



**ULUCHAY**

Social-Economic Innovation Center



SUPPORTING POLICY RESEARCH



**AGRICULTURE  
COOPERATIVES  
IN AZERBAIJAN:**

**Problems and Perspectives**

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“Uluchay” Social-Economic Innovation Center is a Sheki, Azerbaijan based socio-economic think tank, has researched ongoing problems in Azerbaijan’s agricultural development. This research report contains recommendations for government agencies on how to apply international industry best-practices to Azerbaijani’s own agriculture sector. As a result of the surveys conducted among small and mid-sized regional agriculture entrepreneurs, we found out that people’s definitions of what “cooperative” means differ among four distinct groups. The first group still longs for the restoration of former Soviet farming systems (*kolkhoz* and *sovkhoz*), whereas another group prefers introducing newer, more modern business models. Yet another group contains “officials” who are content with the current business environment. A final, fourth, group of people are generally apathetic about the cooperatives and instead opt to use their own land plots any way they can.

Our research and analysis indicate people working in regions have differing attitudes towards the definition of “cooperative.” Inconsistent awareness and education has led to wide variances in the concept of “cooperative,” thus explaining the widespread improper use of the term, its techniques, and its underperforming outcomes. Currently, this need is vital in light of the increasing rate of worldwide food security problems (read: starvation), and urgent reforms are needed to reverse this alarming trend. Uluchay’s main objective in this report is to conduct a regional situation analyses and submit a range of important policy recommendations that stress the importance of the establishment of cooperatives to the National Assembly’s Agriculture Committee and to the Ministry of Agriculture of the Republic of Azerbaijan.

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## SUMMARY

According to regional demographic indicators, 53.1% of the regional populace is rural, and 73.1% of their annual household budgets come from agriculture income. Given the population size and their dependence on agriculture for income, identifying problem areas and developing agricultural economies are of utmost necessity.

Realizing the importance of this report, Uluchay regularly conducts and updates its agricultural research. Findings by specialists have shown that there are still some unavoidable problems that are in need of better solutions.

Following the Soviet system's collapse, a series of reforms ended the sovkhoz and kolkhoz collective farming systems. Subsequently, productivity and yields of both crops and livestock rapidly dropped as farmers struggled to adapt to the newly-introduced free market economy, which then led to a range of serious economic problems throughout Azerbaijan. Food insecurity and agricultural unemployment increased while exports to European markets plummeted, largely because Azerbaijani farmers could no longer feed their compatriots. Thus, governmental and non-governmental parties now feel that they need to look outside the country's borders for new solutions to old regional problems.

A range of new laws are currently being debated in the National Assembly, including a bill on agricultural cooperatives that was initially passed over in the first hearing, but has been updated for the second hearing. Initial positive feedback from parliamentary commission members leads us to believe that this law will likely be implemented.

Uluchay, as a non-governmental organization, is closely monitoring the bill's progress as it is debated and tabled. Working with experts, the Center analyzes articles reflected in legislation, conducts surveys about the law among population and submits its recommendations to relevant state agencies and Commissions of the Parliament. Uluchay believes that adoption of the mentioned bill and its regional implementation will play a crucial role in stimulating the development of strong agriculture.

In studies conducted by the Center on the establishment of cooperatives, the results of surveys and analysis show that co-operation of farmers in groups and joint use of existing resources and capacity will increase efficiency and enhance sustainability in the competitive market.

## PROBLEM ANALYSIS:

Azerbaijan is located in the southern part of the Caucasus mountain range, consisting of 58% mountain and 42% plains and slopes. The Republic's physical geography includes nine out of the Earth's eleven climate zones, and in turn enables the country to produce a variety of high-quality fruits, nuts, vegetables, tea leaves, citrus, and field crops that include wheat and cotton, among others. In addition to farming, planting, horticulture, fishing, and livestock, the ability to sustainably use its land for food production gave Azerbaijan a prominent position amongst the Soviet republics. On Christmas Day of

1991, the Soviet Union collapsed and all facets of the economy were affected: including the dissolution of all state-controlled collective farms. In the wake of this economic carnage, all lands, property, and agrarian equipment were divided amongst the local populace on the basis of share principles. As new owners of private property, farmers spontaneously used their lands for new and seemingly spontaneous purposes: indeed, the lack of defined agricultural oversight and management in recent years has led to dysfunction amongst farmers. While the Soviet system had its flaws, there was a central management that could dictate. In the new market economy, every farmer was out for himself. Compounding the economic transition difficulties was how land and equipment were distributed: one farmer may have received equipment, and two or three others may have received larger plots of land but were unsuitable for growing.

In some cases, villagers received landplots as far as 40 kilometers away from their villages. Extensive distances and poor infrastructure meant that many of these lands were difficult to access and eventually eroded from inactivity. Simultaneously, the cost of accessing and cultivating these lands, often no larger than 10 hectares, exceeded urban living costs, and agriculture went from comprising 25% of GDP to a measly 5% as large numbers of farmers hung up their tools in exchange for work in the cities.

