

***The Development of New Agricultural
Farmers' enterprises in Uzbekistan***

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**Based on the Jonathan Brook's presentation
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Objectives

- Outline key principles of western style Farmers' enterprises (agricultural cooperatives).
- Briefly explain their relevance to the development of the emerging private agricultural sector in Uzbekistan
- Identify some of the key constraints and obstacles to be overcome

Definition

Internationally accepted definition of cooperatives:

Autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises

Western style' Farmers' enterprises (cooperatives) contrast with:

- **Soviet era Kolkhoz** - privately owned and run by their members
- **Other forms of private enterprise** - driven by mutually agreed social and economic goals of members

Defining Principles 1-3

1. **Voluntary and Open Membership** – cooperatives (Farmers' enterprises Farmers' enterprises) are voluntary organizations, open to all persons willing to accept the responsibilities of membership irrespective of gender, race, political or religious affiliation
2. **Democratic Member Control** – Farmers' enterprises are democratic organizations controlled by their members. Cooperative members typically have equal voting rights (one member, one vote)
3. **Member Economic Participation** – Members contribute equitably to the capital of their Farmers' enterprises . In 'pure cooperatives' members receive no compensation for capital subscribed as a condition of membership and the assets of the Farmers' enterprises are indivisible.

The distribution of surpluses generated by the Farmers' enterprises is determined by rules agreed by all members for any or all of the following purposes: the establishment of financial reserves, reinvestment in the Farmers' enterprises and benefiting individual members in proportion to their transactions with the Farmers' enterprises .

Defining Principles 4-7

4. **Autonomy and Independence** – Farmers' enterprises are autonomous self-help organizations, controlled by their members. If they enter into agreements with other organizations e.g. banks, government agencies, they do so on terms that retain democratic control by their members
5. **Education Training and Information** – Farmers' enterprises provide training and education for their members, elected representatives, employees etc. so that they can contribute to the development of their cooperatives. They inform opinion makers about the nature and benefits of cooperation.
6. **Cooperation among Farmers' enterprises** – Farmers' enterprises serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures
7. **Concern for Community** – Farmers' enterprises work for the sustainable development of their communities through policies agreed by their members

Benefits

Founded on the principles of private initiative, entrepreneurship and self-employment, underpinned by the values of democracy, equality and solidarity, the cooperative movement can help pave the way to a more just and inclusive economic order'

United Nations Secretary General, Kofi Annan

Benefits

Agricultural cooperatives – farmers' enterprises offer a range of benefits that may accrue at all stages in the production cycle:

- **Procurement** - buyer farmers' enterprises take advantage of bulk purchasing power to leverage lower prices for factor inputs
- **Production** - farmers' enterprises investment in equipment and new technologies reduces unit costs of production, increases productivity and enables the transition into new value-adding activities e.g. processing and packaging.

As a result, a greater share of market power and value added is channeled back to primary producers, promoting farm level reinvestment and the development of off farm entrepreneurial activity

Benefits

- **Marketing and distribution** - farmers' enterprises investment in transportation / logistics, wholesale and retail distribution enables individual producers to avoid dependence on intermediaries and retain a higher proportion of sales revenue
- **Gradual formalization of informal activity** – in many countries the majority of small scale farming activity takes place in the informal sector, limiting access to financial services and undermining the ability of governments to invest in new social and economic infrastructure
- **Increased surpluses** - leading in turn to higher incomes and local multipliers - contributing to local economic development

Achievements

- Farmers' enterprises play a central role in the promoting and maintaining economic competitiveness in many developed market economies
- Share of total agricultural output contributed by Farmers' enterprises is 93% in Denmark, 83% in the Netherlands, 79% in Finland and 55% in Italy
- Tertiary coops also very important in Banking and Financial Services sector in rural areas: 50% in France, 31% in Finland, 31% in Austria and 21% in Germany
- In many countries, Farmers' enterprises also play a central role in external trade e.g. Denmark

Relevance to Uzbekistan

In context of ongoing agricultural reform policies, Farmers' enterprises have potential to expedite transition from subsistence level farming to market driven farming. *Problems of the development of economic development in Uzbekistan, in essence, are the problems of the development of rural entrepreneurship.*

By facilitating increased investment in value adding production, processing and distribution technologies, the introduction of western style Farmers' enterprises offers solutions to a number of problems which currently constrain the development of the private agricultural sector in Uzbekistan.

Relevance to Uzbekistan

- **One-sided agricultural policy** - oriented towards cotton and wheat production. Significant opportunities exist for diversifying agricultural production, at the same time reducing dependence on imported fruits, vegetables, meat and dairy products.
- **Continued dependence on the state sector** – most private farmers continue to be dependent on the Shirkats i.e.the state controlled sector, for the purchase of factor inputs and irrigation. Enhancing the profitability of the private sector through cooperative enterprises would expedite the transition to autonomous private sector farming activity.
- **Low productivity and high wastage** – stemming from low levels of mechanization and a failure to convert agricultural output for industrial production. Farmers' enterprises investment in new production technologies has considerable potential to improve yields and increase the competitiveness of domestic food products. Similarly private investment in improved processing and storage facilities would help to reduce the currently high levels of wastage of agricultural produce

Relevance to Uzbekistan

- **Low quality standards** – the limited processing that currently takes place in Uzbekistan falls significantly short of Western standards in terms of packaging, shelf life, hygiene and nutritional value. Farmers' enterprises investment in new processing and packaging technologies would raise the standards of domestic food products and increase their attractiveness in the domestic and regional / international markets.
- **Poor access to markets** - due to long distances and poor infrastructure. Farmers' enterprises investments in specialized logistics systems e.g. refrigerated trucks, would reduce dependence of local bazaars and open access to potentially lucrative urban markets.
- **High seasonal levels of unemployment** – the creation of new employment in food processing, packing and distribution cooperatives would contribute to reducing high levels of seasonal unemployment, thus contributing significantly to poverty reduction.

Obstacles to be Overcome

Despite potential of new cooperative model however, significant barriers remain to be overcome in Uzbekistan:

- **Monopoly supply of agricultural inputs** (fixed prices) – state control of key inputs, seed, fertilizer, feed etc., limits ability of cooperatives to achieve cost reductions through collective purchasing
- **Monopoly purchasing** – similarly the State Order system for purchasing key agricultural products (cotton, wheat) at below market prices, undermines profitability of all forms of private agricultural enterprise
- **Poor business environment** – there is no specific enabling legislation for new agricultural Farmers' enterprises . This problem is compounded by complex legal and administrative regulations governing the establishment and operations of all private firms and intrusive / punitive inspections regimes

Obstacles to be Overcome

- **Lack of entrepreneurial skills** – emergence of successful private agricultural markets depends not only on the development of technical farming skills, but also the development of generic entrepreneurial skills (risk management, financial management, accountancy etc). ‘The generation of entrepreneurs is yet to emerge’
- **Lack of access to affordable finance** – shortages of credit, especially long maturity loans for the purchase of factor inputs, capital investment and investment in marketing and distribution facilities undermines the financial viability of farm enterprises. This problem has multiple causes, including geographic remoteness, risk adversity of banking system and lack of collateral assets (especially land) to securitize loans.