Monitoring the Development of Agricultural Co-operatives in Kazakhstan
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Foreword

This report was prepared within the framework of the OECD project *Stimulation of the Development of Agricultural Co-operation in the Republic of Kazakhstan*, implemented jointly by the OECD Eurasia Competitiveness Programme and the OECD Trade and Agriculture Directorate. The project provides a combination of analysis, policy recommendations and capacity-building activities to support the development of agricultural co-operatives, increased participation in agro-food global value chains (GVCs), and agricultural policy and market modelling in Kazakhstan. The project is financed by the Ministry of Agriculture of the Republic of Kazakhstan and implemented over a two-year period from January 2018 to December 2019.

OECD work to support the development of agricultural co-operatives in Kazakhstan began in 2014, within the framework of the *Kazakhstan Regional Competitiveness Project*, a joint initiative of the European Union and the government of Kazakhstan to promote regional competitiveness and inclusive growth in Kazakhstan’s regions. As part of the project, the OECD proposed three main recommendations to support the development of a grassroots co-operative movement in Kazakhstan’s agricultural sector:

1. *Policy environment*: reform the legal framework for co-operatives, reform the Tax Code, reduce the tax burden for co-operatives and simplify registration procedures.

2. *Awareness and trust*: educate small farmers in rural areas on the benefits of co-operatives and provide information services and technical assistance to those setting up co-operatives.

3. *Targeted financial support*: develop targeted financing instruments for co-operatives, and encourage greater private sector participation in co-operative financing.

As a result, the OECD policy handbook *Strengthening Agricultural Co-operatives in Kazakhstan* was peer reviewed on 26 November 2014 at the OECD Eurasia Competitiveness Roundtable and published in April 2015. The Roundtable, established in 2013, provides a platform for peer review and knowledge sharing on the implementation of competitiveness reforms in partner countries of the Eurasia region.

This report monitors progress in implementing the three policy recommendations since their endorsement in 2014 and provides recommendations for future activities. It was developed in close collaboration with the Ministry of Agriculture, KazAgro Holding, subnational authorities, farmers, farmers’ associations, research institutes and a team of international experts. The final draft was discussed at the sixth meeting of the OECD Eurasia Competitiveness Roundtable, on 20 November 2018 at the OECD Conference Centre in Paris, France.
Acknowledgements

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This report is based on a variety of information sources, including reviews of Kazakhstan’s agricultural policy framework, research on the legal environment for agricultural co-operatives in Kazakhstan, and evidence of good practices from OECD member countries. In addition, numerous interviews were held with farmers, co-operative members and managers, local government officials and policy makers during study missions and capacity-building seminars held in Astana and Taldykkorgan, Almaty region (June 2018), Kostanay and Astana (September 2018). Particular appreciation should be expressed to Galiya Akimbekova, Kazakh Research Institute of Agricultural Economics and Rural Development, for providing valuable data and information for the report.

A number of international experts also provided insightful inputs, including Hagen Henrÿ, Adjunct Professor of Comparative Law and Research Director at the Ruralia Institute, University of Helsinki; David Sedik, Senior Agricultural Policy Officer, Food and Agriculture Organization of the United Nations (FAO); Zvi Lerman, Professor of Agricultural Economics, Hebrew University of Jerusalem, Israel; and Richard Pomfret, Professor of Economics, University of Adelaide, Australia.

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Abbreviations and acronyms

ACC  Agrarian Credit Corporation
AUD  Australian dollars
EU   European Union
FAO  Food and Agriculture Organization of the United Nations
FDI  Foreign direct investment
FFSA Fund for Financial Support to Agriculture
GDP  Gross Domestic Product
GVCs Global Value Chains
ICA  International Co-operative Alliance
IFAD International Fund for Agricultural Development
ILO  International Labour Organization
KZT  Kazakhstani tenge
OECD Organisation for Economic Co-operation and Development
R&D  Research and development
SAOS Scottish Agricultural Organisation Society
UN  United Nations
USD  United States dollars
USDA United States Department of Agriculture
VAT  Value-added tax
WFP  World Food Programme
### Kazakhstan: contextual indicators

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Executive summary

Agriculture plays an essential role in Kazakhstan’s economic, social and environmental development. In 2017, the sector accounted for 4.4% of GDP and 18% of employment. Kazakhstan is a major producer of grain, and was ranked as the world’s eleventh largest exporter of wheat in 2017. However, growing demand for imported food products has led Kazakhstan to become a net importer of agricultural products since 2004. Labour productivity in agriculture has increased three-fold over the past two decades, but remains considerably lower than the levels observed in comparable emerging economies.

Low productivity is a reflection of structural disadvantages inherent to Kazakhstan’s agricultural sector, such as high transaction costs and the significant spatial dispersion of production. While large-scale agricultural enterprises produce the majority of wheat, barley, rice and oilseeds, small-scale rural households account for over 50% of the production of potatoes, meat, milk and wool. These small-scale producers often face significant difficulties accessing agricultural markets and overcoming their size-related disadvantages.

Agricultural co-operatives can help small-scale producers to increase productivity and benefit from economies of scale, greater bargaining power with other actors in the supply chain, and better access to extension services and technology transfer systems. In Kazakhstan, co-operatives can play an important role in helping subsistence-oriented households to boost their output and productivity by shifting to small-scale commercial farming.

In 2014, the OECD policy handbook *Strengthening Agricultural Co-operatives in Kazakhstan* outlined three main recommendations to foster the growth of a grassroots co-operative movement in Kazakhstan’s agricultural sector. This monitoring assessment demonstrates that the government has introduced important reforms across all three areas:

1. **The legal framework** has improved substantially with the adoption of a new law on agricultural co-operatives in October 2015, as well as the removal of three pre-existing laws on co-operatives. Important tax concessions were extended to agricultural co-operatives, and registration procedures have been streamlined. Efforts to further strengthen the legal framework should continue, by ensuring that co-operative surplus (generated from transactions with members) is not subject to income taxation. The Tax Code could also be amended to facilitate transactions between co-operatives and their members, and to mitigate any tax-related disincentives for households and individual farms to join agricultural co-operatives.

2. **Education and information services** have received much attention: agricultural co-operative development programmes were established in each region, and a national register and system of statistical monitoring was launched. To further build awareness and trust in co-operatives, a more comprehensive education and training programme is needed, along with stronger governance structures, support for secondary and tertiary co-operative organisations, and better access to targeted extension services.

3. **Financial support** has been poorly targeted, with around 60% of newly registered co-operatives consisting of inactive or “false” co-operatives established chiefly to
secure public subsidies. Additional reforms should focus on helping co-operatives to better leverage internal and external sources of financing, reducing dependency on government support, improving the long-term sustainability of co-operatives, and encouraging private sector participation in co-operative financing.
### Summary of monitoring assessment

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<td>1.2. Reduce the tax burden on agricultural co-operatives</td>
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<td>1.3. Simplify registration procedures for co-operatives</td>
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| 2. Provide education, information services and technical assistance to agricultural co-operatives | 2.1. Educate farmers to build awareness about the benefits of co-operatives | ◇ |
| 2.2. Provide information services and technical assistance to co-operatives | ◇ |

| 3. Provide targeted financial support for the establishment of agricultural co-operatives | 3.1. Develop targeted financing instruments for agricultural co-operatives | ◇ |
| 3.2. Encourage greater private sector participation in co-operative financing | ◇ |

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Introduction

The agricultural sector has stabilised after the transition shock of the 1990s

The end of Soviet central planning after 1991 resulted in sharp price adjustments, a collapse of the previous agricultural support system and a profound debt crisis in the sector. However, structural adjustment continued and sustained increases in value added over the past two decades were accompanied by a fall in agriculture’s share of total employment throughout the 2000s. Agriculture’s share of GDP also fell despite the increase in value added, against the backdrop of rapid growth in the energy sector, increasing productivity and rural-urban migration (Figure 1). The share of agriculture in GDP stabilised after 2014, in response to external shocks and subdued growth in the wider economy. Overall, agriculture continues to play an important role in Kazakhstan’s economic, social and environmental development. In 2017, the sector accounted for 4.4% of GDP and provided the largest source of employment (18% of the total).

Figure 1. Agriculture’s role in the economy, 1991-2017

Agriculture accounted for 4.9% of total exports, 13% of non-fuel exports and 12% of total imports in 2017. Total trade in agricultural products grew rapidly in the 2000s (Figure 2). The main drivers of this trend were a surge in grain exports and increased demand for imported food products, underpinned by income improvements and a strengthening of the national currency (OECD, 2013). Kazakhstan is a major producer and exporter of grain, ranking eleventh in the world for wheat exports in 2017. Although grain output is highly volatile and often susceptible to sharp fluctuations due to weather conditions, wheat and
flour are consistently the largest export commodities, together accounting for 55% of the total value of agricultural exports in 2017. Import growth quickly outpaced exports in the early 2000s, with the result that Kazakhstan became a net importer of agricultural products in 2004. Import growth was fuelled by improvements in gross national income that resulted from energy exports, increasing consumer demand for a wide range of agricultural products. Reversing this trend and diversifying the product composition of agricultural exports is an essential part of the government’s strategy to boost the competitiveness of agriculture and strengthen food security.