There are serious concerns over declines in agricultural exports: merely twenty years ago, agriculture commanded 30% of Azerbaijan's total exports, but now that figure sits at an unsteady 1.3%, well under the country's capacity, and extremely low—and decreasing year over year—in balance of payments. If not for energy exports, Azerbaijan's would have an export-import deficit. Lack of planning and proper management of exports hinders economic stimulation. The domestic market is shouldering Azerbaijan's agricultural economy.

As a result of the conducted studies, "Uluchay" Socio-Economic Innovation Center has elucidated the main factors that cause decline in the agricultural sector. They are described below:

1. Improper divisions during agricultural reforms:
  - Fertile soil and useful agricultural equipment belonging to the collective and soviet farms (persons responsible for the management of the agricultural area in regions, as well as those farms) were occupied by mainly former officials;
  - Lack of planning, transparency and equality in the distribution of lands.
2. Lack of capacity among farmers:
  - Failure to comply with agrotechnical rules during the cultivation period;
  - Lack of awareness about newly emerged diseases in animal husbandry and plant-growing and conducting incorrect examinations against them;
  - Lack of literature.
3. Management system does not meet modern requirements:

- Lack of personnel. For example: According to the official data of State Statistics Committee, per the calculations of 2011, 77,000 heads of large horned cattle and 190,000 heads of small horned cattle were recorded in Sheki. According to the legislation of the State Veterinary Service (SVS) the ratio of veterinary physicians to the number of large and small horned cattle has been identified as follows:
    - cattle-horse - 1 unit (700 heads) - 1 veterinary physician
    - sheep-goat - 0.5 unit (1400 heads) - 1 veterinary physician
 The number of veterinary physicians working in the Sheki Veterinary Office consists of 26 persons, whereas the number of technical staffs fewer. Thus, in compliance with the instruction of the SVS-only medical staff should have contained 110 to 135 persons, which is one fourth the number of current physicians.
  - Lack of access to internet network in the villages;
  - Not using electronic report forms (lack of awareness of modern requirements among accounting staff).
4. Marketing environment is underdeveloped;
    - Lack of direct contact between production and processing enterprises and local farmers;
    - Refrigeration is expensive;
    - Limited access to markets.
  5. Poor infrastructure in rural areas.
  6. Ineffectiveness and lack of existing agriculture equipment/technologies.
  7. Challenges in the use of agroleasing services:
    - Leasing conditions are rigid;
    - Bureaucratic obstacles;
    - Services are expensive;
    - Equipment is expensive.
  8. Lands were brought in a useless condition for cultivation:
    - Cultivations without intervals;
    - Poor nourishment of the soil;
    - Lack of means to provide fertilizers;
    - Subsidies are provided after cultivation.
  9. Majority of municipal lands is left unexploited or local farmers cannot afford to lease those lands due to high rent fee and bureaucratic obstacles.

As the country's economy is substantially dependent upon revenues from energy carriers and it creates serious problems for food security in the country, the Government has started to step in to bail out agricultural sector from further declines. The development and revival of agricultural sector became one of the priority issues in front of the Azerbaijan Government. A number of government programs have been approved by a special decree of the President of the Republic of Azerbaijan.

- **"State Program on development of grape cultivation in the Republic of Azerbaijan for 2012-2020"**  
(The decree of the president of the Republic of Azerbaijan #1890 dated 15.12.2011)
- **"State Program on implementation of employment strategy of the Republic of Azerbaijan for 2011-2015"**  
(The decree of the president of the Republic of Azerbaijan dated 15.11.2011)
- **"Food Security Program of the Republic of Azerbaijan"**  
(The decree of the president of the Republic of Azerbaijan #640 dated 02.03.2011)
- **"State Program on socio-economic development of regions in the Republic of Azerbaijan for 2009-2013"**  
(The decree of the president of the Republic of Azerbaijan dated 14.04.2009)
- **"State Program on poverty reduction and sustainable development in the Republic of Azerbaijan for 2008—2015"**  
(The decree of the president of the Republic of Azerbaijan #3043 dated 15.09.2008)
- **"State Program on the reliable food supply of population in the Republic of Azerbaijan for 2008-2015"**  
(The decree of the president of the Republic of Azerbaijan dated 25.08.2008)

State programs were expanded to develop seedling and agro-leasing, and the state signed decrees on the allocation of subsidies for fuel and cultivation. However, these programs alone are not considered sufficient to revive the agricultural sector, and this shows that further reforms are needed. A number of experts and specialists among governmental and non-governmental organizations insist on studying and implementing western agrarian models. Establishment of agencies called "cooperatives" are now widespread across the country and are actively being tweaked to better match the country's needs.

