


March 2012

	منظمة الأغذية والزراعة للأمم المتحدة	联合国 粮食及 农业组织	Food and Agriculture Organization of the United Nations	Organisation des Nations Unies pour l'alimentation et l'agriculture	Продовольственная и сельскохозяйственная организация Объединенных Наций	Organización de las Naciones Unidas para la Alimentación y la Agricultura
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## EUROPEAN COMMISSION ON AGRICULTURE

### Thirty-seventh Session

Baku, Azerbaijan, 17 and 18 April 2012

### Agenda Item 4

### Land reform and farm performance in Europe: a 20-year perspective

### Executive Summary

The most striking feature of land reform in the post-Soviet states has been the overall shift from collective to individual land tenure in agriculture, generally accompanied by privatization of legal land ownership. Individualization of farming has been one of the main factors that acted to arrest the initial transition decline and led to agricultural recovery in the region. In countries of the Commonwealth of Independent States (CIS), the recovery point for agricultural growth is closely linked with the observed watershed dates for individualization of farming. Furthermore, the rate and the attained level of recovery are higher in countries in regions that pursued decisive individualization policies (the Transcaucasus and Central Asia), while in countries with less sweeping individualization reforms (European CIS) the recovery has been sluggish.

In addition to resumption of agricultural growth, land reform and individualization have also led to significant improvements in agricultural productivity due to the higher incentives in family farming. Greater production and higher productivity have contributed to significant poverty reduction observed since 2000. Rural incomes rise with the increase of the land allotments in family farms and with the increase of the share of output that farms are able to sell. To ensure continued improvement of rural family incomes and poverty mitigation, policy measures should be implemented that facilitate enlargement of very small family farms and encourage the access of small farms to market channels and services. Enlargement of small farms requires development of land markets both for buying and selling of land and for land leasing. Improvement of market access requires development of services for sale of products (collection, sorting, packing, quality control), availability of competitive processing plants, and rental arrangements for farm machinery and mechanical services. Further productivity improvements require re-establishment of extension and advisory services, attention to animal health through modern veterinary services, and introduction of artificial insemination for higher-yielding breeds. FAO has an important role in shaping these policies and providing technical assistance in its many areas of expertise.

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### **Guidance Sought**

One of the main priorities of FAO in this region is policy advice to governments in support of sustainable intensification of production for small farms. Member countries are invited to take note of, and comment on, the role of smallholder agriculture in their countries. Member countries may wish to provide guidance on future work of FAO to:

- (i) continue efforts to promote the Voluntary Guidelines for Responsible Land Tenure in the region;
- (ii) assist member countries in drafting laws for agricultural cooperatives, and advising countries on programmes for development of farm cooperatives;
- (iii) assist countries in developing other farm services for smallholders; and
- (iv) collaborate with ministries of agriculture to develop their capacity to promote a level policy playing field for smallholders.

## I. INTRODUCTION

1. The rural sector in nearly all the countries of Central and Eastern Europe (CEE) and the CIS has undergone a shift from predominantly collective to more individualized agriculture. At the same time, most of the land in the region has shifted from state to private ownership. These two shifts – a shift in tenure and a shift in ownership – were part of the transition from a centrally planned economy to a more market-oriented economy that began around 1990 in the huge post-Soviet area stretching from Prague to Vladivostok. The transition reforms in the region were unprecedented in their scope and pace. Some 150 million hectares of agricultural land transferred ownership in these countries in just one decade of reform (1990–2000), compared with 100 million hectares in Mexico over 75 years (1917–1992) and 11 million hectares in Brazil over 30 years (1964–1994) (Deininger 2003). The basis of this shift from collective to individual agriculture lay in two interrelated aspects of agricultural policy reform: land reform, which concerns issues of land use rights and land ownership; and farm reform, which deals with issues of restructuring of farms into individual landholdings. Land reform, together with farm restructuring, set an agenda for the transformation of socialist farms into hopefully a more efficient farm structure with a clear market orientation.

