

DEVELOPMENT AND PROSPECTS OF AGRICULTURAL COOPERATION IN THE REPUBLIC OF KAZAKHSTAN

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Abstract: *Diversification of economy in Kazakhstan includes several prosperous directions, but main attention is paid on agro industrial sector. High productivity of foreign countries due to successful realization of farmers' cooperation makes it key element of current state policy of development. However, despite the support provided and activities taken the cooperation implementation is still low. The aim of this research was to analyze the reasons of it and make suggestions for situation improvement. To analyze current position of cooperatives in Kazakhstan, the main international agricultural cooperation models were examined and their history together with historical background of agricultural cooperatives in Kazakhstan. Based on the data it can be concluded that various economic doctrines were the base of each model. Authors explored three different models existed in agricultural cooperatives history: Western (market economy), Soviet (government-planned economy) and Israeli (social commune). Interviews were conducted with experts in agricultural sector and food marketing in order to investigate, which factors restrain cooperation's integration. After studying updated version of law on agricultural cooperatives and conducting interviews authors constructed SWOT-analysis, which defined the main weakness of state's cooperatives. The unawareness of farmers about benefits of cooperation was chosen as a problem to be solved. On the base of it authors created problem-tree and further elaborated solution-tree. Authors recommend prolonging and intensifying government support, and involving private business in agricultural cooperatives development. The support should be multilevel; upper-level includes subsidies payments and legislation modifications; local bodies should help strategical planning elaboration and organization of production sales.*

Keywords: *agricultural cooperation; Kazakhstan; SWOT-analysis; problem-tree.*

JEL Classification: Q12; Q13.

1. Introduction

Agriculture always took the important role in life of people lived on the place of modern Kazakhstan, because of the vast territory and climatic conditions they practiced nomadic way of life. Kazakhstan has several climatic geographical zones that are suitable for different types of animal and crop farming. *Figure 1.* shows geographical distribution of state's regions with its specialization in agricultural sector. There are 10 natural areas, including 6 plain and 4 mountain lands. Main

directions include 12 different types of animal and crop farming: grain-growing, meat-and-dairy cattle farming, sheep breeding, horse breeding, droving horse breeding, pig breeding, camel breeding, cropping, mellow-growing, rice growing, cotton farming, apples growing. As seen from the map Kazakhstan has really wide range of climatic and landscape conditions and consequently agricultural goods to produce. Thus, it is obvious that government and private entrepreneurs became more interested in this sector of economy; and collaborate in projects of its development.

In existing strategy of economy's diversification, main emphasis is made on agricultural sector development. "Government Program of Agro-industrial complex development for the Republic of Kazakhstan for 2017 – 2021" that came into force in the beginning of 2017 sets following tasks for the sector:

- 1) involvement of small and medium-sized farms in agricultural cooperation;
- 2) saturation of the domestic market and development of the export potential of domestic products;
- 3) effective use of state financial support;
- 4) effective use of water resources;
- 5) creation of conditions for effective use of land resources;
- 6) increase of provision of agricultural producers with machinery and chemicals;
- 7) development of trade and logistics infrastructure;
- 8) scientific and technological, personnel and information-marketing support of the agro-industrial complex (Ministry of Agriculture of the RK, 2018).

The development of production, sales, processing of agricultural products, material and technical supply, credit, service and information and marketing services systems for agricultural producers is the most important direction for today in the Republic of Kazakhstan.

2. Methodology

For deeper understanding of current condition of agriculture in Kazakhstan and particularly cooperation's implementation several interview had been made with various experts. The first interview gave specialist of food marketing with domestic and international experience in food processing during 3 decades. She gave insights to weaknesses of processing and marketing, especially in supply chain management. Moreover, she talked about difficulties faced by growers and producers while reaching consumers. The second interview was with a farmer, who has relatively small agricultural experience, however his total experience in business is about 10 year. He has apple orchards business in Almaty region and is interested in entering into cooperative. He shared his opinion why cooperation has low implementation, and what challenges farmers face with working by their own. Third expert has several decades of various agricultural experience, studied soviet and foreign programs of cooperation. He shared his vision of what problems can be solved by adjustments in government management; which steps can farmers take, and described Chinese strategies and organization structure of agricultural cooperatives.

