

# SETTLING EXPECTATIONS IN KAZAKHSTAN'S AGRICULTURE SECTOR

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## **Executive Summary**

This paper draws upon theories of post-Soviet economic transition to show how private agricultural contracting practices evolved in Kazakhstan. It compares how the evolution of commercial practices among food processor managers and fruit and vegetable producers in Kazakhstan differs from the experience among the same populations in Kyrgyzstan. Findings show how Kazakhstan's and Kyrgyzstan's parallel processes of commercial practice transformation yielded different outcomes. In Kazakhstan, food processors began to vertically integrate in order to address the disorderly and unpredictable commercial practices that characterized their relationships with fruit and vegetable suppliers. These buyers and sellers in the fruit and vegetable sector negotiated a transition from managerial transactions to bargaining transactions and back to managerial transactions—or hybrid transactions. Fruit and vegetable suppliers and processors in Kyrgyzstan collectively arrived at norms of business conduct that reflected a transformation from managerial transactions to bargaining transactions.

## **Introduction**

The evolution of labor relations is central to the process of economic transition and institutional change in Kazakhstan's agriculture sector. During the Soviet period, Kazakhstan's agriculture sector consisted of vertically integrated enterprises that employed the sector's workers. After independence, the agriculture sector consisted largely of sole proprietorships and limited liability companies, effectively turning former collective and state farm employees into entrepreneurs. Decollectivization, which privatized collective and state farms, dividing up land and assets among employees, ignited this change in labor relations. By 1997, 96 percent of farmland was privately held, and 40 percent of that land was small-scale, family farms.

The fruit and vegetable buyers (processors) and sellers (suppliers) in post-Soviet Kazakhstan's agriculture sector are new entrepreneurs, learning what it means to be sovereign economic agents. Formal rules, norms and conventions, and property relations influence the ways in which they are adjusting to new roles within society. The sellers in this study—farmer/suppliers—have a sharp adjustment to make, from employees negotiating the labor process as participants in managerial transactions, to legal equals with, in some cases their former bosses, negotiating the legal process.

The buyers—managers of processing enterprises—also have an adjustment to make. Having been accustomed to commanding employees to enact physical exchanges, they must now negotiate with former employees as legal equals. Familiar work routines in the agriculture sector were indeed disrupted when state-owned vertically integrated agricultural enterprises they restructured into private sole proprietorships and limited liability companies.

Newly private buyers and sellers struggled to maintain livelihoods, but gradually they developed coping strategies to deal with new conditions. Some pursued a course of action that

led them towards commercial interaction with other buyers or sellers. They slowly developed new routines to facilitate this interaction. Others chose different courses of action, which led them out of the sector altogether. Those citizens, who decided to utilize their newly obtained land shares for commercial agricultural purposes, together with the food processing enterprises that survived reforms, gradually developed new rules of business conduct.

Initially, privatization in the agriculture sector removed the state from economic activity in Kazakhstan and Kyrgyzstan, releasing a population of farm workers and agro-enterprise staff into a sea of uncharted economic waters. New characteristics of commercial relationships emerged in each country, but the eventual nature and structure of these commercial relationships differs between these Central Asian neighbors. In Kyrgyzstan, commercial relationships among fruit and vegetable suppliers and processors resemble norms of business conduct, complete with a stabilizing set of expectations to guide behavior. These norms, or customs, were widely practiced within specific processor-supplier communities. By contrast, in Kazakhstan, influenced by similar Soviet economic, structural, and social legacies, commercial relationships among fruit and vegetable suppliers and processors remain unstable and expectations are less than secure.

In this paper, I use theory developed about the process of post-Soviet economic transition to show how citizens, and by extension, an economy, influence the transformation of unpredictable and disorderly market transactions into predictable and orderly ones. Transactions that result in stable commercial relationships are desirable because they reduce uncertainty for buyers and sellers. I also explore some of the factors that influence the different trajectories of commercial practices among fruit and vegetable suppliers and processors in Kazakhstan's and Kyrgyzstan's agriculture sectors.