## II. STARTING CONDITIONS AND TRANSITION DESIDERATA

2. The transition to a market-oriented system, emulating the economic order of the more successful capitalist countries, was regarded in the early 1990s as a new strategy to cure the chronic inefficiency of the socialist economic system in general, and socialist agriculture in particular. Because of the broadly common organizational and institutional heritage in agriculture, efficiency considerations suggested a fairly uniform conceptual framework for agricultural reform in all transition countries in CEE and the CIS (Lerman, Csaki, and Feder. 2004).

3. A strategy of agricultural transition aiming at improving the efficiency and productivity of agriculture in CEE and the CIS required the replacement of institutional and organizational features of the former command economy with attributes borrowed from the practice of market economies. The ideal transition desiderata for key areas of economic activity can be summarized as follows:

- Production: eliminate centrally prescribed targets and allow free decisions
- Prices: eliminate central controls and liberalize prices
- Finance: eliminate state support and debt write-offs, institute hard budget constraints
- Inputs, sales, processing: eliminate state-owned monopolies, privatize and de-monopolize
- Ownership of resources: go from state and collective ownership to private ownership
- Farming structure:
  - downsize large-scale farms;
  - individualize farming structure;
  - eliminate sharply dual land concentration;
  - ensure level playing field for farms of all organizational types.

4. The conceptual framework for transition in agriculture envisaged a transformation from collective to individual or family farming as the ultimate goal, because both theory and world experience suggested that individual responsibility and direct accountability would cure free-riding, shirking, and moral hazard that make collective organizations generally inefficient. Property rights associated with private ownership of land (or with secure tenure) would induce farmers to put greater effort into production. Individual farmers, once established as independent entities, would engage in land-market transactions to optimize the size of the holdings given their management skills and availability of resources. Transferability of use rights would facilitate the flow of land from less

efficient to more efficient producers, or more concretely from passive landowners (such as pensioners in an ageing population) to energetic active operators.

5. Change in the ownership of resources (land reform proper) and change of farming structure (restructuring of traditional collective farms) encompass the main components of agricultural transformation. Land reform in the context of transition implies establishment of private property rights in land in countries where land was nationalized (e.g. Albania, the Baltic States, the rest of the former Soviet republics) and restoration of the primacy of ownership rights over use rights in countries where private ownership was never abolished, but privately owned land was inducted into collective use (most of the CEE countries). Farm restructuring implies transformation of large-scale cooperatives and collectives to operations based on market-oriented principles, including emergence and proliferation of individual farms alongside corporate organizational forms.

### III. LAND REFORM IN EASTERN EUROPE AND THE CIS

6. Although nearly all CEE and CIS countries decided to privatize land, strategies for land privatization differed fundamentally between these two groups of countries. In the CEE countries, where legal records of current or previous owners still existed, restitution of actual plots of land was the primary privatization strategy. In these countries most agricultural land formally remained under private ownership throughout the socialist period. People joined cooperative farms during collectivization, but their land was not appropriated by the state or turned into collective land by the cooperative. People lost the right to utilize their land, but they did not lose title to the land.

7. In actual practice, it was not always possible to return the exact plot of land to an individual or to their descendants. Often other plots were offered to former landowners in compensation, inter alia to avoid the fragmentation of large, technically integrated farm complexes into uneconomical smallholdings. For this reason, restitution in CEE did not necessarily lead to land fragmentation. Rather, it may have facilitated the transition from socialist cooperatives to corporate farms (Mathijs and Swinnen 1998). Many large farms were downsized, but maintained as corporations.

8. There were exceptions to this general scheme. Like the CIS countries, Albania went through privatization of state owned land followed by equitable distribution of land in former cooperatives to rural residents. State farms in Albania were eventually auctioned off to large investors. Poland is also a separate case, since collectivized agriculture was essentially abandoned after the 1956 uprising. The land that had been devoted to state farms was eventually auctioned off. The pattern in the Yugoslav successor states was much like Poland: most of the land had remained in individual family farms during the socialist period.

