



Cooperation of small forms of managing in agro-industrial sector in the Republic of Kazakhstan

Cooperación de pequeñas formas de gestión en el sector agroindustrial en la República de Kazajstán

D.A.KALDIYAROV [1](#); E.O. KYDYRBAYEVA [2](#); B.K.SHOMSHEKOVA [3](#); M.TOREGOZHINA , G.R.BAYTAEVA [4](#)

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ABSTRACT:

In this research, the authors considered and justified the need to combine small forms of management into agricultural cooperatives. The article contains a review of methods for assessing the industrial, commercial, financial activities of the cooperatives. The essence of the effectiveness of the cooperative formings' functioning is formulated. The world and domestic experience in the development of agricultural cooperation has been studied, which has made it possible to identify the basic prerequisites for developing small forms of economy activity in the agro-industrial sector of the Republic of Kazakhstan. The article presents the existing problems hampering their development and in conclusion, the authors offer recommendations on measures of state regulation and support for the development of agricultural cooperation in the Republic of Kazakhstan.

Keywords: agricultural cooperation, small forms of managing, agricultural sector, sale, processing of agricultural production.

RESUMEN:

En esta investigación, los autores consideraron y justificaron la necesidad de combinar pequeñas formas de gestión en las cooperativas agrícolas. El artículo contiene una revisión de métodos para evaluar las actividades industriales, comerciales y financieras de las cooperativas. Se formula la esencia de la efectividad del funcionamiento de las formaciones cooperativas. Se ha estudiado la experiencia mundial y doméstica en el desarrollo de la cooperación agrícola, lo que ha permitido identificar los requisitos previos básicos para desarrollar pequeñas formas de actividad económica en el sector agroindustrial de la República de Kazajstán. El artículo presenta los problemas existentes que obstaculizan su desarrollo y, en conclusión, los autores ofrecen recomendaciones sobre medidas de regulación estatal y apoyo para el desarrollo de la cooperación agrícola en la República de Kazajstán.

Palabras clave: cooperación agrícola, pequeñas formas de gestión, sector agrícola, venta, procesamiento de la producción agrícola.

1. Introduction

Cooperation (from Latin word cooperation - collaboration) is a form of labour organization at which considerable number of people participates together in one or different but connected labour processes. In economy these processes are called labour cooperation. Cooperation is a voluntary association of people - small producers, farmers, owners — for achievement of certain common goals in different areas of activities, based on share participation. There is agricultural, consumer, credit, housing, construction and other kind of cooperation.

Agricultural cooperation unites producers of agricultural goods for joint manufacture of production or carrying out other activities on providing economic requirements of their farming (processing, production sale, production means supply, etc.). The cooperation process of agricultural producers, involving small scattered farms into different forms of cooperatives originated at the end of 18th - the beginning of 19th century with origin and development of different types of agricultural cooperation. In many developed countries cooperation of agriculture turned into a difficult social and economic organism including production of agricultural production, organization of maintenance by creating appropriate enterprises; credit cooperatives along with financial operations realize more and more trade operations (sale, supply). For many decades there were attempts to create production of agricultural cooperatives. They started at the end of 19th - the beginning of the 20th century. However, widespread got only in the sixties years of the 20th century under influence of scientific and technical progress and attempts of some small and medium-scale farms to oppose major capital by joint efforts.

The scientific bases of cooperative movement and cooperative business were created and developed by several generations of scientists and cooperators-practitioners from different countries. Their names, especially founders and popularizers of the cooperative theory, as (Owen R. 1982; Marx K. and Engels, F. 1960; Tugan-Baranovskiy M. I. 1995; Chayanov A.V. 2011, etc.) are well-known. Some of them (R. Owen, Sh. Fourier) were representatives of the utopian cooperative theory and thought by creation a wide network of mandatory profitless cooperatives (cooperation was considered as an antipode to the market economy) it was possible to transform societies on the ideal starting of social justice. Others (in particular, F. Raiffeisen, A.V. Chayanov) were representatives of practical direction in the cooperation theory, proceeding from the requirements of life itself, from the interests of small producers.

