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AGRARIAN REFORM OF THE REPUBLIC OF TAJIKISTAN
FARM REFORM AND RESTRUCTURING
COOPERATIVE DEVELOPMENT
REPORT (Final Draft)



Rehovot, April 2012

By: Zvi Lerman
July 2012

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Executive Summary

The long process of agricultural reform in Tajikistan has produced four categories of agricultural producers:

1. Household plots
2. Individual and family dehkan farms
3. Collective dehkan farms
4. Agricultural enterprises (successors of former state farms)

Only the first two groups are true family farms. Agricultural enterprises are specialized state-owned farms, while collective dehkan farms are successors of former kolkhozes (Soviet-style collective farms), which in many respects continue to operate in the same way and suffer from the same inefficiencies. Official statistics make it impossible to differentiate between dehkan farms of different types. Recent estimates show, however, that collective dehkan farms – which constitute less than 5% of all dehkan farms in Tajikistan – control more than one-third of arable land in the dehkan farm sector. Despite the significant presence of collective dehkan farms, the agricultural sector in Tajikistan is now largely individualized: nearly 65% of arable land is in family farming (household plots, individual dehkan farms, and family dehkan farms). This striking achievement of agricultural reform is one of the main factors responsible for the increase in the productivity of land and hence the robust recovery of agricultural growth in Tajikistan, with gross agricultural output (in constant prices) increasing by 162% between 1998 and 2010.

The change in farming structure to a large extent is the outcome of government-approved programs aimed at distribution of land use certificates to individual members of collective dehkan farms. Distribution of certificates triggers the exit of individuals and families from the collective dehkan farm, leading to the establishment of new individual and family dehkan farms on the land plots withdrawn from the collective. This process of farm restructuring increased the total number of dehkan farms from about 20,000 in 2005 to nearly 90,000 in 2011. The new farms were created through redistribution of land holdings, without a substantial increase in total available land, and as a result the average size of a dehkan farm decreased from about 25 hectares of arable land in 2005 to less than 7 hectares in 2011.

Measures to allow farm size adjustment

The farm sector today consists of some 750,000 rural households, each with a household plot of 0.3 hectares on average, and nearly 90,000 dehkan farms with 7 hectares of arable land or 30 hectares of agricultural land on average. The average size of dehkan farms is biased upward by the small number of relatively large collective dehkan farms and in fact more than half the dehkan farms have less than 5 hectares of agricultural land (TajStat data, January 2009). Agriculture in Tajikistan today is thus agriculture of smallholders. Evidence from many CIS countries shows that family income and wellbeing increase with the increase of land holdings. More land leads to greater production and thus improves family welfare both directly – through higher consumption of home-grown products, and indirectly – through additional cash income

from sales of surplus products. A clear policy prescription for improving rural incomes and alleviating poverty is accordingly to **expand the land allotments of the small household plots and individual/family dehkan farms**. This can be achieved in three main ways:

- distribution of inefficiently used land to more productive users: this includes land held in state reserve, in agricultural enterprises, and in collective dehkan farms;
- return of unused land to cultivation: this includes 35,000 hectares of arable land that is left fallow due to degradation and additional tens of thousands of hectares of degraded pastures;
- development of land markets to establish a functioning mechanism for transfer of land from inefficient or inactive users to more efficient and entrepreneurially active users.

Given that all agricultural land in Tajikistan is owned by the state and thus cannot be bought or sold, the only feasible way for land markets to develop today is by allowing transferability of land-use right certificates – either temporarily (through leasing) or permanently (through selling).

Transferability of land use rights is one of the prerequisites for land market development and market-driven farm size adjustment. **Land market development requires adoption of the amended land code that allows transferability of land use rights**. Safeguards ensuring that distressed smallholders cannot be pressured into giving up their land to more powerful land users will have to be introduced as land markets develop. These safeguards may restrict transactions in agricultural land to bona fide farmers, thus precluding land accumulation in the hands of rich investors; they may ensure that no household remains landless through bankruptcy or forced sales by allowing distressed families to keep at least their household plots.

Another prerequisite for the emergence of land transactions is registration and titling of land-use rights for all farm plots, used individually or by extended families. This should be in place once the modern registration and land-use right titling systems, being developed as part of the ongoing World Bank's LRCSP project, become operational. Registration procedures must be simple and transparent, with minimum transaction costs, so as to encourage rural land-use right holders to register their land and obtain legal certificates for their land-use rights. The registry must be developed simultaneously so that land-use rights can be registered in a secure location.

Farm size adjustment should rely exclusively on market mechanisms. There should be no government intervention to “encourage” farm enlargement through pooling of small holdings into larger jointly operated farms. Such intervention will in effect constitute re-collectivization and thus negate all the past and ongoing reform efforts. World experience, as well as post-reform experience in CIS, proves convincingly that small family farms are more productive and more efficient than large collective or cooperative farms.

Continuation of farm restructuring

The restructuring procedures being implemented by the World Bank's LRCSP project and the State Committee for Land and Geodesy should be accelerated: **all remaining collective farms across the entire country should be identified and land use certificates should be issued**

expeditiously to all farm members in a concerted and sustained effort. Efforts must also be made to **decide the future of the remaining agricultural enterprises** with the objective of releasing the 130,000 hectares of arable land that they still control and thus allowing expansion of the highly productive smallholder farms – both household plots and small individual and family dehkan farms.

Farm restructuring is a dynamic process that will not stop once all collective dehkan farms and agricultural enterprises have been restructured. Multi-family dehkan farms may continue splitting, while individual dehkan farms may merge into multi-family units. The new Dehkan Farm Law is expected to provide the legal framework for this continuing process. The Dehkan Farm Law should include the following basic features:

- allow **unconditional freedom of exit** with land share
 - without imposing indivisibility (minimum-size) restrictions on withdrawal of land shares (such restrictions open the way to arbitrary administrative manipulations and ultimately corruption);
 - without making the right of exit conditional on the establishment of a new dehkan farm (land-use right holders should be allowed on exit to lease out their land share to other active users, without continuing to farm on their own).
- guarantee **“freedom to farm”** based on established principles (since Resolution 111);
- ensure **“freedom of association”**, including voluntary membership in service enterprises and service cooperatives;
- **always leave the choice of legal form to the farmer:** the option of registering as a legal entity should be entirely voluntary for farms of all sizes;
- **guarantee security of members’ rights to land in case of forced liquidation of a legal entity as a result of bankruptcy.**

Safeguards must be built into the new Dehkan Farm law to guarantee that under no circumstances will liquidation of a dehkan farm leave its members landless. Although this issue is being addressed in more detail in the Mortgage law, the Dehkan Farm law should also explicitly circumscribe the power of the head of farm in areas, such as borrowing or land mortgaging that may endanger the security of members’ land use rights and create even a suspicion of the danger of stripping the members of their land. Approval by a general assembly of members without any managerial qualifications does not constitute a sufficient safeguard.

Post-restructuring measures

Post-restructuring steps should be aimed to ensure viability and profitability of the smallholder farms by counteracting the effects of smallness. This primarily requires implementation of the following policies:

- Implement policies that will lead to **enlargement of household plots and small individual and family dehkan farms** through market mechanisms (see above).

- Implement policies to increase agricultural productivity through **technology transfer** and **information**.
- Implement policies to improve the **access of small farms to market services**:
 - Services for marketing farm products
 - Channels for purchase of farm inputs (including quality seeds)
 - Farm machinery services (rental and maintenance)
 - Water and irrigation systems
 - Veterinary and artificial insemination services
 - Extension services to raise the level of technology and knowhow among small farmers
 - Credit services for small farms
- Implement policies to encourage **greater diversification** at the farm level with the objective of increasing incomes and reducing risk.

Improved access to markets and the development of service cooperatives

In developed market economies, farmers typically achieve access to markets through private intermediaries. Such private intermediaries are beginning to emerge in Tajikistan in a variety of forms, which include integrators for collection and sale of farm products, private processors that buy wholesale from farmers, providers of rental machinery services, or distributors of farm inputs to remote villages. These private service providers fulfill a crucial function for rural development: they free the farmers from the need to travel to the marketplace and enable them to concentrate on agricultural production. **Government policies should be directed to encourage and facilitate the operation of rural private intermediaries** – by simplifying licensing arrangements, implementing more flexible inspection procedures, cultivating a generally friendly and helpful attitude among the local officials, and perhaps granting tax credits on transactions with agricultural producers. The government should also consider establishing special credit facilities for expansion of business activities of such rural intermediaries.

So far, private rural intermediaries are relatively rare and do not satisfy the needs of the huge number of dehkan farms and household plots in Tajikistan. In such cases in market economies farmers organize self-help bodies – so-called service cooperatives, whose function is to allow alternative access to markets without relying on private service intermediaries. **Best-practice world experience suggests that farmers' service cooperatives provide the most effective way of improving the access of small farmers to market services in areas where no private intermediaries operate or where private intermediaries unfairly exploit farmers through monopolistic practices.** Such cooperatives can cover the whole field-to-market value chain, including joint purchase of farm inputs, attention to water distribution and irrigation (through Water User Associations), organization of machinery pools for field work, establishment of sorting and packing facilities, transport of farm products to markets, processing, etc. They can also provide extension and market information services, as well as veterinary and artificial insemination services, all of which are essential for productivity improvement in both crop and livestock production.

Farmers obviously need guidance on how to create service cooperatives: this is the function of special information and training systems that the government or donors should establish for the development of cooperatives. Furthermore, new cooperatives may require support through grants or subsidized credit, but the **self-organizing nature of the system of cooperatives ensures relatively easy rollout to remote rural locations**. An important component for successful development of service cooperatives is a change in government attitude: government officials and decision makers have to acknowledge the importance of small farms, abandon the traditional preference for large farms, and focus on policies that ensure a supportive market environment for successful operation of the small-farm sector – including policies to encourage creation of service cooperatives.

Information campaign and legal framework for cooperatives

There is deep-rooted lack of understanding of the exact nature of cooperative. Everybody is familiar by now with the standard formula of voluntary membership and the goal of maximizing members' benefits from participation in the cooperative. However, there is lack of clarity as to what types of cooperatives exist and how the newly promoted *service* cooperatives are different from the Soviet-style *production* cooperatives (collective farms). Service cooperatives are intended to improve smallholders' access to services, thus overcoming many of the difficulties associated with small farm sizes while allowing each member to maintain their independence as a producer. These cooperatives are not intended to overcome the problem of land fragmentation by merging small farms into larger production units: this is the role of *production* cooperatives, which are very rare in market economies, largely due to their lower efficiency compared with individual and family farms.

In market economies, the term “cooperative” is automatically interpreted as “service cooperative”; in Tajikistan, as in all CIS countries, the term “cooperative” is still automatically understood as “production cooperative” – a collective farm. A special public awareness campaign should be organized to explain what cooperatives are in market economies, how they function, and what benefits farmers derive from membership. The public awareness campaign should be carried out by a special cooperative information service to be established by the government with donor support. This should be a permanent system that will continue providing information to farmers and cooperatives over the long term, and not only during the creation and setup phase. The system can be modeled on existing cooperative information services in the U.S., the Netherland, and other developed countries.