## WHAT ARE AGRICULTURAL COOPERATIVES?

The emergence of modern cooperatives occurred on the eve of the industrial revolution in Europe in the beginning of the 19th century and as an organization began to spread in Europe as a means of self-help in poverty conditions. Nevertheless, the establishment of Rochdale Society of Equitable Pioneers Ltd. in 1844 had the greatest impact on the definition of the unique principles of agricultural cooperatives. "Rochdale" consumer cooperative was established in the UK by a group of people representing various professions. The main goal and objectives of the agency were to meet socio-economic and cultural-educational needs of the cooperative. In 1864 credit and savings cooperative created in Germany by Friedrich Wilhelm Raiffeisen played an important role in the development of cooperatives operating as credit or banking institutions. Raiffeisen Bank provided savings and credit services to cooperatives established in urban and rural areas with the idea of self-help. International Cooperative Alliance explains the concept as: "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and

cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”<sup>1</sup>

International Labour Organization defines the "cooperative" concept as follows: "Cooperatives are associations of persons with limited resources united to improve their economic conditions through forming autonomous and democratic management.”<sup>2</sup>

In the countries with highly developed market economies there exist cooperative ownership alongside public and private ownership. Cooperatives are characterized by two types of property:

**I. Producer cooperatives** - a profit organization created with the purpose of agricultural products within the framework of united enterprise by citizens. In this case, participants of the cooperative set a share fund by combining certain portion of their property or money. The entity’s income is distributed among its members in accordance with the ratio of their share in the fund.

**II. Consumer cooperatives** –a non-profit entity created by income from the consumers of agricultural products with the view of meeting its members’ needs for produce and financial resources and an effective sale of products to make savings or generate additional funds. Members of the cooperative have an opportunity to make production more efficient by means of services they form.

**Advantages of Agricultural Cooperatives:**

- In essence, it is a profit-making business – is the expansion of the wealth and property of agricultural farmers;
- Collective management – is important moment to establish political equality and democratic institutions to gain experience;
- Employees of Agricultural Cooperatives enjoy their job;
- Labour security (Once profit decreases, employees is retained by reducing workingn hours);
- Social justice, mutual trust and understanding make this business more attractive;
- Spending funds efficiently and financial transparency;
- Elimination of poverty and unemployment;
- Property and democratic management, increasing income;
- Providing services to meet needs of its members (more multiaction – more income);
- Increasing quality products;
- Increasing competitiveness and markets;
- Decrease in main capital of product;
- The development of agriculture supports enhancement of communities’ life style;
- Free subsidies allocated by the government are kept in the budget and assigned to other important areas.

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<sup>1</sup> «Agricultural Co-operatives. A Start –up Guide»

<sup>2</sup> «Establishing and organizing agricultural consumer cooperatives ». Moscow, 2007



### **Challenges:**

- Lack of capacity among local population in regions;
- Lack of specialists prepared in the field of agriculture corresponding to modern environment;
- Local population is unaware of current market prices (lack of direct access to the market);
- Relations with suppliers are not at modern level;
- Weak management skills;
- Inefficiency of agricultural equipment.

### **European Union's position in regard to the development of agricultural cooperatives:**

- Irrigation – (improvement of water supply);
- MTS – establishment of Machine – Tractor - Stations;
- Simplifying agroleasing system and making it accessible;
- Conducting research (in terms of technical and property/ownership);
- Awareness and outreach;
- Providing technical support to Agricultural Cooperatives (research, awareness, training);
- Determining in what fields to set up Cooperatives;
- Building links with funding agencies;
- Support Agricultural Cooperatives in the development of business plans;
- Active involvement of women and youth in the process and their advocacy;
- Sending farmers to study tours in European countries to learn their experiences;
- Submitting recommendations to the government to speed up the law on Agricultural Cooperatives;
- Indexation (legal status and planning, management structure and accountability system, production and quality, market and business linkages, recruitment and membership strategies, etc.).

## **RESEARCH FINDINGS**

The findings of surveys conducted among 611 farmers in five economic regions of the country by "Uluchay" Socio-Economic Innovation Center showed that the attitude of the respondents towards the establishment of Agricultural Cooperatives are basically divided into four ways of thinking:

### **1. Those who prefer the Soviet system of agriculture management**

Those who prefer the Soviet system of agriculture management are typically middle-aged and older farmers who thrived under the Soviet system. During the Soviet Union's collapse, every villager initially expected that they would finally benefit from their own labor, run their own agrarian rules, and better balance their family and professional lives free of dependence on others or thick red tape. However, poor distribution of property and a lack of discipline towards rules and guidelines led to unprofitable farms and increased nostalgia for the discarded Soviet systems. Many of these farmers believe that state control will release them from managerial responsibilities and allow them to

focus solely on harvesting crops. These people believe that state control and subsidies should dictate cultivation, irrigation, technical aspects, husbandry, and other sectors.