9. In the CIS, agricultural land had belonged to the state since 1917 and the first step was to legalize private ownership of agricultural land – a step that was not necessary in CEE (with the exception of Albania). Collective farms were then transformed into corporate farms (joint stock companies, partnerships, etc.) and land shares were distributed within these farms to workers and to local rural population (a kind of “redistributive land reform”). The new corporate farms continued to operate on collectively owned and collectively farmed land, although the share owners had the right to exit with a physical plot of land for individual farming.

10. While this pattern was followed in most of the CIS, two exceptions can be noted. The first was in Central Asia, where land formally remained state property long after its redistribution began in 1991–1992. Uzbekistan and Turkmenistan, where agricultural land still remains state property, retained collective and state farms and distributed state leaseholds (“use rights”) rather than land shares. Kazakhstan, Kyrgyzstan, and Tajikistan distributed land shares to collective farm workers, though they initially left agricultural land under state ownership (Kyrgyzstan and Kazakhstan subsequently legalized private ownership of land – in 1998 and 2003, respectively). The second exception was the South Caucasus, where collective and state farms were physically disbanded and

actual plots of land were distributed early on, from 1992 in Armenia and then in Georgia, and from 1996 in Azerbaijan. In this respect, these countries were closer to CEE than to other CIS countries.

11. Since the distribution of land shares to corporate farm workers often did not change farm management, the new “private” corporate farms operated much like the socialist collective farms (with their associated problems). Further changes were needed. Thus, Kyrgyzstan, Tajikistan, the Republic of Moldova, and Ukraine had converted land shares into titles to land parcels or to actual land parcels by the end of the 1990s (Lerman and Sedik 2008; Lerman et al. 2007). In Kazakhstan, the June 2003 Land Code annulled the permanent rights associated with land shares and forced the share-holders either to acquire a land plot from the state (by outright purchase or by leasing) or to invest the land share in the equity capital of a corporate farm, thus effectively losing ownership rights.

#### IV. FARM REFORM

12. A second component of agricultural policy reform was farm restructuring, in which the individualization of landholdings was critical. In the CEE countries, the restitution of land use and ownership rights to individuals could be followed by decisions regarding the use of the land plots, leading either to family (individual) farming or continuation of corporate farming. In the CIS countries, the distribution of land shares could lead to similar decisions.

13. Despite far-reaching commonalities imposed by the communist regimes on societies and economies, the agricultural sectors in CEE and the CIS followed divergent paths of farm reforms. By 2004 there was a substantially higher level of individualization achieved in CEE than in the CIS (**Table 1**). Despite significant progress with individualization, both CEE and the CIS still lag far behind the United States (and the EU-15).

**Table 1. Agricultural land in individual use 1990–2004 (percent)**

	1990	2004
CEE	14	65
CIS	4	30
United States of America		98.6
EU-15		96

Source: calculated from official country statistics. EU-15 from Eurostat/Agriculture: percent of agricultural holdings being a natural person.

14. In the CIS clear subregional differences are apparent in farm policy indicated by the depth (percent of sown land in individual farms) and timing (watershed dates) of the individualization of landholdings. These differences have resulted in substantially different levels of recovery from the transition recession since the turnaround date (**Table 2**).

**Table 2. Subregional differences in farm policies and agricultural recovery in the CIS countries**

	Central Asia	Caucasus	Russia, Western CIS
<b>Farm policies</b>			
Dominant farm organizational form	Individual, corporate	Individual	Corporate, individual
Land sown in individual farms (% , 2007)	71	97	34
Share of gross agricultural output produced on individual farms (% , latest year)	88	97	62
Watershed date for individualization	1996–98	1993	None
<b>Agricultural output recovery*</b>			
Turnaround year	1998	1993	1999
Production relative to 1991 level (% , latest year)	105	114	76

\* Gross agricultural output (GAO)

Source: Computed from official country statistics.