A cooperative is a live, constantly developing public and economic organism. Its content, functions, the activity mechanism at transition from source the simplest forms to more perfect, adequate to qualitatively new condition and level of material production development, constantly change. If, for example, at the origin period of cooperative movement the cooperatives were created to survive alone and all together, but in the market economy, the cooperative activity takes a business form and starts to become more and more entrepreneurial nature. Certain common "benefit" or the purpose of "needs satisfaction" transforms into real economic benefit, actually perceived purpose in the market economy is to get the biggest profit. Otherwise, a cooperative "does not fit" to the sphere of market competition, consequently, into the market relations in general. At the present stage of market transition and also from the positions of the world experience within the international cooperative alliance, these and other aspects of the cooperation theory require critical comprehension, not to mention Marxist views of this theory, which have been not analyzed objectively and critically to the end yet, and the main thing, in some principal aspects of understanding the essence of cooperation, were not have been overcome in practice.

2. Methods

In the course of the research the approaches of evaluation efficiency of agricultural cooperatives we have been studied the methods of evaluation of production, commercial, financial activity of cooperatives. The efficiency of a production activity is determined in

accordance to the degree of intensity of using resources depending on concentration and production specialization; for this purpose a ratio between the volumes of output of products and the used resources is analyzed (Baldwin, Harchchaoui, Hosein and Maynard 2001; **Cooperative principles and statutes, legal description of Unique Enterprises, 1997; European experience in agricultural cooperation, 2000**). The efficiency of commercial activity is considered from the positions of market parameters (sales volume, supply and demand). To the indicators of commercial effectiveness (agribusiness) are profit, added cost, specific costs for a cost unit of realized production, profitability of sales. The efficiency of financial activity characterizes the condition of financial resources, their ability to provide an uninterrupted production processes and production realization (work, services) according to the obligations to other managing subjects and the government.

The efficiency of cooperative formation should be estimated from the position of temporary and spatial aspects. Spatial borders include the analysis of cooperative structures efficiency in section of inter regions links regions and on each object of surveillance. The economic evaluation of functioning cooperative formations in temporary aspect is given depending on organizational-juridical and economic conditions dominating at the time of their creation or having essential value in the activity period. In both cases the influence and the role of cooperative structures in efficiency increasing of agricultural production are defined.

The analysis of methodological and methodical approaches of effective functioning of agricultural cooperatives, generalization of scientific works economists- agrarians allowed us to formulate the essence of efficiency of functioning of cooperative formations. That means they provide conditions for association of people setting a goal to improve their economic and social situation, that is to promote development of free entrepreneurial activity and business, protection of interests of producers of agricultural production at different levels of management. The research of organizational and economic mechanism of functioning of agricultural cooperatives testifies that efficiency of agricultural cooperative formations activity is final useful effect from application the production resources of cooperating organizations on the basis of social-economic relations enabling to satisfy the needs of their members (**European experience in agricultural cooperation, 2000**; Buzdalov and others, 2009; Agricultural Policies in OECD Countries 2009, 2009; Rural, forestry and fish industries in RK, Statistical collection of the Agency of RK on statistics, 2015-2016, n. d.).

Agricultural cooperation creates as effect from addition the sum of efforts of all its participants, and a certain mediated effect, which is often possible to measure only in indirect way. Therefore defining synergetic effect is possible by comparing the results of work of agricultural producers before and after joining agricultural cooperatives, thus economic efficiency of cooperating formations activity, as a rule, is a little higher than the total effect received earlier independently.

3. Results and Discussion

Today interaction of cooperation and market is especially topical. In the conditions of formation agrarian market the cooperation process in the republic has the character of separate attempts of cooperation relations between producers and consumers of production. Consequently, for agricultural production adaptation to market conditions the conceptual bases of production organization of the enterprises of different forms of managing on the basis of their cooperation have a special importance.