## **2. Those who believed there was no need for a new law (those who use their private lands as they can and wish)**

This segment owns more land than average, and they sow and cultivate the land as they wish. Their goal is to either lease the land either for long-term or outright buy at a cheaper price, in addition to the lands and property they own. They do not tend to work together and voluntarily; they note that they have enough assets and distrust other shareholders.

Despite their positive gains, many of these farmers face problems regarding management system and are unaware of modern development models. Another key factor is that most of them are able to continue their activities through subsidies allocated by the state: consequently, the agricultural system they established does not allow achieving sustainable development according to most objective and subjective factors. Uluchay's research shows that the biggest concern of people belonging to the group, which opposes adopting of the new law on cooperatives, is that according to the new law in order to establish Cooperatives, the state and municipality lands may be compulsorily taken back from the lessees to ensure national food security (reference to Article 73 of the Land Code of the Republic of Azerbaijan). Such a case, of course, has no benefit for the people. Research results revealed that though some farmers hold longterm leases on hundreds of hectares of state and municipality lands, they cannot cultivate those land fields due to lack of personal competence and financial difficulties. Their inability to wholly meet their own financial needs threatens national food security as farmers focus on cultivating for profit, rather than national need. Vahid Maharramov, an expert on agricultural issues, believes the new law is not needed. In his opinion, more effective outcomes could be achieved by making changes or amendments to the old law. Unlike the old law, the new one implies to carry out the issue of integrating farmers and entrepreneurs who have landshares through the establishment of proper incentives. Effectiveness of the law is a matter of political will: if there is no political will in place, even the most effective law will not work.

In 1996, the law on cooperatives was adopted that consisted of nine chapters and 35 articles. Later, this law was repealed upon the need to develop a new law to meet current demands.

## **3. Those who consider immediate application of progressive models important to achieving sustainable development of the agricultural sector**

A group of people working in the agricultural field realize that the current situation in the field of agriculture is very complicated and lacks foresight. They consider that if the situation continues as is, it will put the agricultural sector of the country into more difficult state. Examples such as a lack of an existing system regarding management in this area, not making profit due to lack of shared lands, the cost of main capital of production, inappropriate level of setting market relations, lack of access to increased

profit through multifunctional performance, lack of competitiveness, and other factors illustrate the necessity of adapting models currently used in developed countries.

Professional experts who predict future food security issues conclude that there is a great need for the development and modernization of agriculture. In sessions of the Parliamentary Assembly of the United Nations, the development of the agricultural sector is constantly emphasized. A number of important international organizations and donors carry out wide-scale projects and expand research to explore the modern mechanisms of developing the agricultural sector.

Banks, insurance, and leasing companies are offering discount packages for developing the agricultural sector. Of course, economic crisis, global unemployment, and the problem of food security affect Azerbaijan, but oil, petro-chemical industry and other areas are rapidly growing and play a significant role in the nation's economy. A great number of large-scale social, economic, and construction projects are also being carried out. Azerbaijan's economy is rapidly integrating into Europe and terms and conditions facing the Government of Azerbaijan become tougher and requirements get increased.

Given all of this, the heads of government, the legislative body, local experts and a group of people working in the agrarian field state the importance of using methods based on new modern requirements in the development of Azerbaijan. In his remarks, the head of the country noted the importance of adding new programs to the development of agriculture and giving maximum attention to this area in the future, as well as its being a matter of security, economic and social issue, because almost half of Azerbaijan's population resides in agricultural areas.

Eldar Ibrahimov, the head of the Committee on Agrarian Policy in the National Assembly, opines that establishing cooperatives is the only system that will ensure an ongoing process between producer and consumer. As per him, the adoption of this law will be the basis for the beginning of a new era in the nation's agricultural sector.

Member of Parliament Ali Masimli noted that as a result of the adoption of this law, future cooperatives will help agricultural revenues, lower costs, increase profits, and serve as a more effective tool for agricultural workers.

The objective approach of the real experts strongly shape the idea that there is a great need to study and apply the experience of the developed countries such as the U.S., the West, and Israel at local level losing no time.

#### **4. Lack of awareness of cooperatives among local villagers**

People included in this group are hesitant. They have almost no of awareness of the cooperatives and have difficulties deciding which direction of development they wish to take. These people have many doubts about the new institute.

According to the MP Vahid Akhmedov, the bill on "Agricultural Cooperatives" cannot be passed in this form, as it will not be overwhelmingly accepted by the public.

MP Akhmedov has oposed the adoption of the bill in its present form and stated the importance of thoughtfully improving the bill. As per him, this bill cannot be passed in this form: "First, public awareness should be raised in society and population should be better educated about this law. Otherwise people will misunderstand it, as if collective farms (kolkhoz) will be restored with the adoption of this law. Therefore, the public will not understand the law and we will become the object of judgements. Thus, prior to the

adoption of the law, public awareness should be carried out in society and some serious changes should be made to the document."