Farmer's questionnaire has been made on the base of foreign experience and adjusted to current market situation and research needs. The aim was to define what cooperation aspects are more important for farmer, while he decide to become a member. Questions and description were prepared in Russian and Kazakh languages, so more farmers can answer. All questions were divided into 3 sections: general questions about their agribusiness; attitude towards particular aspects while joining cooperative; and common demographic questions for statistical grouping purpose.

First section was constructed as the introduction and had questions about farmer's business activity, land and labor used. Land used can be either own or rented for agriculture purpose for a long-term period up to 49 years with the opportunity of further purchase, however it is important to notice that in case of usage for purposes other than intended government will terminate the agreement. Currently in the Republic Kazakhstan moratorium on selling state-owned land suitable for agricultural purposes is acting, it is also prohibited to rent state-owned agricultural land to foreign citizens or legal entities (Kapital. Centr delovoy informacii, 2018). Agricultural businesses typically use seasonal workers and family farming is a common practice, due to this author asked respondents to distinguish them in total amount.

Second section was the main part of questionnaire, since there author asked about attitude towards particular cooperative features. In working process attention should be paid not only on such factors as maximum guaranteed price and receiving payments on time, but also on relations among members and opportunity for external investments. For small producers cooperatives provide facilities that they cannot afford by themselves such as dispatch and storage or agricultural equipment. Cooperatives are popular because this business form not monetary profit oriented, but provides social benefits as well. Members receive additional knowledge by exchange with each, having trainings with guest lecturers and enlarging its network. The last question in this section was about willingness to study some of listed subjects: cooperation basics, agro engineering, phytosanitary, veterinarian safety, food safety standards, business disciplines (management, accounting, planning), or write their own.

The last section had demographics questions: gender, age, education level, employment status, and type of business form, for grouping and creating respondents portfolio.

3. Results

The second part of questionnaire was about the respondents attitude towards specific issues in cooperation. This section contained 15-item scale that measured the importance of these aspects in cooperative entering process (1 = absolutely not important, 7 = very important). In descending order the importance to farmers of various business, and mostly marketing, factors for partnership with the cooperative. The most important factors are Purchase price by cooperative, Payment speed with an average 6.19 and Trust to cooperative (6). The less important were Quantity of production given (4.74), Absence of alternative (4.81) and Production storage (4.90).

These results show that entrepreneurs are on the beginning stage, and high price and quick payments have most of influence. Due to the existing unclarity and relative novelty of this form farmers feel the need of trust. External and internal investments take next place in respondents' significance scale, because they understand that it is much easier and more efficient to apply for subsidies and grants as cooperative, not as a single entrepreneur.

Quantity of production given is considered as the least important factor, because farmers will not lose a lot if they will realize the rest of the products by other channels. This is explained with current low dependency from cooperative and not full realization of benefits provided.

To sum up, results of questionnaire gave deeper insight what is an attitude of agricultural workers to the cooperation, and specific aspects of it. Besides, it was possible to examine factors' importance in different splits, in order to clarify how background effects on respondent's choice. Currently due to developing stage of agriculture in state and lack of trust, for farmers purchase price and payment speed have more significance than other features of cooperation. However, one of cooperation's characteristics was interesting to all respondents. All of them feel the need to receive additional knowledge on agricultural and business disciplines. Consequently, while forming new cooperative or in order to improve existing one management need to take into account these results. Cooperatives must assure profitability and liquidity to its members, and give them opportunity to receive and share professional knowledge and experience.

3.1 Strengths + Opportunities strategies

Unification of resources for receiving international bioorganic certification: cooperative members can direct necessary funds for certification process of selected product groups, and after receiving confirmation, sell organic food on a higher price. Attraction of professionals from other sectors to farming business: as more people will see positive results from cooperation, the more will be interest to agriculture and qualified specialists from other sectors can switch their activity, and receive needed help from members on the first stages.

