

Rural Poverty, Agrarian Reform and the Role of the State in Rural Growth and Poverty Reduction in Central Eurasia

Ten Propositions regarding Agricultural Development and Rural Poverty Reduction

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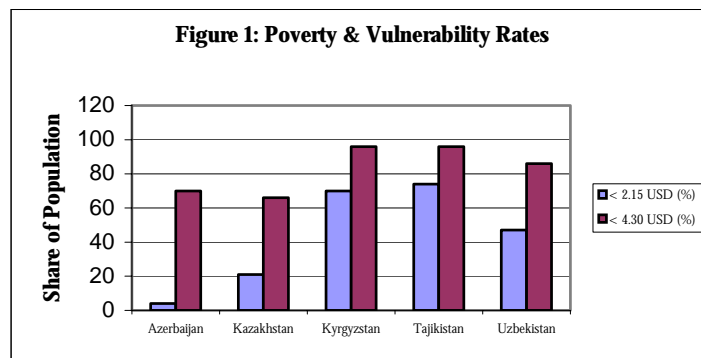
Agricultural Development and Rural Poverty Reduction in Central Eurasia (CEA)

- The analysis is focused on six Central Eurasian countries: Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan
- Turkey is not included, because it would deserve a separate study
- The 6 CEA countries share the Soviet legacy and transition experience, a common ground for comparison

Structure of the Presentation

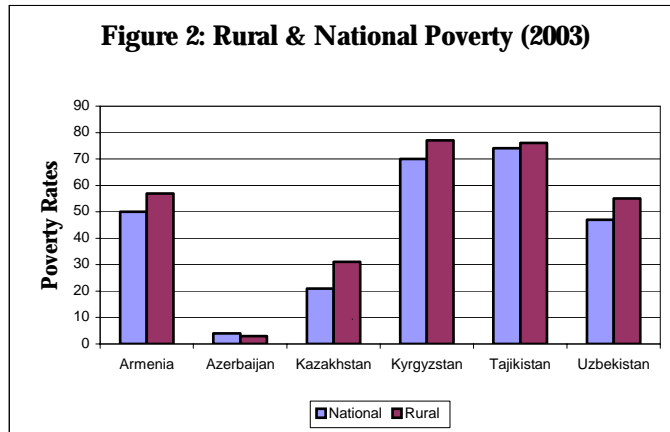
- A: The 'Rural Face' of Income and Non-Income Poverty (Propositions: 1-4)
- B: Agrarian Reform Stimulated Production. Incomplete Reforms and Continued State Interference are Obstacles to further Growth (Propositions: 5-7)
- C: The Role of the State and the Institutional Environment Needed for Growth and Poverty Reduction (Propositions: 8-10)
- D: Tentative Priorities for FAO Role in Central Eurasian Countries

Income and Non-Income Poverty: Distribution, Trends and Background (1)



However: National Poverty lines indicate that also in best performing countries, such as Azerbaijan poverty is still high: 27.5 % in 2004

Income and Non-Income Poverty: Distribution, Trends and Background (2)



Rural Poverty nearly always higher than the national average

Trends and Causes

- Income poverty higher than in other CIS countries. Why?
 - Initial conditions, periphery *versus* centre:
 - Some countries with rich natural endowments (oil, gas, minerals)
 - High human capital development, compared to developing countries
 - However: Higher initial poverty rates (compared with CIS)
 - And much more rural societies than elsewhere in the FSU
 - These high degree of rurality (shares of rural population; agricultural labour; agri-exports/GDP) can be linked with high rates of (largely rural) poverty



Conclusions (1)

- An agricultural-led and rural-based growth strategy will be 'pro-poor'. Rural poverty is closely linked with agricultural household income.
- It takes too long for (rapid) national economic growth to trickle down to rural areas.
- In order to meet the MDGs on poverty (amongst others), a priority focus is needed on the agricultural and rural sector in Central Eurasia (in line with World Development Report, 2008).



Health and Education

- Access to piped water services is very unequal, in rural areas only 20-30% of households
- Public Expenditure on Health: decreasing as % of GDP (1998-04)
- Large differences between countries in expenditure/capita, but at LDC levels
- Public Expenditure on Education remains constant, but mostly much lower than developed countries

Rapid Growth is not translated into higher shares public expenditure in health/education