Eldar Ibrahimov, the head of the Committee on Agrarian Policy in the National Assembly stated that the aim of developing the law on cooperatives is not to take away someone else's land: "It is clearly stated in Article 73 of the Land Code that private lands shall not be taken away from the owner. It refers to the lands that belong to the property of the municipality or the state. The claims about the restoration of the former collective farm (kolkhoz) system under the name "Cooperatives" have no base. By the way, currently, the land area belonging to private property comprises one million 671 thousand hectares. And this land is arable, fertile soils. The bill indicates that joining or leaving Cooperatives will be on a voluntary basis. Today, in total, there are 179 agricultural cooperatives in Azerbaijan and they were established according to the law on cooperatives" adopted in 1996 and later repealed and the relevant articles of the Civil Code adopted in 1999.

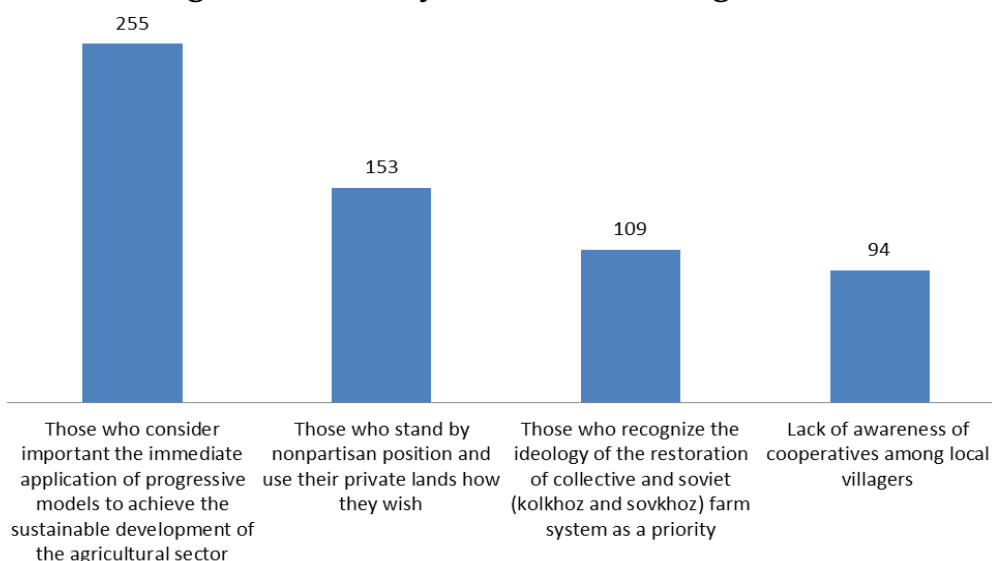
Economics expert, Rovshan Aghayev, noted that collective and state farms (kolkhoz and sovkhoz) carried hard-plan obligations in the face of the centralized economic system and was one of the elements of the administrative management system of the State. Cooperatives operating in market conditions are fully based on the members' volunteerism and like all of the rest of private agricultural entities only tax liabilities connect these entities to the State.

Research done by Uluchay shows that there is a serious lack of information among people working in this sector despite the fact that the above-mentioned law applies to the agricultural entities.

Whether the local departments of the Ministry of Agriculture, as well as Executive decisions and laws adopted by local agencies or municipalities who do not have a database and information delivery mechanism.

There are no existing mechanisms and database either at local representatives of Ministry of Agriculture, or in the offices of local executive authorities, or at Municipalities to deliver adopted laws and decisions to the population. (*Table 1.*)

### Findings of the survey conducted among 611 farmers





## THE IMPORTANCE OF THE DEVELOPMENT OF AGRICULTURAL COOPERATIVES IN AZERBAIJAN

The development of the system of Agricultural Cooperatives is an economically, socially, and politically important issue!

Azerbaijan is a country with favorable climatic conditions, rich nature, the wide plains and numerous water sources. These very factors led to the development of agriculture in the region and the spread of a wide range of crop cultivation and livestock even in old times. As the area developed, the level of cultivation and livestock gradually increased in the country and new fields of agriculture emerged.

Since ancient times, agricultural products have been produced not only for the domestic market, but also for export markets. Domestically produced cotton, silk, saffron and many other agricultural products used to be exported to many western and eastern countries through the ancient caravan routes.

From the nineteenth century on, many fields of agriculture lost their specific feature of being goods in kind and turned out to become goods of trade. Azerbaijan became the largest center of grain production, cotton growing, silk, tobacco, and livestock in the entire Caucasus.