It should be noted that the main damage to the agriculture is caused because of rupture of production ties between agriculture and the processing branches, production realization and agro-service. Economic relationships of rural producers with servicing and processing enterprises are a complex problem. It became aggravated during reforming and privatization in agro-industrial production when each farm or enterprise, working in the market conditions, strived for receiving the maximum profit independently, irrespective of social interests.

During organizational and economic transformations of the last years the interests of the main participants – agricultural producers – were largely restrained because of fundamental mistakes in the field of agrarian policy, monopolistic actions of processing, servicing and resource providing enterprises in relation to agricultural branch. These actions were exhibited, first of all, in the dictate of prices for purchased outputs, offering machines, resources and services. The price of the realized production does not always provide compensation of expenses for its production to the producer. Compensation of the expenses (in case it happens) does not exceed 6 - 10% of received profit.

In these conditions agricultural enterprises had to realize their production to consumers independently and also to begin construction of their own processing workshops. Lack of considered economic policy in this issue caused distraction of large means of agricultural producers to ineffective production.

Thus, first, processing enterprises lost their raw zones, not having opportunity to load their capacities completely. Secondly, construction of small processing facilities inside agricultural enterprises delayed replacement of technologies on production of raw materials because of absence of means for these purposes.

Accelerated transition to market relations at insufficient development of market infrastructure promoted strengthening of processing and trade organizations monopolism, appearance of numerous intermediaries, reduction of production volumes practically of all types of agricultural products. Besides, there were some changes in its structure on farms categories: in agricultural enterprises and peasant households, plant growing was mainly developed, but livestock production is concentrated in the population's farms.

So, from table 1 it is seen that the specific weight of people's farms in the total amount of gross output of agriculture in 2016 it was 52,7%, including crop production – 26,9%, livestock – 78,1%, and in 2006-2010 this indicator was even higher – 86,5%. The share of farms is also high: 43,6% in crop production (Agricultural Statistics. Data 1995-2004, 2006; Rural, forestry and fish industries in RK, Statistical collection of the Agency of RK on statistics, 2015-2016, n. d.)

Table 1
Gross output of agriculture production on categories of farms of RK (million tenge)

Indicator	In general for years				2016	in %
	2006-2010	in %	2011-2015	in %		
Gross output of agricultural production						
All categories of farms	633814	100	2256583	100	1999046	100
Agricultural enterprises	152698	24,1	639036	28,3	396128	19,8
Peasant/farm households	157956	24,9	569872	25,3	549283	27,4
Public farms	323160	51,0	1047675	46,4	1053634	52,7
Plant growing sector						
All categories of farms	359648	100	1305023	100	981190	100

Including Agricultural enterprises	130677	36,3	544035	41,7	288522	29,4
Peasant farms	142986	39,8	473459	36,3	428485	43,6
Households	85985	23,9	287529	22,0	264182	26,9
Animal husbandry sector						
All categories of farms	274167	100	944120	100	1011192	100
Agricultural enterprises	22021	8,0	87561	9,3	100941	9,9
Peasant/Farm householders	14971	5,5	96413	10,2	120798	11,9
Population's farms	237175	86,5	760146	80,5	789452	78,1

This tendency is confirmed by high specific weight of this category of farms (peasant farms) in the total number of agricultural formations (97-99%), especially in the southern regions. From figure 1 it is seen that 36,8% is the share of farms of the Southern Kazakhstan region, 29% - Almaty region to the total number of country farms of the Republic of Kazakhstan. Besides there is tendency of decreasing in allotments of agricultural producers: 65% of farms have lands up to 50 hectares, the average amount of land use of agricultural enterprises has decreased, for example, in the southern region by 6 times (figure 2). All this confirms small-scale character of agricultural production that proves the need of joining of efforts of small forms of managing.