Efforts to promote the development of service cooperatives naturally require a proper legal framework: **a new law of cooperatives should be passed** that, in addition to setting out the operating rules, should clearly define the conceptual framework for market-oriented service cooperatives. **The law should clearly and unambiguously define the three main types of cooperatives that exist in market economies:**

- Service cooperatives
- Consumer cooperatives (a variant of service cooperatives)
- Production cooperatives

The classification should be based primarily on functional characteristics (what the different cooperatives do) and should disassociate itself from the inherited Soviet-era classification perpetuated in the Civil Code of the Republic of Tajikistan. The articles on cooperatives in the Civil Code will have to be radically amended to reflect the functional classification in the Law of Cooperatives. The Tajik experts should study the **experience of Kyrgyzstan, where the 1999 amendments to the Civil Code reduced the discussion of cooperatives to the bare legal minimum (a cooperative is a legal body that may be either a commercial or a non-commercial organization) and left all the functional and organizational details to the law of cooperatives.**

Taxation of cooperatives

Cooperatives have the potential to increase the benefits to members by exercising their market power and negotiating better prices and improved terms both for sale of member products and for delivery of services. Yet tax distortions may negate these positive effects: if sales or purchases through a service cooperative involve higher tax payments than direct transactions carried out independently by the farmers, membership in a cooperative will become ineffective. **Tax issues must be carefully addressed and resolved if cooperatives are to have any chance of developing in Tajikistan.**

Three types of taxes may negatively affect the benefits that members receive from their cooperative:

- VAT on transactions between the cooperative and its members
- Tax on accounting profits reported by the cooperative
- Retail sales tax

The Law of Cooperatives and, more importantly, the Tax Code, should address the three types of taxes in the following way.

VAT: The Tax Code should explicitly recognize that **all transactions with members – supply, provision of services, contract work – are exempt from VAT.**

Profit tax: Although in principle cooperatives are non-profit organizations, their financial reports may show an accounting profit at the level of revenues of expenses (called “surplus” in cooperative accounting). This accounting profit is created because the cooperative may have initially underpaid its members for products delivered (expenses too low) or overcharged them for inputs supplied (revenues too high). In effect the accounting profit is the result of internal pricing decisions within the cooperative, and not profit in the usual economic sense of the term. In line with world practice, this “profit” should be exempt from profit taxes. The draft Law of Cooperatives stipulates that the **profits created from transactions with members should be regarded as tax-deductible expenses** (Article 39(3)). To ensure that this approach is accepted by the tax authorities, it should be formally incorporated as an amendment to the Tax Code.

Retail sales tax: Sales by members to the cooperative are not retail sales; purchase of inputs by the cooperative for its members is wholesale transactions. In both cases the **transactions between members and the cooperative should not be subject to retail sales tax**. This principle should be officially recognized and included in formal instructions to tax inspectors at all levels.

The **social tax** is often mentioned as a serious problem for rural people in Tajikistan, but this tax is paid by everybody – farmers and cooperatives alike – and is not activity-based. Therefore, it will not be reviewed in detail within the context of this discussion. However, it is crucial to note that over the recent years the social tax (collected per each farm shareholder) has led to gender discrimination during farm restructuring, as the names of female shareholders among others have increasingly been excluded from land-use right certificates to reduce the amount of social tax to be paid, thus violating the legal use-rights of these shareholders. Reports by the ongoing WB LRSCP Project indicate that farm shareholders, specifically in rain-fed and upland areas, increasingly indicate their inability to pay the social tax, as the high rate of the tax is not proportionate to their annual farm income. The social tax issue needs to be addressed as part of the ongoing Tax Reform to ensure that further dehkan farm restructuring provides gender equity and a fairer taxation regime to smallholder farmers.

I. Dehkan Farm Reform and Restructuring

1.1. Introduction

The conceptual basis for the policies that drive the current phase of agricultural reform in Tajikistan was provided by Government Resolution 406 (July 2009). Items 2 and 4 of the Action Plan annexed to Resolution 406 focus on security and transferability of land use rights, “freedom to farm” principles, freedom of exit with a land share, and freedom of association. The resolution also speaks of the need to improve rural incomes and increase agricultural productivity through restructuring of collective dehkan farms into individual and family farms and calls for creation of service cooperatives as a way to improve access of smallholder farms to market services. Issues relating to security and transferability of land use rights are addressed in the draft amendments to the Land Code, which is currently being prepared by the Government for submission to Parliament. The other issues, including farm restructuring and creation of cooperatives, are the subject of attention in two draft laws – the Law of Dehkan Farms and the Law of Cooperatives – currently being developed by the respective Working Groups with assistance from the donors.

The conceptual principles enunciated in Resolution 406 are summarized in the form of concrete steps in the resolutions of the International Conference on Agricultural Reform in Tajikistan held in Dushanbe on 15 April 2011:

- increase the productivity and profitability of agriculture through accelerated farm restructuring and improved access to market services;
- facilitate farm restructuring by allowing members of collective dehkan farms and other agricultural enterprises to create individual and family dehkan farms;

- improve access to market services by encouraging farmers to create agricultural service cooperatives;
- resolve identified problems with taxation of agricultural producers and service cooperatives.

1.2 Current State of Farm Restructuring

1.2.1 Changing Structure of Land Allocation

The two salient features of land reform in Tajikistan are the creation of dehkan farms as a new organizational form in agriculture and the increase of land holdings in the traditional household plot sector. Arable land allocated to household plots almost quadrupled after 1995, rising from 50,000 hectares to nearly 180,000 hectares in 2010. Arable land allocated to dehkan farms increased from less than 10,000 hectares in 1995 to nearly 600,000 hectares in 2010. As land shifted to household plots and dehkan farms in the process of land reform, the share of the previously dominant agricultural enterprises – the large-scale collective and state farms inherited from the Soviet period – shrank from nearly 95% of arable land prior to 1995 to less than 15% in 2010. **Figure 1** shows the changing structure of land use by farms of different types, highlighting the massive increase in arable land allocated to dehkan farms (especially after 1997) at the expense of (state-owned) agricultural enterprises.

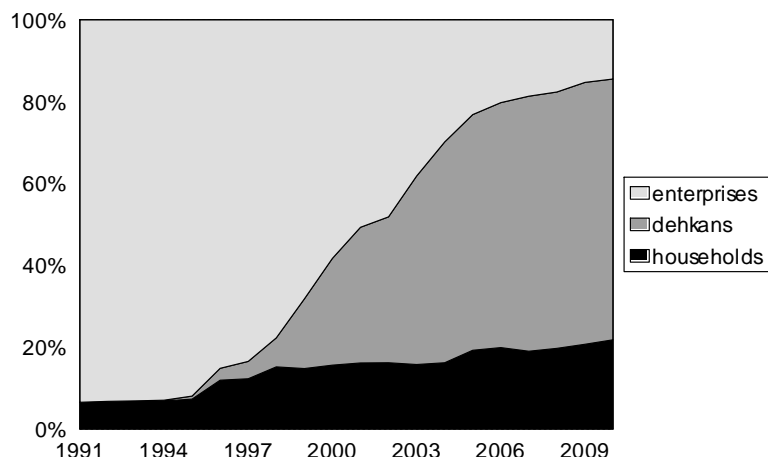


Figure 1. Changing structure of arable land use by farms of different types: household plots (bottom black layer), dehkan farms (dark gray wedge), agricultural enterprises (light gray top layer). Data from *Agriculture in Tajikistan*, various years.

1.2.2 Changing Productivity

The growing share of land controlled by household plots and dehkan farms necessarily led to an increase in their share of agricultural production as measured by Gross Agricultural Output (GAO). In 2010, dehkan farms produced 30% of Tajikistan's GAO, while household plots produced a staggering 62% and state-owned agricultural enterprises produced the remaining 8%. The household plots thus emerge as the most productive sector in Tajikistan's agriculture, producing 62% of GAO on just 6% of agricultural land (**Table 1**). Dehkan farms are less productive than household plots, but still more productive than agricultural enterprises. The ranking of different farm types is the same whether productivity is calculated in absolute values

(value of production per hectare of land – the first two rows in **Table 1**) or as a relative measure expressing the ratio of the share of production to share of land (the following two rows in **Table 1**). Furthermore, similar productivity differentials are observed when productivity is measured using the value of crop production (instead of total GAO) and the sown area (instead of all agricultural land).

Table 1. Absolute and relative productivity of different farm types

	Household plots	Dehkan farms	Agricultural enterprises	Total for Tajikistan
Productivity of land, somoni/ha				
Value of GAO/agricultural land	22.51	1.04	0.76	2.35
Value of crop production/sown land	17.00	5.47	4.39	7.88
Relative productivity				
Share of GAO/share of ag land	9.60	0.44	0.32	1.00
Share of crop production/share of sown land	2.16	0.69	0.56	1.00
Data for relative productivity calculations:				
Structure of GAO, %	61.7	29.7	8.6	100.0
Structure of agricultural land, %	6.4	67.0	26.6	100.0
Structure of crop production, %	48.8	40.9	10.3	100.0
Structure of sown land, %	22.6	59.0	18.4	100.0

Note: Absolute productivity of land is calculated in somoni/ha as the value of GAO per hectare of agricultural land or the value of crop production per hectare of sown land. Relative productivity is calculated as a dimensionless number equal to the ratio of the share of GAO (or crop production) to the share of agricultural (or sown) land in farms of different types. The relative productivity equals 1 for the entire agricultural sector, as 100% of output is produced by 100% of land in farms of all types.

Consistently with world experience, the higher productivity of household plots and dehkan farms is attributable to the stronger incentives characteristic of individual and family farming. However, while all household plots are true individual or family farms continuing from the Soviet period, many dehkan farms are in fact *collective* dehkan farms and despite the “peasant” adjective in their name they are corporate successors of former collective or state farms. Unfortunately, official statistics are reported for all dehkan farms as a group, without separating them into individual, family, and collective. As a result we do not have separate information on production and land for collective dehkan farms¹ and it is impossible to make direct productivity comparisons between dehkan farms of different types along the lines of **Table 1**. We can only cite the world experience, which indicates that individual and family farms are generally more productive and efficient than collective and corporate farms. Had data been available to separate out the collective dehkan farms, the productivity of individual and family dehkan farm would have shifted closer to the productivity of household plots, while the productivity of collective dehkan farms would have approached more the level of state-owned agricultural enterprises.

¹ Estimates based on the data of **Table 3** indicate that collective dehkan farms control 31% of all agricultural land and 22% of all arable land in Tajikistan, while individual and family dehkan farms control 36% of agricultural and 43% of arable land. Household plots control 6% of agricultural land and 21% of arable land, while the remainder is agricultural enterprises (27% of agricultural and 14% of arable land in Tajikistan).