Table 1. SWOT-matrix strategies

	<u>Strengths</u>	<u>Weaknesses</u>
	1. High-tech largescale production	1. Lack of own funds
	2. Joint and stable realization	2. Absence of joint activity experience
	3. Juridical and economic independence	3. Shortage of processing enterprises
	4. Equal membership	4. Failure to sell on B2C market
	5. Risk's share minimization	5. Logistics and infrastructure
	6. Growth of common funds available	6. Low education level
	7. Expenses decrease	7. Legal framework imperfection

	8. Gratuitous knowledge	8. Lack of qualified personnel
Opportunities	SO strategies	WO strategies
<ol style="list-style-type: none"> 1. Government support 2. State agro sector growth 3. Export to neighboring countries 4. Bio and organic food production 5. Full-cycle manufacturing 6. New members 7. Foreign experience usage 	<ol style="list-style-type: none"> 1. Unification of resources for receiving international bio-organic certification 2. Attraction of professionals from other sectors to farming business 	<ol style="list-style-type: none"> 1. Launch of full-cycle processing enterprises 2. International law base 3. Hiring of foreign experts
Threats	ST strategies	WT strategies
<ol style="list-style-type: none"> 1. "False cooperatives" 2. Relations worsening 3. Political risks 4. Macroeconomic risks 5. Environmental and climate fluctuations 6. Illnesses of plants and livestock 	<ol style="list-style-type: none"> 1. Self-financing of all cooperative activities (in case of support suspension) 2. Launch of own R&D centers to prevent biological risks and improve existing base 	<ol style="list-style-type: none"> 1. More links among members (not only business, but social & education activities)

Source: own research based on literature review and interviews with experts

Weaknesses + Opportunities strategies

Launch of full-cycle processing enterprises will develop life in rural areas. Farmers will have stable places where they will realize their goods and consequently income. Young generation will not strive to leave villages, and after receiving education will work in their home regions, this will be a solution to de-urbanization. With region development, government and private entrepreneurs start modernization of infrastructure, including building of kindergartens, schools, hospitals, places of leisure and entertainment, etc.

International law base: foreign experience can be used not only in business aspects, but also in improvement of legal base.

Hiring of foreign experts: lack of domestic qualified personnel creates the necessity of expats attraction, but they can train local farmers.

Strengths + Threats strategies

Self-financing of all cooperative activities: management aim must be in self-financing of all projects, therefore in case of government support suspension, members should

use accumulated income and own funds. However, it is hard for the beginners, due to lack of resources.

Large cooperatives can launch their own laboratories to investigate plants and animal husbandry in order to prevent biological risks and improve existing base, due to scale it can be cheaper than giving it outsource.

Weaknesses + Threats strategies

With the development of cooperative movement in rural area, more links will appear among population, between not only business partners, but also their family members. Other parts of social interactions will lead to deeper links and interdependency. People will stay in villages, build schools, hospitals, create infrastructure. Evolution of social responsibility and education level will create sound and prosperous nation.

3.2 Problem definition and solution development

From SWOT analysis, we found out that the main problems for development are lack of farmers' own funds and absence of joint activity experience. These problems are led by several causes, which formed during several generations, and it is hard to solve them in the frameworks of this work. However, author assume that change of farmers' perception will have significant effect. First, we need to solve issue of the unawareness about benefits provided by cooperation. Defining this problem as the key one, we can analyze causes and effects of it, and further suggest a solution.

As seen in from the *Figure 1*. unawareness about cooperatives and absence of its development can lead to three problems such as small output, suspension of government support, and absence of international grants, which subsequently cause loss for the farmers and fall of state agricultural development. Attraction of international grants is important for development other sectors of economy as well. Agriculture can be the second driver and more sustainable than mineral resources. Key reason for unawareness about cooperatives is shortage of knowledge, which is driven by negative perception and education's low level. Besides, the explanatory work with farmers is insufficient. Questionnaire results supported this hypothesis, as most of respondents wanted to study the basics of cooperation. Negative perception was formed by historical experience and individualistic state of mind, which is a result of joint-work experience absence. The underlying causes are waiting for government support and decisions, and the unwillingness to make business with unknown people, to whom they do not trust. It is easier and safer to deal with family members or close relatives, despite the lost opportunity for growth and improvement. First unsuccessful attempts of cooperation's introduction add more doubts to those farmers who are considering joining to the movement.