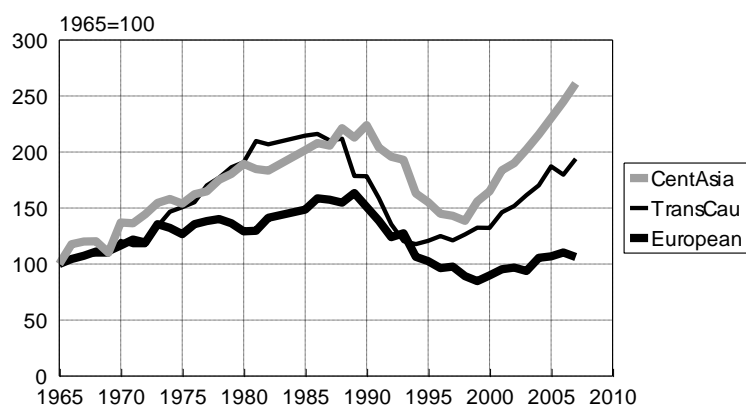
## V. AGRICULTURAL RECOVERY AND INDIVIDUALIZATION IN THE CIS

15. There is a traceable link between the beginning of recovery (the turnaround year in **Table 2**) and the implementation of significant individualization reforms in the CIS. The countries in the South Caucasus individualized land early and decisively, and the turnaround came already in 1993 (Transcaucasia in **Figure 1**). The Central Asian countries began individualization much later, between 1996 and 1998, and agricultural growth in the region as a whole resumed in 1998. Central Asian countries have achieved remarkable progress with individualization of farming structure in the past few years (despite continued state ownership of agricultural land in Uzbekistan, Turkmenistan, and Tajikistan) and this progress is apparently responsible for the robust growth in the region. The laggards in the date and degree of individualization have been the Russian Federation, Belarus and Ukraine. In fact, the Russian Federation and Belarus have not yet appreciably individualized landholdings to this date, which may account for the sluggish recovery in agricultural production in the European CIS.

16. Further direct evidence shows that individualization has a positive effect on agricultural growth. Among the CIS countries, those with more land in individual use have achieved faster growth since the start of recovery (Lerman 2010). In the Russian Federation, a similar relationship between agricultural growth and individual land use is observed across the 80 provinces. This seems to explain why recovery in the Russian Federation and Western CIS lags behind the recovery in Central Asia and South Caucasus: individual land use in the Russian Federation and Western CIS is at a substantially lower level than in the rest of the CIS.

17. Individualization also has a positive effect on agricultural productivity, which measures the value (or aggregate quantity) of agricultural output per unit of land (“land productivity”) or per agricultural worker (“labour productivity”). Land productivity in many CIS countries is observed to be highest in household plots – the classical example of an individual farm with most pronounced family-driven incentives and personal accountability (Lerman 2010; Lerman and Sedik 2009, 2010;

Lerman et al. 2007; Lerman and Sedik 2012). Labour productivity, similarly to agricultural growth, is observed to increase with the share of agricultural land in individual use across the Russian Federation's 80 provinces (Lerman, Csaki, and Feder 2004: 186–187; Lerman and Schreinemachers 2005).



**Figure 1.** Regional agricultural growth in the CIS 1965–2007: average GAO index for three regional groupings of CIS countries. Source: based on official statistics.

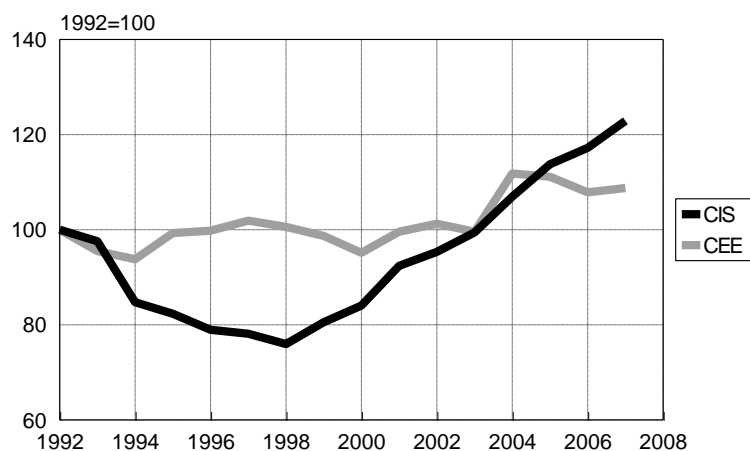
## VI. THE OUTCOME OF TRANSITION: RESUMPTION OF AGRICULTURAL GROWTH IN CEE AND THE CIS