1.2.3 Shift from Collective Dehkan Farms to Individual and Family Dehkan Farms

Indirect evidence confirms that the relatively large collective dehkan farms are breaking up into substantially smaller individual and family dehkan farms. This process began in 2007, when a firm government commitment to carry out reorganization (restructuring) of collective dehkan farms encouraged the World Bank Land Registration and Cadastre System for Sustainable Agriculture Project (LRCSP) to expand its activities beyond a limited number of pilot Rayons (Districts). LRCSP focused on distribution of land certificates to members of collective dehkan farms, thus encouraging their exit from the collective farm and creation of individual or family dehkan farms based on their land share. Today LRCSP operates in 40 of the 54 Rayons in Tajikistan and a similar process leading to breakup of collective dehkan farms is operated by the State Land Committee and Geodesy (SCLG) across the entire country. Both projects use similar procedures and approaches to farm reorganization through the issuing of certificates, with one major difference: the World Bank LRCSP issues the certificates for free, without any charge, whereas SCLG requires payment for the certificates (about 200-300 somoni for a 2 hectare plot, more for larger plots).

As of September 2011, the LRCSP project had distributed 34,000 land use certificates since its inception in 2007 (**Figure 2**). The State Land Committee and Geodesy (SCLG) had distributed another 16,000 certificates. The distribution of land use certificates directly affects farm restructuring, as a land use certificate is a legal prerequisite for establishing an individual or family dehkan farm on the basis of land shares withdrawn from a collective dehkan farm. Thus, the SCLG project restructured 732 collective dehkan farms (created from former *kolkhozes* in the mid-1990s) into 16,395 individual and family dehkan farms between 2007 and July 2011; the World Bank LRCSP restructured 1,782 collective dehkan farms into 34,321 individual and family dehkan farms up to October 2011 (**Table 2**). The average number of members per farm in the SCLG project dropped from 1,069 before restructuring to 6.5 in the newly created individual and family dehkan farms; in the LRCSP farms the respective numbers dropped from 136 members before restructuring to 4. The results point to dramatic reduction of farm size during restructuring in both projects. Based on latest numbers from January 2012, the World Bank LRCSP has resulted in the creation of a total of 37,719 individual and family dehkan farms from collective dehkan farms that originally controlled 154,900 hectares of cultivable land (arable and perennials). This works out at an average size of 4.1 hectares per newly organized dehkan farm.

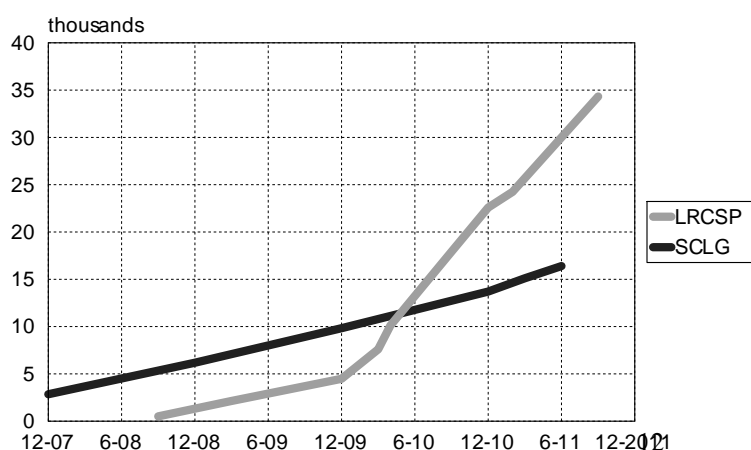


Figure 2. Cumulative number of land use certificates distributed by LRCSP (gray curve) and SCLG (black curve) since 2007

(data from LRCSP aide memoires and State Land Committee).

Table 2. Characteristics of farm restructuring implemented by LRCSP and SCLG

	LRCSP (Oct 2011)	SCLG (July 2011)
Collective dehkan farms selected for restructuring (successors of former <i>kolkhozes</i>)	1,782	732
Individual and family farms created during restructuring	34,321	16,395
Average number of shareholders per farm before restructuring	136	1,090
Average number of shareholders per farm after restructuring	4	6.5
	LRCSP (Jan 2012)	
Individual and family farms created during restructuring	37,719	
Total cultivable land in farms after restructuring, ha	154,900	
Average farm size after restructuring, ha	4.1	

As a result of these activities by LRCSP and SCLG, the rate of creation of dehkan farms substantially accelerated after 2007, exceeding the rate of increase of arable land allocated to dehkan farms. The number of dehkan farms of all types in all of Tajikistan rose from 27,000 in 2007 to 51,000 in 2010 and then to 86,000 in 2011 (**Figure 3**, black curve; data up to 2010 from TajStat, data for 2011 from State Land Committee). The average farm size dropped from 35-40 hectares of cultivable land between 2001-2007 to less than 15 hectares in 2010 and then to just over 7 hectares in 2011 (**Figure 3**, gray curve). This steep decrease of average farm size signifies rapid breakup of the large collective dehkan farms and their transformation into much smaller individual and family farms. Although official statistics make it impossible to separate between dehkan farms of different types, an indication of the size gap between dehkan farms of different types is provided by various surveys, in which individual and family farms average less than 5 hectares compared with 100-200 hectares for the average collective dehkan farm.

The significant progress with the restructuring of collective dehkan farms can be demonstrated using partial information from the State Land Committee obtained during two missions (in 2007 and 2012). By 1 January 2006, there were 8,740 collective dehkan farms in a total of 27,040 dehkan farms of all types. By 1 January 2012, the World Bank's LRCSP project team identified 1,838 collective dehkan farms that require future reorganization until 2015 (these are basically farms with 50 hectares of land and more in 46 Rayons out of total 54: the full number of collective dehkan farms in all 54 Rayons is unknown at this stage, but probably can be established by analyzing the dehkan farm register available in TajStat). These 1,838 collective dehkan farms constitute just 3% of the total number of dehkan farms as of January 2012 (about 60,000), compared with 32% in January 2006. Although the percentage is small, the actual effort required to restructure the remaining 1,838 collective dehkan farms in 46 Rayons is considerable. The importance of continuing the reorganization efforts is underscored by the fact that 3% of dehkan farms in 46 Rayons control 47% of agricultural land and 35% of arable land in all dehkan farms (**Table 3**).

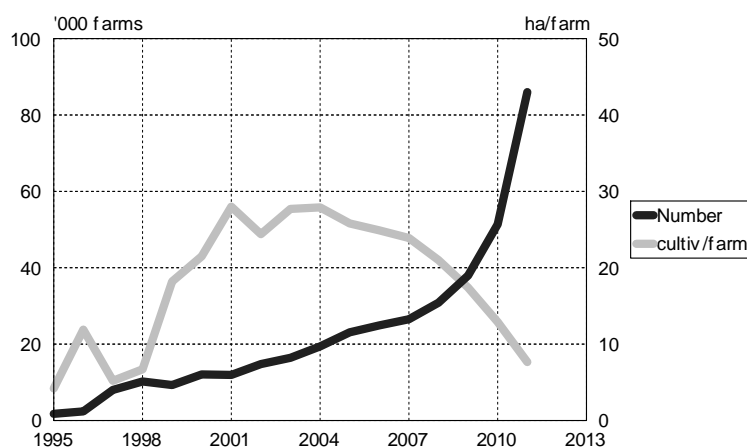


Figure 3. Growth in the number of dehkan farms (black curve) and change of average farm size in ha/farm (gray curve) since 1995. Data from *Agriculture in Tajikistan*, various years.

The remaining collective dehkan farms have on average 680 hectares of agricultural land and 105 hectares of arable land per farm (this number is consistent with the survey data reported above). However, these averages are strongly biased upward by the relatively small number of very large farms (**Figure 4**). Looking beyond averages at the actual size distribution of the remaining collective dehkan farms, we see that 50% of farms have up to 180 hectares of agricultural land and 58 hectares of arable land (the median farm size, **Table 3**). Thus, half the collective dehkan farms are not very large. Yet at the other extreme, 10% of farms have more than 1,600 hectares of agricultural land and more than 200 hectares of arable land, pulling the average size up. The largest among the remaining collective dehkan farms reach 27,000 hectares of agricultural land and 2,800 hectares of arable land, which is very large indeed.

Table 3. Data on 1,838 remaining collective dehkan farms in 46 districts (data from World Bank's LRCSP)

	Agricultural land (n=1836)	Arable land (n=1815)
Total area in collective dehkan farms, '000 ha	1,260	191
Total area in all dehkan farms, '000 ha	2,683	554
Land in collective dehkan farms relative to land in all dehkan farms, %	46.6	34.5
Average size of collective dehkan farm, ha per farm	681	105
Median size of collective dehkan farm, ha per farm	180	58
Top 25% of collective dehkan farms, ha per farm	>591	>101
Top 10% of collective dehkan farms, ha per farm	>1,607	>206
Maximum size of collective dehkan farm, ha per farm	26,663	2,774

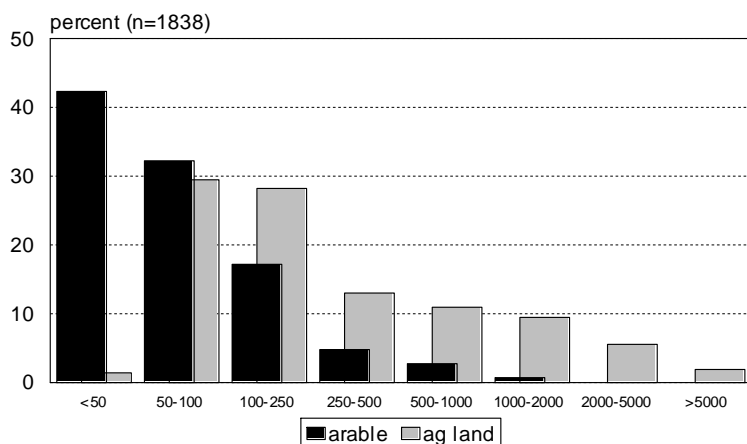


Figure 4. Size distribution of collective dehkan farms identified by LRCSP as candidates for

future restructuring (black bars – arable land, gray bars – agricultural land).

1.2.4 Changing Product Mix/Diversification

The strengthening of individual and family dehkan farms and especially the household plots has been one of the main factors that led to the robust recovery of agricultural growth after 1998 (Gross Agricultural Output in constant prices bottomed out in 1998 and increased by 162% between 1998 and 2010). The shift to family farming has had a substantial effect on the structure of land use in Tajikistan. The area in cotton dropped by more than 40% between 2005 and 2010, while the area in horticultural crops (potatoes, vegetables, and melons) increased by 40% (**Figure 5**).²

These changes in land use are a clear reflection of the transition from large-scale collective farming to smallholder family farming: labor-intensive horticultural crops and fruit orchards are ideally suited to family farms, while small farm sizes and household food security considerations encourage a shift from cotton to grain (a source of flour and animal feed). As a result of these changes in crop mix, the share of cotton in total cultivated area dropped from 28% to 16% in 2010, while the share of orchards and other horticultural crops increased from 20% to 26% and the share of area sown in grain rose from 38% to 46% (**Table 4**).³ These changes in crop mix were unquestionably made possible by the steady improvement in the implementation of Government of Tajikistan Resolution #111, “freedom to farm” since 2007.

