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**A new property regime in Kyrgyzstan; an investigation into the links between land reform, food security, and economic development**

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## CHAPTER 9. RESOURCE USE

### 9.1 LAND AS ECONOMIC PRODUCTION FACTOR

#### 9.1.1 ECONOMIC MOTIVES

The theory is that competition in the land market under a market economy will in the end allocate land to the most efficient farmers, because they as the most efficient producers will be able to afford the (rising) prices for it.

Several researchers underline the importance of free markets. An economist strongly associated with a pledge for a free market economy is Hernando DeSoto [22]. Adam Smith [77] wrote as early as 1776 that the most important motive for people to be economically active is self-interest. People do not pursue economic goals to contribute to the wealth of the nation, but to gain their own wealth. A free market economy is a prerequisite for this.

Csaba Csaki [19] (p. iii) argues in 1994 that:

"The land reform and privatization of the land is one of the most economically important and politically sensitive issues of transition. The creation of unrestricted private land ownership is a precondition for agricultural transformation, similarly to privatization of industry and real estate assets in the rest of the economy....The establishment of transparent individual ownership rights to specific plots of land and other farm assets and the full freedom of the owners to choose the farm structure they individually wish to participate in, are the critical first steps of the land reform process. In these days, land privatization and farm restructuring is in the focus of heated political debates, practically in all lesser developed countries. The Central European countries have made substantial progress in establishing private land ownership mainly through various forms of restitution. In the republics of the former SU still some of the basic issues are being debated, namely, should a full-fledged private land ownership be acknowledged, and who should be the beneficiaries of the land reform. In general, the land reform in Central and Eastern Europe is still far from finished. Current experiences underline the difficulties of a transition from large scale agriculture to private farming and the market-based agriculture".

Agrarian reform programs and privatization of land do raise expectations. In "Actors of the changing European countryside" [38], Tisenkopfs [89] reflects on the current situation in Latvia by making the remark that: "In the farmers' minds the restitution (of land) was closely knit with the thought about the state support and protection of the farm sector. Whereas farmers' market knowledge and management skills are insufficient and inadequate. Many farmers are convinced that their duty has been to create a farm and then to engage (a little) in production. In their mind, the duty of the state is to provide economic support for the (small-scale) production up to the state regulation of input prices and fixing output prices. As it is almost impossible to implement such a policy in the conditions of needy Latvia, the farmers deem the government as ignorant and indifferent to their problems and needs. This feeling is only intensified by the conditions of the governments' open market policy".

#### 9.1.2 LITTLE SUPPORT FOR FARMERS

The remark of Tisenkopfs holds for many farmers in other former communist countries like Kyrgyzstan. Agricultural workers on the large farms are expecting that all the planning and

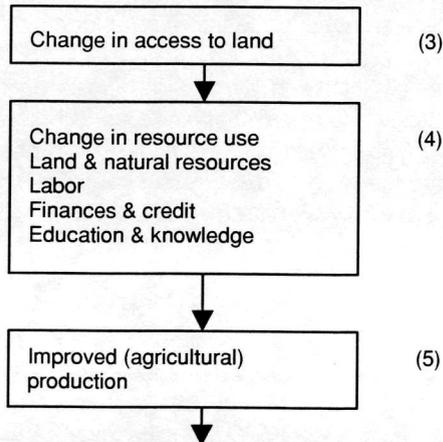
management was provided by the State via the managers. Most new private farmers expect this type of support to continue after privatization. This concept of thinking, emphasizes the need for complementary policies to accompany land distribution (in Latvia there is actually restitution) to assist farmers in their agricultural management during the first period of private farming.

The most important problems facing farmers in Kyrgyzstan as reported in 1977 (Source WB discussion paper #394) [100] were in order of severity: Unfavorable prices, lack of agricultural extension services and specific education, difficulties in output marketing, lack of rural credit, shortage of fuel and machinery, lack of chemical fertilizers, shortage of agricultural land, irrigation and water supply problems, lack of quality seed, reduction in the social safety net, and high taxes and payments (land tax, pension funds and others). This illustrates that land tenure security or land titling is not an important issue among the Kyrgyz farmers. Their concern is much more about the implementation of the reform; government support in restructuring property relations on farms, creating efficient new farm production methods, use of appropriate farm machinery and financial incentives.