Figure 1

Specific weight of farms in section of regions in their total number in the republic, %

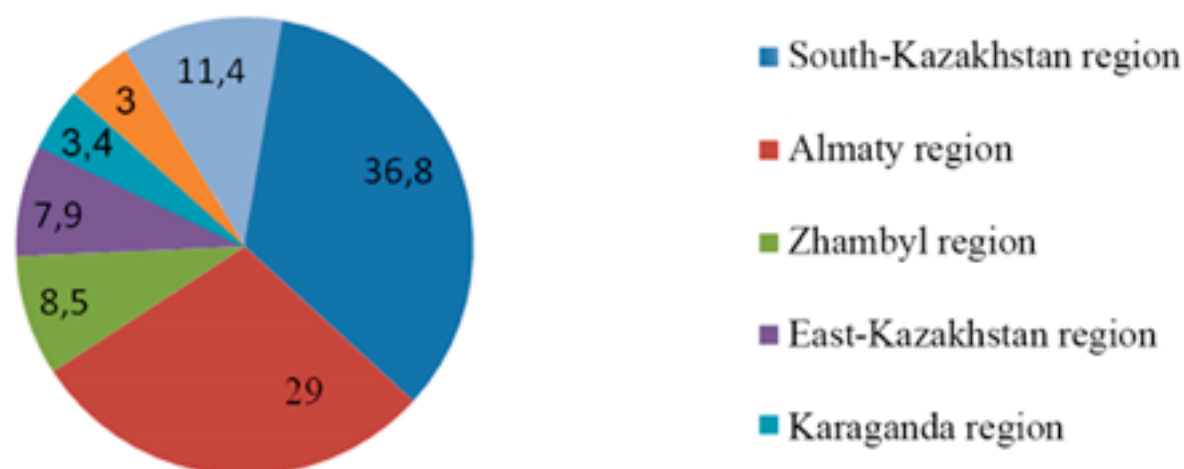
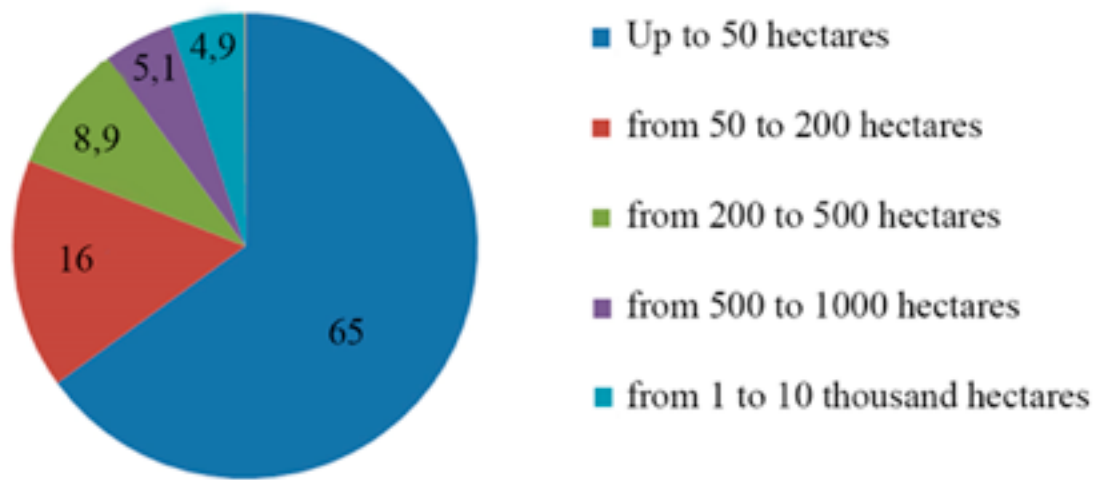


Figure 2

Specific weight of allotments of peasant farms in general area of agricultural land, %



The measures of state support in type of subsidizing, preferential crediting are inaccessible to the majority of small-scale enterprises, in connection with lack of correspondence to the qualifying standards, lack of mortgage property etc. Low level of income of the subjects of small and middle entrepreneurship does not enable to provide initial capital for business development in rural area.

