

**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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MAX SPOOR<sup>1</sup>

**EXECUTIVE SUMMARY**

INTRODUCTION

This keynote paper focuses on agricultural development and rural poverty reduction in Central Eurasia (CEA), particularly in Azerbaijan (South Caucasus) and Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan (Central Asia), countries which in this paper are referred to as Central Eurasia (CEA). It argues that agricultural development and rural poverty reduction should have a central place on the overall 'growth, development, and poverty reduction' agenda for this region. Moreover, it discusses the tentative priorities for FAO, which covers these countries from its Ankara Sub-Regional Office for Central Asia (FAO/SEC), for assistance to national governments (possibly in collaboration with the emerging civil society and private sector).

Turkey, the seventh country covered by the FAO/SEC Office, has not been included in this paper. Turkey deserves separate attention in relation to its agricultural and rural development within the EU accession process, because of its sheer size and specific features. Turkey does not share the legacy of having been part of the former Soviet Union (FSU) that has shaped the Central Asian economies and Azerbaijan.

*Ten propositions* are presented, that analyze the trends and causes of rural poverty, the possibilities for its reduction, its link with agricultural and agro-industrial development, the context of changing markets and institutions, and the role of government in these countries. Each proposition is empirically analysed, using existing data sets available from FAO, the World Bank, UNDP, UNICEF, CISSTAT, and national statistical bureaus, and separate conclusions are drawn. The paper brings together and uses the results of the important body of literature that has recently emerged on this sub-region and on the socio-economic development of the individual countries.

The first section of *four propositions* deals with the state of income and non-income poverty. Poverty is analyzed according to its spatial distribution, and aspects of child poverty, malnutrition and the gendered face of poverty are analyzed. The severity of rural poverty in the CEA countries is emphasized and its relatively limited reduction in response to overall economic growth. The second section of *three propositions* looks into the diverse processes of land reform and farm restructuring, agricultural policy reform, and the development of higher land productivity in combination with a 'risk aversion' attitude of farmers. These have not responded to individualization of landholding as was initially envisaged in case of relatively advanced reforms (such as in Azerbaijan, Kazakhstan and Kyrgyzstan), and even less when the policy and institutional environment remained more interventionist (Tajikistan, Turkmenistan and Uzbekistan). The third section of *three propositions* looks into what is needed for dynamic

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<sup>1</sup> Associate Professor at Institute of Social Studies, The Hague, Coordinator of CESTRAD, and Visiting Professor, IBEI, Barcelona. The paper benefited from the research assistance of Koen Voorend, also attached to CESTRAD, and the comments provided by FAO/SEC and REUP/FAO, in particular by David Sedik, Chief of the Policy Assistance Branch.

agricultural and rural development, and to increase rural poverty reduction. In particular emphasis is given to the improvement of product supply chains, input markets and agricultural investment, resource management, and the appropriate policy and institutional environment (finance, research, services and regulatory & legal framework) which is needed. The final section discusses the particular role of the FAO within this same context.

## SECTION A

### THE 'RURAL FACE OF INCOME AND NON-INCOME POVERTY

In this section it will be shown that income poverty in the CEA countries is severe (with some exceptions), and that poverty has particularly a 'rural face'. Most countries have predominant rural populations, while the share of agricultural labour in total employment is still high. In spite of the decreasing importance of agriculture in GDP and exports, the CEA countries have a high degree of 'rurality' (*Proposition 1*). Non-income poverty is also problematic, because of deteriorated public services (such as health and education) and social infrastructure (*Proposition 2*). There is also a 'feminization' of rural poverty, and child poverty is on average higher than overall poverty incidence (*Proposition 3*). Finally, it will be shown that the effect of GDP growth on reducing *rural* poverty is quite a bit less than its effect on *urban* poverty (*Proposition 4*).