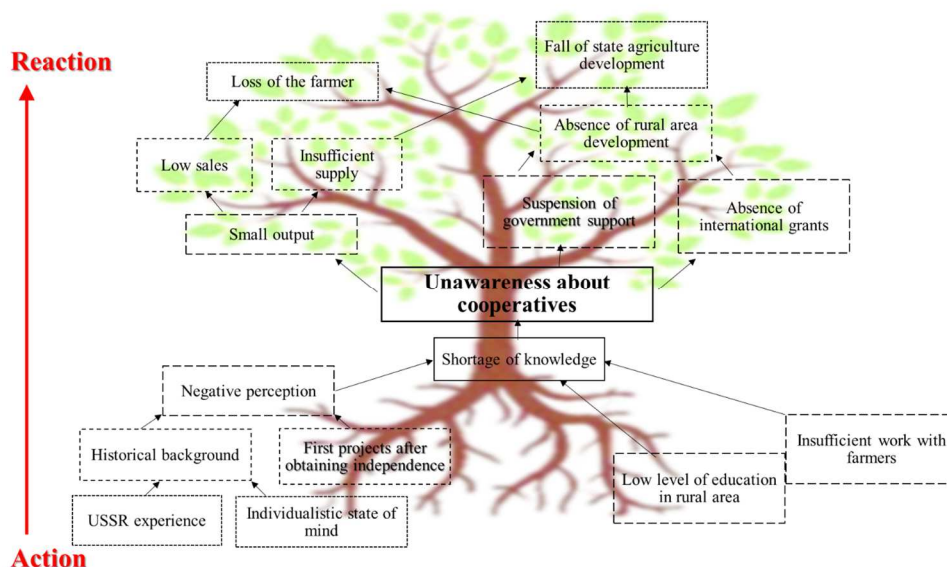


Figure 1. Problem tree of the agricultural cooperation in Kazakhstan

After defining the problem, we can elaborate solution. The *Figure 2* shows how educational work in several directions can increase the awareness, and what positive effect it can have further. The work must be done in two directions:

- 1) changing existing negative or doubtful perception;
- 2) uprising the new generation of farmers.

Firstly, government should prepare additional explanatory materials for farmers, to clarify all aspects of cooperation. In addition, local authorities should elaborate strategic plans for various types of business activity, so rural population will decide by themselves, which sector to choose. In addition, those farmers, who have already understood benefits of cooperation, can share their experience in mass and social media; make educational seminars and exhibitions, demonstrating growth of economic and social income. Besides, government and public should change the perception of large processors and producers, so they will start purchasing from cooperatives and therefore support its development.

Secondly, together with government large cooperatives union ought to correct education program in secondary schools of rural areas and of future agricultural specialists, so they will know economics and business basics and can understand best opportunities for farming activities. Scientific workers need to include more information about international experience, both successful and not, so young generation will feel the difference and learn from others mistakes. In addition, showing the supplementary benefits for the whole population, will teach them to think wider.

If farmers know about cooperation benefits and see positive results of others, willingness to join will increase, as well as further awareness. If farmers know and

rely in cooperative form of business, more entrepreneurs will be interested in it and enter existing or create their own. With the development of movement, population receives rural area infrastructure development together with population's increased standards of living. This will ensure two government aims: agricultural sector development and growth of population welfare.