18. The transition from central planning to a market-oriented economy involved breaking up an established economic system. This inevitably caused initial disruption and led to sharp declines in the economy as a whole and in agriculture in particular. The transition decline hit all the countries in the region, but the decline in the CIS was deeper and lasted longer than in CEE. Agriculture began to recover in CEE as early as 1994, whereas in the CIS the steep decline continued until 1998 (**Figure 2**). At that point in time, the agricultural output in CEE had returned roughly to the 1992 level, whereas the CIS countries bottomed out at 75 percent of the 1992 output. Scholars attribute the divergence in the early transition behaviour of agriculture to differences in resolve and political will in the two subregions: while CEE forged ahead with large-scale market-oriented reforms, the approach in the CIS was by and large much more hesitant and indecisive (Lerman, Csaki, and Feder 2004). Thus, by 1998 the World Bank Europe and Central Asia (ECA) agricultural reform index had reached 7.8 for CEE, with the CIS scoring only 4.9.<sup>1</sup>

19. Despite the initial transition decline, all the countries in the region persevered in their reform efforts, which eventually produced a turnaround leading to recovery of agricultural growth. As discussed above, the timing of turnaround was clearly linked with breakthroughs in individualization of land use. The pattern of agricultural growth in CEE and the CIS changed dramatically after the turnaround point. While agriculture in CEE on the whole stabilized without showing significant growth after 1994, agricultural output in the CIS continued to grow at a fairly fast rate after 1998 (**Figure 2**). As a result, the CIS agricultural output increased by nearly 70 percent since 1998, while agricultural growth in CEE was about 15 percent since 1994. The CIS caught up with CEE by measures of agricultural growth in 2003 and by 2007 agricultural output in the CIS had reached 125 percent of the 1992 level, compared with less than 110 percent in CEE. The growth performance

<sup>1</sup> The World Bank's ECA Agricultural Reform Index introduced by Csaki and Nash (1998) quantifies the status of agricultural reforms in CEE and the CIS on a scale from 1 to 10, where 1 corresponds to a command economy and 10 to an economy with completed market reforms.

of the CIS agriculture since 1998 is presumably the outcome of the cumulative effect of policy reforms implemented since the beginning of transition: the deep changes involved in the transition from central planning to a market economy needed time to mature before their positive effects became apparent.



**Figure 2.** Agricultural output in CEE and the CIS 1992–2007 (percent of 1992).

Source: official country statistics, Eurostat, and CISSTAT.

20. Due to the faster growth in agriculture, the CIS has overtaken CEE in absolute production volumes. In 1992, CEE agriculture produced 50 percent more than the CIS (in current US dollars); by 2009 the roles had reversed and now the CIS produces 50 percent more agricultural output than CEE (also in current US dollars). In other words, the CIS today accounts for two thirds of regional agricultural output – a fact that should be kept in mind by investors looking for new opportunities in agriculture.

## VII. AGRICULTURAL REFORM AND POVERTY MITIGATION IN THE CIS

21. It is difficult to establish a rigorous causal relationship between land and farm reform and the reductions in poverty that have been observed in the CIS countries since 2000 (Alam et al. 2005), because there are no comparable rural poverty assessments spanning the period of land reform that specifically examine landholdings over time. Studies of the connections between land and farm reform and rural welfare rely on cross-section evidence on landholdings and farm incomes.