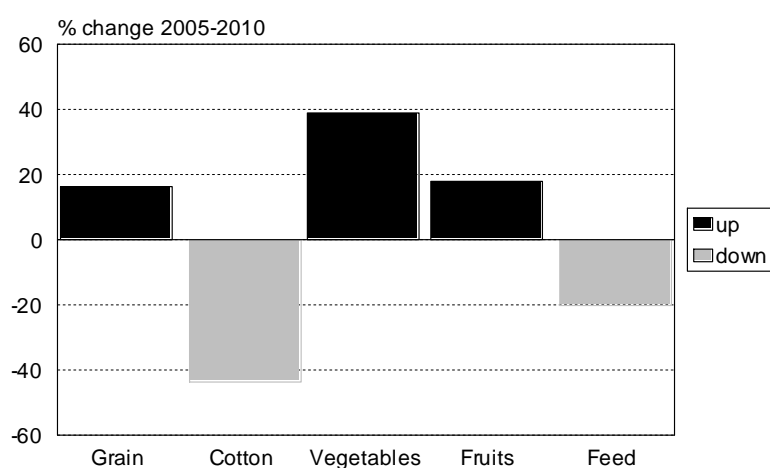


Figure 5. Change in area sown to main crops between 2005 and 2010, percent. Data from *Agriculture in Tajikistan*, various years.

² Cotton prices increased dramatically in the last quarter of 2010, rising by 60% between September 2010 and December 2010. Prices continued to increase through April 2011, at which time they had more than doubled relative to the September 2010 level. Farmers accordingly received much higher prices for their 2010 crop compared with 2009, which triggered a decision to increase cotton sowing in the spring of 2011. The area sown to cotton in 2011 reached 204,000 hectares, a 24% increase from 194,000 in 2010, but still far below the 290,000 hectares in cotton in 2005. Unfortunately, cotton prices collapsed after April 2011, dropping to the level of September 2010 by March 2012. It is not clear if the increased cotton sowings will be sustained in 2012 or scaled back to the 2010 level due to lower prices.

³ The substantial increase in cotton sowings in 2011 (see previous footnote) changed these percentages: cotton rose to 20% of cultivated area in 2011 (up from 16% in 2010), while area in grain slightly decreased (42% in 2011 down from 46% in 2010) and the area in horticultural crops held its own at 26%. Total cultivated area remained virtually unchanged at 1 million hectares (including perennials).

Table 4. Changes in cultivated area and structure of cultivated land between 2005 and 2010

	Cultivated area, '000 ha		Change of cultivated area 2005 to 2010, %	Structure of cultivated area, %	
	2005	2010		2005	2010
Grain	395.6	459.9	16.3	38.2	46.1
Technical crops	325.4	194.2	-40.3	31.4	19.5
Of which: cotton	288.7	162.4	-43.7	27.9	16.3
Vegetables etc.	70.2	97.5	38.9	6.8	9.8
Fruits	133.7	157.6	17.9	12.9	15.8
Feed crops	109.9	87.7	-20.2	10.6	8.8
Total cultivated	1034.8	997.1	-3.6	100.0	100.0

1.3 Measures to Allow Farm Size Adjustment

The process of land reform in Tajikistan produced agriculture of smallholders. The agricultural sector consists today of some 750,000 rural households, each with a household plot of 0.3 hectares on average, and some 60,000 dehkan farms – both individual/family and collective – with average holdings of less than 15 hectares per farm over farms of all three types (official statistics by farm type are not available). Analysis of the full distribution of dehkan farms carried out by TajStat (**Figure 6**) shows that as of January 2009 more than 50% of dehkan farms had up to 5 hectares of agricultural land and only 18% were larger than 20 hectares. The ongoing process of reorganization of relatively large collective dehkan farms into individual and family

dehkan farms acts to increase the proportion of small farms even further.

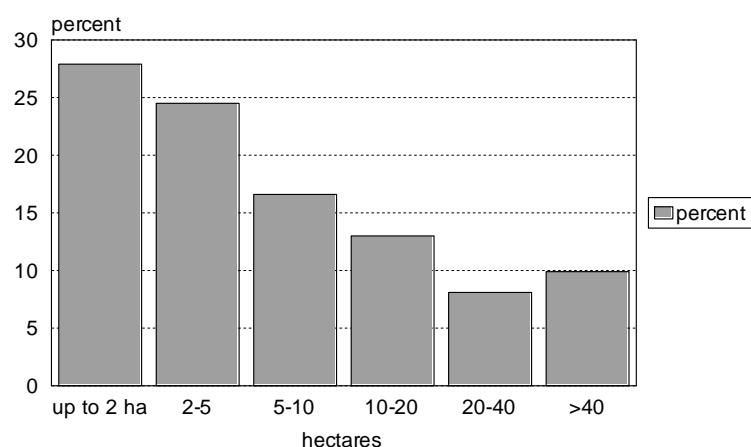


Figure 6. Size distribution of dehkan farms of all types as of January 2009 (data from TajStat, private communication).

Despite their small size, the smallholder farms – household plots and individual/family dehkan farms – are highly productive, much more so than the larger collective dehkan farms and the agricultural enterprises. The individual farming incentives obviously outweigh the disadvantages of small size. Still, farm survey data from many CIS countries show a positive correlation between family landholdings and incomes – both total family income and more importantly income per capita. More land leads to greater production and thus improves family welfare both

directly – through higher consumption of homegrown products, and indirectly – through additional cash income from sales of surplus products. **A clear policy prescription for improving rural incomes and alleviating poverty is accordingly to expand the land allotments of the small household plots and individual/family dehkan farms.** This can be achieved in three main ways:

- distribution of inefficiently used land
- return of unused land to cultivation
- development of land markets

1.3.1 Distribution of Inefficiently Used Land

The state land reserve in Tajikistan is less than 1% of arable land (land balance data for January 2012), which rules out another wave of land distribution for expansion of the small farms. However, 15% of arable land (nearly 130,000 hectares) is still managed by agricultural enterprises – mostly successors of state farms (**Figure 1**), which achieve relatively low productivity levels. Another 20% of arable land (at least 190,000 hectares) is held in collective dehkan farms (see **Table 3**), which are not more productive than the former *kolkhozes* that they succeeded. **Land in agricultural enterprises and collective dehkan farms is a large hidden reserve that may be as high as 35% of Tajikistan’s 860,000 ha of arable land.** Making at least part of this land available for distribution to small family-based farms could further increase the productivity of the agricultural sector and alleviate rural poverty.

1.3.2 Return of Unused Land to Cultivation

In addition to these inefficiently used lands, **some 35,000 hectares of arable land (around 5%) is totally unused, primarily due to degradation** (reported “fallow” in land balance data for January 2012). These lands can and should be returned to productive cultivation, although this clearly requires investment for melioration. The government and the donors should focus their attention on raising investment funds for such land rehabilitation. Farmers willing to invest in rehabilitating degraded land on their own should benefit from incentives, such as tax credits, exemption from the higher tax applicable to cultivated land, and access to low-interest micro-loans or grants for investment in conversion.

1.3.3. Development of Land Markets

Since the options for additional land distribution are inherently limited, it would be important to enable farmers to adjust the size of their holdings through land market transactions. Land markets provide a mechanism that allows land to flow from less efficient or inactive users to more efficient and productive ones, and the development of land markets will allow enterprising farmers to increase the size of their farms and achieve higher incomes. Given that all agricultural land in Tajikistan is owned by the state and thus cannot be bought or sold, the only feasible way for land markets to develop today is by allowing transferability of Land Use Right (LUR) certificates – either temporarily (through leasing) or permanently (through selling). This option is included as one of the proposed amendments in the amended Land Code currently

under review in the Parliament. Safeguards ensuring that distressed smallholders cannot be pressured into giving up their land to more powerful land users will have to be introduced as land markets develop. These safeguards may restrict transactions in agricultural land to bona fide farmers, thus precluding land accumulation in the hands of rich investors; they may ensure that no household remains landless through bankruptcy or forced sales by allowing distressed families to keep at least their household plots.

There is ample evidence among all transition countries (as well as worldwide) that land leasing is even more important than buying and selling of land as a mechanism for the enlargement of smallholdings. **To support land leasing, government must enact policies that ensure contract enforcement and rule of law. Without legal guarantees, people will be reluctant to lease out land for fear of losing their property.**

Land consolidation programs are often promoted as a vehicle for farm enlargement. Effective consolidation programs are driven by market mechanisms, i.e., free negotiations and mutual agreements between owners of fragmented plots, without any outside pressure from the government. Examples of such market-driven consolidation efforts are provided by the World Bank/FAO project in Moldova (2007-2009) or the forthcoming USAID project in Kyrgyzstan, which heavily relies on the Moldova experience. In these market-driven land consolidation programs the holdings of existing land users are reconfigured to achieve greater contiguity, i.e., two land parcels of a single user originally in different locations are merged into one contiguous parcel through land swapping agreements with other land users. The total holdings remain unchanged and the original user retains full control of the reconfigured plot. Market-driven consolidation is totally different from enlargement through the pooling of land plots by different users who join a production cooperative to carry out joint (collective) cultivation of land. In consolidation programs, any plot enlargement is a side effect that occurs when the general consolidation activity encourages elderly and inactive landowners to exit agriculture and lease or sell their plots to other users.

Transferability of land use rights is one of the prerequisites for land market development and market-driven farm size adjustment. Another prerequisite for the emergence of land transactions is registration and titling of land-use rights for all farm plots, used individually or by extended families, which should be in place once the modern registration and land-use right titling systems being developed as part of the World Bank's LRCSP, project become operational. **It is imperative to ensure simple and transparent registration procedures, with minimum transaction costs, so as to encourage rural land-use right holders to register their land and obtain legal certificates for their land-use rights. The registry must be developed simultaneously so that land-use rights can be registered in a secure location.**

1.4 Completion of Farm Restructuring and Post-Restructuring Measures

The prescription to complete farm restructuring is clear: the procedures being implemented by LRCSP and SCLG should be accelerated and extended to cover all remaining collective farms. An effort should be made to identify the remaining collective farms in all 54 Rayons and thus expand the list of 1,838 restructuring candidates prepared by LRCSP. At the same time, efforts must be made to decide the future of the remaining agricultural enterprises. This is a largely ignored or neglected lacuna in Tajikistan's land policies, and the release of the 130,000 hectares of arable land that the enterprises still control is crucial for the future expansion of smallholder farms – both household plots and small individual and family dehkan farms.

Post-restructuring steps should be aimed to ensure viability and profitability of the smallholder farms by counteracting the effects of smallness. This primarily requires implementation of the following policies:

- Implement **policies that will lead to enlargement** of household plots and small individual and family dehkan farms through **market mechanisms** (as discussed in the previous section).
- Implement **policies to increase agricultural productivity through technology transfer and information.**
- Implement **policies to improve the access of small farms to market services:**
 - Services for marketing **farm products**
 - Channels for purchase of **farm inputs** (including quality seeds)
 - **Farm machinery** services (rental and maintenance)
 - Water and **irrigation systems**
 - **Veterinary and artificial insemination** services
 - **Extension** services to raise the level of technology and knowhow among small farmers
 - **Credit services for small farms**
- Implement policies to **encourage greater diversification** at the farm level with the objective of increasing incomes and reducing risk.