1. *Proposition: Income Poverty in the CEA countries is high in comparison to other CIS countries. Rural poverty is higher than urban poverty, and responds less robustly to economic growth.*

#### Conclusion:

- An agricultural-led and rural-based growth strategy will be 'pro-poor' as rural poverty is the main problem to be addressed. Rural poverty is closely linked with agricultural household incomes, growth in the sector's output and productivity, and agriculture's linkages with other sectors. In essence, more growth needs to take place in the rural areas, where many of the poor reside and work, in particular in the agricultural sector, but also in the relatively weak rural non-farm economy.
  - Waiting until national economic growth sufficiently trickles down to the rural areas relegates the phenomenon of rural poverty to a 'Cinderella of growth' status. In order to meet the MDGs on poverty (amongst others), a priority focus is needed on the agricultural and rural sector in Central Eurasia.
2. *Proposition: Non-income poverty is also worse in rural areas, because of the weakening of rural services and social infrastructure. Furthermore, food poverty should not be ignored, as malnourishment is widespread.*

#### Conclusion:

- With the transformation from large farm enterprises towards individualized agriculture the 'within company' social services have largely disappeared, while local administrations have not filled this gap. Public expenditure on health and education are low in the CEA countries, relative to GDP and in absolute terms. Therefore an important part of a strategy of rural poverty reduction would be to invest in rural health and education.
- Access to piped water and other public services is highly unequal, comparing rural with urban areas. 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.

3. *Proposition: Poverty is higher for children, while average household poverty is higher for those with more children, and with household heads that work in the agricultural sector.*

Conclusion:

- As child poverty is still severe in the CEA countries and stunting widespread (signalling malnutrition), in poverty reduction strategies specific emphasis is required to these serious problems. This also means that particular programs need to be developed to reduce child and food poverty, focusing on households with more children, reduce or eliminate child labour, and introduce or expand the access to nutritious school meals.
4. *Proposition: Poverty increased rapidly in the early 1990s, followed by some reduction in the second half of the decade. Poverty rates have since been reduced in the CEA region. However, rural poverty did not drop as robustly as urban poverty in response to high economic growth.*

Conclusion:

- Despite robust overall GDP growth in Central Asia, poverty in rural areas has not declined as rapidly as in urban areas. Major reasons for this distinction are continued extensive state intervention in agricultural production, marketing and processing, as well as a lack of palpable support for individual agriculture. Poverty alleviation programmes need to address this imbalance as part of the overall poverty reduction efforts.

## SECTION B

THOUGH AGRARIAN POLICY REFORMS IN THE CEA HAVE CAUSED UNEXPECTED CHANGES...

THEY WERE SUCCESSFUL IN STIMULATING SECTOR GROWTH.

INCOMPLETE REFORMS, UNCLEAR AND INSECURE PROPERTY RIGHTS, AND CONTINUED STATE INTERFERENCE IN PRODUCTION DECISIONS INHIBIT AGRI-CULTURAL GROWTH RATHER THAN ENABLE IT

In this section we will show that there was a diverse implementation of land reform and agricultural policies in the CEA countries, in terms of profoundness, timing, as well as sequencing (*Proposition 5*). This has led to substantial differences in the current agrarian structure and the policy environment for agricultural production. In those countries with wide-scale reforms (Azerbaijan, Kazakhstan and Kyrgyzstan) one can observe a positive contribution of reform and high degree of individualization of landholdings on agricultural efficiency, although newly emerging individual farms tend to choose risk aversion over profit maximization in view of 'missing markets and institutions' (*Proposition 6*). In those countries with incomplete reforms, insecure property rights, and continued state interference in production decisions (Tajikistan, Turkmenistan, and Uzbekistan), agricultural growth is more inhibited than enabled (*Proposition 7*).