Gendered Face of Poverty

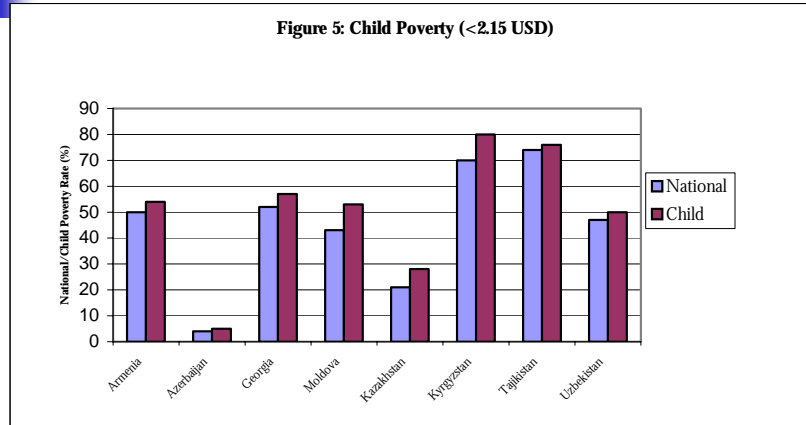
- Migration of men from rural areas (temporary employment)
- Brunt of agricultural labour in borne by women
- Women have triple responsibilities (household plot, food security, and children)
- Feminization of harvest labour (in particular in cotton) under difficult circumstances
- Food Poverty and Malnourishment still widely present



Conclusions (2)

- Public expenditure on health and education are low in the CEA countries, relative to GDP and in absolute terms.
- An important part of a strategy of rural poverty reduction would be to invest in rural health and education.
- Public expenditure needs to be refocused, away from supporting production, towards public investment in rural infrastructure and services, to improve the quality of rural livelihoods and promote rural growth.

Child Poverty (2003)

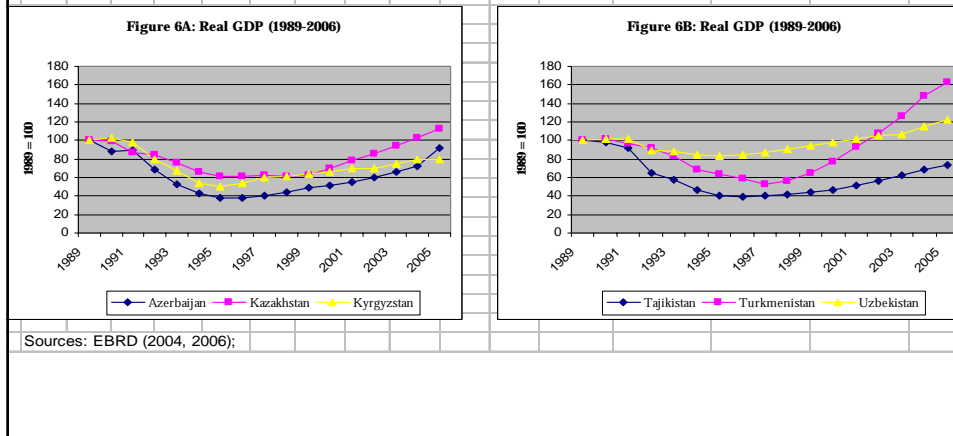


Child poverty 5-10 % higher than national poverty rates

Conclusions (3)

- Child mortality (<5 y) is still high.
- Stunting is reported by UNICEF to be a serious problem (signalling malnutrition), again more severe in rural areas.
- Child poverty is still severe in the CEA countries.
- Special attention is needed for households with more children, reduce or eliminate child labour, and improve children's access to nutrition (such as through school meals).

Real GDP Growth (1989-2006)



Conclusions (4)

- Spatial differences in poverty are high, rural poverty much more severe than for example in capital cities
- Despite robust overall GDP growth in Central Asia, rural poverty did not decline as rapidly as urban poverty (low elasticity to growth).
- Explanatory factors are: extensive state intervention in agricultural production, marketing and processing, as well as a lack of palpable support for individual agriculture, and insufficient agro-industrial linkages.
- Poverty alleviation programmes need to address this imbalance as part of the overall poverty reduction efforts.



Different Reforms and Outcomes

Group 1: Azerbaijan, Kazakhstan and Kyrgyzstan

Group 2: Tajikistan, Turkmenistan and Uzbekistan

Azerbaijan	}	Plot Allocation, Buy/Sell/Lease, Individual + Corporate Farms
Kazakhstan		
Kyrgyzstan		

Tajikistan	}	Share Allocation, Limited Transfer, Individual + Leasehold Farms
Turkmenistan		
Uzbekistan		



Conclusions (5)

- Land reform and reform in agricultural policies have substantially progressed in a number of countries (such as Azerbaijan, Kazakhstan and Kyrgyzstan), but there is a clear need for further reform, in particular in Turkmenistan, Uzbekistan and Turkmenistan.
- Wide-scale individualization of agricultural production is needed, and an appropriate enabling (and stimulating) institutional and policy environment, in which agricultural growth will increase, with a positive effect on rural poverty reduction.