22. Still, it is clear that land and farm reforms in the CIS countries have helped reduce rural poverty in two respects. First, they have increased household assets via one-off transfers of land, livestock, and farm machinery from corporate farms to households. Farm survey data from many CIS countries show a positive correlation between family landholdings and incomes – both total family income and, more importantly, income per capita (Lerman et al. 2007; Lerman and Cimpoies 2007; Lerman 2008; Lerman and Sedik 2010). Second, asset transfers from collective and state farms to individual farms increased agricultural productivity (as noted above) and specifically raised crop yields (Dudwick, Fock, and Sedik 2007). Higher productivity and higher yields increase farm production and thus improve family welfare both directly – through higher consumption of home-grown products, and indirectly – through additional cash income from sales of surplus products.

23. This highlights commercialization, or sale of farm products, as another important factor – alongside landholdings and productivity – that positively affects rural incomes. Survey evidence convincingly shows that farm sales increase family incomes and also improve the subjective perception of family well-being. On the other hand, families with more land tend to be more



commercially oriented, selling a greater share of their output. Commercialization completes the loop between land reform and rural family incomes: land reform shifts land to individual farms and raises their incomes through increased production (part of which is consumed in kind by the family); more land and greater production stimulate rural families to sell more of their output; greater sales contribute additional cash that also raises family incomes. This double effect of more land leading to more production and at the same time to greater commercialization is demonstrated in the outcomes of the recent World Bank/FAO land consolidation project in the Republic of Moldova (2007–2009): consolidation increased the farm sizes and reduced the number of parcels, while the participating farms increased their output and their commercial capacity, achieving higher income, as evident from higher mean gross margins and more investments (Republic of Moldova 2011).

## VIII. POLICY MEASURES TO IMPROVE RURAL INCOMES

24. Agricultural reform across the region produced tens of millions of small family farms in place of tens of thousands of large-scale collectives and production cooperatives. **Table 3** illustrates how small the average farm is in the CIS. The situation is no different in CEE: of the total of nearly 8 million farms in the ten New Member States, 4.5 million (58 percent) are holdings of less than 2 hectares and only 80,000 (just 1 percent) have 50 hectares and more (Csaki and Jambor 2009). However, these small farms are not pure subsistence operations: surveys show that between 60 percent and 80 percent of small farms in the CIS sell some of their output, and farm sales average 30-50 percent of the output in these “semi-commercial” farms. Yet smallholders in CEE and the CIS, like small farms all over the world, face what is sometimes described as the “curse of smallness”: low incomes due to a limited asset base and difficulties with access to market channels for sales and services.

**Table 3. Average size of family farms in some CIS countries**

	Average farm size, hectares
Armenia	1.38
Georgia	0.96
Azerbaijan	1.86
Kyrgyzstan	3.80
Tajikistan	3-5
Turkmenistan	4-5

Source: Farm-level surveys 2000–2010.

25. In view of the links between landholdings, commercialization, and family income, it is important to consider what policy measures can be applied to enlarge family landholdings and to encourage smallholder farms to sell more of their output. It is, of course, also important to focus on options for increasing productivity, as higher productivity will improve rural livelihoods by enabling smallholders to produce more with limited resources.

### **A. Policies for enlargement of small farms**

26. Two main policy measures can be applied to enable enlargement of small individual farms (for example from 0.5 hectares to 5 or even 10 hectares). The first policy measure is to implement another wave of land distribution to smallholder farms, continuing the process of land reform that

