

Cooperation of small farms in agriculture complex of the Republic of Kazakhstan

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Abstract

The article presents the organizational and economic substantiation of the necessity and importance of the development of agricultural cooperatives in the agro-industrial complex of the Republic of Kazakhstan. The main factors hindering its development and spread are revealed. The features of the establishment and functioning of the existing forms of agricultural cooperatives (cooperatives, rural consumer cooperatives, rural consumer cooperatives of water users, agricultural partnerships), positive and negative tendencies of development are defined. On the basis of the analysis and the state of development of agricultural cooperation of the Republic the necessity of improving the legal framework, the current mechanism of the state support, the formation of stimulating factors combining small farms in agricultural cooperatives and other measures for their effective functioning is proposed. The urgency and priority of co-operation process of small farms with the aim of stabilizing the agribusiness economy is disclosed. The main provisions of the new Law of RK "On agricultural cooperatives," goals and objectives of the recommended co-operation models, the benefits of association of small farmers in agricultural cooperatives, as well as the expected re-results from the implementation of the measures for the development of this process, contributing to solving the problems of small-scale nature of agricultural production, the availability of small forms of managing state support measures and others are offered.

Keywords: *agricultural cooperatives, small forms of management*

JEL Classification: *L220, M130, Q130*

1.Introduction

Agricultural cooperation brings together agricultural producers for the joint production or other activities to ensure the economic needs of their households (processing, product marketing, supply the means of production, etc.).

The scientific basis of the cooperative movement and cooperative business created and developed several generations of scientists and cooperative practitioners of different countries. The names of many of them, especially the founders and popularizers of the theory of cooperative (R.Ouen, Sh.Fure, F.Rayffayzen, Karl Marx, Friedrich Engels, M.I.Tugan-Baranovsky, A.V. Chayanov et al.) are well known. Some of them (R.Ouen, Sh.Fure) were members of the cooperative utopian theory and believed that through the establishment of a wide network of necessarily non-profit cooperatives (co-operation was seen as the antithesis of the market) can be converted to the ideal society of social justice principles. The others (in particular F.Rayffayzen, A.V. Chayanov) were representatives of the practical direction in the theory of cooperation emanating from the needs of life itself and of the interests of small producers.

Cooperative is a living, constantly evolving socio-economic mechanism. Its content, function, mechanism of activity as we move from the initial simple forms to more perfect, adequate qualitatively a new state and level of development of material production are constantly changing. For example, if at the beginning of the cooperative movement cooperatives joined together into one in order to survive, in a market economy the cooperative takes the form of business activity and starts to have more and more entrepreneurial feature. A kind of general "benefit" or the goal of "meeting the needs" is transformed into a real economic benefit, into

the real tangible goal in a market economy - to obtain the greatest profit. Otherwise, the cooperative "does not fit" in the sphere of market competition, and hence, in market relations altogether. At the present stage of transition to a market economy, as well as from the standpoint of international experience in the framework of the International Cooperative Alliance, these and other aspects of the theory of cooperation requires critical rethinking, not to mention the Marxist views on the theory that are not objectively and critically analyzed, and most importantly in some fundamental aspects of understanding the essence of cooperation have not been overcome in practice.

2. Data and Methods

The analysis of methodological approaches of the effective functioning of agricultural cooperatives, a generalization of works of scientists in Agriculture Economics allowed us to articulate the essence of the functioning of co-operative units, which is that they provide the conditions for bringing people together, who set a goal to improve their economic situation and mainly to contribute to the development of free entrepreneurial activities and business, advocacy of agricultural producers in the various levels of government. The study of organizational and economic mechanism of functioning of agricultural cooperatives shows that the efficiency of agricultural cooperative units is the final beneficial effect of the use of production resources, that cooperate on the basis of social - economic relations to meet the needs of their members.

Agricultural cooperation creates the effect of the addition of the amount of the efforts of all its members, and some indirect effect, which may often be measured only indirectly. Therefore, to determine a synergistic effect can be associated with the work of agricultural producers before and after the entry into agricultural cooperatives, and the economic efficiency of the cooperating formations tends to be slightly higher than the total effect obtained previously own.

We studied the methods for assessing the industrial, commercial, financial activities of cooperatives in the process of research approaches to evaluate the effectiveness of agricultural cooperatives. The efficiency is determined by the degree of utilization of intensity depending on the concentration and the specialization of production. The ratio between the volumes of production and wasted resources is analyzed. The efficiency of commercial activity is considered with position of market parameters (sales, supply and demand). The indicators of business efficiency (agribusiness), include profits, added value, the unit cost per unit sales cost, profitability of sales. The effectiveness of financial activity characterizes the state of the financial resources and their ability to ensure the continuity of production and sales of product (works, services) on liabilities to other economic entities and the state.