5. *Proposition: Diversity in land and agricultural policy reforms and their sequencing, has determined substantial differences in the current agrarian structure and agricultural policy environment of the CEA countries.*

Conclusion:

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

6. *Proposition: Individualization of agricultural production, in particular in those CEA countries with wide-scale land reform and 'enabling' agricultural policies has positively contributed to agricultural efficiency (yield increases), but peasant farms chose for a 'risk aversion', rather than a 'profit-maximization' strategy.*

Conclusion:

- Land individualization is a necessary factor for agricultural intensification and market-led growth, but needs to be complemented with additional policies (capital, credit, land rental, and services) and institutions, otherwise market-orientation will remain minimal.
7. *Proposition: Incomplete reforms, unclear and insecure property rights, and continued state interference in production decisions of farm households resulted in fragmented markets, which -with high levels of explicit and implicit taxation- inhibit agricultural growth rather than enabling it.*

Conclusion:

- Cotton could (and should) have been a fast-growing high income sector for farmers (and as a result for farm workers), but it seems to be particularly profitable for the processing and trading sector in the supply chain, and state officials involved in the regulatory framework, rather than for the producers. This is particularly the case in the countries of Group 2, which is formed by the region's mean cotton producers. 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 raising cotton, and cotton workers are considered the poorest in rural areas. It is therefore of crucial importance to promote growth (higher yields and better farm incomes) in this sector. No resolution for this problem can cause migration, while other sectors cannot absorb this incoming labour.

## SECTION C

### THE ROLE OF THE STATE AND THE INSTITUTIONAL ENVIRONMENT NEEDED FOR GROWTH AND POVERTY REDUCTION

This section presents an analysis of what particularly is needed to initiate dynamic agricultural and rural development, and to improve rural poverty reduction. Firstly, well-functioning supply chains need to be in place. The currently still strong state domination or interference in processing, marketing, and international trade is mostly inefficient, inhibiting rather than enabling agricultural growth (*Proposition 8*). Better management of natural resources (through public policies and economic incentives) should be a priority for national governments in the region. Environmental degradation (water, land and forests) impacts negatively on production

as well as on the quality of rural livelihoods (*Proposition 9*). Finally, agricultural growth can be stimulated by fundamental issues such as building land rental markets, systems of rural finance, creating credible institutions ('the rule of law'), and agricultural services, such as research and extension (*Proposition 10*).

8. *Proposition: Dynamic agricultural development depends on the well-functioning of the entire supply chain. State domination of processing, marketing, exports and imports in some CEA countries inhibits such development, to the detriment of rural poverty reduction.*

Conclusion:

- Growth strategies need to be more focused on contributing to efficient supply chains and the linkages between small farmers and emerging agro-industry. Priority to in particular infrastructural and productive investments necessary. 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).

9. *Proposition: The management of natural resources (land, water, and forest resources) has been highly unsustainable and problematic in the CEA region, augmenting poverty in rural areas.,*

Conclusion:

- Sustainable management of these natural (land, water and forest) resources has not been a real priority for the CEA governments, in spite of much discourse. To reduce rural poverty and improve the quality of rural livelihoods this is however 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.

10. *Proposition: The state has an important role to play in improving the 'climate' for economic development, by guaranteeing the 'rule of law', credible institutions and public investment. Agricultural extension services are furthermore essential for a market-oriented transformation of peasant farms.*

Conclusion:

- Governments should provide a facilitative environment, an appropriate regulatory framework, and public investments, that enable and support farmers to modernize production, increase efficiency and improve incomes. Establishing and implementing the 'rule of law', making property rights secure and establishing trust in public institutions is crucial, even more important than any sectoral policy as such.
- In addition, great importance needs to be given to the establishment of an agricultural innovation system (with research, extension and education), apart from well-linked supply chains, with linkages provided land rental markets (to promote more efficient and even equitable land use), and rural financial services, accessible to small farmers.