High share of small and medium-scale enterprise is not only in agriculture, where it was 22%, but also in the sphere of wholesale and retail trade (41%) (figure 3) (Agency of RK on statistics. Statistic yearbook for 2015-2016, n. d.). As it is seen from figure, in the structure of subjects of small and middle business individual entrepreneurs prevail, they consist 69%. Generally, it is connected with simplified proceedings opening of an individual entrepreneurship in the country and it has not been required a big initial capital. On the number of the enterprises peasant farms are on the second place, which are considered as one of the most widespread forms of small entrepreneurship. Historically, the economy of Kazakhstan is more agrarian and currently the government gives active support to the peasant formings by means of financial support and state programs.

Figure 3

Structure of the sector of small and medium-scale enterprise of the Republic of Kazakhstan.

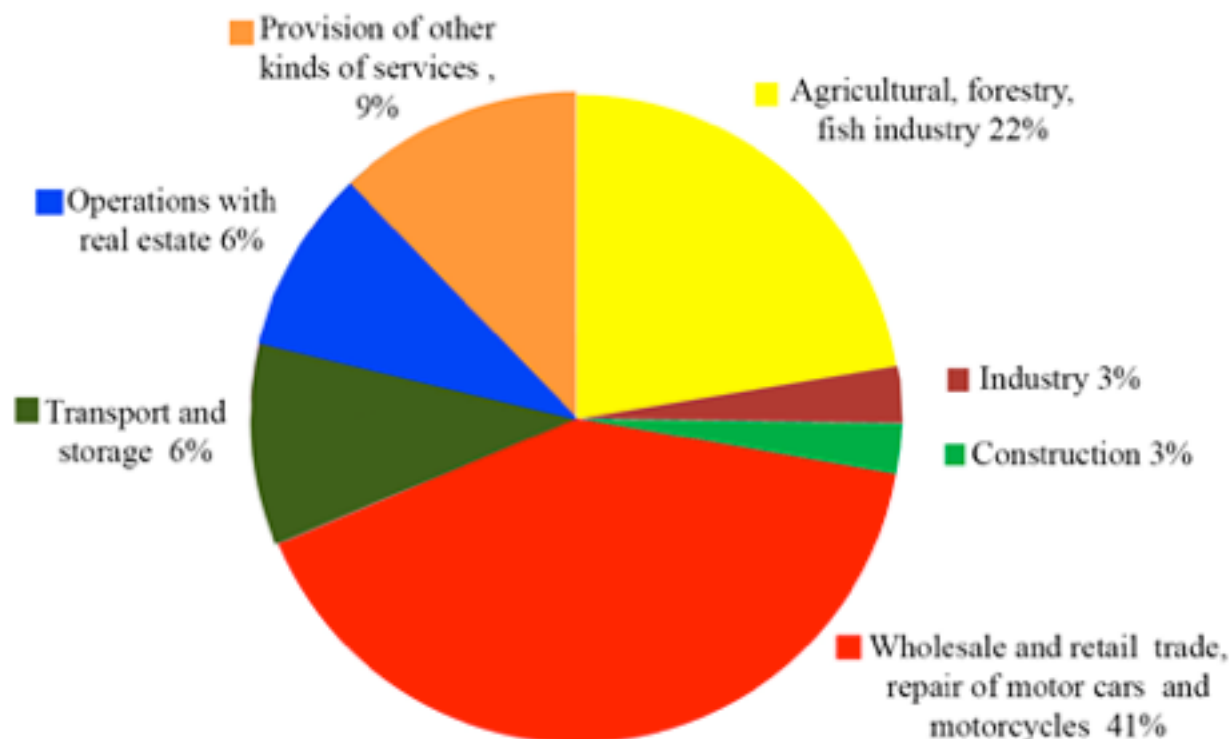
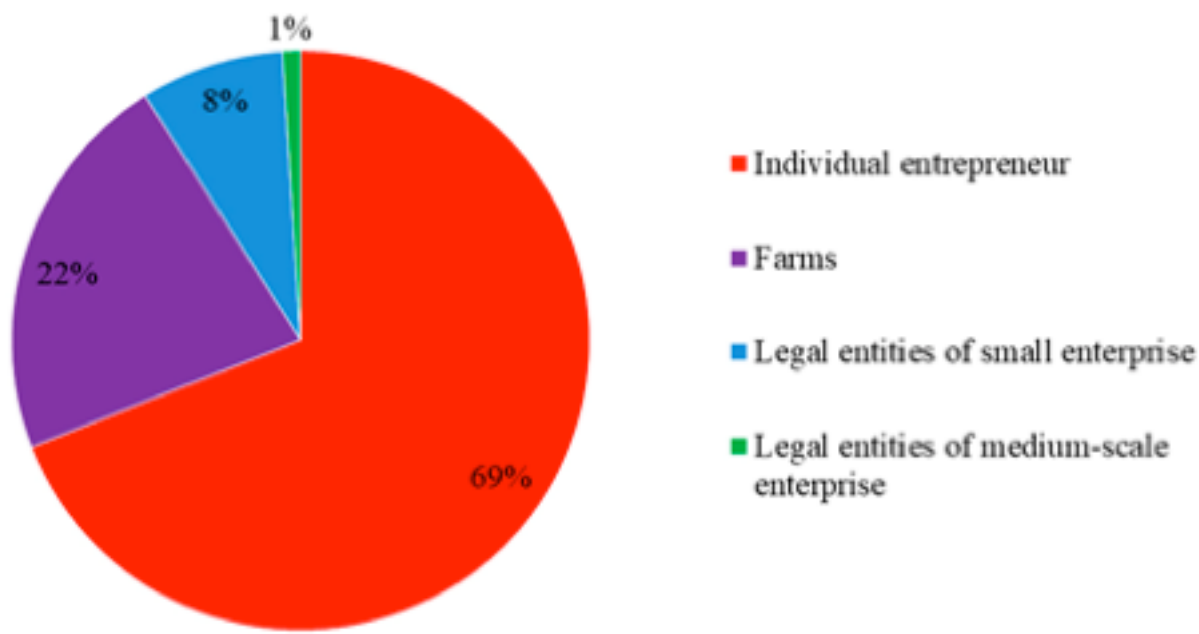