The effectiveness of the corporate form must be evaluated from the perspective of the temporal and spatial aspects. Spatial boundaries include the analysis of the effectiveness of co-operative structures by region and within the region for each object of observation. The economic evaluation of the functioning of co-operative groups in terms of time is given depending on organization legal and economic circumstances prevailing at the time of their creation, or which are essential in the period of activity. In both cases, the impact and the role of co-operative structures to improve the efficiency of production of agricultural production are determined.

3. Results and Discussion

Today, cooperation and collaboration of market is especially true. In the context of the formation of the agricultural market in the country co-operation process has the character of the individual attempts of cooperation ties between the producers and consumers. Therefore, to adapt agricultural production to market conditions become particularly important conceptual basis for

the organization of production enterprises of various forms of economic activity on the basis of their cooperation.

It should be noted that the agriculture of the republic suffered from the major damage as a consequence of the gap of production linkages between agriculture and processing industries, the sale of products and agricultural services. Economic relations with agricultural producers and processors serving pre-acceptance is a complex problem. It worsened during the period of reform and privatization in the agricultural production, where each household or enterprise operating in market conditions, sought to obtain the maximum profit on their own, independently of social interests.

In the course of the organizational and economic changes of recent years, the interests of the main participants - agricultural producers - to a greater extent have been infringed because of fundamental errors in the field of agricultural policy, monopolistic actions processing, servicing and resource providing enterprises in relation to the agricultural sector. These actions are manifested primarily in the diktat of prices for purchased products and services offered machines, resources and services. Price of sold goods does not always provide compensation for producers in its production costs. Reimbursement (if it occurs) is not more than 6% -10 profit.

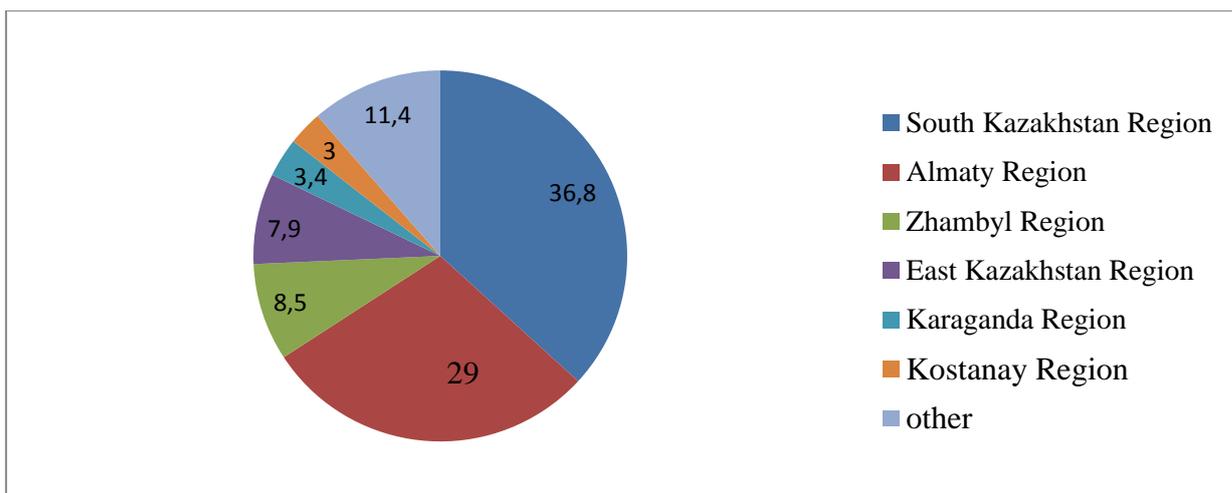
Under these conditions, agricultural enterprises were forced to direct their own to sell their products to customers, and to start building their own processing facilities. The lack of sound economic policies in this matter led to the diversion of major resources of agricultural producers to inefficient production.

Thus, firstly, the processing enterprises lost their raw material zones, unable to fully load its production capacity. Secondly, the construction of small processing powers inside agricultural enterprises postponed the replacement of raw materials for the production of technology due to lack of funds for these purposes.