However, following the collapse of the former Soviet Union, improper reforms in agricultural governance and mismanagement in recent years have led to the gradual deterioration of the formerly strong agriculture sector. The great potential and favorable opportunities of the country in this area was poorly harnessed and in turn entered a crisis and recession. The average growth of annual GDP subsequently lagged behind other former Soviet republics and the productivity of plants gradually fell.

In order to eliminate the direct dependency of the national economy upon oil revenues, the Ministry of Agriculture and other departments and committees turned their attention to the development of the agricultural sector as a result of initiatives by the head of the Republic.

In February 1995, the laws on "Basic Agrarian Reforms" and "Reforms of Collective and State farms (*kolkhoz* and *sovkhos*)" were adopted. The implementation of these vital laws primarily depended on re-defining land ownership. In March 1995, State Committee on Agrarian Reforms was established and the structure of the state land fund was defined.

Cooperatives are made by voluntary efforts and pooled resources from local producers who act on behalf of common interests by using existing potential. It is undeniable that agricultural cooperatives will play an important role in the development of the national economy and will lead to significant progress in agrarian reforms. The establishment of agricultural cooperatives and joint cooperation system protects the interests of the agricultural production and consumption enterprises and paves the way for major changes in this area:

- The elimination of food security;
- Solutions to unemployment in rural areas;
- The revaluation of agricultural products;
- Efficient use of resources;
- Sustaining competitiveness in the market, etc.

In this regard, the National Assembly began to adopt appropriate decisions and laws. On April 15, 2011, the law on "Agricultural cooperatives" was passed on the first hearing in the plenary session of the National Assembly. The law's adoption is currently delayed in order for more discussion to occur. First and foremost, this law has to seriously be discussed in public and be improved on the basis of public opinion. The law should reflect such a mechanism that cooperatives to be established be based on the philosophy of creatively applying the experience of advanced countries, e.g. the Netherlands, Germany, Denmark, and Israel and not restoring the Soviet-era cooperative system. This law also must protect public, rather than individual, interests. Aspects that make up the rule of law should include increasing labor productivity, to prevent the loss of agricultural raw materials and to ensure free, easy export of the products grown by the farmers without facing bureaucratic obstacles. Cooperatives should be based on the principles of volunteerism, rather than the methods applied in the establishment of collective and state farms (*kolkhoz* and *sovkhos*) system. For this purpose, targeted programs with definite financial capacity should be developed and implemented with a view towards establishing large farms in the lands belonging to the state and municipalities and consolidating lands that are divided into small pieces.

According to Eldar Ibrahimov, the head of the Committee on Agrarian Policy in the National Assembly, a large part of the population cannot cultivate the lands given to them, nor do they earn from them:

The solution to this situation is to establish cooperatives. One has land, another has equipment/machine and while the other one has money, thus, they can establish the farm bringing together their powers and profit from it. Therefore, I will need someone else to help, who has a refinery, storage room, so that he can keep products there, and then in the winter I can take it out to the market and sell it more expensive. Or, I grow tomatoes and I would like to produce the juice out of it. For this, I will need a refinery. When there is a cooperative, they can join together to solve this issue, they can profit from it themselves and also people can access to cheap and quality products. Two or three private farm owners may join together to be more powerful. One thing is that you cultivate and invest in 5 ha field spending a great deal of effort to do this, or you cultivate 100 hectares of land and you earn yourself, also other people. The most optimal and right way of doing this goes through establishing cooperatives by joining together.

During the discussion of the bill, Member of the Parliament Ali Masimli said that the adoption of this law would help a new stage of making reforms in the agricultural sector in Azerbaijan. "Cooperatives will help increase revenues in agriculture; make more profit at less costs and the effectiveness of agricultural workers." Per Masimly, it is necessary to create agricultural banks with the specific status to fund activities of cooperatives taking into account the experience of European countries. The economist-scholar justifies his views on the formation and implementation of new credit institutions by preferably reallocating a portion of the money from the oil fund to agricultural banks as financial sources:

Under transparent and strong control mechanisms set in place one or two billion manat out of Oil Fund monies can be lent to farmers with favorable conditions through establishing "AgroBank". At the same time, the coverage of the network of production

fields dealing with the processing of agricultural products need to be expanded. Facilities existing with the same goal, but not functioning for certain reasons have to be re-launched and new additional ones should be built, wherever required. If such a mechanism is established, 500 million manat per year is invested in the agricultural area, plus 250 million manat is directed for soil cleaning, irrigation system and ecological events, a super agro-industrial complex can be founded. This will be achievable by investing five to six billion manat provided that they will be efficiently used upon their mandate within the remaining seven years by 2020 and in turn, it will ensure food security in Azerbaijan, exporting agricultural products abroad and will be able to produce a wide variety of goods made out of their processing. Thus, a new phase of the revival of the villages will start in Azerbaijan and if the opportunities to earn are extended in rural areas, the flow from rural areas to cities and foreign countries will gradually decrease, even in some cases, the reverse process would begin."

