



## **Individual Advanced Research Opportunities Program**

### **Research Report**

*The opinions, recommendations, and conclusions of the grantee are his/her own and do not necessarily reflect the views or policies of IREX or the US Department of State.*

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#### **Institutional Change and Innovation in Kyrgyz Agriculture: Understanding Variations in Farm Performance**

##### **Topic of research**

This research describes and analyzes the emerging contractual arrangements in the Kyrgyz fruit and vegetable subsector. Factors such as trust, social networks, and norms and beliefs were expected to affect choice of contractual arrangements when the state is regarded as a weak enforcer of legal rules. I investigate how beliefs about domains of marketing choices have changed over time. I then explain how broad institutional changes, constituting changes in working rules, norms, and property relations, influence contracting behavior in the agricultural sector and shape the evolution of market culture. I intend to apply my research findings towards the development of theoretical propositions about the evolution of the nature and structure of contracts that can inform policy development and direct a future research agenda on agricultural market development in the former Soviet Union.

##### **Relevance and contribution to the field**

Research in (old) institutional economics and the sociology of law acknowledges that institutions, here defined as norms, working rules and property relations, both enable

and constrain human action. Using the transaction as the economic unit of analysis, which embodies the interdependence between buyers and sellers that is influenced by a corresponding institutional framework, scholars are seeking reasons for economic courses of action that defy standard economic price theory. My research contributes to this body of literature by examining how contractual practices in an emerging market economy evolve during a period of rapid formal rule changes. I will document the factors that affect the development of rural agricultural markets. The results of this dissertation research on contracting practices will inform scholars and policy makers about how order is created when individuals are in conflict and cooperation, in turn providing insights into how individuals shape and are shaped by market culture in Kyrgyzstan.

### **Approach and research methodology and list of research sites**

I began my investigation of the marketing strategies adopted by farmers with a series of focus group discussions with individual private farmers who operate within the fruit and vegetable subsector. Specifically, I spoke with groups of farmers from Semyonovka, Ananyeva and Kyzyl-Orik in Issyk-kul Oblast, Kara Balta and Sokoluk in Chui Oblast, Karavan, Uch-Korgan in Batken Oblast, and On Eki Bel and Kara-Suu in Osh Oblast. I made the decision to work in both the north and the south due to the disparity of donor assistance. That is, the south receives many more resources to develop agricultural markets than the north.

In addition to focus groups, I also conducted key informant interviews with staff of local and international organizations, which provide technical assistance to farmers. Organizations included branch offices of the Rural Advisory Service in Osh, Kara-Balta and Cholpon-Ata, "Mehr-Shavhat", TES-Center, branch offices of the Association of Fruit and Vegetable Processors in Chui and Osh, the Association of Agribusinesses of Kyrgyzstan, the Issyk-Kul Region Business Development Association, Helvetas, ICCO, ACTED, AgFinPlus, LARC and Kalys Consult. Further, I met with the directors of four processing companies. This portion of my dissertation field research conducted during the IREX grant forms the basis of the next phase of my dissertation research in which I will develop a multi-case study that will document the process of institutional change in the Kyrgyz fruit and vegetable subsector. Individual cases will examine the evolution of commercial relationships within communities of grower/suppliers and a local processor, allowing me to engage theory about networks, trust, reputation, and reciprocity.

### **Summary of research findings and preliminary conclusions**

In the 1990s much donor support was focused on facilitating the process of land reform, which largely consisted of land privatization. Adult education initiatives concentrated on providing new land owners with information about their rights within a new legal context. The number of individual private farmers increased dramatically after land privatization and farm restructuring, and these farmers are now facing serious challenges as they negotiate an emerging market economy that can be characterized by high barriers to entry due to lack of basic capital such as mechanized transportation and high transaction costs, including information and transportation costs. Bargaining power is also a factor in the ability of individual private farmers to negotiate themselves into stable, long-term relationships with local processors. Processors, themselves, face their

own challenges, such as obsolete equipment, inability to meet quality and quantity demands, and locating domestic and export markets.

In this investigation of how market culture emerges as a consequence of institutional change, an examination of contractual practices is revealing, because it exposes the reasons for interdependency between buyers and sellers. A key preliminary finding is that while the farmer groups studied face the same transition challenges, the economic practices they employ are far from universal and differ along generational, gender, geographic and socio-economic lines. Despite different practices, clear consensus emerged regarding the basic lack of information about marketing opportunities, the general feeling of helplessness of farmers when negotiating contractual relationships with processors, and the challenges associated with marketing fruits and vegetables among poor individual private farmers in four oblasts of the Kyrgyz Republic. If it were not for the technical assistance they receive from various support organizations, many farmers admitted that they would never have considered contracting with a processor.