## Theory of Economic Transition

A “market” is nothing more than a particular economic order, and order is nothing more than the “security of expectations” among buyers and sellers (Commons 1934, 57). Therefore a market economy presumes that economic actors will follow generally accepted patterns of behavior in the process of contract negotiation. In a transition economy these patterns of behavior are in the process of becoming. I have developed a theory on how a post-Soviet economy shifts from planned to market-oriented characteristics (Cormier 2007).

According to this model of economic transition, an economy assumes an initial period that begins with privatization. This period is characterized by insecurity of expectations, which influence and are influenced by emerging business practices among new buyers and sellers. These practices are inconsistently imitated and create a phenomenon of disorderly transactions characterized by an uncertainty<sup>1</sup> of expectations. With time, usages emerge among buyers and sellers that become increasingly adopted. Transactions become more orderly and expectations become more secure as more citizens of a going concern<sup>2</sup> adopt usages for a particular transaction. The latter characterization of the way transactions are carried out most resembles a “mature” economic order. The process continues into the future where custom evolves into precedent and perhaps statute.

I have derived a typology of transactions from models of economic transition that take into account this process of institutional change. This typology builds upon John R. Commons’ theory of institutional economics and transactions. Commons identifies three categories of transactions: rationing, managerial, and bargaining. Rationing transactions refer to a political

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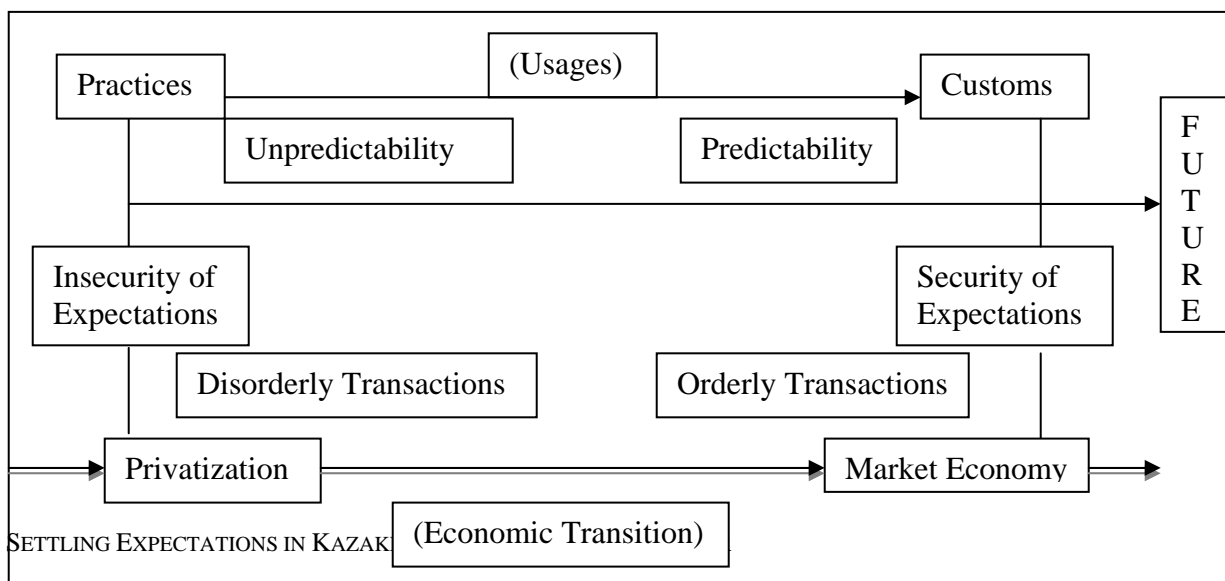
<sup>1</sup> Economic theory in general suggests that a reduction in uncertainty is correlated with an increase in investment which can lead to economic growth.

<sup>2</sup> Going Concern refers to John R. Commons’ conceptualization of a group of citizens who share a unified goal.

process that “apportion[s] the burdens and benefits of wealth creation by dictation of legal superiors” (Commons 1934, 68). These transactions are conducted through argument and pleading (Bromley 2006). Managerial transactions refer to a labor process. This class of transactions takes place between two people—one legal superior and one legal inferior. The purpose of a managerial transaction is to create wealth through the commodity exchanges. Managerial transactions are arrived at through command and obedience. Bargaining transactions refer to a legal process between legal equals—buyers and sellers. A secured transfer of future ownership is obtained through this legal process of persuasion and coercion (Commons 1934).