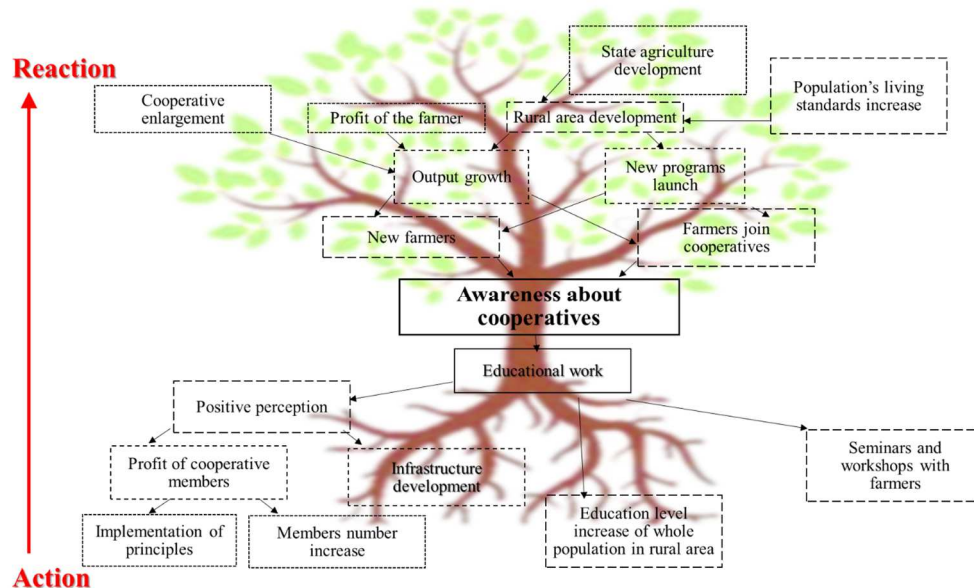


Figure 2. Solution tree of the agricultural cooperation in Kazakhstan

4. In conclusion

The agricultural sector of Kazakhstan has vast opportunities for development, and cooperation of the farmers is prosperous tool for it. Several obstacles slow down the farmers' integration to the movement, however actions in several directions can make a valuable positive contribution. Moreover, from the research results, we can see that entrepreneurs are interested in cooperation, but they have doubts, so the first aim is to dispel them. Due to high sector dependency from Governmental support, the main actions are required from Ministry of Agriculture its subsidiaries and state representatives of business.

Thanks to state support and the measures proposed by NCE RK "Atameken", it is possible to realize the enormous potential of the cooperative movement and increase the production of domestic food all over the state. A promising direction for the development of agricultural producers will be their involvement in work with wholesale and retail centers, as well as their integration with processing enterprises. Large cooperatives can be a good and stable entity to attract investments for construction of processing enterprises. To do this, it is necessary to create an infrastructure that will ensure the procurement, transportation, storage, marketing

and processing of agricultural products, therefore domestic food production will reach western model of vertical integrity and full-cycle supply chain management. In accordance with the research objectives, author achieved the following results:

- Several reasons prevent successful implementation of the agricultural cooperation in Kazakhstan; among them, unawareness of farmers and lack of own funds play the key role. Negative perception about cooperative households and rural population's lack of accumulated funds due to soviet-times experience and insufficient knowledge about benefits of modern cooperation style are the reasons of current situation.
- In order to stimulate farmers' engagement in cooperation both government institutions and private entrepreneurs have to be active. Government need to intensify explanatory work with the rural population about the benefits of cooperation and help them with a strategical planning of the region's activity. Local authorities should elaborate the target for each region, taking into account diversification of output, import-substitution, and if possible development of niche markets. In addition, authorities should set exact progressing goals, so farmers will use granted resources with maximum utility, increase productivity and improve quality of final goods. Successful cooperatives will receive more benefits, enlarge amount of members, produce more, and consequently, earn more. Those who are not productive should leave the market, or change its activity to profitable one. Entrepreneurs should share their experience in order to motivate others; enlarge their production adding processing and marketing units, engaging more population.
- In order to make this form attractive for farmers, managers ought to meet their expectations. The questionnaire's results show that entrepreneurs are on the beginning stage, and high price and quick payments are the most significant factors, because they need to receive as much money as quickly as possible. Due to the existing unclearness and relative novelty of this form farmers feel the need of trust. Investments both from attracted funds and from retained earnings take next place in respondents' significance scale.

In addition, authors suggests that cooperation is a good solution for young generation's involvement into a farming business. Current trend of fast career change due to unrealized potential and disillusionment is an issue of both employers and employees. Agricultural sector used to be considered as conservative and traditional, and therefore not so interesting for the youth. However, modern science condition requires being up-to-date always, and considerable researches are conducted to improve productivity and quality of agricultural output. Cooperatives provides enormous opportunities for self-development and constant challenges. After reaching the certain target young farmer can evolve in several directions, it could be either production enlargement – adding new species, or vertical integration – launch of processing and / or marketing activities such as storage construction, logistics enhancement, etc. Moreover, cooperation is a business form that is aimed to serve not only for owners' monetary profit, but to ensure social welfare. For youth who were upraised with the stronger ideas of humanism and desire of making contribution to society it is an advantage.

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