## SECTION D

### TENTATIVE PRIORITIES FOR FAO ROLE IN CENTRAL EURASIAN COUNTRIES

The tentative priorities suggested for FAO assistance in CEA countries, supporting their strategies to promote dynamic agricultural development and sustainable rural poverty reduction, are linked to the above ten propositions. In a preliminary manner the following can be put forward:

#### ***A: The 'Rural' Face of Income and Non-Income Poverty***

- FAO should, in cooperation with the international financial institutions (IFIs), UN agencies, the IsGB and bilateral donors, emphasize and prioritize rural poverty reduction, on the development agenda in the CEA countries, following a sustainable rural livelihood approach, hence further reducing rural poverty and hunger, in line with MDG1.
- FAO has a clear role to play in promoting broad-based growth, with a focus on the agricultural, livestock, and forestry sectors, in particular related to exports of primary and agro-processed commodities to regional and world markets. This agenda can be promoted through programmes, projects and policy advice.
- There are serious issues to address on the poverty agenda that are directly related to malnourishment and food (in)security. FAO's substantial experience in developing countries will be of particular use in transition countries with comparable low incomes, as in the CEA region (when feasible, in collaboration with WHO).
- In close collaboration with UNDP and UNICEF, FAO could develop programmes in rural areas focused on reducing the use of child labour, in particular where this infringes on school enrolment and negatively affects health. Additional attention should be given to the 'feminization' of rural poverty in the region.

#### ***B: Diversity in Land and Agricultural Policy Reforms, Unexpected Responses to Individualization of Landholdings, State Interference and Fragmented Market:***

- FAO has a long experience in supporting land reform and reforms in agricultural policies. As reforms are far from complete, policy advice, pilot projects, land consolidation and farm restructuring projects should have priority.
- FAO can assist in policy analysis and support organizational development to further strengthen the position of the emerging peasant and commercial farms, for example, for improving incomes, creating employment and stimulating growth of the primary agriculture and livestock sectors.
- FAO can mobilize and use its extensive experience with the creation and operation of networks and organizations to help peasant farmers to mitigate risks and make the most of possibilities to switch to high-investment cash crops, in particular for niche-markets, such as fruit and vegetables.
- FAO can contribute policy advice on taxation systems, promoting transparent taxes such as a single land tax, rather than the 'hidden' taxation through state procurement, which works as a strong disincentive for producers.

### ***C: Supply Chains, Resource Management and the Policy and Institutional Framework Needed for Growth***

- FAO can support, next to policies (and technical capacity development) directed to increase agricultural, livestock and forest productivity and output, a more sustainable use of land, water and forestry resources, which should be included in an overall agricultural development strategy.
- FAO can contribute in improving the management of other natural resources, such as grasslands in dry lowlands but also in medium and high mountain areas, where overgrazing and erosion are problems. With other agencies, integrated water management, improved irrigation schemes, which are closely linked to agricultural production should be made a priority in sustainable resource use.
- Peasant farmers can improve their negotiation position in the value chains, by forming producer associations, marketing cooperatives, and other groupings that provide for a sharing of technology and access to inputs and credit, at better terms than is currently the case. FAO can make use of its experience in this area, albeit with sensitivity to the region's natural resistance to anything that resembles the former collectives.
- FAO could support the building of efficient and accessible input markets (such as markets for fertilizer, pesticides, and machinery services) and extension services, which largely disappeared with the break-up of large state and collective farms.
- FAO could support programmes to improve land rental markets, such as through the establishment of national and regional cadastres and conflict resolution and contract enforcement agencies (such as Third Party Arbitration Courts).
- FAO can play a role in assisting rural financial institutions in expanding their portfolios in rural areas, particularly linking up with peasant farmers, bridging the existing gap between micro-finance and formal (mostly) 'urban-biased' financial agencies.
- FAO can provide technical assistance for agro-industrial development, including also policy advice, as short-term monopolistic tendencies are still present that have neglected the improvement of long-term relationships with the emerging group of peasant farmers (e.g. to improve produce quality and trust), in particular focused on expanding production for (export-related) niche markets such as fruits, vegetables and livestock.