In a transition economy a range of commercial transactions is conducted—from managerial to bargaining. In the process of creating a new economic order that represents a departure from a planned economy, many buyers and sellers in a post-Soviet agriculture sector engage in hybrid transactions. Hybrid transactions exhibit characteristics of both managerial and bargaining transactions. Hybrid transactions combine two elements of managerial transactions—physical delivery and response to threat of sanction. The difference between hybrid and managerial transactions is that farmers who participate in hybrid transactions are not employees. Instead, they are legal equals.

**Figure 1: The Process of Post-Soviet Economic Transition**



The ways in which this range of transactions is carried out suggests a greater or lesser security of expectations among buyers and sellers. According to Figure 1, which depicts the process of post-Soviet economic transition, the more secure expectations among parties to a transaction are, the more orderly transactions are. My model shows how disorderly transactions transform into orderly transactions as citizens become habituated to certain practices. The more these practices are imitated, the closer they come to custom. This process by which practices transform into custom is characterized by the collective adoption of new roles and rules<sup>3</sup>.

If buyers and sellers were insecure in their expectations about business conduct, reassessed intentions would be a matter of course. Thus, there would be reason to suspect that there is insecurity of expectations among buyers and sellers. Insecurity of expectations is influenced by a period of rule changes that the government or other authoritative bodies can initiate that are designed to foster contractual relationships between farmers and food processors. A security of expectations is based on pre-existing rules and roles in processor-supplier communities.

The economic transition ongoing in Kazakhstan is not from planned market to “free” market, but from a process dominated by managerial transactions to a process dominated by bargaining transactions. In the transition from a collective agriculture dominated by managerial and rationing transactions to a private agriculture dominated by bargaining transactions, different types of “transactions” emerge. Some buyers and sellers exhibit all of the characteristics of legal equals participating in bargaining transactions. Other buyers and sellers, who operate in the same rapidly changing economy, lack sufficiently developed commercial expectations or habits with which to engage in bargaining transactions. Instead, hybrid transactions occur with distinct

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<sup>3</sup> To become custom signals a collective acceptance of a course of action.



differences from both managerial and bargaining transactions.

These legal equals are derivatives of the sole state-controlled buyer and seller of collective agriculture. Agricultural reforms that privatized state and collective farms—distributing land shares to farm workers in the process—and legal reforms that granted rights to citizens, created a situation that enabled entrepreneurial activity. Fruit and vegetable growers in Kazakhstan, who engage in hybrid transactions with processing enterprises, exhibit characteristics of employees obediently fulfilling the commands of employers. Thus, the transition from a planned to a market-oriented economy is characterized by the evolution of managerial transactions, where the parties are superiors and inferiors, into bargaining transactions.

## **Research Methodology**

To analyze the evolution of commercial practices in Kazakhstan, I draw upon data I collected in interviews with fruit and vegetable farmers and processors in Taldykorgan and South Kazakhstan Oblasts. While in Kazakhstan, my office headquarters was the Almaty office of Winrock International, a U.S. Agency for International Development contractor, which was implementing the “AgLinks” project. AgLinks was designed to facilitate inter-regional marketing of fresh and processed fruits and vegetables among Tajikistan, Uzbekistan, Kyrgyzstan, and Kazakhstan. Kazakhstan was included, because of its potential as a buyer of goods from its poorer neighbors to the south.

This affiliation with Winrock International was fortuitous, because I was able to observe the day-to-day visits of farmers and agribusiness representatives. Early in my field research, spontaneous conversations with visitors about their experiences marketing their agricultural

goods led to new contacts or additional questions requiring investigation. Helpful staff assisted me with making important contacts at the Union of Food Products Processors, fruit and vegetable canning companies, and local agricultural officials. The organization made me aware of local trade conferences. My participation in these conferences added an important data source.