Rapid transition to a market economy with insufficient infrastructure development contributed to strengthening market monopoly refining and trading companies, the emergence of numerous intermediaries, reduction of production volumes in almost all types of agricultural products. In addition, there have been some changes in its structure by types of farms: in agricultural enterprises and farms in the main development of crop and livestock production is concentrated in households. So, according to data of the Statistics Agency, the share of households in total gross agricultural output was 52.7%, including crop production - 26.9%, and livestock - 78.1%.

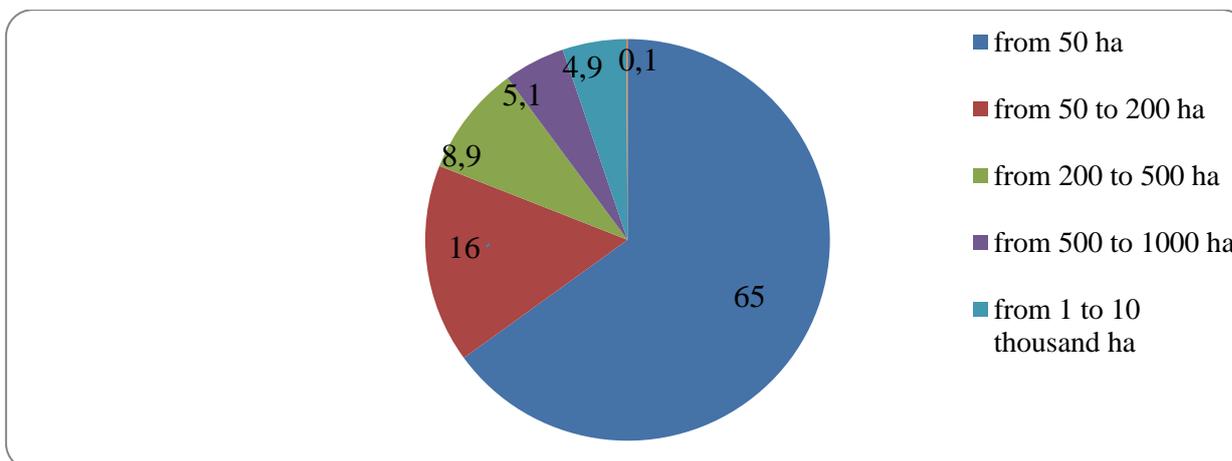
This trend is confirmed by the high share of this category of farms (peasant farms) of the total number of farm groups, especially in southern regions. Figure 1 shows that 36.8% of the proportion of farms of South Kazakhstan region, 29% - Almaty region to the total number of farms of the Republic of Kazakhstan. In addition, there is a tendency reducing allotments of agricultural producers: 65% of farms have a land to 50 hectares, the average size of land agricultural enterprises have decreased, for example, in the southern region of 6 times (Figure 2). All this confirms the nature of small-scale commodity farming, which justifies the need to unite the efforts of small farms.

Figure 1 - The share of farms by region in their total population in the Republic of Kazakhstan, %



Source: Agency for Statistics

Figure 2 - The share of land holdings of farms in the total area of agricultural lands of the Republic of Kazakhstan, %



Source: Agency for Statistics

The measures of state support in the form of subsidies, concessional lending, are not available for the most of small farms, , due to the mismatch of their requirements, lack of collateral and others. The low level of small and medium business entities income does not allow start-up capital for business development in rural areas.

Thus, the basic prerequisites for the development of cooperation of small farms in the agricultural sector of the Republic of Kazakhstan are:

- The need to restore the destroyed relations between agricultural producers and enterprises procurement, storage, processing and marketing of finished products;
- An urgent need to create a new investment system of rural producers;
- Lack of financial resources and investment in the country;
- The loss of a significant share of domestic product market due to the presence on it of imported products;
- Problems associated with the sale of agricultural products, material and maintenance of agricultural producers;

- Creation of a stable resource base, improving the quality and competitiveness of food products and others.

As international experience shows, the cooperative form of agricultural relations with enterprises processing and marketing of products provides a higher efficiency than the disparate enterprises. At the same time the most used existing material and technical base of agricultural and processing sphere. Agricultural producers have a guaranteed market for their products, and processing capacity of enterprises involved as much as possible.

Currently, one of the most important problems of development of the agrarian sector is an undeveloped system of procurement and distribution of agricultural products. The current state of development of the agro-industrial complex is characterized by spontaneity and unsystematic. This is due to the fact that the market structures movement of agricultural products have not been created to ensure that producers required guaranteed sales instead of the destroyed purchase and sales system. All this has led to the strengthening of the role of intermediaries in the realizable net, practically superseded the procurement system, thus completely eliminated the relationship of producers and processors of raw materials. Low purchasing prices for agricultural products, dictated by processing enterprises, do not stimulate an increase in the volume of their production, which, in turn, leads to an unloaded power and capacity of elevators, meat and milk factory, decreasing of the efficiency of their operation.