Figure 2. Agricultural exports and imports, 1995-2017 (USD million)

Notwithstanding a three-fold increase over the past two decades, labour productivity in agriculture in 2017 stood at around one-quarter of the level observed in services and just 15% of the level observed in industry (Figure A.1). Labour productivity in Kazakhstan’s agricultural sector reached USD 5 564 in 2017 – considerably lower than a number of other emerging economies including Brazil (USD 12 414), Russia (USD 13 672), South Africa (USD 11 544) and Turkey (USD 15 707) (Figure A.2). Low productivity is a reflection of structural disadvantages inherent to Kazakhstan’s agricultural sector, such as high transaction costs and the significant spatial dispersion of production. These factors contribute to smaller inflows of foreign direct investment (FDI) in primary agricultural production. FDI inflows are largely concentrated in food processing, which accounted for 90% of FDI in the agro-food sector over the past 25 years (Figure A.3). Agro-food FDI inflows increased nine-fold during 2004–13, but fell by 51% in 2014 in response to sanctions imposed on Russia and a loss of external competitiveness due to the appreciation of the Kazakhstani tenge against a sharply falling Russian rouble (OECD, 2017). In the

1 FDI in primary agriculture has also been constrained by legal and regulatory restrictions: Article 23 of the Land Code prohibits foreign ownership of agricultural land. Amendments to increase lease terms for foreigners renting agricultural land from 10 to 25 years were introduced in November 2015, but were revoked in June 2016 in response to public protests (OECD, 2017).
following years, agro-food FDI inflows experienced significant volatility, reaching USD 134 million in 2017 – about 61% lower than the high of USD 344 million observed in 2013.

**Agriculture is characterised by significant spatial dispersion of production, with distinct regional specialisations**

Agricultural output is dominated by cereals, leguminous crops and oil seeds (23%), vegetables, melons, root crops and tubers (21%), fodder crops (7.2%), dairy (18%), beef cattle and buffalo (11%), sheep and goats (4.5%), poultry (4.3%) and horses (3.6%). Together these products accounted for nearly 93% of gross agricultural output in 2016. However, aggregate figures disguise major regional variations in the structure of agricultural production across the country:

- The northern regions (Akmola, Kostanay and North Kazakhstan) specialise in grain, producing 29% of the country’s farm output by value in 2016. Oilseeds are mostly produced in Pavlodar, East Kazakhstan and Almaty.
- The southern regions of Almaty, Turkistan and Zhambyl produced 36% of agricultural output in 2016 through a mix of irrigated and rain-fed agriculture, including substantial fruit and vegetable production for Almaty City and Shymkent. Irrigation systems fed by the Syr Darya River are used to cultivate cotton in Turkistan and rice in Kyzylorda.
- The leading regions for livestock farming are Almaty, Turkistan and East Kazakhstan. Large-scale cattle farms are also prevalent in West Kazakhstan, Kostanay and Akmola, while Zhambyl contributes significantly to sheep and goat production (Figures A.4 and A.5).

Regional specialisations in agricultural production are correlated with the type of farm and structure of land holdings. The northern regions are characterised by large capital-intensive grain and livestock farms with strong economies of scale in production. These large-scale agricultural enterprises accounted for 48% of farm output in Akmola, Kostanay and North Kazakhstan in 2016, compared with 23% on average across Kazakhstan. Conversely, the southern regions are home to much of the country’s small and medium-scale production: households and individual farms produced 89% of agricultural output in Almaty, Turkistan and Zhambyl in 2016, compared with the national average of 77%.

Similar trends can be observed in the regional distribution of agricultural land cultivated by individual farms. Farm holdings with less than 200 hectares of land accounted for 61% of agricultural land use by individual farms in Turkistan, 26% in Almaty, and 18% in Zhambyl, indicating higher population densities and a prevalence of small-scale production in the southern regions. This contrasts with Mangystau, Aktobe and Karaganda, where farm

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2 Turkistan region was created in 2018, when the city of Shymkent was separated from the former South Kazakhstan region (of which it had previously been the principal city) and upgraded to the same status as the cities of Astana and Almaty.

3 The current statistical classification distinguishes three categories of producers: 1) agricultural enterprises, which are mostly large-scale farms that emerged from the breakup of former collective and state farms; 2) individual (“peasant”) farms, which tend to be small to medium-scale privately-owned operations; and 3) households, which typically consist of micro or small-scale plots used by rural families for subsistence-oriented farming.
holdings of less than 200 hectares account for just 1% of agricultural land use by individual farms (Figure 3).

**Figure 3. Distribution of agricultural land by farm size, 2016**

![Bar chart showing distribution of agricultural land by farm size, 2016](chart.png)

*Note: Data are for individual farms only.*

*Source: Committee on Statistics (2017a).*

Significant variation can be observed in the contribution of different farm types to the production of specific agricultural commodities (Figure 4). Agricultural enterprises produce the majority of wheat (69%), barley (52%), rice (52%), oilseeds (56%) and eggs (73%). These tend to be large-scale capital-intensive enterprises that are often well integrated in local and international supply chains. In contrast, rural households are often subsistence-oriented and only sell their surplus production, while individual farms can be commercial operations that aim to sell their production in local markets. Together, households and individual farms account for the vast majority of production of a number of commodities, including vegetables (94%), potatoes (92%), meat (77%), milk (94%), wool (96%) and cotton (95%). These high-value livestock and horticultural products are characterised by higher net incomes per hectare, offering greater opportunities for small-scale producers.
The structure of meat and dairy production is heavily skewed towards small and medium-scale farms: 60% of meat and 77% of milk is produced on household plots. In 2016, small-scale producers (with fewer than 50 heads) accounted for 65% of cattle inventories and 60% of sheep and goat inventories (Figures A.4 and A.5).

**Co-operatives can help integrate small producers in local and international supply chains**

Small-scale producers in Kazakhstan face a number of difficulties accessing supply chains, competing with large-scale agricultural enterprises, and overcoming scale-related production inefficiencies. These include higher per-unit costs to collect and transport products, high food safety risks, uneven product quality, limited provision of agricultural extension and advisory services, a weak small credit system, regulatory and administrative barriers to the acquisition of agricultural land, and limited vertical arrangements between processors and small farmers.

OECD (2013) outlines a broad range of actions available for Kazakhstan to support small-scale producers. These include, *inter alia*:

- improving the provision of public goods and general services for small-scale producers, by supporting the development of rural transport infrastructure, improving water and land management, increasing investments in plant and animal health and food safety systems, strengthening human capital and the agricultural innovation system, and improving information and knowledge dissemination;

- facilitating increases in farm size and operations, by developing mechanisms for small-scale farmers to overcome their structural size-related disadvantages, removing obstacles to land mobility, and lowering regulatory and administrative barriers to the acquisition of agricultural land;
- strengthening credit programmes for small producers, by improving the financial robustness of micro-credit organisations and Credit Partnerships, and conducting a comprehensive diagnosis of existing weaknesses in the small credit system; and
- promoting vertical arrangements between processors and small farmers, by easing regulatory barriers to integration within the product chain, strengthening the contract security system, and working with producer and industry associations to improve information about practices in other countries to integrate smallholders within the food industry.

Agricultural co-operatives can help small-scale producers to boost output and productivity, access agricultural markets, and overcome their structural size-related disadvantages. Through collective action, groups of agricultural producers can achieve economies of scale by reducing the per-unit costs of inputs and services, pooling capital and resources, sharing farm machinery and transport vehicles, establishing processing facilities, and jointly marketing their farm output. Co-operatives can also enable small farmers to improve their bargaining power in the marketplace, negotiate better loan conditions for their members, access extension and advisory services, meet food quality and safety standards, and lobby for reforms to ensure a level playing field with large-scale enterprises (FAO, IFAD and WFP, 2012).

Unfortunately, the co-operative movement has been slow to emerge in Kazakhstan. Farmers have limited awareness and trust in the co-operative model, owing to the negative experiences with collective agriculture during the Soviet period. These perceptions were compounded by the process of agrarian de-collectivisation during the post-independence period. Reforms to land ownership and the privatisation of collective farms in the early and mid-1990s resulted in an inequitable distribution of the land and assets of former collective farms amongst farm workers and managers. Misappropriation and asset stripping were commonplace, with rural elites often exploiting new legislation and institutions for their own benefit (Toleubayev, Jansen and van Huis, 2010).

Recent years have been marked by growing recognition of the role that co-operatives can play in Kazakhstan’s agricultural sector. Agricultural co-operatives can help subsistence-oriented households shift to small-scale commercial farming and overcome challenges caused by high transaction costs and the significant spatial dispersion of production. While there is scope for co-operatives to emerge in all regions, the southern and eastern regions – where production is dominated by households and individual farms – are likely to lead in the formation of new co-operatives. Additionally, the predominance of small-scale producers in the production of high-value commodities suggests that sub-sectors such as dairy, meat, fruits and vegetables and wool have the greatest potential for co-operative development. In the dairy sector, for instance, co-operatives could help their member-farmers to address constraints beyond the farm gate, by investing in milk collection points, cooling facilities, laboratory equipment, veterinary and insemination services, processing facilities, and the application of food safety related standards.

Improving food security and rural livelihoods are important policy objectives for the government of Kazakhstan, and a strong agricultural co-operative movement could help to achieve these outcomes. Co-operatives can work with policy makers to develop fairer market conditions, improve access to domestic and export markets, increase the outreach of extension services, and identify necessary upgrades to rural infrastructure. Moreover, providing financial support and technical assistance directly to co-operatives could reduce the administrative costs of programme delivery and lead to better-targeted government support for small-scale producers (OECD, 2015).
Box 1. What are co-operatives?

The International Co-operative Alliance (ICA) defines a co-operative 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”. This definition was first established by the 1995 ICA Statement on the Co-operative Identity, and subsequently recognised by two major international instruments: the 2001 United Nations Guidelines aimed at creating a supportive environment for the development of co-operatives (UN documents A/RES/54/123; A/RES/56/114 and A/56/73-E/2001/68), and the 2002 International Labour Organization (ILO) Recommendation No. 193 concerning the promotion of co-operatives.