I decided to focus my empirical inquiry into commercial practices on regions in southern Kazakhstan. Findings from a May 2006 comparative report on regional economic indicators, commissioned by United States Agency for International Development (USAID), suggested that poverty had declined in all oblasts (Roudoi et al. 2006). Despite this general trend, southern Kazakhstan stood out as having had the largest share of the population (14.7 percent) living below the subsistence minimum among agricultural oblasts. This figure was almost double the levels in other oblasts, suggesting that although wheat-producing agricultural oblasts had seen declines in poverty among rural citizens, the same could not be said for agricultural oblasts that were producing less exportable crops such as fruits and vegetables.

Interviews with local *raion*<sup>4</sup>-level administrators further informed my decision to work in Talgar *Raion* of Taldykorgan Oblast and Sairamski *Raion* of South Kazakhstan Oblast'. The *raions* are similar in that they are both located near a major metropolitan center and have agricultural conditions that are ideal for growing fruits and vegetables. Furthermore, they have a legacy of fruit and vegetable canning that extends back to the Soviet period.

### **State Support to the Agriculture Sector in Kazakhstan**

Following farm restructuring and land reform, which led to a severe contraction in the agriculture sector, the government of Kazakhstan renewed its support to the agriculture sector in

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<sup>4</sup> A *raion* refers to a region within an oblast'.

the late 1990s. While the level of state support to the agriculture sector is still relatively low compared to developed countries, Kazakhstan passed several laws that steadily increased the amount of financial resources allocated to the agriculture sector.

In 2002 the government of Kazakhstan introduced the *National Program for Agricultural Production 2003-2005*<sup>5</sup> that presented an agricultural policy strategy. A principal measure of this plan increased the agricultural budget from 220 Million USD in 2002 to 407 Million USD in 2005. Other forms of indirect support (e.g. tax breaks) that amounted to 326 Million USD were not included in this budget. The *Plan of Measures to Realize the Concept of Steady Agricultural Development for 2006-2010* provided an additional increase to the agricultural budget.<sup>6</sup> In 2003 the government of Kazakhstan also passed the *Rural Development Program 2004-2010*,<sup>7</sup> which dedicated 370 Million USD to programs that address rural poverty and mitigate rural-urban migration. In 2005 the government of Kazakhstan passed the *Law on State Regulation of Agriculture*, which outlined state plans for providing agricultural subsidies.

Input subsidies were directed at a range of agricultural producers—from large-scale grain farmers to small-scale crop farmers—and increased access to mineral fertilizer, seeds, herbicides, and water.<sup>8</sup> These kinds of input subsidies amounted to over 59 Million USD each year. Because of the cost savings effects of input subsidies, input subsidies can constitute direct financial support to agricultural producers. Tax breaks can represent another source of indirect support to

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<sup>5</sup> Presidential decree of June 5, 2002 No. 889, *On the State Program on Agricultural Production of the Republic of Kazakhstan for 2003-2005* and the Government Order No. 864 of August 2, 2002, *About the Plan of Measures for Realization of the State Program on Agricultural Production of the Republic of Kazakhstan for 2003-2005*.

<sup>6</sup> Government Order of June 30, 2005 No. 654, *On a Plan of Measures to Realize the Concept of Steady Agricultural Development for 2006-2010*.

<sup>7</sup> Presidential Decree No. 1149 of July 10, 2003, *On the State Program of Development of Rural Territories of the Republic of Kazakhstan in 2004-2010*.

<sup>8</sup> *National Agricultural Program 2003-2005* No. 6, Program 045; *Rural Development Program—Plan of Measures* No. 2.1.1; Government Order of February 24, 2003 No. 191. *On Rules of Subsidizing Agricultural Commodity Producers on Purchase of Mineral Fertilizers, Protravitelej Seeds and Herbicides for 2003*.

agricultural producers. In 2002, more than 81 Million USD represented the amount in tax breaks to farmers for VAT, transport, property, income, social, and ground taxes (Ceyssens 2006).

