



Reviving Agriculture by Privatizing Farms

In Azerbaijan, IFAD co-sponsored a project that successfully helped the government restore agricultural productivity by restructuring collective and state farms and transferring them to the local population.

The “Farm Privatization Project”, sponsored by IFAD and the International Development Association (IDA), was originally conceived as a pilot project to support the government’s programme for land reform. Six collective farms in different agro-climatic zones were assigned 6,645 land titles and provided with a full set of services through the following project components: 1) farm privatization and support services (land registration services, farm information and advisory services, support to water users’ associations, rural credit); 2) rehabilitation of the main irrigation water supply and drainage works; 3) community development programmes; and 4) project management and implementation. The project largely exceeded its objectives – establishing a model for rapid and equitable distribution of land plots, an accurate, cost-efficient land registration system, and an effective set of post-privatization services. The government immediately adopted and implemented the model on a nationwide basis.

Country:

Azerbaijan

Direct Beneficiaries:

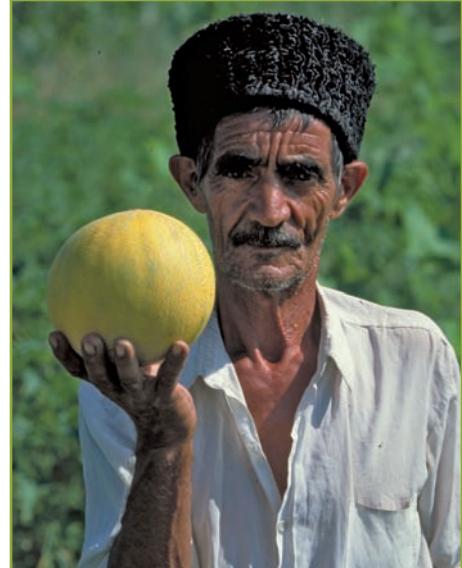
Small farmers, landless people

Results:

- Between 1997 and 2003, crop yields increased by 50-100 per cent, and cropping intensity by 40 per cent.
- Over the same period, rural poverty declined from 66 per cent to 43 per cent of the population.
- Around 825,000 new farms averaging 3 hectares in size were created.
- Agriculture absorbed around 400,000 new entrants, and labour productivity, after an initial decline, increased significantly.

Main Lessons:

- Strong commitment by the government at all levels is essential for the success of a privatization initiative.
- Land privatization and farm restructuring are more effective when they are accompanied by experimentation and learning to increasingly respond to specific national needs.



BASIC INFO

Sources:

Michael Thurman, *Azerbaijan Farm Privatization Project* (IBRD, 2004)
Farm Privatization Project – Project Completion Report (IFAD, 2005)

Project Name:

Farm Privatization Project

Project Starting Date:

1997

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WEB PAGES

**IFAD operations
in NENA and CEN:**

<http://www.ifad.org/operations/projects/regions/pn/index.htm>

IFAD learning notes:

<http://www.ifad.org/rural/learningnotes/index.htm>

IFAD case studies:

<http://rpr.ifad.org/node/534>
(username and password: “guest”)

Background

From 1985-1990, agriculture output in Azerbaijan declined by 14 per cent. After independence in 1991, the country saw the use of its water resources continue to deteriorate and its productivity to decrease considerably. This negative trend had been caused by lack of maintenance of irrigation and drainage systems, lack of investment in farm development, and lack of farmers' familiarity with the principles of a market economy. By 1995, 66 per cent of the rural population was living in poverty – and 20 per cent in extreme poverty.

In 1996, when the project was being designed, there were neither agricultural nor community services in the area. This threatened to undermine the investments already made in infrastructure. It was also a stumbling block to privatization. The perceived requirement was to address these constraints with a project that provided a combination of technical expertise in agriculture and water management, credit and institutional strengthening.

A Smooth Transition

The project identified six collective farms in the Barda, Lenkaran, Salyan, Sharur, Udjhar and Xachmas districts. Land privatization began in these pilot districts in January 1998 and was completed with the issuance of unique parcel identification numbers for all plots in June 1999. This process – which the government soon adopted and replicated throughout the country in 1998 and 1999 – was largely devoid of the abuses that characterized the distribution of land in other transition countries for the following reasons:

- A lottery system was employed to distribute plots – officials and land recipients perceived the system as fair.
- The process was driven by choices – farm members were

allowed to decide which activities to undertake and to make decisions about the management of their farm assets.

- The process was transparent and universal – community members actively participated in organizing farm activities and received information, advice and guidance to make knowledgeable decisions in acquiring and then managing assets.

By the end of 2001, out of 869,785 families that had obtained land, 838,233 had received titles, and 97 per cent of the land earmarked for privatization (1,391,600 hectares) had been distributed.

Providing the Right Services

Farm privatization services were designed to facilitate privatization at the pilot farm, district and national levels. The population in the project area was favourably disposed towards the transfer, mainly because the collective and state farms had become unmanageable and the government supported privatization. An important subcomponent of the initiative was to establish an accurate, cost-efficient land registration system to serve a land market in which collateralization increases the availability of credit.

A farm advisory and information services (FIAS) component was added to the project in order to meet the demand for more varied and current information. FIAS sought to improve the knowledge of stakeholders with respect to privatization and farm restructuring, business plans and independent farm management, land and credit markets, and agronomic practices.

A total of 84 per cent of farmers in the project area expressed a desire to obtain credit in order to increase productivity. The project responded by providing support to newly created private farms: credit was furnished to

qualified farmers, using the Agroprombank as its agent. Training was offered to farmers and lenders, and credit issued for seasonal working capital, livestock, farm machinery and equipment, and the rehabilitation and development of infrastructure.

Dilapidated canals and drains were rehabilitated in the pilot areas, and water users' associations voluntarily created to manage operations and maintenance. A betterment levy and water charges were instituted to recover a progressively larger portion of the cost of rehabilitation and operations and maintenance.

In order to address unemployment and improve social services, the project included a community development component. The objectives of this component were to: 1) establish business centres to create off-farm jobs; 2) pave the way for broader social development initiatives involving the most vulnerable population; and 3) involve the community in privatization, decisions concerning credit allocation, and the management of critical community infrastructure such as drinking water systems and schools.

Replication and Scaling Up

The model developed under the project was quickly adopted and successfully replicated by the government. The relatively homogeneous ethnic composition of rural Azerbaijan made the model easier to replicate, and conflicts easier to avoid.

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