The ICA Statement on the Co-operative Identity outlines a set of seven core principles that can be applied to the governance and management of co-operative enterprises: 1) Voluntary and open membership; 2) Democratic member control; 3) Member economic participation; 4) Autonomy and independence; 5) Education, training and information; 6) Co-operation among co-operatives; and 7) Concern for Community. Annex B reproduces the 1995 ICA Statement on the Co-operative Identity in full.

Co-operative enterprises are active in all sectors of the economy, and provide a resilient and viable organisational form that allows their members to address specific economic, social and environmental needs. The United Nations General Assembly designated 2012 as the International Year of Co-operatives, in recognition of the unique contribution that co-operatives make to socio-economic development, in particular their impact on poverty reduction, employment generation and social integration.

In recent decades, globalisation and competitive pressures have led to the increasing approximation of co-operative law with stock company law around the world. While in some cases this has helped co-operatives to maintain their financial competitiveness, it has also put the co-operative identity at risk, by impacting on or changing the capital structure, management and control mechanisms of co-operatives. Annex C outlines some of the key differences between co-operatives, investor-owned corporations and non-profit organisations.


A new co-operative movement is emerging in Kazakhstan, with ample scope for further development

Table 1 compares the development of agricultural co-operatives in Kazakhstan with a selected group of OECD member and partner countries. As of 30 June 2018, Kazakhstan registered a total of 2,872 agricultural co-operatives and 62,825 member-farmers (Committee on Statistics, 2018). The extent to which farmers are involved in co-operative enterprises remains limited: the number of co-operative members divided by the total number of farm holdings stood at just 3.4%. Low levels of co-operative development also tend to be observed in some of the former centrally-planned economies, such as Romania (0.3%), Georgia (1.3%), and the Czech Republic (3.5%).
In most OECD countries, co-operatives are present throughout the entire agricultural value chain and farms of all sizes participate in co-operative enterprises. Agricultural co-operatives are highly developed in the EU-28; nearly 22,000 co-operative enterprises group more than 6.1 million members, generating approximately EUR 347 billion in annual turnover. An average of 57% of farm holdings in the EU-28 are involved in co-operatives, compared with 138% in Turkey and 92% in the United States. In Austria, Finland, Germany and Sweden, the average farmer is a member of at least two agricultural co-operatives. This suggests that co-operatives in OECD member countries tend to specialise in specific functions (e.g. marketing, processing, input supply), often operating under the umbrella of secondary and tertiary co-operative organisations (i.e. unions and federations). Moreover, the data also indicate that there is significant room for further growth and development of the agricultural co-operative movement in Kazakhstan.

Table 1. Prevalence of agricultural co-operatives in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of agricultural co-operatives</th>
<th>Number of co-operative members</th>
<th>Annual turnover of agricultural co-operatives (EUR millions)</th>
<th>Number of farm holdings</th>
<th>Co-operative members as a share of total number of farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>1,020</td>
<td>306,300</td>
<td>8,480</td>
<td>140,430</td>
<td>218%</td>
</tr>
<tr>
<td>Croatia</td>
<td>509</td>
<td>7,925</td>
<td>112</td>
<td>157,440</td>
<td>5.0%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>364</td>
<td>915</td>
<td>1,327</td>
<td>26,250</td>
<td>3.5%</td>
</tr>
<tr>
<td>Denmark</td>
<td>28</td>
<td>45,710</td>
<td>25,009</td>
<td>38,280</td>
<td>119%</td>
</tr>
<tr>
<td>EU-28</td>
<td>21,769</td>
<td>6,172,746</td>
<td>347,000</td>
<td>10,838,290</td>
<td>57%</td>
</tr>
<tr>
<td>Finland</td>
<td>33</td>
<td>139,533</td>
<td>11,770</td>
<td>54,400</td>
<td>256%</td>
</tr>
<tr>
<td>France</td>
<td>14,429</td>
<td>451,230</td>
<td>86,000</td>
<td>472,210</td>
<td>96%</td>
</tr>
<tr>
<td>Georgia</td>
<td>1,168</td>
<td>8,306</td>
<td>-</td>
<td>642,200</td>
<td>1.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>2,316</td>
<td>1,400,000</td>
<td>66,000</td>
<td>285,030</td>
<td>491%</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,116</td>
<td>31,544</td>
<td>1,058</td>
<td>491,330</td>
<td>6.4%</td>
</tr>
<tr>
<td>Ireland</td>
<td>75</td>
<td>201,684</td>
<td>14,150</td>
<td>139,600</td>
<td>144%</td>
</tr>
<tr>
<td>Italy</td>
<td>6,741</td>
<td>792,092</td>
<td>38,300</td>
<td>1,010,330</td>
<td>78%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2,872*</td>
<td>62,825</td>
<td>-</td>
<td>1,843,945</td>
<td>3.4%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>402</td>
<td>12,900</td>
<td>714</td>
<td>171,800</td>
<td>7.5%</td>
</tr>
<tr>
<td>Malta</td>
<td>16</td>
<td>2,323</td>
<td>-</td>
<td>9,360</td>
<td>25%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>37</td>
<td>99,884</td>
<td>27,753</td>
<td>67,480</td>
<td>148%</td>
</tr>
<tr>
<td>Norway</td>
<td>16</td>
<td>40,000</td>
<td>6,914</td>
<td>43,270</td>
<td>92%</td>
</tr>
<tr>
<td>Poland</td>
<td>2,991</td>
<td>317,200</td>
<td>7,100</td>
<td>1,429,010</td>
<td>22%</td>
</tr>
<tr>
<td>Romania</td>
<td>690</td>
<td>9,302</td>
<td>85</td>
<td>3,629,660</td>
<td>0.3%</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>136</td>
<td>5,654</td>
<td>1,151</td>
<td>23,570</td>
<td>24%</td>
</tr>
<tr>
<td>Spain</td>
<td>3,844</td>
<td>1,179,323</td>
<td>25,700</td>
<td>965,000</td>
<td>122%</td>
</tr>
<tr>
<td>Sweden</td>
<td>30</td>
<td>160,350</td>
<td>7,440</td>
<td>67,150</td>
<td>239%</td>
</tr>
<tr>
<td>Turkey</td>
<td>12,567</td>
<td>4,232,596</td>
<td>-</td>
<td>3,076,000</td>
<td>138%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>625</td>
<td>157,235</td>
<td>8,760</td>
<td>183,040</td>
<td>86%</td>
</tr>
<tr>
<td>United States</td>
<td>1,953</td>
<td>1,904,418</td>
<td>172,139</td>
<td>2,060,000</td>
<td>92%</td>
</tr>
</tbody>
</table>

Note: The share of co-operative members in total number of farms may exceed 100% due to multiple memberships (one individual member may hold several memberships in different co-operative enterprises).
* The registered total as of 30 June 2018; the authorities believed the number of genuinely active co-operatives amounted to just 40% of the total in February 2018 (Ministry of Agriculture of the Republic of Kazakhstan, 2018a).
Source: Committee on Statistics (2018, 2017a); Cooperatives Europe (2016); Eurostat (2018); Geostat (2016); Invest in Turkey (2018); Micu, Alecu and Micu (2015); USDA (2017); USDA (2018a).
1. The legal framework for agricultural co-operatives

Significant progress has been achieved in reforming the legal framework for agricultural co-operatives

The Ministry of Agriculture introduced a series of important reforms beginning in 2015 in an effort to kick-start the development of a new co-operative movement. Law no. 372-V “On Agricultural Co-operatives” was adopted on 29 October 2015, and entered into force on 1 January 2016. In parallel, three pre-existing laws on co-operatives were repealed:

- law no. 133-II “On Agricultural Partnership and its Associations (Unions)”, dated 25 December 2000; and

Rural consumer co-operatives, agricultural partnerships and rural consumer co-operatives of water users were subsequently required to undergo a process of reorganisation or liquidation. Failure to comply by 1 January 2017 (one year following the entry into force of the law “On Agricultural Co-operatives”) would result in forced liquidation by court order (Parliament of the Republic of Kazakhstan, 2015a).

The new law “On Agricultural Co-operatives” marked a turning point in the development of co-operative legislation, by facilitating a common understanding of the co-operative identity and their role in supporting the development of Kazakhstan’s agricultural sector. Notably, the new law makes reference to a number of the ICA co-operative principles, including the notions of voluntary membership, democratic control (one member, one vote), autonomy and independence, and co-operation among co-operatives. It also clearly identifies the range of possible activities undertaken by co-operatives (production, processing, marketing, storage, service provision, etc.), and notes the need for limited interference from central and subnational authorities in the activities of co-operatives.

In addition to substantially reducing bureaucracy in the legal framework, the new co-operatives law removed a number of important bottlenecks to their development in Kazakhstan. Most significantly, rural consumer co-operatives, agricultural partnerships and rural consumer co-operatives of water users were previously defined as “non-commercial” organisations, and consequently were prohibited from distributing net income with their members (Parliament of the Republic of Kazakhstan, 2003, 2000, 1999). The new law improved this situation by defining agricultural co-operatives as a “legal organisational form of production co-operatives”, which are classified as “commercial” organisations under Article 34 of the Civil Code and therefore permitted to distribute profits amongst their members (Parliament of the Republic of Kazakhstan, 2015a, 1994). This contributes to a greater sense of member ownership and control, resulting in improved incentives for members to transact with their co-operatives.