Figure 4

Structure of active subjects of small and medium-scale enterprise for 2016



Thus, the main preconditions for developing cooperation of small forms managing in agro-industrial sector of the Republic of Kazakhstan are:

- necessity of restoration destroyed relations between rural producers and the enterprises of preparation, storage, processing and sale of finished product;
- sharp need for creating a new system of a rural producer investment;
- lack of financial and investment resources in the republic;
- loss of a considerable share of the domestic commodity market due to import production existence in it;
- solution the problems connected with sale of agricultural products, material and technical supplies service of agricultural producers;
- creation a stable base of raw materials, improvement the quality and competitiveness of food and other products.

According to the foreign experience, the cooperative form of interrelations of agricultural producers with the enterprises of production processing and sale provides higher efficiency than just separate enterprises. At the same time the existing material and technical basis of agricultural producers and the processing sphere is maximum used. Agricultural producers have a guaranteed sales market of their production, and capacities of the enterprises of processing are maximum engaged.

Currently, one of the most important problems of development the agrarian sphere is not advanced system of purchase and sale of agricultural production. The modern state of agro industrial complex (AIC) is characterized by unsystematic character and spontaneity. This is explained by the fact that instead of the destroyed system of purchase and sale the market structures of agricultural production movement which are necessary for providing the producers with guaranteed sale were not created. All this caused strengthening the role of intermediaries in the selling network, who almost forced out procuring system, at this time the interrelation of producers and raw materials processors is completely excluded. Low purchase prices for agricultural production dictated by the processing enterprises do not stimulate a growth of volumes of their production, that as a result, causes lack of loading the facilities and capacities of elevators, meat-processing plants and dairies, and decrease the efficiency of their functioning.