1.4.1 Legal Issues Related to Land

Development of land markets is the main mechanism for the future adjustment of smallholder farm sizes with the aim of achieving higher family incomes and alleviating poverty. **Land market development requires adoption of the amended land code that allows transferability of land use rights.**

Farm restructuring is a dynamic process that will not stop once all collective dehkan farms have been restructured. Multi-family dehkan farms may continue splitting, while individual dehkan farms may decide to merge into multi-family units. The legal framework for this continuing process should be provided by the new Dehkan Farm Law, which is currently being reviewed by

the Government. To support dynamic restructuring, the Dehkan Farm Law should allow **unconditional freedom of exit** with land share:

- **without imposing indivisibility** (minimum-size) restrictions on withdrawal of land shares (such restrictions open the way to arbitrary administrative manipulations and ultimately corruption);
- **without making right of exit conditional** on the establishment of a new dehkan farms (landholders should be allowed on exit to lease out their land share to other active users, without continuing to farm on their own).

In addition, the new law should continue to guarantee **“freedom to farm”**, based on principles of Resolution #111 of Republic of Tajikistan, and also ensure **“freedom of association”**, including voluntary membership in service enterprises and service cooperatives. As part of the freedom of association principle, it is advisable to make the option of registering the dehkan farm as a legal entity entirely voluntary. The current draft of the Dehkan Farm Law makes registration as a legal entity obligatory for farms with more than 25 members: it is preferable to **always leave the choice of legal form to the farmer**, who should be allowed in all circumstances to freely choose between organization, as a physical or a legal entity.

The option of dehkan farm organizing as a legal entity raises the issue of **security of members’ rights to land in case of forced liquidation as a result of bankruptcy**. Safeguards must be built into the new dehkan farm law to **guarantee that under no circumstances will liquidation of a dehkan farm leave its members landless**. It is not enough saying that the head of a dehkan farm cannot borrow or mortgage the land use rights without the approval of the general meeting. Members of a farm organized as a legal body do not always have the necessary education or insight to understand the full implications of such decisions. It is precisely for this reason that they tend to become members of a larger “collective” organization, where they often follow uncritically the recommendations of the head of farm because they believe that “the head knows what is best”. **The law must explicitly circumscribe the power of the head of farm in areas that may endanger the security of members’ land use rights** and create even a suspicion of the danger of stripping the members of their land. And to improve farm shareholders’ awareness of such issues, comprehensive public information campaigns need to be scaled up in the country, with special focus on reaching out to female farm shareholders, where their rights, entitlements and liabilities can be duly explained.

1.4.2 Support Services

In developed market economies, farmers do not typically meet face to face with the consumer in the market place and access to markets is achieved through private intermediaries. Such private intermediaries are beginning to emerge in Tajikistan in several forms. First and foremost, they include “integrators”, i.e., traders who visit the farms with their trucks and purchase farm products wholesale for subsequent resale to retail customers. In a similar category, there are private processors (e.g., dairies, meat packers, canning factories) that make arrangements with farms to buy their products wholesale. On the supply side there are organizations that rent

machinery services to small farmers as needed and “distributors” who purchase inputs wholesales and resell them to farmers in the villages. Some distributors actually deliver supplies to the remote villages; others establish small distribution “centers” for sale of feed or fertilizers in nearby villages and thus minimize the travel time for farmers. Another important category of private service providers are extension experts: former *kolkhoz* specialists (agronomists, livestock scientists) now act as private consultants providing paid advisory services to farmers.

All these private service providers fulfill a crucial function for rural development: they free the farmers from the need to travel to the marketplace and enable them to concentrate efficiently on their core business – agricultural production. Government **policies** should be directed to **encourage and facilitate the operation of such intermediaries – by simplifying licensing arrangements**, implementing more **flexible inspection procedures**, cultivating a generally friendly and helpful attitude among the local officials, and perhaps granting **tax credits on transactions with agricultural producers**. The government should also consider establishing special credit facilities for expansion of business activities of such rural intermediaries.

So far, however, such private rural intermediaries are relatively rare and do not satisfy the needs of the huge number of dehkan farms and household plots in Tajikistan. Donors try to supplement the private service providers by establishing networks of advisory centers and supporting the creation of machinery services with grants and credits. These efforts, however, have a very limited regional scope and are more in the nature of pilot efforts without a clear strategy for national rollout (the GIZ/TAFF vigorously expanding TAG network appears to be an exception to this rule). The most impressive achievements have been recorded by donors in the area of establishment of legal consulting centers (USAID, Helvetas): this is obviously a very important advisory function, but unfortunately it has no direct impact on farmers’ access to market services.

Even in market economies private service providers do not always reach every remote rural location. In such cases, **local farmers take the initiative and organize self-help bodies – so-called service cooperatives** - whose function is to allow alternative access to markets without relying on private service intermediaries. Decades of experience in all developed and developing market economies show that **farmers’ service cooperatives are the best mechanism to access market services in areas where no private intermediaries operate or where private intermediaries unfairly exploit farmers through monopolistic practices**. While farmers obviously need guidance on how to create cooperatives and new cooperatives may require support through grants or subsidized credit from donors or the government, the self-organizing nature of the system of cooperatives ensures relatively easy rollout to remote rural locations. The concept of cooperatives is discussed in more detail in the next section.

II. COOPERATIVE DEVELOPMENT

2.1. Creation of Cooperatives

Best-practice world experience suggests that farmers' service cooperatives provide the most effective way of improving the access of small farmers to market services. Such cooperatives can cover the whole field-to-market value chain, including joint purchase of farm inputs, attention to water distribution and irrigation (through Water User Associations), organization of machinery pools for field work, establishment of sorting and packing facilities, transport of farm products to markets and processing. They can also provide extension and market information services, as well as veterinary and artificial insemination services, all of which are essential for productivity improvement in both crop and livestock production. Service cooperatives do not rule out private initiative: private trade intermediaries, integrators, and service providers may co-exist with service cooperatives and continue their currently developing operations. The main issue here is the attitude of the government. It has to undergo a radical change from neglect and disdain of household plots and small farmers to full recognition of the huge role that small farms play in Tajikistan's agriculture. Government officials and decision makers have to acknowledge the contribution and importance of small farms, abandon the traditional preference for large farms, and **focus on policies that ensure a supportive market environment for successful operation of the small-farm sector** – including policies to encourage **creation of service cooperatives**. This change of attitude will require a comprehensive “re-education” effort in all ministries and should probably be guided from the level of the central government.

2.2. Western Classification of Cooperatives

International Cooperative Alliance (ICA) defines a cooperative as 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**. The persons who voluntarily unite to form a cooperative are usually referred to as members or member-owners, and one of the **key attributes of membership is active participation in the activity of the cooperative** (whether economic, business, or social). A cooperative is a legal entity and in a certain sense it is an analogue of a shareholder corporation. There are, however, some fundamental differences between a cooperative and a corporation, as listed in **Table 5**. Perhaps the main difference concerns the organization's **objective**: while business corporations aim to maximize their profit, **cooperatives aim to maximize the benefits that members derive from their participation in cooperative activities**, including lower prices paid for inputs and services and higher prices received for products.

Table 5. Comparative attributes of a cooperative and a shareholder corporation

Attribute	Cooperative	Corporation
Owners	Members	Shareholders–investors
Owners' objective	Use of services provided by the cooperative	Earning income
Organization's objective	Maximize members' benefits from working with the cooperative	Maximize corporate profits

Voting rights	One member–one vote, regardless of share contribution	Number of votes proportional to number of shares (i.e., share contribution)
Income distribution rules	Income distributed to members in proportion to their participation in the activity of the cooperative	Income distributed to shareholders in proportion to the number of shares held

The Western cooperative paradigm distinguishes between *production cooperatives*, *service cooperatives*, and *consumer cooperatives* based on their functional characteristics.

Production cooperatives are cooperatives in which members are jointly engaged in the production process – irrespective of whether this is production of manufactured goods, agricultural products, or services. These may include:

- **Manufacturing cooperatives** are usually called **employee owned or labor managed firms**. They used to be very popular in former Yugoslavia before 1989, but they are also observed in Western countries (Mondragon Cooperative Corporation in Spain, Ha’Argaz Metal Works in Israel, and others).
- **In agricultural production cooperatives members jointly cultivate cooperatively held agricultural resources, such as land or farm machinery**, producing a variety of farm products. Collective farms in the former Soviet Union and kibbutzim in Israel are some examples of agricultural production cooperatives.
- **Cooperatives that produce services for sale to the general public** (Avis Rent-A-Car world-wide, United Airlines in the U.S., Egged Transportation Cooperative in Israel, and others) **are usually characterized as employee owned or labor managed cooperatives**: they are not called “service cooperatives”, because this term is reserved for cooperatives that sell services to members (the sales clientele criterion).

Production cooperatives sell their output to outsiders; yet **the main function of production cooperatives is to improve the wellbeing of their members by providing jobs and working conditions that are superior to what would otherwise be available in the market**. Production cooperatives in the world are a tiny minority among organizations that produce manufactured goods, agricultural products, or services.

Service cooperatives, on the other hand, are the largest and most typical category of cooperatives: **these are cooperatives that provide services to their members-producers**,⁴ who carry out all production activities independently on their own. In contrast to the minor role of production cooperatives in market economies, service cooperatives in many countries account for a large share of transactions in the relevant economic sector: for instance, agricultural

⁴ For this reason, service cooperatives are sometimes called in English “producer’s cooperatives” (as distinct from “production cooperatives”), or “farmer’s cooperatives” in agriculture. In Russian this term would be translated as кооперативы производителей (*kooperativy proizvoditelei*), to distinguish it from производственные кооперативы (*proizvodstvennye kooperativy*), which is the accepted Russian term for “production cooperatives”.

marketing, processing, and supply cooperatives (see below) are major players in markets for farm products and farm inputs in North America, Western Europe, Japan, and South-East Asia. Some members may actually be employed as workers in service cooperatives, but most employees (and even most managers) are hired outsiders. Service cooperatives use members' share contributions to capital and borrowed funds to finance purchase of goods and services from various market sources and then resell these services to members at advantageous prices. Service cooperatives exist in many different areas of economic activity.

Agricultural service cooperatives are usually subdivided into:

- **Marketing cooperatives:** cooperatives that collect and prepare members' produce for sale, truck it to the market, and arrange for actual sale at prices that are higher than what would be normally attained by the farmers themselves;
- **Processing cooperatives:** cooperatives that buy members' produce for processing (often vertically integrated as the last downstream link in marketing cooperatives);
- **Input Supply cooperatives:** cooperatives that exploit the benefits of size to purchase inputs (fertilizers, chemicals, fuel, seeds, animal feed, etc.) or specialized services (veterinary medicine, artificial insemination) at prices and terms beneficial to members-producers;
- **Machinery cooperatives** (or machinery pools): pools (fleets) of farm machinery jointly owned by groups of members in situations when it is too expensive or too inefficient for each farmer to purchase machinery independently;
- **Extension and information management cooperatives:** services to upgrade the human capital of cooperative membership through training, education, knowledge exchange, and management information technologies provided by hired experts.