Secondly, the government provided agricultural co-operatives with a number of important tax concessions, introducing amendments to the Tax Code under law no. 373-V “On introducing amendments and additions to some legislative acts of the Republic of
Kazakhstan on agricultural co-operatives”, dated 29 October 2015. The “Special tax regime for producers of agricultural products, aquaculture products (fish farming) and agricultural co-operatives” (henceforth “the special tax regime”) allows agricultural co-operatives to benefit from a 70% discount on the following principal taxes: corporate income tax, value-added tax (VAT), social tax, property tax and vehicle tax (Parliament of the Republic of Kazakhstan, 2015b, 2008). These changes have ensured greater neutrality between the tax treatment of agricultural co-operatives and other agricultural enterprises. Previously, the special tax regime only applied to agricultural enterprises and rural consumer co-operatives; other forms of co-operatives (e.g. agricultural partnerships and production co-operatives) were not eligible to profit from the same tax concessions.

In addition, a number of restrictions governing eligibility for the special tax regime have been removed. The requirement to operate on privately-owned land or rented state-owned land no longer applies to co-operatives, which ensures that agricultural co-operatives can provide services to their members without owning the land where production takes place. Legal entities benefitting from the special tax regime were also prohibited from having structural divisions (e.g. branches, representative offices), from being affiliated with other legal entities applying the special tax regime, and from allowing other legal entities to hold a participating interest in their business exceeding 25%. Rural consumer co-operatives were required to consist exclusively of individual “peasant” farm members, and rural consumer co-operatives whose members were members of other rural consumer co-operatives were prohibited from participating in the special tax regime. These requirements have been lifted, as they prevented individual member-farmers from holding multiple memberships in several co-operatives and created unwarranted barriers to the development of secondary and tertiary co-operative organisations (Parliament of the Republic of Kazakhstan, 2015b, 2008; OECD, 2013).

Finally, the new law “On Agricultural Co-operatives” has resulted in greater clarity and streamlined registration procedures for agricultural co-operatives. Members are required to hold a founding meeting, draft a founding contract, and prepare a charter for their newly established co-operative. The charter must be approved by a “qualified majority” of votes from the co-operative’s membership, which is defined as a minimum of two-thirds of the total number of members. An agricultural co-operative is granted the status of legal entity following its registration by the state authorities (Parliament of the Republic of Kazakhstan, 2015a). This constitutes a considerable improvement in the legal framework, as previously registration procedures were divided across three separate legal acts with differing procedures depending on the type of co-operative. Moreover, the laws “On Rural Consumer Co-operation in the Republic of Kazakhstan” and “On Rural Consumer Co-operatives of Water Users” did not require members to vote on and approve the adoption of their co-operative’s charter (Parliament of the Republic of Kazakhstan, 1999, 2003). This was a key deficiency in the legal framework, as it failed to acknowledge the need for democratic decision-making during the process of formation of a co-operative.

These reforms were followed by a substantial restructuring of Kazakhstan’s co-operative system. Figure 5 illustrates how legislative and policy changes have influenced the evolution of different forms of agricultural co-operatives since 1991. The rapid growth in registrations of agricultural co-operatives since 2016 is striking, and is partly due to the liquidation and reorganisation of many of the older forms of co-operatives. It can also be explained by the provision of generous government subsidies, financial assistance and tax incentives to new co-operatives (Section 3 discusses financial support in more detail).
There is scope to further streamline and strengthen the legal framework


Production co-operatives refer to a type of agricultural worker co-operative where members jointly produce output by pooling their land holdings, labour, machinery and other essential factors of production. They emerged from the former collective farm system, and tend to be substantially less efficient than individual and family farms (Lerman and Sedik, 2014). Although the activities of production co-operatives are not strictly confined to agriculture, they continue to play an important role in Kazakhstan’s agricultural sector. In 2016, the Ministry of Agriculture registered 1,464 production co-operatives accounting for more than 2.3 million hectares of agricultural land, or 2.3% of the total (Ministry of Agriculture, 2017). Article 10 of the law “On Production Co-operatives” requires that members contribute assets (e.g. land, livestock) and personal labour to support the co-operative’s activities. As such, production co-operatives are distinctly different from agricultural co-operatives in market economies, where members farm independently on their own land and co-operate on the provision of essential services. However, Article 5 of the new law “On Agricultural Co-operatives” defines an agricultural co-operative as a “legal organisational form of production co-operatives”, and requires that the brand name of an agricultural co-operative be succeeded by the words “agricultural production co-operative”. This creates considerable conceptual confusion as to the role of agricultural co-operatives within a market economy, by reinforcing the preconception of older farm managers that co-
operatives are primarily used for realising economies of scale in production (Parliament of the Republic of Kazakhstan, 2015a, 1995).

In contemplating these issues, a broader and more basic question arises: why the need for a specific law on agricultural co-operatives? Co-operatives are active in all sectors of the economy, including agriculture, retail, housing, financial services, public utilities and manufacturing. They are deeply rooted in their territories, and have strong ties to social, political and cultural movements (OECD, 2014). Consequently, countries around the world have adopted a wide variety of approaches to legislating on co-operatives. In Denmark and Ireland, for instance, there is no separate co-operative law, and co-operatives are regulated by the civil and commercial codes. In France and Japan, the legal framework is composed of a multitude of laws dedicated to specific types of co-operatives. In Australia, India, Spain and the United States, federal and decentralised political structures have resulted in the regulation of co-operatives through a combination of national and sub-national laws.

One option could be to adopt a single law on co-operatives, with separate chapters covering specific types of co-operatives or activities (Henrý, 2012). This approach would be advantageous for a number of reasons: the limited degree of detail in a general law leads to reduced bureaucracy, gives co-operatives greater power to self-regulate through their own bylaws and statutes, avoids fragmentation of the co-operative movement (both across legal acts and under the supervision of different public authorities), and fosters legal security for those dealing with co-operatives. In the event that three separate laws are maintained, the government could work towards a harmonisation of the co-operative laws, ensuring that all relevant actors have a clear and coherent understanding of the differences between agricultural co-operatives and production co-operatives.

Legislators should also reflect upon the degree of detail in the co-operative law: on the one hand, too little detail will necessarily require cross-references to other legal texts, thus impacting on one’s ability to understand and apply the law effectively. On the other hand, overly-detailed texts may risk impeding the autonomy of co-operatives (Henrý, 2012).

Improving the tax treatment of agricultural co-operatives could encourage greater participation from small-scale producers

Well-designed tax law should ensure a tax treatment of co-operatives that reflects their unique organisational form and the factors that distinguish them from investor-owned corporations. Investor-owned corporations typically return a part of their profits to shareholders in the form of dividends, which are paid in proportion to ownership shares in the company. In co-operative enterprises, members share losses and earnings, and surplus revenues are either reinvested in the co-operative or returned to members (in proportion to the amount of business conducted with the co-operative over a specified period of time). Therefore, co-operative enterprises need to distinguish between the component parts of a co-operative’s total positive result: profit, which is derived from transactions with non-members, and surplus, which is derived from transactions with members (Fici, 2013; ICA, 2012).

The identification of surplus within gross income has crucial tax implications for co-operatives. Co-operatives transact with their members at current conditions: they buy and sell at market prices, including a margin within their prices to cover market-related risks.

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4 Annex C outlines some of the key differences between co-operatives, investor-owned corporations and non-profit organisations.
If the anticipated risk does not materialise, this amount may be returned (in part or in full) to the co-operative’s members at the end of the financial year, on the basis of their participation in the co-operative enterprise. The amount returned is called “co-operative return” or “patronage refunds” and constitutes a deferred price adjustment, which should not be subject to taxation. As such, the accounts of co-operatives should clearly distinguish transactions with members from those with non-members (Fici, 2013; Henrÿ, 2012).

To better illustrate this point, Table 2 outlines the process of calculation of the taxable income of a typical marketing co-operative and an input supply co-operative. In addition to being distributed as patronage refunds to members, part of the surplus can be transferred to the co-operative’s reserve fund and statutory funds, paid as limited interest on share contributions, or used to provide premium payments to employees (Henrÿ, 2012).

**Table 2. Calculation of taxable income for marketing and input-supply co-operatives**

<table>
<thead>
<tr>
<th>Marketing co-operative</th>
<th>Input supply co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs:</strong></td>
<td><strong>Costs:</strong></td>
</tr>
<tr>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>• Initial payment to members and non-members (incl. risk margin)</td>
<td>• Initial payment to members and non-members (incl. risk margin)</td>
</tr>
<tr>
<td>• Operating costs</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td><strong>Costs:</strong></td>
</tr>
<tr>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>• Sale of members’ and non-members’ products</td>
<td>• Purchase of inputs from suppliers</td>
</tr>
<tr>
<td>• Patronage refunds (in proportion to members’ use of co-operative services)</td>
<td>• Operating costs</td>
</tr>
<tr>
<td>• Transfers to (indivisible) reserve fund, etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Distribution of surplus/deficit:</strong></td>
<td><strong>Distribution of surplus/deficit:</strong></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>• Patronage refunds (in proportion to members’ use of co-operative services)</td>
<td>• Patronage refunds (in proportion to members’ use of co-operative services)</td>
</tr>
<tr>
<td>• Transfers to (indivisible) reserve fund, etc.</td>
<td>• Transfers to (indivisible) reserve fund, etc.</td>
</tr>
<tr>
<td><strong>Taxable income:</strong></td>
<td><strong>Taxable income:</strong></td>
</tr>
<tr>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>• Profits from transactions with members</td>
<td>• Profits from transactions with members</td>
</tr>
<tr>
<td>• Transfers to (divisible) reserve fund</td>
<td>• Transfers to (divisible) reserve fund</td>
</tr>
</tbody>
</table>

*Source: Adapted from Lerman (2013) and Fici (2013).*

In Kazakhstan, the law “On Agricultural Co-operatives” outlines the concept of “payments to members of the co-operative”, which are paid “in proportion to their participation in the production and (or) other economic activities of an agricultural co-operative” (Article 23). The law also elaborates the procedure for distribution of net income with members (Article 24) and specifies that members “may decide on the exclusion of net income or part of the distribution between the members of the co-operative”. Furthermore, Clause 8 of Article 26 states that by decision of the general meeting, co-operative members are entitled to “acquire goods (works, services)… at cost and on a priority basis” (Parliament of the Republic of Kazakhstan, 2015a). However, the law does not clearly specify whether transactions with members should be excluded from the co-operative’s taxable income, and clear definitions of the concepts of “profits”, “surplus” and “patronage refunds” are lacking.