While these programs indicate government attention to an important challenge facing agribusinesses in the agriculture sector, access to credit remains a problem for small-scale agricultural producers of fruits and vegetables. Despite the sizable budget allocations to agriculture, a 2006 Joint Economic Research Program report found negative transfers to crop producers (Jumabayeva 2006).

Most programs authorized and resourced in the laws outlined above are implemented through State Owned Enterprises (SOEs), including 1) Food Contract Corporation, 2) KazAgroFinance, 3) Agricultural Credit Corporation, 4) Mal Onimderi Corporation, 5) Fund for Financial Support of Agriculture, and 6) KazAgroMarketing. Through these SOEs, the government of Kazakhstan has promoted programs that are designed to address the lack of credit that hinders the ability of agricultural producers to purchase inputs and invest in their farms. For example, a government-sponsored short-term credit program provides approximately 30 Million USD in credit to agricultural producers either through KazAgroFinance or through rural credit companies.<sup>9</sup> One critique of KazAgroFinance and other SOEs is that they are not required to be transparent (Jumabayeva 2006).

In the spring of 2008, I attended the KazAgroMarketing-sponsored Central Asian Fruit and Vegetable Forum “KazAgroFood ’08.” The government was signaling its seriousness at making the fruit and vegetable sector a priority. Representatives of the Ministry of Agriculture made sober speeches about the deficit of fruits and vegetables, and shared that they were considering sourcing fruits and vegetables from other countries in Central Asia. Officials

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<sup>9</sup> Government Order No. 259 of March 18, 2003, *On Rules of Crediting Agricultural Production through Systems of Rural Credit Companies*.

outlined the trade challenges in the sector and related these challenges to a deficit of stable suppliers, combined with a low number of contracts, and poor quality processors—not to mention poor equipment and seeds.

Serious working level discussions ensued among a diverse group of stakeholders representing both the public and private sectors. Discussion leaders asked for whom are producers producing, and from whom are processors taking? Forum participants discussed how to work together on “the complex of problems related to this sector.” They identified key parties involved and developed a strategy for coordination in the sector.

Before participants departed for the company displays in the exhibit room next door, a Ministry of Agriculture official spoke about plans for *Akimats*<sup>10</sup> around the country to take action over the next two to three years, implementing programs such as promoting greenhouses for tomatoes. The *Akimats* had been notified that they were in charge of getting plans activated in their regions and would be accountable for the results. The official went on to broadcast that *Akims*<sup>11</sup> would hold workshops in their regions to discuss by how much they needed to increase production and how they were going to do it. This type of coordination is not a response to new market conditions. Instead, it represents Soviet coordination legacies among local agriculture officials.

### **Evolution of Commercial Practices in Kazakhstan’s Fruit and Vegetable Sector**

The fruit and vegetable sector experienced a sharp contraction after independence from the Soviet Union in 1991 but began to recover in 2005. The remaining fruit and vegetable processing enterprises are primarily located in southern Kazakhstan. Existing food processing

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<sup>10</sup> An *Akimat* refers to the administrative offices of the head of the Oblast’.

companies—whether renamed Soviet-period factories or new agribusinesses—must obtain their raw materials through contractual negotiation with hundreds of independent suppliers or create new supplier-processor arrangements, such as vertical integration<sup>12</sup>. These commercial relationships have yet to become stable (Neubert et al. 2005). The government of Kazakhstan has declared its commitment to supporting the fruit and vegetable sector, which has the potential to employ thousands of individual farmers in long-term contractual relationships with processing companies.

Buyers and sellers in Kazakhstan’s fruit and vegetable sector are learning to cope with new roles and rules in the aftermath of farm restructuring and land reform. Uncertainty characterizes decision-making. One local agriculture department official explained, “Processors and farmers are not used to working together. They often do not fulfill the terms of contracts. Small-scale farmers are a problem. They give their signatures, but don’t understand the terms.” This statement reflects the challenges that accompany a transformation from an economy dominated by managerial transactions to one dominated by bargaining transactions. “Farmers run here and there like a marionette. The problem is disorder. We need order among the farmers.”