Examples of service cooperatives outside agriculture include:

- rural electric power cooperatives,
- renewable energy cooperatives,
- rural telephone cooperatives,
- healthcare cooperatives (the cooperative hires healthcare professionals for the benefit of its members),
- housing cooperatives
- cooperative schools, nurseries, child-care facilities,
- cooperative art galleries (a "marketing cooperative" for art "produced" by member artists)
- credit unions and cooperative banks
- cooperative (mutual) insurance companies
- auditing and accounting cooperatives (usually serving other cooperatives, not individuals)

Consumer cooperatives are trading firms that sell consumer goods primarily to their members at advantageous prices. They are basically a variety of supply cooperatives (outside agriculture), but they are treated as a separate class because of their numerical importance in the world. The largest segment of consumer cooperatives is cooperative food stores and supermarkets (“grocery stores”), but cooperative stores that sell clothes, housewares, appliances, and even cars to their members – at advantageous prices – also fall in the category of consumer cooperatives. In the West, consumer cooperatives, unlike other service cooperatives, are probably most likely to deal with non-members (“third parties”) on a regular basis: this is their strategy of achieving growth comparable with other firms in the consumer services sector.

2.3 Classification of Cooperatives in Legislation of the Republic of Tajikistan

Clear unambiguous definition of different types of cooperatives – production, service, and consumer – **is essential** to ensure acceptance of the concept of cooperatives by the rural population. **In market economies, the term “cooperative” is automatically interpreted as a service cooperative.** In Tajikistan and all CIS countries, the term “cooperative” is automatically interpreted as a production cooperative – the model of a former *kolkhoz* or collective farm. Having been exposed for decades to the negative experience with such “production cooperatives”, rural people may persist in their negative view of the whole concept of cooperatives and reject any proposals to form cooperatives, even when the intention is to create service cooperatives, not old-style production cooperatives. **The new legislative framework must acknowledge this psychological barrier to cooperatives by introducing unambiguous definitions that will prevent any possibility of misunderstanding or misinterpreting the strategic intentions.**

The draft law of cooperatives (Art. 2(1)) adopts the general definition of cooperative as advocated by ICA (see above). This is a good start, but it is not new, as the standard ICA definition has been always accepted since the Soviet times. Beyond the universally accepted general definition, the new draft law, following the 1999 Civil Code and the Soviet-era practice (e.g., the 1988 USSR Law on Cooperation), classifies cooperatives into two distinct categories: (a) production cooperatives (*proizvodstvennye kooperativy*) and (b) consumer cooperatives (*potrebitel'skie kooperativy*). Unfortunately, the meaning that the new draft law imparts to these two familiar-sounding terms is different from the accepted meaning in Western usage. Furthermore, **the term *service cooperative* is not mentioned in the new draft law.**

The draft law (Article 2) does not examine the functional features of the different cooperatives and instead employs the formal classification attributes shown in **Table 6**. Tajikistan’s legislation thus classifies cooperatives by their profit-making attributes (“for profit” and “not-for-profit”) and by their sales clientele (third parties or members), assuming in both cases that the respective attributes are mutually exclusive and allow cooperatives to be classified into two disjoint groups. Unfortunately, the two attributes are ambiguous and fuzzy for cooperatives.

Table 6. Classification of cooperatives in RT legislation (Civil Code and draft Law of Cooperatives)

Production cooperatives	Consumer cooperatives
Legal body	Legal body
Commercial (“for profit”) organization	Non-commercial (“not-for-profit”) organization
Sales to third parties only	Sales to members only (must transform into a production cooperatives if sales primarily to third parties)

The notion of profit in a cooperative is vague and unclear. Some international authorities argue that *all* cooperatives are essentially not-for-profit, because their goal is to maximize the members’ benefits by lowering the prices that they charge and raising the prices that they pay. Profits are reduced to zero (or almost zero) by this pricing policy.⁵ Furthermore, there is no reason to assume a difference in profit orientation between the two groups of production and consumer cooperatives: under the current Law on Consumer Cooperation consumer cooperatives include retail and wholesale traders, providers of food and other services, traders in consumer goods, etc., which in principle are not less profit-making than other cooperatives. The attributes of “for-profit” (commercial) and “not-for-profit” (non-commercial) are too ambiguous to be used as classification attributes for cooperatives and should be removed from future legislative drafts.

There are also difficulties with the sales clientele attribute (“production cooperatives” selling mainly to third parties versus “consumer cooperatives” selling mainly to members). Production cooperatives in the sense of cooperatives in which members produce goods or services indeed sell their output to outsiders, i.e., third parties. But this is the Western definition of production cooperative, whereas in RT legislation (Civil Code, Article 118) production cooperatives also engage in processing and sale of agricultural products, contract work (e.g., plowing or harvesting), trade, provision of services, and other activities that do not involve production – activities that mainly target members – not third parties – as the sales clientele. In Western nomenclature these cooperatives are called *service cooperatives*, not production cooperatives (**Table 7**), and they are definitely member-oriented in their sales, whereas the Civil Code puts them in the category of production cooperatives that are supposed to sell to third parties only. Finally, consumer cooperatives in the sense of food and other retail traders (as defined in the West) indeed sell to members, but the proportion of non-member sales in these cooperatives is steadily growing and according to RT legislation eventually they will have to be transformed into production cooperatives – although they do not engage in any production. These terminological inconsistencies suggest that the feature of selling to third parties vs. selling to members should also be dropped as a classification attribute for cooperatives.

⁵ Professor Muenkner noted in his materials for the Working Group on Cooperatives (September-November 2011) that the Civil Code of Switzerland (OR Art. 828) specifically defines all cooperative as not-for-profit.

Table 7. Functions of “production cooperative” as defined in the Civil Code (Art. 188) and their classification according to Western views of production, service, and consumer cooperatives

Functions of “production cooperative” according to Civil Code (Art. 118)	Western classification
Production	Production cooperative
Processing	Service cooperative
Sale of products	Service cooperative
Contract jobs, custom work	Service cooperative
Trade	<i>Depends on specifics</i>
<i>For and with producers</i>	Service cooperative
<i>For and with consumers</i>	Consumer cooperative
Consumer goods and services	Consumer cooperative
Other services	<i>Depends on specifics</i>
<i>Services to producers</i>	Service cooperative
<i>Services to consumers, general population</i>	Consumer cooperative

The terms “production cooperative” and “consumer cooperative” as used in Tajik legislation and as imported into the draft law of cooperatives are totally inconsistent with the accepted Western terminology. The best option is to introduce a consistent set of definitions of service, consumer, and production cooperatives into Tajik legislation, based on functional features (including appropriate amendments in the Civil Code). An alternative (“second best”) approach is to **omit the terms “production cooperative” and “consumer cooperative” from the draft law and to treat cooperatives generally as non-commercial (“not-for-profit”) legal entities** (the category of exceptional cooperatives that do business mainly with non-members may be regarded as commercial – “for profit” – legal entities). This, however, would involve explicit recognition of the fact that cooperatives, although “non-commercial”, may have income (accounting profit, доход in Russian), which is ultimately distributed to members as refunds for their participation in the activity of the cooperative.

The **definitions of “production cooperative” and “consumer cooperative”** introduced in the draft Law of Cooperatives (see **Table 6**) are different not only from the accepted Western definitions: they **are also different from the definitions used in the Civil Code**. They will necessarily require amendment of the Civil Code, without achieving the desired consistency with Western terminology and market classification of cooperatives. Since the Civil Code will have to be amended anyhow, it is strongly recommended to go the extra mile and prepare amendments that will ensure terminological and conceptual consistency between Western concepts and RT legislation.

2.4 Relations and Cash Flows between Members and the Cooperative

As an example, let us consider the relations between member-farmers and their marketing service cooperative. Members produce independently on their plots and deliver their products (milk, vegetables, honey) to the cooperative. The members do not deal with retail sales to consumers: this function is entrusted to the marketing cooperative. Receiving the products from

its members, the cooperative makes the first payment to members calculated on the basis of estimated market or near-market prices. This first-wave payment to members is an advance on account of products received: the final accounting is made at the end of a quarter or a year, when the cooperative prepares its financial report. If the financial report shows an accounting profit (“surplus” in Western cooperative terminology) after deducting the first-wave payments to the members and other operating expenses incurred by the cooperative during the period, this essentially indicates that the cooperative underpaid the members for the products delivered during the reporting period. The surplus in principle should be distributed as a second payment to the members in proportion to their deliveries to the cooperative. In the end, the members may receive from the cooperative a price higher than the market price that they would have received by selling independently to the consumers. If the financial report shows an accounting loss (i.e., “deficit” or negative “surplus”), this indicates that the cooperative overpaid the members for the products delivered during the reporting period. The deficit is also distributed to the members in proportion to their deliveries and is recorded as a debit entry in the accounts of each member, to be covered from next year sales or special funds maintained by the cooperative.

The same considerations exactly apply to the relations between members and a supply cooperative, which purchases inputs (fertilizers, seeds, feed, etc.) from suppliers at wholesale prices and re-sells them to members. Members initially pay an advance to the cooperative to cover the estimated cost of the inputs (first-wave payments). If the financial report at the end of the period shows positive “surplus” (accounting profit), this means that the cooperative initially overcharged the members for the inputs and the “surplus” is distributed to the members in proportion to their purchases through the cooperative. This effectively lowers the end price that members pay to the cooperative for inputs. If the financial report shows a “deficit” (accounting loss), this means that the cooperative initially undercharged the members for their purchases and the “deficit” is also allocated to members in proportion to their purchases. A similar scheme is applied in other service cooperatives, including cooperatives that provide machinery services to members using a jointly owned pool of farm machines.

2.5 Taxation of Cooperatives

Cooperatives have the potential to increase the benefits to members by exercising their market power and negotiating better prices and improved terms both for sale of member products and for delivery of services. Yet tax distortions may negate these positive effects and make membership in a cooperative an ineffective proposition for farmers. **Tax issues must be carefully addressed and resolved if cooperatives are to have any chance of developing in Tajikistan.**

Farmers join cooperatives with the objective of getting higher prices for their products and paying lower prices for the inputs and services they buy. **The cooperative model achieves these objectives in two ways. First, a cooperative represents many farmers in the market and thus enjoys greater market power** than each small farmer individually. The cooperative can negotiate lower prices for wholesale bulk purchases of inputs and pressure traders into paying higher prices for guaranteed deliveries of high-quality products. **Second, the cooperative does**

not aim to maximize its profits: in fact **it distributes all its profits to members** in proportion to their participation in cooperative activities, thus increasing members' revenues and reducing their costs compared to what they could achieve by dealing with private profit-maximizing intermediaries. These two mechanisms usually guarantee that cooperative members fare better than smallholder farmers selling and buying independently. In principle this provides an incentive for joining a cooperative, but there is a danger that taxation of cooperatives may negate the membership benefits and discourage farmers from becoming members.