As a matter of principle, co-operative surplus (generated from transactions between a co-operative and its members) should not be subject to income taxation. However, co-operatives should be subject to tax on all other income, including from dealings with third parties and from investment activities. In order to avoid double-taxation and an imbalance in profit distribution, several options exist. One option would be to amend Article 100 of the Tax Code to make payments from an agricultural co-operative to its members tax-deductible (Akimbekova, 2017b). Another approach, based on the experience of
Tajikistan’s 2013 law “On Co-operatives”, would be to treat payments from a co-operative to its members as expenses, thereby ensuring that they are deducted from revenues and are not included as part of the co-operative’s taxable income (Lerman, 2013).

Furthermore, individual farms and households face significant tax disincentives to join co-operatives. Individual farms can benefit from the special tax regime for non-legal entities, which provides for the payment of a single land tax (calculated as between 0.15% and 0.75% of the estimated cadastral value of land owned and/or used, depending on the land size). The single land tax replaces the personal income tax, fees for environmental emissions, land tax, levies for the use of land plots, vehicle tax, and property tax. Individual farms are also exempt from paying VAT (Parliament of the Republic of Kazakhstan, 2008). Rural households are required to pay land and property taxes, but are generally not required to declare personal income. Income generated by selling agricultural products on the local market is typically not registered and not subject to taxation (OECD, 2013). Consequently, households and individual farms are not required to collect and remit VAT on the sales they perform. As members of an agricultural co-operative, they are currently incurring unrecoverable VAT on their transactions with the co-operative.

Against the above, households and individual farms in Kazakhstan may be faced with a higher tax burden if they become members of an agricultural co-operative, compared to transacting independently with other local suppliers or intermediaries. This may be creating a negative impact on the growth potential of agricultural co-operatives. Thus, the government is encouraged to consider amending the Tax Code, as appropriate, to facilitate transactions between co-operatives and their members, and to mitigate any tax-related disincentives for households and individual farms to join agricultural co-operatives.

Finally, legal provisions in the Tax Code continue to restrict co-operatives’ eligibility for the special tax regime. According to Article 448 of the Tax Code, a legal entity that has subsidiaries is not entitled to apply the special tax regime. However, as registered legal entities co-operatives should have the right to own subsidiaries, including in another legal form than a co-operative (Henry, 2012). This is essential to allow for the formation of co-operative groups as a means to access capital markets and improve external financing.

A single authority specialised in co-operative matters could help to simplify registration requirements

The establishment of a dedicated authority specialised in co-operative matters could help to support and further enhance the effectiveness of registration procedures (Henry, 2012). A local registration service that allows co-operatives to deal with a single authority could help to streamline procedures and strengthen the sustainability of the co-operative movement, by explaining the benefits of forming co-operatives and providing assistance in navigating the tax regime. By introducing a requirement to conduct a feasibility study prior to registration, the government can ensure that registered co-operatives are viable business enterprises and reduce the likelihood of “false” co-operatives being established in order to benefit from government support.
2. Education and information services for agricultural co-operatives

The government has introduced a range of education and information services for agricultural co-operatives

The State Programme for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 (henceforth “the State Programme”) was approved on 14 February 2017, under Presidential Decree no. 420 (President of the Republic of Kazakhstan, 2017). The State Programme outlines a series of strategic priorities, including the “involvement of small and medium-sized farms in agricultural co-operation”, and “saturation of the domestic market and development of export potential of domestic products”. It also notes a number of structural challenges facing the agricultural sector, such as the high share of imported food products, low purchase prices for agricultural products, limited domestic processing of raw materials, underutilisation of processing capacity, and the overall lack of quality and competitiveness of domestic production.

Agricultural co-operatives are seen as the most effective tool to address these issues, and the State Programme highlights the need to address the main problems hindering their development. These include, inter alia:

- the lack of trust of farmers and the rural population in the notion of co-operation, due to insufficient work to explain the benefits of co-operation and the mechanisms of functioning of co-operatives;
- low professional training of management personnel and a lack of specialists; and
- violation of the basic co-operative principles (voluntariness, democracy, one member one vote principle, etc.)

Section 5.1 of the State Programme outlines a series of measures to support education and information services for co-operatives. Regional agricultural co-operative development programmes are a central component of the government’s approach, providing financial, organisational, advocacy, advisory and information support to established co-operatives. Teams responsible for implementation were appointed in each region in 2017, including representatives of the Ministry of Agriculture, Department of Agriculture of the regional administrations (Akimats), regional branch offices of the Fund for Financial Support to Agriculture (FFSA), and selected experts on the management of agricultural co-operatives. In addition, co-ordinating councils were to be established at the level of each district (rayon), with the responsibility of ensuring the development of agricultural co-operatives at the district level. Local authorities would provide infrastructure (land plots, trading places in markets, etc.) and assistance in developing supplier contracts with processing enterprises, drafting business plans, collecting documents to obtain a loan, and getting access to veterinary services.

Under the State Programme, consulting services are also provided to support the creation of new co-operatives, expand membership in existing co-operatives, help members actively participate in management and decision-making, and encourage members and employees to follow the co-operative values and principles. Additional non-financial support measures include educational materials to support agricultural educational institutions in training managers and specialists of co-operatives, introducing a course on the economics and
organisation of agricultural co-operation in agricultural universities and colleges, and free seminars and information support for small-scale producers.

In order to obtain reliable information on the activities of agricultural co-operatives, the government established a national register of agricultural co-operatives and a system of statistical monitoring. Since March 2017, the Committee on Statistics under the Ministry of National Economy has published quarterly statistical reports on the activities of agricultural co-operatives and conducted periodic sampling surveys. Detailed data is collected at regional level on the number of operating co-operatives and their members, employment, production of key food commodities, services rendered, use of agricultural machinery, and holdings of livestock and other farm animals. Figure 6 depicts the geographical distribution of registered agricultural co-operatives as of 30 June 2018, one and a half years after the State Programme came into force.

To support the dissemination of education and consulting services to farmers, a dedicated section on agricultural co-operatives was launched on the web portal of the Competence Centre, which was established by the Ministry of Agriculture and is administered by the National Chamber of Entrepreneurs (http://shk.fermers.kz/). The web page includes information on relevant laws and government support programmes, a step-by-step guide to establish an agricultural co-operative, and a set of sample documents (model charter, draft memorandum of association, meeting minutes of the constituent assembly, and template application form for state registration). However, discussions held with farmers and co-operative directors in Almaty region in June 2018 seemed to indicate limited awareness of the web portal. Further efforts are needed to improve the design and user-friendliness of the web portal, and promote greater usage amongst the rural population.
Figure 6. Distribution of registered agricultural co-operatives and their members, June 2018

Source: Committee on Statistics (2018).
A more comprehensive education and information programme could help to build a grassroots co-operative movement

Despite the government’s efforts, a grassroots co-operative movement has yet to materialise in Kazakhstan. In February 2018, the Presidential Administration conducted an audit of agricultural co-operatives and found that 18% were inactive and 42% were “false” co-operatives established in order to benefit from government subsidies (Ministry of Agriculture of the Republic of Kazakhstan, 2018a). International experience suggests that successful co-operatives are usually established through a bottom-up democratic process, and a genuine co-operative movement can only evolve over an extended period of time. Top-down initiatives are unlikely to succeed, and the state should focus on providing an enabling environment for co-operatives to grow and flourish.

The government could develop a more comprehensive education and information programme for agricultural co-operatives (Box 2 provides examples from OECD member countries of publicly-funded education and information services for agricultural co-operatives). Particular attention should be given to building awareness and trust in the co-operative model, as many Kazakh farmers still associate co-operatives with the negative experiences endured during Soviet times. OECD (2015) outlines key elements to include in education and information services for co-operatives:

- **Basic education:** definition of a co-operative, differences between co-operatives and other organisational forms, main functions and types of agricultural co-operatives, benefits of co-operatives, alternatives to the co-operative model, potential risks and limitations.

- **Guidance on establishing a new co-operative:** the main steps to undertake when forming a co-operative, including how to conduct a feasibility study, develop a business plan, register a co-operative, prepare legal documents and obtain start-up capital.

- **Preparation of legal documents:** specific guidelines and examples on how to prepare legal documentation for a newly formed co-operative, such as the organisation agreement, articles of incorporation, bylaws, membership applications and marketing agreements.

- **Financial advice:** benchmarking programmes and advice on the various options available to obtain financing for the co-operative, such as grants, concessional loans, subsidies and supply chain finance.