## 9.2 ASSESSMENT OF CHANGE IN RESOURCE USE

### 9.2.1 INDICATORS

As for the element 'change in resource use' (4), this partly overlaps the previous element 'access to land'.



A change in the use of land and natural resources can best be measured by changes in crops and the change in use of fertilizers, the choice for fallow land and a more conscious use of agricultural land with respect to environmental effects. The latter might be measurable by statistics on water, air, and soil quality, although providing this type of data is not popular and measured results are generally not made public in former Soviet countries. Another indicator is the demand for extension services and specific agricultural education and training.

If the emphasis is on the food security paradigm then the element of resource will mainly focus on changes in agricultural production. Measurable effects are:

- changes in crops and yields
- changes in the level of mechanization on farms

- changes in labor input
- changes in the efficiency of agricultural production
- changes in credit use and changes in the number of loans using land as collateral
- changes in agricultural extension services and use of agricultural (bio) technology.

In the prosperity paradigm the focus will be more on general changes in resource use:

- change in financial resources and credit (number of mortgage transactions)
- change in use of banks and capital investment
- greater tendency to exploit real property either for obtaining credit or by renting it out

### 9.2.2 STATISTICS ABOUT CHANGE IN RESOURCE USE

Change in resource use is so wide that it is impossible to explore such changes in depth without a lengthy and extensive research on the ground. In the prosperity paradigm partially observable phenomena are a change in use of capital and financial resources, in use of credit, and (hired) labor. Statistical data on new crops and changes in yields and mechanization are indicators, as well as changes in institutions for education and in the curricula are also signs of change in resource use. During the preparatory phase of the project for land registration there have been attempts to add at least some aspects of modern land registration systems in existing educational curricula but it has not materialized. The bigger picture showed some changes in institutions for higher education during the transition period. Kyrgyzstan now has a university with a curriculum completely in the Kyrgyz language. Lack of sufficient agricultural extension services is a matter of concern. Farmers in Kyrgyzstan need to be informed and educated in new techniques and methods of farming.

The use of credit is extremely limited in Kyrgyzstan due to an unreliable banking system with rumors of possible bankruptcy and sometimes loss of resources for citizens by actual bankruptcy of a bank. The interest rate is high and Western observers wonder how some people can manage to mortgage their real property with mortgages running at seventy percent or more in interest annually. For the rural population the possibilities are even more limited. Kyrgyz peasants have an almost complete lack of financial resources. The largest asset they generally have is the title to their land and real property. It is risky to mortgage that land since it is their only source of security and livelihood.

In a transition country another indicator for change in resource use is a change in efficiency in land use by farms of the various types. Kyrgyz agriculture suffered from the transition and production shrank considerably from 1990 to 1995, before picking up again in 1996. Crop production has improved more than livestock production. But the figures reported on livestock production might not reflect reality. As mentioned earlier the privatization of farming turned livestock over to individual farmers and it is known that the reporting of numbers of livestock in private hands tends to be substantially lower than the actual number of livestock present in the country. Wheat production has grown since 1990, due to an increase in sown area of 185 percent. However the average yields declined by 8 percent annually. The expansion in wheat production was driven by an implicit policy of self-sufficiency in wheat, but is now becoming a concern for the government. With the limited area of arable land in the country, now more than half of it is used for production of one – not highly competitive – crop. It must be the policy of the government to abstain from directives directed at private farmers and use farming incentives away from wheat production. From data reported by Natskomstat the following table could be made in which

the production shifts of the large state and collective farms are compared with production shifts in 'private farms'. Natskomstat makes a distinction between 'farmers' and 'household plots' in their production statistics. In the table all private farms (farmers and household plots) are taken together in one category to avoid possible errors because of changing definitions over time. The shift in production between state controlled and private farms can be easily observed. Total production of grain and potatoes (combined with sugar beets) has risen from 1849 tons in 1990 to 3107 tons in 1999. Natskomstat provides the following data:

Type of crop in ton x 1000	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Grain in total	1482	1358	1493	----- <sup>11</sup>	987	906	1322	1608	1605	1613
State farms	1415	1285	1351	-----	806	564	650	670	572	512
Private farms	67	73	142	206	181	342	672	938	1033	1101
Sugar beets + Potatoes in total	367	339	497	528	425	540	752	884	1302	1494
State farms	178	144	234	283	154	117	177	209	266	264
Private farms	189	195	263	245	271	423	575	675	1036	1230
Vegetables + Fruits in total	743	569	585	332	381	429	506	650	722	902
State Farms	433	306	300	131	135	98	107	105	97	135
Private farms	310	263	285	201	246	331	399	545	625	767

The data shown for grain production in 1993 are obviously a mistake. The data suggest a very high harvest in wheat in that year but comparisons with data given by the same source for yields reveals the mistake. Natskomstat reports wheat production over the years as follows and the same source gives the following data for the yields for wheat and this data does not reflect a spectacular yield in 1993:

	1990	1991	1992	1993	1994	1995	1996
Wheat production in 1000 ton	482.3	434.2	627.9	2129.1	565.7	624.7	964.1
Yields of wheat in 100 kg per ha	24.9	22.4	25.5	24.6	17.0	18.3	22.2

It is obvious that the harvest in 1993 can not have been triple that of 1992 with yields that are almost similar in that year, without suddenly and considerably enlarging the sown area for wheat. Tripling of the area for wheat should have had dramatic effects on other crops, which can not be found in the data. Moreover, a World Bank document (discussion paper # 394) [100] reports a total wheat production for 1993 of just over 800,000 ton, which is more in line with expectations and the data on yields. Albeit this obvious mistake, there has been more than a doubling of wheat production in Kyrgyzstan between 1990 and 1999 due to an

<sup>11</sup> The number persistently appearing at Natskomstat tables is 2586 which is obviously a mistake. I could not find any confirmation in other sources. It can be assumed, that 1993 was a year with a good – but not exceptional – harvest. Most likely the figure should be around 1400. For State farms only the corresponding number would be around 1200.

almost doubling of the sown area for wheat and the introduction of spring and winter wheat varieties.

As for livestock production, the following data give an insight in the decreasing need for hay and fodder because of the drop in numbers of livestock breeding in the Kyrgyz Republic:

In 1000 ton	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Hay/Fodder	4597	4249	4318	3659	2781	1916	1690	1502	1458	1287
State farms	4686	4177	4054	3338	2373	1371	1019	819	732	555
Private farms	89	72	264	321	408	545	671	683	726	732

Official reports of the Ministry of Agriculture stress the point that as far as livestock breeding is concerned there is a need to improve the quality and productivity by transfer of technology for feeding, breeding, animal health, meat processing, and sustainable management of pastureland. Although these figures look dramatic the national food policy report states that there seems to be sufficient livestock available to meet basic nutritional requirements. Regrets about the decreasing number of livestock are offset by advantages like less overgrazing and overfeeding (two features of soviet husbandry). The national policy report assumes that free market forces take care of redressing the danger of livestock deficiencies and the problem of overgrazing and overfeeding with grain.

I'd like to close this paragraph with a table derived from Natskomstat data about the shift in marketable surplus from 1992 to 1996 for grains, potatoes and milk, which are indicators of changing resource use in Kyrgyzstan:

Surplus brought to market by:	Grains		Potatoes		Milk	
	1992	1996	1992	1996	1992	1996
Large farming enterprises	86%	55%	77%	12%	92%	17%
Private farms	10%	39%	0%	20%	2%	25%
Household plots	4%	6%	23%	68%	6%	58%

The increased surplus brought to the market from house plots is remarkable. It most probably (combined with my observations) indicates an enlargement of house plots in size (from 'shrunken' land of collective and state farms?), but also an urgent need for people to increase their earnings by selling agricultural produce from their household plots. Combined with the data as used in chapter 11, it can be concluded that poverty among the population of Kyrgyzstan is in average increasing, incentives for more intensive use of agricultural resources – including house plots - will provide them with a chance to make up for the economic decline.