originally led to dramatic enlargement of household plots and creation of new peasant farms. Additional land can be distributed from the state reserve or from the holdings of the less productive corporate farms (agricultural enterprises). There are large reserves of unused state-owned land in many CIS countries (with the possible exception of Central Asia). In addition, large areas of agricultural land (in some countries more than 50 percent of total agricultural area) are managed inefficiently by large corporate farms, which achieve productivity levels that are substantially lower than the productivity of individual farms. Governments should channel the unused land from the state reserve and the under-utilized land from large agricultural enterprises to more productive use by distributing these lands to small family farms. It is however noted that one CIS country has opted for a contrasting policy: the government recently cancelled the existing leases of smallholder farms to state land – one of the proven market mechanisms for small farm enlargement – and began auctioning reserve land to outside investors. Officials are very pleased with the cash revenues from this process and argue in justification that it will raise the country's agriculture to higher levels of commercial production. In this way they completely disregard the interests of the large rural population and ignore the hard evidence of greater productivity of smallholder farms, which make a crucial contribution to both sectoral growth and rural livelihoods.

**Table 4. Lease markets work to adjust farm sizes**

	Farms operating on own land only, ha	Farms operating on own and leased land, ha	Percent of farms with leased land
<i>CEE countries</i>			
Romania	3.0	4.1	7
Bulgaria	1.1	4.8	9
Hungary	3.4	19.6	8
Poland	7.3	25.7	17
<i>CIS countries</i>			
Armenia	1.3	2.6	14
Georgia	0.7	8.7	2
Azerbaijan	1.8	15.7	7
Kazakhstan	160	272	11
Tajikistan	18	144	3
Rep. of Moldova			
1997	2.8	16.9	6
2003	3.8	11.6	21
2005	3.7	9.5	28
Ukraine	53	227	<b>53</b>

Source: Lerman, Csaki, and Feder 2004; Lerman et al. 2007; Lerman and Sedik 2010.

27. The second policy measure that may lead to enlargement of smallholdings is encouragement of land market development. Land markets provide a mechanism that allows land to flow from passive or inefficient users to active, efficient users and thus leads to farm size adjustment. The basic prerequisite for land market development is to allow transferability of land ownership and land use rights: this has been accomplished as part of the reforms in all CEE countries and in most CIS countries, but it is still not the case in parts of Central Asia. Another prerequisite for the development of land transactions is registration and titling of all privately owned plots with due attention to gender

sensitivity. Modern registration and titling systems exist in all CEE and CIS countries, but the “titling coverage” is generally limited, apparently due to complex bureaucratic procedures and high costs. Simple and transparent registration procedures should be instituted, with minimum transaction costs, to encourage rural landowners to register their land and obtain legal titles, including female-headed households.<sup>2</sup>

28. As another policy measure, governments should guarantee contract enforcement and rule of law. This is crucial *inter alia* for the support of land leasing, which appears to be even more important than buying and selling of land as a mechanism for the enlargement of smallholdings. **Table 4** demonstrates that land leasing indeed works to enlarge small farms, and the example of the Republic of Moldova shows that land leasing becomes more widespread over time.

29. Land consolidation programmes are often promoted as a vehicle for farm enlargement. Effective consolidation programmes are driven by market mechanisms, i.e., free negotiations and mutual agreements between owners of fragmented plots (FAO 2010). Examples of such market-driven consolidation efforts are provided by the World Bank/FAO project in the Republic of Moldova (2007-2009) or the forthcoming USAID project in Kyrgyzstan, which heavily relies on the Republic of Moldova experience. In the Republic of Moldova, the consolidation project reduced the number of parcels by 23 percent (from 7,220 initially to 5,515 parcels after the completion of the project), thus significantly increasing the average parcel size. The consolidation activity furthermore encouraged exits of elderly and inactive landowners from agriculture, leading to an increase of 32 percent in the average size of a farm holding (Republic of Moldova 2011).