Furthermore, the collection of reliable statistics on agricultural co-operatives can help to monitor the evolution of the co-operative movement, and support research, education, technical assistance, and policy development. The United States Department of Agriculture (USDA) publishes comprehensive annual statistics based on a survey of agricultural co-operatives. Statistics cover the following areas: i) overall financial statistics; ii) number of co-operatives, members and employees; iii) business volume, statistics on the top 10 and top 100 co-operatives, and losses; iv) benchmark statistics for comparing co-operatives; and v) statistical trends. To the extent possible, data are disaggregated by state, commodity and size of the co-operative enterprise.
Box 2. Education and information services for agricultural co-operatives: examples from selected OECD member countries

Farming Together, Australia

Farming Together (Farm Co-operatives and Collaboration Pilot Program) is a two-year AUD 14.9 million initiative of the Australian Federal Government, managed by Southern Cross University. The programme aims to improve knowledge of how co-operatives, collective strategies and supply chain negotiations can improve farmers’ returns, improve the knowledge of business models and collaboration options available to farmers, and provide expert agriculture-focused legal and financial advice. Funding is available for primary producers to access financial and legal consulting services, market research services, and project management support. Free online courses are also offered to help farmers develop their understanding of co-operatives, and assist co-operatives with governance and business management. Over the two-year implementation period from August 2016 to June 2018, Farming Together provided 1155 expert services, supported more than 224 co-operatives and 254 other collaborating business entities, and facilitated the formation of 57 new agricultural co-operatives.

Scottish Agricultural Organisation Society, Scotland, United Kingdom

The Scottish Agricultural Organisation Society (SAOS) assists co-operatives through consulting, market research, advice, and strategy development, with support from the Scottish Government. The Monitor Farms Programme facilitates the involvement of community groups of farmers in decision-making for a specific commercial farm. The programme has developed a network of livestock, pig dairy and arable farms that can share experiences and develop practical solutions to improve farm business profitability, productivity and sustainability. Innovation through Co-operation is a two-year programme to support co-operatives in areas such as measuring the benefits of membership, developing agricultural data solutions, strengthening member communication and relations, and improving board diversity and performance. The programme also encourages young farmers to set up co-operatives, works to improve the quality of statistical data, and develops specialist advisory services for co-operatives.

USDA Cooperative Programs and Rural Cooperative Development Centers, United States

USDA Cooperative Programs provide extensive information support, including a library of over 150 publications on topics ranging from how to form a co-operative, to member education and co-operative management, to more technical topics such as accounting and tax law for co-operatives. Rural Cooperative Development Centers provide technical assistance to groups that wish to organise co-operatives and existing co-operative enterprises. They are partially funded by USDA through the Rural Cooperative Development Grant Program, and support co-operatives in conducting feasibility studies, strategic planning, leadership training, and business planning.

Source: Farming Together (2018); SAOS (2018); USDA (2018b).
Additional reforms are needed to strengthen governance structures and support secondary and tertiary co-operative organisations

The success of a co-operative enterprise is highly contingent on the quality of its governance and management. Article 26 of the law “On Agricultural Co-operatives” establishes the rights of co-operative members and associate members “to obtain full information on the activities of the agricultural co-operative, including the right to examine the annual financial statements, accounting and other documentation of an agricultural co-operative” (Parliament of the Republic of Kazakhstan, 2015a). This is a fundamental prerequisite for the exercise of members’ control rights. To further strengthen control rights and governance structures, the government could consider introducing the following reforms (Henrý, 2018):

- Limiting the investments made by associate members in agricultural co-operatives. Despite the fact that associate members are only entitled to an advisory vote on decisions taken at the general assembly, unlimited investments by them could jeopardise the principle of self-determination of the members.
- Limiting the financial contribution of single members in order to avoid their de facto power, irrespective of their voting rights.
- Prescribing the establishment of an education and training fund, to empower management and the employees to better perform, and the members to exercise their control rights more effectively. The government might consider exempting from taxation transfers of parts of the profit and/or surplus to this fund.
- Inciting co-operatives to establish supervisory committees.

A regular co-operative-specific audit is an important mechanism to empower and protect members and third parties, encourage good governance in co-operative enterprises, and support the administration in monitoring the prevalence of non-viable and “false” co-operatives. Article 38 of the law “On Agricultural Co-operatives” indicates that “The members of a cooperative shall have the right to require an audit, at their own expense, of the financial and economic activities of the agricultural cooperative.” (Parliament of the Republic of Kazakhstan, 2015a). While this provision is important in that it allows individual members to question or challenge co-operatives’ management, the right of members to request an audit might be invalidated by having them bear the costs of the audit. Hence, the government should consider making an external co-operative-specific audit by qualified and independent auditors obligatory and affordable. The establishment of a (tax-exempt) audit fund could help to foster an effective and impartial audit system (Henrý, 2018, 2012).

A National Association of Agricultural Co-operatives was recently established, and subsidies have been provided to audit unions. However, the government could do more to facilitate the development of secondary and tertiary co-operative organisations. Unions and federations form the foundations of a strong co-operative movement, and can incite co-operatives to be present at all levels of the value chain, including processing, wholesale and retail. They also provide a way for co-operatives to reach economies of scale and grow through the well-recognised principle of “co-operation among co-operatives” – the 6th ICA Principle (see Annex B). Importantly, unions and federations help to safeguard the autonomy of individual co-operatives and maintain member democratic control, while avoiding potential disadvantages associated with consolidation through mergers and acquisitions. National co-operative federations and apex organisations are also
instrumental in lobbying for the equal treatment of co-operatives in national legislation and tax policy.

**Agricultural co-operatives could benefit from better access to extension services**

Agricultural extension services play an essential role in supporting productivity improvements and better farm management practices, by helping farmers to access new technologies, technical guidance, and advice on marketing, management and planning. Kazakhstan’s agricultural extension system is still in the process of development. In 2009, KazAgroInnovation began to develop an extension system for agricultural enterprises and individual farms. A network of knowledge dissemination centres was established, providing free seminars on modern technologies, distance consulting by telephone, and direct consulting through farm visits. Following the liquidation of KazAgroInnovation in August 2015, the state-owned *National Agrarian Research and Education Centre* (НАНОЦ) was established. The new entity aims to improve the co-ordination of education, R&D and extension systems by grouping 3 agricultural universities, 23 research institutes with 31 local branches, 4 service companies, and 14 experimental stations and experimental farms (*National Agrarian Research and Education Centre*, 2018).

Co-operatives can facilitate access to extension services by providing a platform for skilled farm advisors to disseminate new agricultural technologies and improve existing production practices. However, links between co-operatives and extension systems in Kazakhstan are non-existent or weak at best. The government could step up efforts to upgrade the extension system, and strengthen its links with existing agricultural co-operatives. Providing co-operatives with access to targeted extension services is essential to improve their integration in agricultural markets. Box 3 provides an overview of the Edmund Mach Foundation and its Technology Transfer Centre – an example of good practice from the Province of Trento, Italy.

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**Box 3. The Edmund Mach Foundation, Trento, Italy**

The Edmund Mach Foundation, formerly the *Instituto Agrario di San Michele all’Adige*, was established in 1874 to promote better agricultural practices in the County of Tyrol, part of the Austro-Hungarian Empire. Today, the Edmund Mach Foundation carries out research and scientific experiments, supports education and training, and provides technical assistance and extension services to farmers and co-operatives in the Autonomous Province of Trento in Northern Italy.

The Foundation’s Technology Transfer Centre undertakes applied research and experimentation, working with technicians to develop and promote process and product innovations throughout the region. In addition, specialist laboratories provide analytical services in areas such as agricultural and oenological chemistry, microbiology and plant disease diagnosis. This is complemented by a network of over 70 experts providing extension services to more than 8,000 farms across the Autonomous Province of Trento, supported by a comprehensive agrometeorological network and a widespread information distribution system.

3. Financial support programmes for agricultural co-operatives

Generous subsidies and financial support mechanisms have been extended to agricultural co-operatives

Prior to the adoption of the new law “On Agricultural Co-operatives” in October 2015, state support to agricultural co-operatives was primarily provided through two channels:

- concessional loans to rural consumer co-operatives at 5% interest for a period of 5-7 years, distributed by the Agrarian Credit Corporation (ACC), a subsidiary of KazAgro Holding; and
- social-entrepreneurial corporations, which operate at the regional (oblast) level and were responsible for maintaining “service and procurement centres”, providing various services to rural consumer co-operatives.

The State Programme highlights a number of key issues hindering co-operatives, including: insufficient state stimulation of the process of co-operation; the establishment of “false co-operatives” at the initiative and in the interests of one large-scale farm or in order to obtain soft loans (and not to provide services to members); insufficient or illiquid collateral; the inability of newly formed co-operatives to purchase machinery and equipment; and limited lending from commercial banks.

To address these issues, the State Programme provides a series of financial support measures for agricultural co-operatives: preferential leasing and investment subsidies for agricultural machinery and equipment, subsidies for setting up audit unions of agricultural co-operatives, and concessional credit with simplified lending criteria from subsidiary agencies of KazAgro Holding. Furthermore, a series of key performance indicators were established with annual targets over the period 2017-2021: number of members of agricultural co-operatives, number of operating agricultural co-operatives, and volumes of meat, milk, fruit and vegetable production from agricultural co-operatives (President of the Republic of Kazakhstan, 2017).

The Fund for Financial Support to Agriculture (FFSA)\(^5\) was designated as the main institution responsible for lending to agricultural co-operatives. Table 3 summarises the main lending programmes for agricultural co-operatives, and Figure 7 illustrates the evolution of loans provided to co-operatives from December 2016 to September 2018. During this period, the FFSA disbursed KZT 3.4 billion (approximately EUR 8 million) in loans to a total of 353 co-operatives. Over 97% of these loans were provided to co-operatives engaged in the production of milk and/or meat. In 2017, concessional loans to agricultural co-operatives accounted for 2.9% of the FFSA’s overall lending portfolio (Figure A.6).