The level of individual private farmer commitment to commercial agreements with processors is difficult to evaluate, because while most farmers seemed to agree that a contract should be fulfilled, during the course of discussion it became clear that they meant that it was unacceptable for the processor to not honor his agreement, but that the farmer could back out of the contract for a number of reasons – all considered “acts of god.” Acts of god could include anything from the border with Uzbekistan being temporarily closed, in turn shutting off a channel for inexpensive inputs and increasing the price, to a pest invasion, to lack of irrigation, to a poor harvest perhaps due to poor cultivation techniques, to transport breakdown. Findings suggest that the poorest farmers are often excluded from accessing the processing market because they face the highest transportation costs due to farthest distance from processor and no mechanized transport.

Processors also renege on contracts with farmers for a number of reasons. For example, they do not always provide transport on time, and farmers report that they change the price at time of delivery. A key challenge to processors is that they do not always fulfill their plans due to an inability to obtain the right quality (ie. size and consistency) they need from local farmers. This is one reason why processors have begun to offer extension-like services, which include providing technical assistance and inputs such as seeds specific to the type of product they need, fertilizer and plastic covers. However, farmers, who accept this type of “credit” in-kind, do not necessarily view their acceptance of this “credit” as a commitment to return their harvest to the processor who provided these inputs. Many freely admitted that if the price was higher at the bazaar, they would take their harvest there – and processors expect them to at this time.

Although farmers expressed a real disenchantment with selling to processors at a lower price than for what the product sells in the bazaar, they do not necessarily have success selling at the bazaar. One farmer candidly revealed the nature of this situation when he remarks, “We say that we sell in the bazaar, but when we sell in the bazaar, only 10-

20% of the tomatoes with us are sold. The rest are not sold.” This comment was met with much agreement among group participants. Later, in informal discussion, it became clear that when farmers say that they want to go to the bazaar because the price is better, there could be other compelling reasons besides price. Farmers go because the bazaar is a social event to which their wives come and it gives them a chance to talk with other sellers.

### **Suggestions for future research agendas**

While my research is focusing on the fruit and vegetable subsector, further insights into how buyers and sellers negotiate commercial relationships within the emerging market economy could be gained by applying a similar research approach to other agricultural subsectors, such as dairy or tobacco, as well as to other sectors of the economy. Investigations into how buyers and sellers transact in Kyrgyzstan could lend themselves to comparisons with transaction practices in other countries of the former Soviet Union and Central and Eastern Europe. Comparative research could interrogate questions of speed and scope of post-socialist economic, legal and political reforms, offering insight into the market development process and its impact on livelihoods.

### **Policy recommendations**

Preliminary findings suggest that donor-supported technical assistance activities can improve rural livelihoods. Where these activities are not as prevalent, farmers express more uncertainty and request more assistance. Programs like USAID’s AgFinPlus and Helvetas’ Local Market Development Program, which assist farmers in Osh, Jalal-Abad, and Batken Oblasts, should apply the lessons learned with farmers in these oblasts to other oblasts in Kyrgyzstan, particularly Issyk-Kul and Chui Oblasts, where there is potential for growth in agricultural value chains and little donor activity.

While results indicate that currently, individual private farmers are in need of assistance in the following areas: farm budgeting, business plan development, pest control and marketing, the focus on providing technical assistance in the form of knowledge about agronomic techniques and business economics, for which there is a clear need among the individual farmer population, limits the possible opportunity to more explicitly facilitate access to market opportunities and the development of stable contractual relationships among farmers and processors. In exceptional cases, where technical assistance activities have included organizing opportunities for farmers and processors to inform each other of their respective positions, stable relationships have resulted. Southern farmers have benefited disproportionately from these types of activities compared to northern farmers, who have not received the same level of assistance, further indicating a need to develop similar activities in other oblasts.

Finally, agricultural market development is inextricably linked to rural poverty alleviation. Policy makers who are interested in assisting rural communities may want to look beyond the agricultural sector, and identify potential rural non-farm sectors that could offer non-farm employment opportunities. This is especially important in Kyrgyzstan, where land is scarce, raising questions about possible future conflicts over land.