Due to the requirements of high-quality, affordable and well-packaged products small and medium-sized enterprises are unable to compete with regular suppliers. Traditional coordinating actions of enterprises of various spheres of AIC and contradictions of their interests disturb. The organization's own re-processing of meat, milk and other products, the majority of households can not afford due to the lack of resources and experienced personnel necessary for the sanitary requirements and stringent fiscal conditions, high unit costs, large losses in barter transactions by intermediaries. There is a lack of its own sales network, the creation and the contents of which are not available to every enterprise.

Today 1473 production, 1545 rural consumer cooperatives and 346 rural consumer cooperatives of water users are registered in the Republic of Kazakhstan. However, violations of cooperative principles are observed today in functioning cooperatives, in particular the full economic independence, the right to obtain ownership of the respective share of collective property, including land, voluntary membership in the cooperative, exit right to your property a share of the cooperative. A member of the cooperative must benefit economically from this association to enhance their economic activity, in fact, there is a situation where a member of production cooperative feels in its household employee more than the owner.

In our opinion, cooperatives should be a transitional form on the way of formation of service cooperatives as the prevailing and dominant position in the agrarian structure. At the present stage of reforms one of the important tasks is to present on the basis of agri-industrial cooperatives recreate the group members - the owners of the-and-earth property shares. This recreation should be strictly voluntarily and differentially based on the economic and social benefits of this form of cooperation.

The created rural consumer cooperatives (RCC) for the last three years have not yet been properly developed, despite the measures taken by the Ministry of Agriculture of the Republic of Kazakhstan, JSC "Agrarian Credit Corporation", which provides a concessional lending of RCC for a period of 5-7 years at the interest rate to 5% per annum. The number of created RCC today is small in a republic, due to distrust of the rural population to created new structures, lack of coordination of interests of participants of cooperation, lack of collateral or illiquidity in lending, as well as the lack of allocation of JSC "Agrarian Credit Corporation" financial means to create the RCC.

Research of existing forms of agricultural co-operatives revealed the main problems hampering their development:

- Unavailability of agricultural enterprises, and the rural population in cooperation, lack of understanding on the part of members of the benefits of co-operation, their rights and duties, as well as the mechanism;
- The establishment of cooperatives in the interests of large-scale farming, which is the initiator, and in fact provides a guarantee of the owner of the cooperative;
- Untimely execution associations commitments to implement the project;
- Lack of own production facilities, suitable for the installation of the equipment;
- Insufficient or no liquid collateral;
- Lack of raw materials for downloading the purchased equipment and facilities;
- Low professional training of managerial staff and the lack of technology experts;
- The inability to act in the market with larger batches production due to fragmentation of cooperatives;
- Limited access to the cooperative implementation of products to the retail market;
- The absence of tax benefits for cooperatives;
- Lack of coordination of interests of participants of cooperation;
- Processing and service businesses are reluctant to loss of a monopoly position in relation to the agricultural producers in the event of merger. The AIC processes are more successful, where the integrator are processing plants;
- Lack of legal support. Using the organizational and legal forms of the non-profit association does not allow for the type of business activity. Insignificant allocation of public funds for development cooperation.

The priority of small business development confirms the acceptance in recent years, policy documents (Agribusiness-2020, -2050 Strategy, Business Road Map 2020, Nurly Jol et al.). In his message the President of Kazakhstan Nursultan Nazarbayev from 17 January 2014 noted the need for "the removal of all barriers to business development in the agricultural sector, the process of cooperative farming, efficient land use." Action Plan to implement the orders of the President of Kazakhstan on the basis of an expanded meeting of the Government of the Republic of Kazakhstan from February 14, 2014 provides for the development of the Draft Law "On Agricultural Cooperation", aimed at facilitating the creation and development of agricultural cooperatives.