### ***B. Policies to increase commercialization***

30. Policies intended to support commercialization of small farms should primarily focus on improving the access of small farms to market services:

- Services for marketing farm products
- Channels for purchase of farm inputs (including quality seeds)
- Farm machinery services (rental and maintenance)
- Veterinary and artificial insemination services
- Extension services to raise the level of technology and know-how among small farmers
- Credit services for small farms

31. Best-practice world experience suggests that farmers’ service cooperatives provide the most effective way of improving the access of small farmers to market services. Such cooperatives can cover the whole field-to-market value chain, including joint purchase of farm inputs, organization of machinery pools for field work, establishment of sorting and packing facilities, transport of farm products to markets, processing, etc. Service cooperatives do not rule out private initiative: private trade intermediaries, integrators, and service providers should be allowed to co-exist with service cooperatives and continue their currently developing operations. Admittedly, there is a strong resistance to the entire notion of cooperatives among the rural people in the region, motivated by the long negative experience with Soviet-era collectivization. A focused education campaign is required to make farmers recognize and accept the huge benefits of cooperation. The cooperative systems in the United States, the Netherlands, and other Western countries should be carefully studied, as they provide excellent proof of the advantages of service cooperatives and also examples of effective government organizations charged with promoting cooperation.

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<sup>2</sup> These and additional issues of land market development are covered in more detail in FAO (2010).

32. Improved access to services is also essential for increasing both crop and livestock productivity. Extension and advisory services are the main mechanism for dissemination of technology and know-how among farmers. They advise farmers on introduction of new varieties, effective use of elite seeds, and efficient cultivation techniques. All these activities combine to increase crop yields, thus raising production and contributing to greater commercialization. Veterinary and artificial insemination services play a crucial role in raising livestock and poultry yields by keeping animals healthy and improving the genetic stock.

33. It is furthermore important to ensure realistic options for access to alternative sources of credit for small farmers. Credit is needed for the expansion of farm operations in new directions, thus allowing farms to sell more and diversify their activities with the aim of reducing risks and increasing incomes. In addition to borrowing from commercial banks, farmers should be able to borrow from micro-finance institutions and should be encouraged to create credit cooperatives or credit unions. Raising credit requires collateral, and the issue of bankable farm collateral for smallholder farms should be addressed in existing legislation (even though there is no clear evidence that land mortgage actually facilitates access to farm credit).

34. The main issue in designing policies to improve rural incomes is the attitude of the government toward small farms. It has to undergo a radical change from the prevailing neglect and disdain to full recognition of the huge role that small farms play in agriculture and in rural well-being. Government officials and decision-makers have to acknowledge the contribution and importance of small farms, abandon the traditional preference for large farms, and focus on policies that ensure a supportive market environment for successful operation of the small-farm sector instead of continuing the unsuccessful attempts to guide production decisions. This change of attitude requires a strong political will at all levels of government, starting with clear direction from the very top.

## IX. ROLE FOR FAO

35. FAO can harness its established technical and advisory expertise to improve the level of service delivery and the access of smallholders to essential farm services. Of the highest priority are services that can increase productivity by raising crop and livestock yields. This includes assistance with the development of extension and training, as well as advisory services focusing on production issues and technologies. Improvement of livestock productivity requires attention to animal health and veterinary services – another area where FAO has considerable expertise. FAO should also be able to assist with issues related to animal feed, including feed formulas and introduction of high-yield varieties of field crops.

36. FAO can provide technical assistance and advice concerning the establishment of marketing cooperatives and farm machinery pools, all of which are necessary for overcoming “the curse of smallness”. Assistance with credit unions is also needed.

37. FAO can also help to build institutions for protecting land tenure rights (cadastre, land registration), which are essential for the development of land markets. Finally, FAO can build on its experience in the region to help design land consolidation programmes in the spirit of the *Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests* (FAO 2010).

## X. CONCLUSION

38. Small family farms have become the backbone of post-transition agriculture and of any policy for sustainable use of natural resources in both CEE and the CIS. They may not control most of the land, but they nevertheless dominate agricultural production due to their higher productivity. Recovery

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of agricultural growth is clearly seen to be associated with individualization of farming – the transition from exclusive dominance of large corporate farms to prevalence of substantially smaller family farms that exist in a wide range of sizes. The new farming structure requires development of a new market infrastructure for farm services – marketing, input supply, machinery, extension. Government policies should be designed to meet this challenge: government’s new role is to create a supportive service environment for family farms.

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