Because of requirements of qualitative, available at the price and well packed production, small and middle enterprises are not able to compete successfully with constant suppliers. The majority of farms cannot afford to organize their own processing of meat, milk and other production due to the lack of means and the skilled personnel, necessary sanitary requirements and rigid tax conditions, high specific expenses, the risks of losses are really high at barter

trades from intermediaries participation. Also it is caused by the absence of own trade net, the establishment and maintenance of which is not available for every enterprise.

Today in the Republic of Kazakhstan 1473 production, 1545 rural consumer cooperatives and 346 rural consumer cooperatives of water users are registered. However, in the activity of production cooperatives functioning at present time the breach of the cooperative principles is observed, in particular full economic independence, the right for exciting of property for the corresponding share of collective property, including the land, voluntariness of membership in a cooperative, the right of resignation from cooperative with own property share. The member of any cooperative should receive an economic benefit from this association for increasing their economic activity, however, actually, there was a situation when the member of production cooperative feels as a hired worker in the economy, rather than the owner.

In our opinion, the production cooperatives should become a transitional form on the way of formation servicing cooperatives as prevailing and taking a dominant position in the agrarian structure. At the present stage of reforms one of the most important tasks is to recreate the groups of members- owners of land and property shares on the basis of present production agricultural cooperatives. And the recreation should be carried out strictly voluntary, differentially, to rely on economic and social advantages of this form of cooperation.

The created rural consumer cooperatives (RCC) for the last three years have not received the required development, despite taken measures of the Ministry of Agriculture of the Republic of Kazakhstan, JSC "Agrarian Credit Corporation" providing preferential crediting of RCC for the term of 5-7 years on a rate of premium up to 5% annual. The number of created RCC today is minor over the republic, that is explained by mistrust of rural people to created new structures, inconsistency of interests of cooperation participants, lack of mortgage property or its illiquidity at crediting, and also insufficiency of financial means allocated by JSC "Agrarian Credit Corporation" for RCC creating.

The research of the established forms of agricultural cooperatives allowed to reveal the main problems constraining their development:

- unavailability of agricultural formations and rural population to cooperation, misunderstanding of the members the advantages of cooperation, their own rights and duties, and also the activity mechanism;
- creation of cooperatives for the interests of one large-scale enterprise, which is the initiator, provides pledge and actually is the owner of cooperative;
- untimely execution by associations of the taken obligations for the project implementation;
- lack of own production rooms suitable for the equipment installation;
- insufficient or illiquid mortgage providing;
- insufficiency of raw materials base for loading the purchased equipment and facilities;
- low vocational training of the administrative personnel and shortcoming of specialists-technologists;
- lack of opportunity to perform in the market with more large consignments of production caused by dissociation of cooperatives;
- limited access of cooperatives to realization of manufactured production in the trade markets;
- lack of tax remissions for cooperatives;
- inconsistency of interests of cooperation participants ;
- processing and servicing enterprises reluctantly go for loss of their monopoly position in relation to agricultural producers in case of association. The processes of ACS go more successfully where the processing enterprises act as a integrator;
- insufficient legal support. Use of association's business entities of noncommercial type does not allow to carry out an entrepreneurial activity. Small allocation of state funds for cooperation development.

4. Conclusion

On the basis of the analysis of the world and domestic experience of the agricultural cooperation development, existing problems holding back its development, the following measures of governmental regulation and support the development of agricultural cooperation in the RK are recommended:

- for the purpose of expansion the spheres of development of agricultural cooperation and availability of the preferential taxation to all forms of agricultural cooperation it is recommended to introduce changes into "The rules of AIC support with special organizations participation", approved by the Resolution of the Government of RK No. 645, in the clause 32 about the thing that JSC "Agrarian Credit Corporation" should carry out crediting at fee rate up to 5% annually for the term of 5-7 years not only rural consumer cooperatives, but also other forms of agricultural cooperatives (production cooperatives, agricultural partnerships, rural consumer cooperatives of water users).

