out process of farm restructuring as well as the lack of ownership rights for land impede long-term business planning and investment in partnerships between farms.

Where policy supports the development of cooperatives, frequently it is other goals that are being pursued. Often, the cooperative serves as a form of organisation similar to the *kolkhozes*, to consolidate the holdings of small farmers into larger production units. This alienates farmers from the cooperative idea, tending to deter them from forming cooperatives (LERMAN and SEDIK, 2014). Turkmenistan, for example, has developed farmers' associations as state organisations along the lines of the former collective farms. The individual farmers are compelled to work the land jointly and the use of resources is prescribed. Amongst groups of water-users, too, there are considerable interventions from above, meaning that members feel no responsibility for the maintenance of the irrigation systems.

The other basic socialist cooperative model relates to "consumer cooperatives". Generally these are non-commercial businesses which sell their products exclusively to their members, but which are only partially reliant on their labour. As a state-run system in the Soviet Union they provided the rural population with services. Although the notions sound relatively similar, their fundamental principle is not comparable to that of service

cooperatives in the Western tradition. In all five countries the formal attributes are not clearly defined and frequently inconsistent in national legislation. All five countries have passed legislation relating to cooperatives, although with the exception of Kyrgyzstan the term "service cooperative" is not used. The organisation of agricultural services is implicitly left to the "consumer cooperatives" (LERMAN, 2013).

The experiences of other transition countries

In almost all former socialist countries we can see that agricultural service cooperatives have not developed in the way that might have been expected after the large rise in the number of private farms. In only a few of these countries were agricultural service cooperatives established which lasted for a considerable time.

In eastern Germany, by contrast, the government has had no role in the redevelopment of agricultural service cooperatives; all it did was to provide a suitable legislative framework. Whenever potential members wanted to set up a service cooperative, the state gave them the same sort of support offered to the reconstruction of any other type of other agricultural business form, i.e. investment grants in the start-up phase. Here, however, unlike all the other socialist transition countries, they could draw on the smooth-functioning western German cooperative system. Information campaigns, training, and advice could easily be requested from experts in western Germany. Because of the comparatively large

average farm size, only around 200 agricultural service collectives were established in eastern Germany. As a result of mergers, their number has been continually on the decrease over the course of the last few years (RÖSLER, 2014).

In China and Vietnam state authorities have not only implemented a suitable legislative framework, they have also played a role in providing information, training and financial support. In both countries local administrations have given huge support to the setting up of service cooperatives, although developments have followed different paths. In Vietnam the government was intent on transforming as many former collective farms as possible into agricultural service cooperatives after the land was distributed amongst the farmers. The government also enabled new service cooperatives to be set up from scratch. In China, by contrast, the former collective farms were completely liquidated, but the farmers could, if they so wished, enter into informal cooperation. Not until about 25 years after decollectivisation was a law on cooperatives passed, permitting the establishment of agricultural service cooperatives (SULTAN and WOLZ, 2012). In both countries, however, doubts exist as to whether these cooperatives can fully realise the three fundamental roles of members as users, supervisors and financiers. The legislation appears at least to offer a step in this direction.

Prospects for Central Asia

This paper has discussed the need and options for the development of agricultural service cooperatives in Central Asia. After independence, the restructuring of agriculture gave rise to new forms of farm dominated by small family farms, which currently play an important role for national agricultural production and rural employment. As a result of farm fragmentation and the disparity between an infrastructure for supporting agriculture, which is oriented towards socialist farm types, and the predominance of small farms, agricultural service cooperatives are back on the political agenda.

In principle it is conceivable that at a time when farmers are not able to set up service cooperatives on their own initiative, the government should engineer this development. This assumes, however, a realistic understanding of the economic and social requirements for efficient cooperation between farms, and of the behaviour of farmers (GOLOVINA and NILSSON, 2011). Preliminary studies show, however, that policymakers only have an extremely limited understanding of these two vital aspects. Instead of reintroducing large, state-managed agricultural enterprises under the guise of forming cooperatives, the governments should focus on creating the necessary legal framework for real farmers' cooperatives. They should also support information campaigns, training and advice relating to how agricultural service cooperatives are set up and how they operate on a day-to-day basis ("capacity building"). They should not,

Local produce on sale in Central Asian markets



however, meddle in issues of personnel and the course of daily management (LERMAN, 2013). Currently the prospects for self-sustaining agricultural service cooperatives in the region are very modest.

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