In addition to concessional loans, 50% investment subsidies were provided for milk collection points (up to KZT 2.5 million), refrigerated milk tankers (up to KZT 3.5 million), slaughterhouses (up to KZT 14.3 million for livestock and KZT 3.5 million for poultry), bird cages (up to KZT 800 000), incubators (up to

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\(^5\) The FFSA is a subsidiary of KazAgro Holding, primarily responsible for administering concessional credit to rural borrowers directly or through a supporting a network of independent micro-credit organisations.
KZT 3.5 million), equipment (up to KZT 2.5 million), centres for sorting and harvesting vegetables, and milking machines. Further payments based on output were allocated to co-operatives for the production of beef cattle (KZT 20 000 per head), milk (KZT 10 per litre), lamb (KZT 1 500 per head) and fodder (KZT 20 000 per tonne).

Table 3. Concessional lending programmes for agricultural co-operatives, administered by the Fund for Financial Support to Agriculture (FFSA)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Purpose</th>
<th>Maximum loan amount</th>
<th>Interest rate</th>
<th>Maximum loan period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Purchase of breeding stock, feed, equipment</td>
<td>Up to 20 cows: KZT 5 million</td>
<td>6% per annum</td>
<td>84 months</td>
</tr>
<tr>
<td></td>
<td>21-49 cows: KZT 13 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establishment of milk collection points (Бірлік)</td>
<td>Purchase of equipment for milk collection points</td>
<td>KZT 5.5 million</td>
<td>6% per annum</td>
</tr>
<tr>
<td></td>
<td>1000-2000 litres: KZT 8.2 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establishment and development of agricultural co-operatives (Ынтымақ)</td>
<td>Purchase of machinery and equipment for meat, dairy, fruit and vegetable production</td>
<td>KZT 50 million</td>
<td>6% per annum</td>
</tr>
<tr>
<td></td>
<td>(for machinery)</td>
<td></td>
<td></td>
<td>80 months</td>
</tr>
<tr>
<td></td>
<td>60 months</td>
<td></td>
<td></td>
<td>(for working capital)</td>
</tr>
<tr>
<td></td>
<td>Creation of family feedlots (Береке)</td>
<td>Purchase of livestock, cattle, horses, birds, other animals, and feed</td>
<td>KZT 4 million</td>
<td>6% per annum</td>
</tr>
<tr>
<td></td>
<td>(for individuals)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>KZT 40 million</td>
<td></td>
<td></td>
<td>(for legal entities)</td>
</tr>
</tbody>
</table>


Figure 7. Evolution of concessional loans from the FFSA to agricultural co-operatives, December 2016 - September 2018 (KZT billion)


The disbursement of these subsidies gave a sharp stimulus to the new co-operative movement, with a total of 2 872 agricultural co-operatives and 62 825 member-farmers registered on 30 June 2018 (Committee on Statistics, 2018). However, as noted above, the authorities reckon that around 60% of the registered total consists of inactive or “false” co-
operatives. Many were established in order to attract government subsidies or to help regional (oblast) and district (rayon) administrations meet pre-planned targets. As a result, discrepancies emerged between the official statistics and data collected by regional administrations.

To address these issues, the Ministry of Agriculture developed the *Sectoral Programme for the Development of Agricultural Co-operatives for 2018-2021* (Ministry of Agriculture of the Republic of Kazakhstan, 2018a). The programme identifies a new set of key performance indicators to benchmark agricultural co-operatives: growth in labour productivity of member-farmers, growth in revenues from product sales (including exports) and service provision, and growth of investments in fixed assets. These indicators are expected to grow at a rate of 10% per annum over the four-year planning period. Furthermore, the government has scaled back lending and revised subsidies for co-operatives, providing just 25% investment subsidies, a new set of payments based on output (e.g. KZT 200 per kg of live weight of beef cattle), and VAT reimbursements for purchasing co-operatives. These measures are intended to reduce the share of inactive co-operatives and strengthen the long-term sustainability of the co-operative movement in Kazakhstan.

Financial support could be restructured to reduce dependency and strengthen the long-term sustainability of agricultural co-operatives

The government should work to ensure that support measures do not lead to dependency, and that co-operatives remain financially sustainable in the long-term. Co-operatives can obtain funding from a variety of sources, including internal sources (increasing transactions with existing members, retaining surpluses for future investment needs, and attracting new members) and external sources (increasing transactions with non-members, bank loans, government subsidies). As a necessary first step, the government should ensure that co-operatives are able to leverage internal funding from member capital, which is essential to maintain competitiveness and ensure sustainability in the long run.

In Kazakhstan, agricultural co-operatives may struggle to create the necessary incentives to leverage internal financial resources. Many farmers view agricultural co-operatives as ineffective, which makes it difficult for co-operatives to attract capital from new members or to encourage existing members to increase their involvement and investment in the enterprise. Increasing transactions with existing members (“patronage”) is an important source of financing, but such an expansion may require additional working capital for operations, as well as investments in fixed capital (e.g. buildings, machinery and equipment). Co-operatives may also find it challenging to generate significant surpluses to cover future investment needs, as they often face pressure to distribute their surplus by offering favourable prices to their members. Thus, the authorities can play an important role in educating farmers on the need to treat their co-operative as a business enterprise, which may need to retain a part of the surplus for its long-term development (OECD, 2015).

With the exception of member shares and investments by associate members, the law “On Agricultural Co-operatives” does not prescribe any alternative mechanisms to leverage internal financial resources and improve the creditworthiness of co-operatives. For example, it may be advantageous to allow co-operatives to issue additional member shares (preferred in terms of liability and dividends, interest payments and/or withdrawal), or to establish a minimum share capital (i.e. a fixed limit below which the share capital must not fall). The obligatory establishment of an indivisible reserve fund can also help to provide liquidity and assure long-term financial sustainability. The creation of co-operative groups
(i.e. subsidiaries in the form of capitalistic companies) is an additional means for co-operatives to access financial markets and cope with increased capitalisation requirements (Henrÿ, 2012). As mentioned in Section 1, co-operatives should have the right to own subsidiaries, including in another legal form than a co-operative.

In addition, the legal framework could be enhanced to encourage external financing of co-operatives. Such mechanisms could include increasing transactions with non-members, or facilitating non-member investments through the issue of transferable investment certificates, which grant the right to participate in the distribution of profits, surplus and assets in case of liquidation (without granting any decision-making power). However, it is important to ensure that external financing does not conflict with the interests of members, and that co-operatives maintain their autonomy and independence. A requirement that all profit (generated on transactions with non-members) should be transferred to an indivisible reserve fund can help to avoid excessive non-member business for speculative reasons (Henrÿ, 2018, 2012).

Finally, the government should carefully assess the economic and financial feasibility of investment subsidies and concessional credit provided to agricultural co-operatives. Providing subsidies at reduced cost poses the risk that investments become supply-driven, create excessive dependency on government support, and increase the debt exposure of the agricultural sector. Encouraging private investment in agricultural co-operatives could help to reduce the reliance on state provision of credit. The current credit portfolio is characterised by a high concentration of concessional lending from subsidiary agencies of KazAgro Holding, which distorts the market and discourages the private sector from lending to agriculture. Introducing more market-based instruments (e.g. variable interest rate subsidies and credit guarantees) would be a welcome step in the right direction (OECD, 2013).

To facilitate financing from commercial banks, support can also be provided to help co-operatives meet stringent collateral requirements, build up their own assets and reserves, and develop alternative lending mechanisms, such as group lending or lending against production committed under forward contracts.

The following guidelines can help to further enhance the effectiveness of financial support provided to agricultural co-operatives:

- **Co-financing of grants to co-operatives:** matching grants could encourage member-farmers to take ownership and demonstrate their commitment to the co-operative enterprise.
- **Focusing financial support on the start-up phase:** by providing targeted financial support for seed capital, grants for machinery and equipment, and support to meet specific investment needs.
- **Ensuring that co-operatives face a level playing field with other forms of enterprise:** agricultural co-operatives should be eligible to apply for financial support and compete with large-scale agricultural enterprises for subsidies, loans, grants, etc.
- **Improving the sustainability of financial support:** by making the disbursement of subsidies for new co-operatives contingent on a verified business plan or feasibility study and ensuring that investments can earn a decent rate of return.
- **Carefully monitoring the provision of financial support**: this is necessary to ensure that support is provided to economically viable business entities, rather than inactive or “false” co-operatives.

**The government could encourage processors and retailers to take a more pro-active role in financing and integrating co-operatives in supply chains**

The government could do more to facilitate private-sector participation in co-operative financing. This can be achieved by encouraging other actors in the supply chain (e.g. processors, wholesalers and retailers) to engage with co-operatives and participate in co-operative development and financing. While large-scale entities such as processing enterprises may be unlikely to contract directly with small-scale producers, co-operatives offer an opportunity to aggregate production at a larger scale and help small farmers to meet quantity and quality requirements imposed by larger players in the food chain.

Processors and retailers can pro-actively develop relationships with co-operatives by renting out transport vehicles and storage infrastructure, providing cash advances to village collectors, supplying co-operative members with technical and financial assistance, renting on-farm cooling equipment, establishing quality assurance systems, and developing forward contracting arrangements. To support greater integration of co-operatives in agricultural supply chains, the government should reduce regulatory barriers to vertical integration and strengthen the contract security system. Working closely with producer and industry associations can also help to disseminate information about good practices in other countries and support policy improvements (OECD, 2013).
Conclusions and recommendations

Over the period from 2014-2018, the government of Kazakhstan introduced a series of important reforms to support the development of agricultural co-operatives. To further facilitate the growth and evolution of a vibrant co-operative movement, the following recommendations should be taken into consideration:

1. **Continue to streamline the legal framework and improve the tax treatment of co-operatives**

   This area has witnessed the most substantial progress, most notably with the adoption of the new law “On Agricultural Co-operatives” in October 2015. Additional efforts to reform the legal and regulatory framework should include the following:

   - Adopt a single law on co-operatives, or alternatively, work towards a harmonisation of the three separate laws on agricultural, production and consumer co-operatives. In the event that three separate laws are maintained, ensure that all relevant actors have a clear and coherent understanding of the differences between agricultural co-operatives and production co-operatives.