Realization of this action will give the chance to develop various types of agricultural cooperation (production, sale, processing, service, insurance, credit, etc.);

- to increase the volumes of allocated financial funds of JSC "Agrarian Credit Corporation" for crediting agricultural cooperatives;
- to simplify the process of granting a tax credit to agricultural cooperatives by simplification the process of property pledge, its assessment, holding experts commission, etc. that will increase the availability of crediting to bigger number of agricultural producers and will increase the number of created cooperatives;
- change of term of tax credit granting for 7-10 years, for the purpose of attraction a bigger number of agricultural producers into the cooperation process;
- granting tax credits to agricultural cooperatives not only by repayment of the new equipment or construction of the new processing enterprise, but also by modernization the operating or available processing, storage enterprise that will reduce the costs of agricultural producers for their installation, etc.;
- for improvement the legislative base and its fastest realization in practical activities it is required to adopt a uniform Law of RK "About Agricultural Cooperation" which would accurately define legal differentiation of production and servicing cooperatives, share relations, obligatory provisions of the cooperative's charter, features of the cooperative functioning, distinguishing it from other forms of managing, spread of the antitrust, tax legislation, preferential crediting and other issues of agricultural cooperatives functioning;
- for the purpose of implementation the complex development of creation legal, economic and organizational conditions of agricultural cooperatives effective functioning in the republic it is recommended to develop and adopt the Government program of the agricultural cooperation development, whose main objective is providing a sustainable development of a cooperative sector, increase its role in ACS stabilization, protection of economic interests of agricultural producers;
- taking into account the existence of specific features of each region it is recommended to develop Regional programs of agricultural cooperatives development, which will include the explanatory work, rendering financial, organizational, production, propaganda, consulting, information, practical help to the created cooperatives.

The above said items justify the necessity of association small business entities into agricultural cooperatives with the purpose to protect the interests, joint organization of the production, sale of the produced products, its initial processing, supply with material and technical resources and other kinds of maintenance. The priority of this direction is confirmed by adopted for the last years policy documents (Agribusiness-2020, Strategy-2050, etc). In the Message of the President of the Republic of Kazakhstan to the people of Kazakhstan of January 17, 2014 the Head of the Government N. Nazarbayev noticed the necessity of "elimination all barriers which

obstruct the development of business in agriculture and the process of farming cooperation” (Government Program on agricultural sector development in the Republic of Kazakhstan for 2013-2020, 2012; Message of the President of RK N.Nazarbayev to the people of Kazakhstan “Strategy “Kazakhstan-2050”, 2012; Message of the President of Rk N.Nazarbayev to the people of Kazakhstan, 2014)

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1. Zhetysu State University named after I.Zhansugurov, 040009, Republic of Kazakhstan, Taldykorgan, Zhansugurov Street, 187A, E-mail: 77da@mail.ru

2. Zhetysu State University named after I.Zhansugurov, 040009, Republic of Kazakhstan, Taldykorgan, Zhansugurov Street, 187A, E-mail: ekydyrbaeva@mail.ru

3. Zhetysu State University named after I.Zhansugurov, 040009, Republic of Kazakhstan, Taldykorgan, Zhansugurov Street, 187A, E-mail: bshomshekova@mail.ru

4. Zhetysu State University named after I.Zhansugurov, 040009, Republic of Kazakhstan, Taldykorgan, Zhansugurov Street, 187A, E-mail: toregozhina2008@mail.ru

5. Zhetysu State University named after I.Zhansugurov, 040009, Republic of Kazakhstan, Taldykorgan, Zhansugurov Street, 187A, E-mail: Baytaeva@mail.ru