Today, household plots practically do not pay any tax on the sale of their farm products, whereas dehkan farms pay the unified tax (based on the area of land they control) and sometimes also the local retail sales tax.

Everybody has to pay the social tax – farmers and cooperatives alike-, but this is not related to the farming activity and is therefore not reviewed in detail in the context of this discussion. However, it is crucial to note that over the recent years the social tax (collected per each shareholder of dehkan farms) has led to gender discrimination during farm restructuring, as the names of female shareholders among others have increasingly been excluded from land-use right certificates to reduce the amount of social tax to be paid, thus violating the legal use-rights of these shareholders. The social tax issue needs to be addressed as part of the ongoing Tax Reform to ensure that further dehkan farm restructuring provides gender equity and a fairer taxation regime to smallholder farmers.

When household plots and dehkan farms purchase inputs or farm services, the prices they pay include VAT, but their tax status is such that they cannot offset these VAT payments against their sales (smallholder farmers usually do not charge VAT on sales). A cooperative, on the other hand, is a legal body subject to different taxation rules. Specifically, **three types of taxes may negatively affect the benefits that members receive from their cooperative:**

- **VAT on transactions** between the cooperative and its members
- **Tax on accounting profits** reported by the cooperative
- **Retail sales tax**

2.5.1 Exemption from Value Added Tax

Like dehkan farms themselves, the cooperative pays VAT to suppliers, but then the cooperative has to charge VAT on its sales to members. As a result, members may end up paying to the cooperative more than what they would have paid independently to a supplier. The negative effects of VAT on the relations between cooperatives and their members have been identified and discussed in detail by the Working Group on the Law of Cooperatives and the Working Group on Tax Reform. It has been agreed that all transactions with members – supply, provision of services, contract work – should be exempt from VAT. An appropriate amendment has to be added to the Tax Code in Art. 211, para. 2, dealing with VAT exemptions to non-commercial organizations. Further to our previous discussion of the classification of cooperatives, we should

stress that, **for the exemption to apply to all cooperatives, this approach in effect requires recognizing all cooperatives (with minor exceptions) as non-commercial organizations.**

The recommended approach to VAT exemption of cooperative transactions with members is an excellent example of the principle of **“fiscal transparency”** applied to cooperatives in the **Netherlands**. In this country, with its outstanding tradition of cooperation in agriculture and other sectors, **transactions between members and their cooperative are exempt from all taxes, not only VAT**. This gives recognition to the “not-for-profit” status of cooperatives and makes the entire surplus available for distribution to members, without subjecting it to taxes on profit.

2.5.2 Exemption of Distributions to members from Tax

Cooperatives do not know in advance how much to pay to members for product deliveries and how much to charge for input supplies and other services. Financial settlements with members are handled in two ways: the first-wave payments and charges are in the nature of an initial advance, and the final settlement is made at the end of the period, when the financial statements have been prepared. As a result, a cooperative usually presents a financial statement that shows a positive surplus (accounting profit) or a deficit (accounting loss) according to the following scheme:

Marketing cooperative	Supply cooperative
Revenues from sale of members' products	Revenues: first-wave payments from members
Costs:	Costs:
First-wave payments to members	Paid to suppliers
Operating costs	Operating costs
Gross income (surplus/deficit)	Gross income (surplus/deficit)

Gross income («доход» is the Russian term used in the draft law of cooperatives) represents the surplus or deficit that is further allocated by three channels:

- 1) Allocation to the cooperative reserve fund or other capital funds (“retention of earnings” in standard accounting terminology).
- 2) Distribution to members in proportion to their share contribution to the cooperative capital (“dividends” in standard Western terminology; паевые выплаты in the draft law of cooperatives).
- 3) Patronage refunds (кооперативные выплаты) in proportion to their use of cooperative services (i.e., basically in proportion to first-wave payments to the members).

The sum of the three amounts distributed to members is equal to gross income. The draft law of cooperatives suggests specific formulas and ceilings for the calculations of the first two allocations (allocation to reserve and other funds; share-based distributions). Therefore, these allocations should be calculated first and the amount available for distribution as patronage refunds then determined as the difference between gross income and the first two allocations:

Gross income:
Less allocation to reserve fund and other funds
Less distribution in proportion to share contribution (паевые выплаты)
Difference available for distribution as patronage refunds (кооперативные выплаты)

This is the logical sequence of calculations suggested by the relevant allocation procedures in the draft law of cooperatives, although it does not quite fit the accepted logic of Western accounting.

Conventional interpretation of the tax code will require the cooperative to pay tax on the full gross income at applicable rates. Recognition of the special nature of patronage refunds in cooperatives (as second-wave adjustment of initial over- or under-payment to members) and the Dutch principle of “fiscal transparency” suggest that this component of gross income should not be taxable. Furthermore, the U.S. tax code recognizes “dividends” paid to members in agricultural cooperatives (but not other cooperatives) as non-taxable at the cooperative level (i.e., exempt from withholding taxes). If the Dutch and the U.S. tax principles are adopted, the cooperative will be required to pay tax only on the share of gross income retained in reserve fund and other capital funds. The amount retained in the reserve fund and other capital funds will be shown net after deduction of the appropriate taxes.

Recognizing the need to exempt patronage refunds (кооперативные выплаты) from taxation, the draft Law of Cooperatives introduced an important provision in Art. 39(3):

Payments to cooperative members in accordance with their participation in cooperative activities and payment of bonuses/honoraria to cooperative managers are treated as expenses.	Выплаты членам кооператива в соответствии с их участием в хозяйственной деятельности кооператива и выплаты вознаграждений должностным лицам кооператива относятся к расходам кооператива
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This, in addition to the proposed VAT amendment, is a very important step toward establishing “fiscal transparency” for cooperatives in Tajikistan. To be effective, however, **this provision must be incorporated as an amendment in the new Tax Code** currently debated: expert opinions suggest that tax authorities refuse to follow provisions incorporated in specific laws unless they are also reflected in the Tax Code and the courts are reluctant to rule against the tax authorities in such instances. We furthermore recommend following the U.S. practice and **exempt share payments (паевые выплаты) from taxation in agricultural service cooperatives.**

2.5.3 Exemption from Retail sales Tax

The last taxation issue to consider concerns the retail sales tax. Again, household plots are exempt from this tax by definition, whereas dehkan farms, although legally liable, usually manage to avoid retail sales tax on their direct sales to consumers in the market. Avoidance is of course impossible when dehkan farms (or perhaps even household plots) sell to legal bodies, such as processors or, in the future, marketing cooperatives. **In principles, sales to a processor or a marketing cooperative are not retail sales: these are wholesale transactions and should**

be exempt from the retail sales tax. We are told, however, that tax authorities enforce collection of retail sales tax also on wholesale transactions with processors. This issue must be resolved, as payment of retail sales tax on transactions with marketing cooperatives will place cooperative members (whether dehkan farms or household plots) at a distinct disadvantage compared to non-members. It will also be necessary to exempt cooperatives from any retail sales tax on inputs delivered to members: this will have to be resolved in the spirit of “fiscal transparency” as in the VAT exemption amendment.

2.6 Promoting cooperatives

In Tajikistan, as in all CIS countries, the notion of cooperative automatically raises the connotation of a “production cooperative” that enjoyed quite an unfavorable reputation during the Soviet era. The agricultural reform strategy aims at establishing a different type of cooperatives – service cooperatives, whose function is to provide farm services without in any way depriving farmers of independence in all production activities. The implementation of the strategy to encourage the development of service cooperatives should therefore start with a **broad information campaign** in rural areas, intended to explain the new notion of a cooperative and to elaborate on the advantages of becoming a member. This information campaign is basically the responsibility of the government, but donors should naturally be invited to utilize their experience with the establishment of cooperatives and help with funding.

Several donor organizations work actively on the establishment of agricultural service cooperatives in Tajikistan. These include Acted, OSCE, GIZ/TAFF, and the Aga Khan Foundation. Unfortunately donor experiences and monitoring efforts have not been documented (with the possible exception of the GIZ/TAFF TAG groups) and it is very difficult to analyze the actual achievements of these efforts so far. It is even impossible to map the existing donor-established cooperatives across Tajikistan to get a sense of spread and coverage. Visits to a number of cooperatives in Khatlon, Sughd, and Rasht have shown that these cooperatives are mainly fledgling efforts which are badly in need of training and guidance. The general feeling is that cooperatives, once launched with donor assistance, are left pretty much on their own, without followup assistance, monitoring, and guidance. Cooperative managers naturally complain of difficulties with purchasing machinery or raising credit, but beyond that it is clear that they are untrained and without experiencing in managing a service cooperative. All cooperatives have formal business plans, but managers need training and guidance on how to implement the plans and how to work toward achieving their strategic objectives. **Training and learning programs are needed for existing and potential cooperative managers (and also members).**

Beyond initial training and learning, it is necessary to establish **permanent information services** for members and managers. These information services should focus on the following areas:

- Market information

- Relations with banks
- Taxation
- Legal issues

The USDA Cooperative Service in the U.S. and similar cooperative services in the Netherlands are good models for the establishment of a permanent cooperative service in Tajikistan.

As part of information and training services, it is necessary to establish mechanisms for **systematic experience sharing among existing cooperatives**. A successful cooperative is an excellent example that should be followed by other existing or potential cooperatives – but this example should be advertised through experience sharing among others. The feeling from our field visits is that today the existing cooperatives operate pretty much on their own, without joining their forces with neighboring cooperatives (as is inherent in all cooperative systems in the world). One example is a dried-apricot marketing cooperative, which had to refuse a large export order because it did not have enough capacity to deliver the required volume. Curiously, the cooperative manager did not think it feasible to connect with one or two neighboring cooperatives to make up the missing volume. Experience-sharing efforts should also emphasize the advantages of joining forces among cooperatives.

In addition to information support and human-capital development, fledgling cooperatives may require assistance with physical capital, including machinery, equipment, and access to credit. Programs should be put in place to provide seed money for the establishment of new cooperatives. In this context the Acted model appears particularly promising: cooperatives paid from their own funds about one-third of the value of equipment provided by Acted, and the remaining two-thirds were a grant from the donor. Credit facilities should be established to help cooperatives finance their investment and working capital needs at reasonable rates. Access to these facilities should be linked to the cooperative's ability to generate its own matching funds (as with the requirement of contributing a share of machinery costs). All these efforts may require cooperation between the government and the donors.

In conclusion, we should stress that although service cooperatives and private service providers are definitely spreading in Tajikistan, the coverage so far is very sparse. Machinery cooperative or a private machinery service provider may exist in one or two jamoats – with absolutely nothing in any of the other jamoats in the raion. Tajikistan needs a much denser network of service providers – cooperative or private – for its farmers and rural population. A distinct advantage of cooperatives is that they are naturally adapted to scaling up to a multi-level hierarchy: small, easily established, low-investment jamoat-level cooperatives can form larger, more capital-intensive second-level cooperatives that will scale up the first-level services to a cluster of jamoats or the whole raion. Take the example of a dairy cooperative system: first-level cooperatives in jamoats simply need a refrigerated tank for milk collection from households and farms; the second-level cooperative will have to invest a refrigerated tanker for collecting milk from the jamoat-level cooperatives and transporting it to the central processing facility. In this way, the investment costs are spread over the two-level system, without unduly overburdening any of the cooperatives.