Representative of the Ministry of Agriculture S. Valiyev pointed out the importance of accelerating the adoption of the law on cooperatives, as well as the worth of the privileges to be considered for the farmers in that law. He also believes that the adoption of this law will encourage the establishment of large farms across the country and stock and sale centers to operate them. This will eventually lead to increased productivity and prevent future artificial price increases:

Right now we are trying the law to be ratified and we need to speed up cooperatives. One farmer faces difficulties in the process of producing, as well as in sales and problem arises in delivering to cities. 20-30 families in a village should join in a cooperative and the name should be given by the farmer related to the products or cooperative farm. As it grows bigger, they will have capacity to solve common problems. In other words, if each of them contributes a small amount of money to create a credit union and they can use out of it when they want to, purchase vehicles, refrigerator, or can build refinery workshops.

As per expert in economics, R. Agayev, the current state of the agricultural sector in Azerbaijan necessitates the establishment of cooperatives. Currently, over 95% of agricultural products are made in households. On average one and a half to two hectares of cultivable land fall per household. However, the experience of other countries shows when farmers own less than ten to fifteen ha land at their disposal, those farms are not profitable and their potential to arrange a market and export-oriented production decreases significantly. The consolidation of nearly 800 small-scale family farms through cooperative mechanisms is extremely important. In addition to the producer cooperatives, the establishment of the consumer cooperatives is very significant—for a long time, neighboring countries like Kazakhstan and Russia formed legal basis necessary for cooperatives."

However, according to the expert, the government may be erroneous in seeing the establishment of cooperatives as a magic wand to save the agricultural sector of Azerbaijan that is in the most difficult condition:

In fact, the government should adopt other important laws prior to the law on cooperatives. For example, the adoption of the law on State regulation of agriculture is much more important. In this document the government should accurately outline the

principles, directions and forms of the state regulation of the agricultural sector, especially the coverage of agricultural products for which the application of guaranteed prices is necessary and pricing principles, the mechanisms to reinforce exports, and minimum commitments of the government to fund the agricultural sector. There is a need for the development of legal mechanisms for credit cooperatives of agricultural producers. In foreign countries, such unions are formed based on the financial support from their members and the state, mostly meet the need of financial resources of small entrepreneurs who do not have access to finance and credit institutions. In the West Banks they are also referred as credit cashbox. Such cashboxes are available almost in every village in developed countries. They act as a vaccine to prevent from losing small farmers to big entrepreneurs in a competitive environment.

The expert – R. Agayev considers necessary to solve three problems that will reinforce effective functioning of agricultural cooperatives in current reality of Azerbaijan: "First of all, all farmers should have equal access to the use of arable lands owned by the state and municipalities. Public control opportunities over the use of these lands should be expanded.

Secondly, hidden interests in the import of analogous products should be made harmless to increase export capability of agricultural products in the export of agricultural produce. Therefore, one of the main requirements is to adopt the Code of Competition as soon as possible.

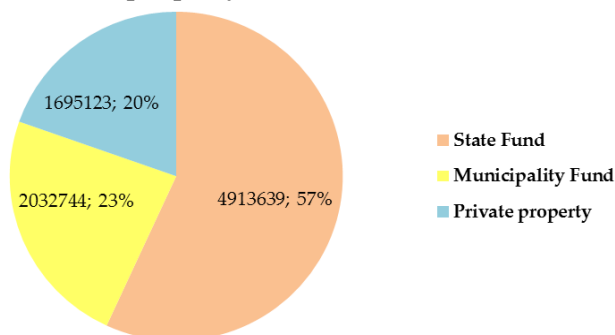
Finally, the establishment of various unions that protect the interests of farmers and are able to influence government decisions related to the agricultural sector should be supported. For example, in many countries there are separate unions for small land owners, large land owners, dairy producers, meat producers, grain producers, fruit producers, and associations of producers, each with a separate function. The government officially signs agricultural agreements with each of these entities every year. The agreements clearly define the commitments of the government regarding the problems of the agricultural sector. If such mechanisms will not exist, the situation of establishing cooperatives will not change."