Changes in Yields and Output

- Crop production in the period 1992-97 is characterized by acreage expansion (not yield).
- Crop production in the period 1998-05 is characterized by yield increases (in particular in the group 1 countries).
- Wheat and potatoes expand in the region, market induced (group 1, except for Kazakhstan), state-induced (group 2).
- Farmers furthermore produce low investment crops (vegetables), and have 'risk aversion' attitude.



Conclusions (6)

- Land individualization is a necessary factor for agricultural intensification and market-led growth.
- However, it needs to be complemented with additional policies (capital, credit, land rental, and services) and institutions, otherwise market-orientation will remain minimal, and risk aversion strategies will remain dominant.



Taxation and Fragmented Markets

- In Group 2 countries, particularly in Turkmenistan and Uzbekistan, implicit taxation in cotton was very high in 1990s, but still is negative for producers.
- Production decisions are largely not made at farm level (wheat & cotton), prohibiting optimal allocation of resources.
- State procurement and state controls on processing and exports are still strong.
- Fragmented markets + state controls cause farm gate prices to be relatively low.



Business Environment

- In all CEA countries the business environment needs substantial improvements.
- Existing 'Rent seeking' within the state apparatus diminishes trust in public services.
- 'Rule of Law' is a requirement for private sector to further develop, with contract enforcement institutions etc.
- Property rights are to be protected, and erratic state interference minimized.



Conclusions (7)

- Cotton could have been and should be a fast-growing high income sector for farmers (and as a result for farm workers), but an insufficient share of benefits accrues to them.
- This is particularly the case in the countries of Group 2. Further reforms in taxation, elimination of state procurement, and state interference in production decisions are needed to promote growth.
- Poverty rates remain high in rural areas growing cotton. No resolution for this problem can cause migration, that cannot be absorbed by other sectors.



Cotton Supply Chains

- Three forms in Central Asia:
 - Kazakhstan/Kyrgyzstan: liberalized and deregulated, with substantial competition
 - Tajikistan: emergence of 'futures holders' export companies, but still open and hidden state interference
 - State dominance in cotton sector, with monopsonic export state companies (see Sadler, 2003)



Small Producers and Agro-Industry

- Experience from CEE and other CIS countries: supply contracts with agro-industry improves quality; FDI increases, increased growth.
- However, bargaining power of emerging small farms is still low, and behaviour of agro-industry is short term profit oriented.
- State monopolies should not be transformed into private monopolies.



Conclusions (8)

- Focus on building efficient (and competitive) supply chains and the linkages between small farmers and emerging agro-industry.
- The current level of fixed agricultural investment is too low to achieve such goal.
- Well-working input markets, and improved access for small farmers will also enhance growth, in particular in export related niche markets (fruit, vegetables and livestock).



Soil and Water Degradation

- Soil degradation because of 'over-irrigation', inadequate drainage, water-logging.
- Soil salinization has negative impact on crop output and health (air pollution).
- Water conflicts, loss in biodiversity (upstream-downward conflicts), downstream water quality reduction.
- Shrinking of the Aral Sea and climate change have strong negative effects on rural livelihoods.



Conclusions (9)

- To reduce rural poverty and improve the quality of rural livelihoods, sustainable management of natural resources (land, water and forests) is of crucial importance.
- There are inadequate irrigation and drainage practices and a decaying infrastructure, which contributes to environmental degradation.
- Command and control measures have to be combined with institutional changes (for example WUAs), economic incentives through prices and taxation, and investments in efficient and water-saving irrigation systems.



Institutional Framework (1)

- 'Credible' institutions are needed in view of:
 - Inefficient and unwanted, erratic state interference.
 - Continued insecurity of property rights.
 - Lack of enforcement of existing laws.
 - Influence of illicit groups which is often important.
- Individualization of landholding and production requires new institutional framework:
 - Agricultural knowledge & info systems.
 - Advisory services, research systems, education.



Institutional Framework (3)

- Land rental markets are important, which can work towards more efficient land allocation (not jeopardizing equity).
- Rural finance is still minimal in the CEA countries, money lenders and in-company or contract-finance is dominant.
- Research and extension services need a transition towards serving small farms in view of the reduction of the large farm sector.



Conclusions (10)

- Governments should provide facilitative environment, an appropriate regulatory framework, and increase public investments, in rural infrastructure.
- Establishing and implementing the 'rule of law', making property rights secure and establishing trust in public institutions is crucial.
- An agricultural innovation system (with research, extension and education), is important, with linkages provided land rental markets, and rural financial services, accessible to small farmers.