   - Establish clear definitions of “profits”, “surplus” and “patronage refunds” within the legal framework. In particular, the law should clarify that co-operative surplus (generated from transactions between a co-operative and its members) should not be subject to income taxation. However, co-operatives should be subject to tax on all other income, including from dealings with third parties and from investment activities.

   - Amend the Tax Code, as appropriate, to facilitate transactions between co-operatives and their members, and to mitigate any tax-related disincentives for households and individual farms to join agricultural co-operatives.

   - Encourage access to financial markets through co-operative groups, by ensuring that co-operatives have the right to own subsidiaries, including in legal forms other than a co-operative. Consider removing the restriction in Article 448 of the Tax Code, which prevents legal entities with subsidiaries from applying the *special tax regime*.

   - Establish a dedicated authority specialised in co-operative matters to help streamline the registration process, explain the benefits of forming co-operatives and provide assistance in navigating the tax regime. Consider introducing a requirement to conduct a feasibility study prior to registration, to discourage the formation of non-viable and “false” co-operatives.

2. **Provide greater support to co-operative education and training, strengthen governance structures, and improve access to extension services**

   The government has introduced a number of important measures to provide farmers and co-operatives with better education and information services. Despite these efforts, a grassroots co-operative movement has yet to materialise in Kazakhstan. Agricultural co-
operatives also have limited access to extension services and technology transfer systems. Priority actions in this area include:

- **Build trust and strengthen awareness of the co-operative model in rural areas by developing comprehensive education and information services.** Farmers should be provided with basic education on co-operatives, guidance on how to establish new co-operatives, support in the preparation of legal documents, and advice on the various options available for co-operatives to obtain financing.

- **Establish a web portal for agricultural co-operatives to access essential education and information services and training resources, connect with suppliers and processors, and market their products and services.** The web portal of the Competence Centre (http://shk.fermers.kz/) could be used as a basis but should be upgraded to improve its user-friendliness and attract more traffic.

- **Continue improving the depth and quality of statistical data on agricultural co-operatives.** Consider collecting additional operational and balance sheet data (e.g. gross turnover, net income, assets, liabilities, equity, etc.). To the extent possible, allow for disaggregation of data by region, commodity and size of the co-operative.

- **Strengthen governance structures and the control rights of members, by limiting investments from associate members, limiting financial contributions from single members, prescribing the establishment of an education and training fund, and inciting co-operatives to establish supervisory committees.** Consider making an external co-operative-specific audit by qualified and independent auditors obligatory and affordable.

- **Facilitate the development of secondary and tertiary co-operative organisations (unions and federations).**

- **Step up efforts to upgrade the extension system, and ensure that agricultural co-operatives have access to a broad array of targeted extension services.**

#### 3. Reduce dependency on public subsidies and encourage greater private-sector participation in co-operative financing

In recent years, agricultural co-operatives have benefited from a range of generous public subsidies, tax incentives and financial support mechanisms. In order to reduce this dependency and strengthen the long-term sustainability of agricultural co-operatives, the following actions are recommended:

- **Encourage co-operatives to leverage internal sources of financing, by increasing transactions with existing members, retaining surpluses for future investment needs and attracting new members.** Further expand the range of internal financing mechanisms, by encouraging the development of additional member shares and minimum share capital, the obligatory establishment of an indivisible reserve fund, and the creation of co-operative groups (subsidiaries in the form of capitalistic companies).

- **Foster external sources of financing for co-operatives, such as increasing transactions with non-members, and facilitating non-member investments through the issue of transferrable investment certificates.**
- Carefully assess the economic and financial feasibility of investment subsidies and concessional credit provided to agricultural co-operatives. To avoid crowding out private sector lending, consider introducing more market-based instruments such as variable interest rate subsidies and credit guarantees.

- Improve the effectiveness and sustainability of financial support by introducing more co-financing arrangements, focusing financial support on the start-up phase, ensuring that co-operatives face a level playing field with other forms of enterprise, making financial support contingent on a verified business plan or feasibility study, and carefully monitoring the provision of public subsidies.

- Encourage processors and retailers to develop supplier relationships with co-operatives by renting out transport vehicles and storage infrastructure, establishing quality assurance systems, and developing forward contracting arrangements. Reduce regulatory barriers to vertical integration, strengthen the contract security system, and work closely with producer and industry associations to promote the integration of co-operatives in supply chains.
References


Annex A. Supplementary figures

Figure A.1. Value added per worker (constant 2010 USD), 1991-2017

Figure A.2. Agriculture’s share in GDP and value added per worker, 1991-2017

Figure A.3. Gross inflows of FDI in the agro-food sector, 1993-2017 (USD million)


Figure A.4. Distribution of cattle inventories by farm size, 2016

Note: Rural households are assumed to own less than 50 heads of cattle per farm holding.
Source: Committee on Statistics (2017a).
Figure A.5. Distribution of sheep and goat inventories by farm size, 2016

Note: Rural households are assumed to own less than 50 heads of sheep and goat per farm holding.
Source: Committee on Statistics (2017a).

Figure A.6. Sectoral composition of the FFSA’s lending portfolio, 2008-2017 (KZT billion)

Annex B. International Co-operative Alliance Statement on the Co-operative Identity

Definition of a co-operative

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Co-operative values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Co-operative principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1. Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6. Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.
# Annex C. Differences between co-operatives, investor-owned corporations and non-profit organisations

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Co-operatives</th>
<th>Investor-Owned Corporations</th>
<th>Non-profit Organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
<td>Democratically controlled: one-member, one vote basis; equal voice regardless of their equity share. Members are involved in the day-to-day business operations and receive services for their input.</td>
<td>Controlled by shareholders according to their investment share. Business decisions and policy are made by a board of directors and corporate officers.</td>
<td>May be controlled by members who elect a board of directors or, in non-membership organizations, the board of directors may elect its own successors. Control is maintained by those not receiving the services.</td>
</tr>
<tr>
<td>Board Membership and Compensation</td>
<td>Made up of co-op members elected by the members. Usually, they do not work for the co-op. Cost reimbursed for board meetings. Board members usually serve on an uncompensated, volunteer basis.</td>
<td>Board is comprised of a combination of independent directors, management and other directors with financial or business ties to the organisation. CEOs may serve as the board chair. Significant financial compensation is provided.</td>
<td>Board is generally made up of people who do not receive the services, usually chosen for philanthropic or political reasons. Board members usually serve on a volunteer basis.</td>
</tr>
<tr>
<td>Board Nomination and Elections</td>
<td>Candidates nominated by membership either directly, or by a nominating committee made up of members. Usually, any member can nominate a director candidate. Board is elected by the members on a one-member, one vote basis.</td>
<td>Candidates nominated by the board of directors and management, often by a nominating committee. Shareholders have limited ability to nominate and elect director candidates.</td>
<td>Either by members or the board of directors.</td>
</tr>
<tr>
<td>Accountability</td>
<td>The board is directly accountable to members through nomination and election procedures.</td>
<td>Board election and nomination procedures afford little oversight opportunity to shareholders. Shareholders are not likely to be able to remove board members.</td>
<td>Generally accountable to members of the organization and those who provide the funding to the organization.</td>
</tr>
<tr>
<td>Earnings / Dividends</td>
<td>Surplus revenues (profits) are reinvested in the business and/or returned to members based on business conducted with the co-op that year. Many co-ops are obligated to return a portion of their “surplus revenues” to members each year. Members share losses and earnings.</td>
<td>Profits returned to shareholders based on ownership share. Corporations are generally not obligated to pay out dividends. Timing and amount of dividend pay-out are determined by the board of directors.</td>
<td>Re-invest any profits they make in their public benefit purpose and their own operations.</td>
</tr>
<tr>
<td>Purpose / Motivation</td>
<td>Maximize customer service and satisfaction.</td>
<td>Maximize shareholder returns.</td>
<td>Primary motivation is to serve in the public interest. Redistribute resources to provide educational, charitable and other services.</td>
</tr>
<tr>
<td>Source of funds / Generation of Money</td>
<td>Raise resources through the equity of members: 1) direct investment; 2) retained margins; and 3) per-unit capital retains (capital investments based on the number of physical units handled by the co-op or on a percentage of sales).</td>
<td>Typically raise money through capital markets.</td>
<td>Typically funded by donations from the private or public sector or the government. Tax-exempt.</td>
</tr>
<tr>
<td>Community</td>
<td>Promote and assist community development.</td>
<td>May engage in selected community philanthropic activities.</td>
<td>Serve as a mechanism for collective action based on a common good.</td>
</tr>
</tbody>
</table>

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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This report monitors progress in implementing the three main policy recommendations from the OECD policy handbook *Strengthening Agricultural Co-operatives in Kazakhstan* (2015). It covers the legal frameworks for agricultural co-operatives, education and information services, and financial support programmes, and concludes with a series of targeted recommendations for future activities. The report was developed in close collaboration with the Ministry of Agriculture, KazAgro Holding, subnational authorities, farmers, farmers’ associations, research institutes and a team of international experts.

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