## STATISTICS

### THE STRUCTURE OF LANDS IN AZERBAIJAN

(Table 2)

➤ Total Land Fund:	8.641.506 ha
➤ State Fund:	4.913.639 ha
➤ Municipality Fund:	2.032.744 ha
➤ Private property:	1.695.123 ha





The total area is: **8.641.506 ha**, which is divided into the following categories according to the legal status and purpose:

(Table 3. Source: The State Committee of Land and Cartography of AR)

CATEGORIES	Measure (ha)
Cultivated Lands Including: arable (irrigated)	4.353.808 1.683.480 (1.106.754)
Lands in residential areas	260.019
Industry, transport, communication, defence and other purposes	350.143
Specially protected lands	393.514
Forest lands	731.571
Water fund lands	147.056
Reserve lands	185.094

## POPULATION

(Table 4. Source: The State Committee of Land and Cartography of AR)

Economic Regions	Population	Urban population	Rural population	Urban population (percentage)	Rural population (percentage)	Density of population (km <sup>2</sup> )
Absheron	529.100	487.830	41.270	92,2%	7,8%	161
Aran	1.863.500	708.130	1.155.370	38,0%	62,0%	87
Dagliq-Shirvan	292.000	91.396	200.604	31,3%	68,7%	48
Ganja-Gazakh	1.205.200	558.008	647.192	46,3%	53,7%	97
Kelbecer-Lachin	232.900	116.450	116.450	50,0%	50,0%	36
Lankaran	855.700	643.486	212.214	75,2%	24,8%	141
Quba-Xachmaz	505.400	171.836	333.564	34,0%	66,0%	73
Sheki-Zagatala	587.100	162.040	425.060	27,6%	72,4%	65
Yuxari Qarabag	628.800	206.246	422.554	32,8%	67,2%	87
<b>Total:</b>	<b>6.699.700</b>	<b>3.145.422</b>	<b>3.554.278</b>	<b>46,9%</b>	<b>53,1%</b>	<b>795</b>

## RECOMMENDATIONS

- 1) Based on the experience of developed countries, subsidies are granted to farmers due to the volume and quality of the final product. Such a serious approach encourages farmers, which leads not only to increased productivity, but also to increased quality of products;
- 2) In order to facilitate the sale of products grown by farmers, the government should determine the average price for all kinds of products prior to planting and should ensure it will purchase final products that are not sold on the private market. In this case, production capacity will increase and the problem regarding food security will be eliminated in the country;
- 3) There are many products that are grown throughout the country, so that increasing the volume of their production can make possible to meet the needs of the population. For example: lemons in Lankaran, grain and tobacco in Sheki-Zakatala and Tartar, apples in Guba, pomegranates in Goychai, and tomatoes in Aghdash. In order to protect the interests of domestic producers, the State should develop separate business plans for each economic region and increase production by supporting the preparation of regional development plans according to the environments each zone is located and product types. At the same time, import limits should be applied to some products in order to prevent the flow of the above-mentioned products from abroad. High tariffs should be imposed if the import exceeds the pre-stated limit. In such a case, it will prevent the outflow of the currency in circulation and will help to eliminate unemployment problem.
- 4) Azerbaijan will soon accede to the World Trade Organization (WTO). The government explains the delay in membership with the following reasons: the problems of agriculture will significantly affect farmers and foreign goods will outweigh domestic producers in the market. But, the longer this process takes, the more it will reduce local farmers' competitiveness. Once the membership agreement with WTO is signed, a ten-year package of incentives for agriculture could also be signed that would ensure the competitiveness of Azerbaijan's agricultural sector over these years.
- 5) In the course of the establishment of cooperatives, the models of the U.S., Israel, Germany, Denmark, and other developed western countries should be studied and applied in accordance with the local environment. In order to reinforce joint farmer groups (cooperatives) to operate, the government should conduct strong awareness campaigns among the population and encourage them to voluntarily unite. There is a need for a special approach to encourage cooperatives: access to affordable and long-term credit, serious tax incentives, discounted insurance package applied, public support for scientific studies and the application of innovations in agriculture, grants, and free education to train specialists;
- 6) It is important to involve foreign partners and foreign investment for the development of cooperatives. Because, this will lead to the introduction of new

- technologies into the country. Therefore, the government should provide incentives, impose tax discounts on foreign investments, and technologies imported in this sector should be exempted from all customs duties;
- 7) Individual farms should be free in building relations with foreign investors and inappropriate interference should not be made;
  - 8) Export-oriented activity centers should be established in the regions in order to support farmers. These centers should provide internet, translation, and other services for farmers and should assist them in maintaining healthy, normal and ongoing relationships with foreign partners. The Ministry of Agriculture should provide funding for the establishment of such centers and support to train specialists;
  - 9) Regions should return to their historical traditions, including the distribution of their product, specialization must be carried out by regions;
  - 10) All farmers should have equal access to the use of arable lands owned by the state and municipalities. Public control opportunities over the use of these lands should be expanded;
  - 11) Hidden interests in the import of analogous products should be made harmless in order to increase export capability of agricultural products in the export of agricultural produce;
  - 12) The establishment of various unions that protect the interests of farmers and are able to influence the government decisions related to the agricultural sector should be supported;
  - 13) Comprehensive studies on the development of productivity should be conducted in every economic region;
  - 14) Specialists in the agricultural sector should be trained corresponding to the requirements of modern environment;
  - 15) An extension service should be set up for outreach and education activities to the general population.

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## **“Uluchay” Social-Economic Innovation Center**

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