Action plan (A): Farm Restructuring

Overall Objective: Complete transition to individual and family dehkan farms

Note: This Action Plan requires financing, both from the State and donors agencies to be successfully implemented. There is currently a new project designed and will start soon by the World Bank that would further enhance farm restructuring and it is crucial that Government of Tajikistan allocates sufficient funds for further work through Government agencies and ministries, notably MoA and SCLG.

	Issue	Current state	Desired state	Measures needed	Time frame	Stakeholders/ Responsible GoT agencies
	<i>Policy and legal measures</i>					
1	Farm structure: individual and family farms	90,000 DF, including more than 2,000 collective DF Collective DF control more than 190,000 hectares of arable land	Farming structure based on individual/family DF	Identify all collective DF Conduct information campaign among members Issue certificates to members based on established procedure Supervise and support exit of members with land plot	2012 2012-2013 2013-2017 2013-2018	MoA MoA, DCC (WB) SCLG SCLG
		State-controlled agricultural enterprises manage 130,000 ha of arable land	Minimize resources controlled by agricultural enterprises	Conduct in-depth review of existing agricultural enterprises Formulate strategy for continued existence of some agricultural enterprises Identify agricultural enterprises that can be eliminated Distribute released land to household plots and DF	2012-2013 2013 2014 2014-2017	MoA MoA MoA SCLG
2	Legal framework: updating the Dehkan Farm Law and the Land Code	Current Dehkan Farm Law (2009) judged inadequate for the needs of the evolving system	Dehkan Farm Law reflects the following principles: DF may register as legal bodies Freedom to farm Freedom of exit Freedom of association Guarantees against landlessness	Adopt amended Dehkan Farm Law as drafted by USAID/Chemonics	2012	MoA
		Land Code does not allow transfer of land use rights and prevents land market development	Land Code allows transfer of land use rights facilitating land market development	Adopt amended land code as submitted to GoT	2012	SCLG
3	Information support for new legislation and awareness of legal	Rural people show only rudimentary awareness of legal rights and procedures	Rural people are aware of their legal rights and know what procedures should be	Conduct information campaigns in rural areas to explain new legal principles Expand network of legal advisory centers	2013	MoA, FAO, WB-SCLG, USAID

	rights		applied to identify infringement and resolve conflicts	across the country to make them easily reachable from every jamoat	2013-2016	
	<i>Overcoming constraints</i>					
4	Small farm sizes limit income generating potential	Generally small farm sizes: household plots average 0.3 ha, more than 50% of DF have less than 5 ha	Enlarge household plots and individual/family DF to achieve higher family incomes	Distribution of inefficiently used land to productive users (state-reserve land, land in agricultural enterprises and collective DF); Return of unused land to cultivation (fallow and degraded pastures); Development of land markets (transferability of land use rights, simple and transparent land registration and titling)	2013-2018	District Hukumat, SCLG, MoA District Hukumat, SCLG,, USAID
5	Small farms experience restricted access to markets for products and inputs	Difficulties with transport and administrative arrangements Limited spread of private intermediaries and service cooperatives Limited information on sources, availability, and prices	Improved access to market channels for products and inputs Improved access to market information	Support development of rural trade intermediaries: simplify licensing and inspection, cultivate friendly attitude, consider granting tax credits, establish special credit facilities Encourage development of extensive network of service cooperatives across entire country	2013-2018	GoT, DCC, SCLG, MoJ, MoA, MoF
6	Irrigation system not designed for small farms	Irrigation system inherited from Soviet era designed to service large-scale farms Irrigation equipment outdated and in poor repair	Irrigation system should be adapted to meet the needs of large numbers of small farms Irrigation equipment must be updated or replaced	Encourage establishment and spread of Water User Associations to deal with system adaptation to needs of small farms Secure financing for new equipment and routine maintenance (government and donors)	2013-2015	GoT, DCC
7	Low crop and livestock productivity	Livestock productivity lowest in CIS Crop yields low compared to other countries	Improve crop and livestock productivity	Establish country-wide network of agricultural advisory services (government and donors) Establish country-wide network of private veterinary service points and artificial insemination stations Conduct public awareness campaign to advertise AI benefits Promote seed selection activities, including private seed farms and specialized seed distribution centers	2012-2015	DCC, MoA
	<i>Monitoring and evaluation</i>					
8	Inadequate information on DF in official statistics	Information available only on all DF in aggregate No information on size distribution of DF Limited information on sources of	Information disaggregated by farm type (individual, family, collective) Full information on distribution of DF by size (land, livestock, production)	Strengthen data transfer from State Land Committee to TajStat Provide new guidelines for disclosure of statistical information Publish analyses of DF register Organize regular rural household and farm	2012-2014	SCLG, Jamoats, State Agency on Statistics

		family income	Information on income sources including cash income and value of consumption of own products	surveys; publish results in full Improve web access to statistics		
		No agricultural census since independence	Agricultural census to provide detailed farm-level data for all farms in Tajikistan	Conduct agricultural census in accordance with FAO guidelines	2013	FAO, MoA, Statistics Agency
9	Inadequate information on achievements of farm restructuring	Information available only on the number certificates issued for farms in World Bank LRCSP No information on before-and-after performance of restructured farms	Full information on structure and performance of restructured and non-restructured farms in all regions	Farm-level surveys of restructured and non-restructured farms in all regions Establishment of a regular farm monitoring and evaluation program in cooperation with TajStat and the donors	2012-2013 Starting 2012	SCLG, MoA, DCC State Agency on Statistics, MoA

Action plan (B): Development of Cooperatives

Overall Objective: creation of service cooperatives

Note: It is important to note that similar to the implementation of dehkan farm restructuring and reform, the activities listed below can only be implemented if both Government and donors make sufficient funding available.

	Issue/Activities	Current state	Desired state	Measures needed/Tasks to be implemented	Stakeholders/Responsible GoT agencies	Time frame
1	Conceptual confusion regarding the notion of cooperative	Inappropriate Soviet-style definitions of production and consumer cooperatives in existing legislation (Civil Code, Law of Production Cooperatives, Law of Consumer Cooperation)	Legislation reflects internationally accepted (Western) concepts: Service cooperative Consumer cooperative Production cooperative Other cooperatives	Adopt new Law of Cooperatives Amend the Civil Code	MoA, MoJ, GIZ	2012-2013
		Lack of clear understanding among the rural population regarding what cooperatives do and the benefits of cooperation	Rural population has a clear understanding of what cooperatives do and the benefits of cooperation	Prepare detailed information package (Government, Union of Cooperatives of Tajikistan, donors) Launch a public awareness campaign explaining how cooperatives function and the benefits of cooperation	GoT, MoA, DCC	2012-2014

				Start in a limited number of pilot districts, follow up with national rollout		
2	Support for cooperative development	No central source capable of providing information and guidance on creation of cooperatives	System capable of providing training and guidance to potential cooperative members and cooperative managers	<p>Establish a central cooperative information service (models: USDA, The Netherlands)</p> <p>Train professional staff for information service</p> <p>Create a network of regional cooperative information centers with properly trained staff</p>	MoA, DCC, Agrarian University, other training centres	From 2013
3	Collection and analysis of accurate data on the needs of dehkan farms	Currently, lot of data is collected by several agencies (MoA, TajSat, others);	Joint effort between technical agencies of DCC and relevant GoT ministries, especially MoA to establish a solid and effective data system for dehkan farms and to analyze their need regularly	<p>Agreement on the type of data to be collected and developing a commonl agreed data set</p> <p>Training relevant national and local level authorities in collection and analysis of data</p> <p>Renewing hard and soft ware (computers and viable programme</p> <p>Establishing a statistics Unit within MoA</p>	GoT, MoA (national and local offices), DCC	2013-2014
4	Ensure rural population, especially farmers Understand fully the benefits of cooperatives	Rural population has no experience with cooperatives	Rural population understands the role of cooperative members and the nature of interaction between members and cooperative	<p>Conduct continuing training and education programs for rural population as potential members</p> <p>Implement professional training programs for cooperative managers: success of cooperatives depends on managerial quality</p> <p>Conduct training programs on the network of relationships between members and cooperative</p> <p>Training programs to explains the self-organizing nature of cooperatives and the need for cooperation among cooperatives</p> <p>Develop an understanding of what types of cooperatives are suitable under what conditions</p>	MoA, DCC, GoT	From 2012
5	Expand cooperatives throughout the country	Small number of service cooperatives sparsely scattered across the country	“A service cooperative in every jamoat”	<p>Create programs that provide seed money to launch new service cooperatives (grants plus own funds)</p> <p>Establish credit facilities for service cooperatives (mainly for working capital, but also investment)</p>	MoA, Jamoat authorities, DCC	From 2013-2015

				Ensure friendly and supportive attitude toward cooperatives at all levels of government		
6	Agree on national guidelines on organizational setup of cooperatives	Currently, each organizations sets up cooperatives organized each in their own way and according to their own understanding	There should be an optimal standard agreement on th organizational structure of cooperatives, with clear roles and responsibilities.	Develop regulation for the implementation of the cooperative law once approved, how it will be implemented; Develop ideal organizational structure; Develop clear TORs for each element of structure (chair, deputy, secretary, finance/admin, etc) as well as for the council and general assembly;	MoA, DCC	
7	Tax distortions	Cooperatives are taxed as commercial corporations: double taxation for farmers using cooperatives	Taxation of cooperatives ensures that members do not pay more taxes than non-members	Develop amendments to the Tax Code: No VAT on transactions with members No profit tax on distributions to members No profit tax on retention of profits created in transactions with members No retail sales tax on transactions with members		2012-2013
8	Monitoring and evaluation	Inadequate information on existing cooperatives and their activities	Full information on all existing cooperatives with detailed data on their activities and operations	Define responsibilities of MinAg and TajStat for data collection on cooperatives Establish a register of cooperatives, including information about cooperative activities Make register publicly available on the Internet Carry out a baseline survey: Farmers' needs and view of cooperatives Existing cooperatives and their operations Continue with monitoring and evaluation surveys on a yearly basis Analyze the survey results and draw lessons Publish annual monitoring and		2012 2012-2013 2012-2013 From 2014 From 2013

				evaluation reports		
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Annexes

1. Draft Dehkan Farm Law – comments 17 February 2012 (English) (Russian)
2. Draft Dehkan Farm Law – revised 29 February 2012 (Russian)
3. Comments on revised draft Dehkan Farm Law (Russian)
4. Comments on draft Law of Cooperatives (English) (Russian)
5. Presentation for the Working Group on Cooperatives 29 February 2012 (Russian)
6. Note on Western definition of cooperative (Russian)
7. Taxation of cooperative – U.S. practice (Russian)
8. Preliminary mission findings: presentation for the Technical Working Group, 9 March 2012 (English) (Russian)
9. Registration of cooperatives in Israel and the institution of cooperative registrar (Russian)