The main "barriers to the process of farming cooperatives" include:

- A high level of distrust of agricultural producers, especially small farms, to the newly created entities, the fear of losing the only means of production - land;
- Low level of legal culture in rural areas, the lack of farmers' awareness of the benefits of agricultural cooperatives (a special form of organization of production, aimed at joint management, control, financing and use of the results of labor);
- Imperfection legal and regulatory framework governing the activities of cooperatives (the presence of many laws, characterized by repetitions and contradictions), the lack of specialized coordinating and controlling bodies (associations, etc.), Regulating the legal, organizational and economic conditions for the creation of agricultural cooperatives, which led to the wrong

registration of them, accounting, income distribution and other violations of cooperative principles;

- The lack of stimulating factors association of farmers in the rural cooperatives, in particular the inability to distribution the net income of the cooperative (created in the form of non-profit organizations) among its members;

- Imperfection of the current state support for agricultural cooperatives mechanism (insufficient volume of funds allocated for the provision of concessional lending through JSC "Agrarian Credit Corporation", while concessional lending and taxation are only one form of cooperatives - agricultural consumer cooperatives and other forms of (rural consumer cooperative water users, production cooperative, agricultural associations, and others.) are not available.

The above problems justify the need to find new approaches for the development of small farms and their associations in the agricultural cooperatives. One of the new approaches to solving existing problems include the drafting of a common law "On Agricultural Cooperation", developed by the Ministry of Agriculture of the Republic of Kazakhstan jointly with the Kazakh Research Institute of Economics of agriculture and rural development. The bill was adopted in October 29, 2015 by Parliament of Kazakhstan and implemented by January 1, 2016

The main provisions of the new represented Bill include:

- Taking into account the economic nature of the agricultural cooperative is necessary to take it to the status of the commercial organization in the legal form of the production cooperative, according to the Civil Code of the Republic of Kazakhstan;

- An agricultural cooperative created on the basis of membership by a voluntary association of individuals and (or) legal entities for joint production and (or) other activities in order to meet economic and social needs of its members in the production, marketing, storage and processing of agricultural products, the supply of the means of production and logistical resources and other service;

- Allocation of net income between the members of the cooperative is made in proportion to their participation in the production and (or) other economic activity of the cooperative;

- Activation of the mechanism of state support for agricultural cooperatives measures to stimulate the process of association of small farms by prioritizing allocation of state support (subsidies, concessional lending, taxation, etc.) to agricultural cooperatives;

- Specified the main objectives, principles of creation and operation of agricultural cooperatives.

4. Conclusion

It is expected that the implementation of the main objectives of the adoption of the new Law "On agricultural cooperatives," will:

- increase the value of agricultural cooperatives for rural population and agricultural producers to implement the features and benefits of co-operative principles in the process of merging small farms, the efficient use of land resources, the organization of stable sales of products, storage, processing and other services;.

- ensure increase agricultural income (the main founders of the cooperative) through efficient operations, eliminating intermediaries and the impact on the price ratio on the market;

- systematize and strengthen the measures of state support, and adjust the availability of all forms of agricultural cooperation;

- prevent the violation of the principles by the agricultural cooperatives controls democracy, appropriation of cooperative property by individuals through their illegal transformation into various JSC, LLP, intentional bankruptcy of agricultural production cooperatives, corruption schemes of intermediaries for assigned revenues of agricultural producers;

- improve the regulatory and legislative framework by combining all forms of agricultural cooperation as an independent group of individuals "agricultural cooperatives", characterized by the special status of cooperation as socially significant phenomenon.

The advantages of combining small farms into agricultural cooperatives are:

- Members of the cooperative with membership in agricultural cooperatives, against retain their legal and economic independence, i.e., remain owners of the land, manufactured products, agricultural machinery available;

- Stable sales warranty of produced agricultural products without intermediaries;

- Reduction of agricultural producers the cost of transportation, delivery of raw materials to processing or on the market;

- Protection of the interests of members of the cooperative, the availability of the right to vote at the general meeting ("one member - one vote" regardless of the percentage of participation);

- Ensuring the stability of the basic means of production (fuel, seeds, fertilizers, agricultural machinery, technological equipment and other.);

- Ensuring stable employment (permanent and extra work in the season).

The above advantages obtained by combining small farms in agricultural cooperatives will contribute to the stabilization of the domestic agricultural production, reduce dependence on food imports. The government reduces administrative costs, increased efficiency and goal orientation of measures that eliminate the need for state support of small farms development of agricultural cooperatives affects the efficiency of public policy by providing cooperatives by financial and technical support. Thus, the state providing support directly to agricultural cooperatives enhances the effectiveness of the implementation of state programs for the development of agro-industrial complex. In turn, the rural cooperative meets socio-economic needs of its members, in particular small farms. Thus, agricultural cooperatives are effective institution strengthening productive activity and improve access of small farms to markets, improve their pre-courses, gaining access to new technologies, and others.

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