The manager of a food processing company that also operated during the Soviet period in South Kazakhstan Oblast’ explained:

Earlier, we received raw materials from collective farms. There was never a problem with transport. We would send for materials from Uzbekistan. After independence, things were difficult. There were no resources, limited orders. Sometimes we would receive orders from the government for juice, for example, and we would fill the order with local raw materials. We work by bid. We don’t form contracts. The Departments of Agriculture and Internal Affairs organize tenders for us to supply orphanages, hospitals, and schools.

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<sup>11</sup> An *Akim* refers to the head of an Oblast’.

<sup>12</sup> Vertical integration refers to an arrangement of firms that brings one or two consecutive stages in production or distribution under the management or ownership of one firm.

While this processor continues to enjoy some level of marketing assistance by a state entity, it is required to negotiate openly with local fruit and vegetable growers for its raw materials. Some processors and growers were reluctant to take on these new roles. Each interaction was an experiment that yielded new insights into what to expect from commercial transacting, gradually leading to practices and more secure expectations.

### *Contracts are Flexible but Unpredictable*

The initial experimentation with bargaining transactions that I refer to above evolved to become more predictable for some buyers and sellers. Findings suggest that emerging commercial practices fall along a continuum that reflects expectations of buyers and sellers that range from insecure to secure. One agriculture department official explained, “It depends on trust, respect, and conscience.” Shymkent-area farmers exhibited a greater level of dependency on the local fruit and vegetable processors than did farmers in the Almaty area, likely because of the lower prices at the bazaar. One processor in South Kazakhstan Oblast’ told me, “There is no problem with selling products. We don’t have enough raw materials even for the kind of demand we have.” He went on to explain, “Contracts are always fulfilled. Farmers even give more than enough.” Only one processor in the region shared this kind of experience, but if this was indeed his experience, it reflects the diversity of experiences that is emerging.

Flexibility is inherent in observed contracting behavior and so is unpredictability. The following are some examples of how contract terms are negotiated:

- Processors come to the farmers and ask, “How many cucumbers do you have?” The farmer says, “I have 50 kilograms.” The processor says, “Okay. This is the price.”
- We say, “Okay you give 70 percent to us and sell 30 percent at the bazaar.”
- The farmers gather and we pick up. It is difficult to organize transport. They have to bring it themselves. We have contacts with everybody. But, you understand, we take

- If we don't have enough raw materials to fill capacity, we simply make a call to the nearby farmers and they bring more. If we have too much, we call the farmers and tell them to wait. These are the nuances.

These statements suggest a mutual appreciation among buyers and sellers for the challenges associated with negotiating bargaining transactions amidst uncertainty and an insecurity of expectations. The behavior I observed in Kazakhstan seems to suggest an active and collective learning process among buyers and sellers. One processor stated, "We need to teach farmers that if we seal a contract, it is a plan that should be fulfilled. We can make corrections and negotiate. Then our heads won't hurt." I documented a similar belief among farmers and processors in Kyrgyzstan who were learning how to negotiate supply contracts with each other. When a grievance arose, feelings sometimes transformed from anger and distrust to understanding and sympathy, which could signal a stronger commitment to a commercial relationship (Cormier 2007). Sympathy for farmers' circumstances could have contributed to the belief among food processors in both South Kazakhstan and Taldykorgan Oblasts that farmers need training.

One processor described how at a KazAgroMarketing-sponsored agribusiness forum this issue came up. Participants of the forum discussed the possibility of having the local farmers' associations take the responsibility for training farmers during the winter when "they don't work." They also discussed the possibility of having oblast' *Akimats* sponsor technical schools to address insufficient production skills among farmers. These processors are emphasizing the need for agronomic skills, but are inferring the general inexperience of their suppliers at understanding what it means to operate a business.



Some processors had experimented with bargaining transactions enough to believe that forming a contract was not desirable. One processor explained:

Ahead of time, we only rarely form contracts. But it is not in our best interests to form a contract, because then we would have to define a price, and we simply can not do that. What if the climatic conditions were good this year, the harvest was good, and the supply was abundant, then the price would be low. If we formed a contract and defined a higher price, we couldn't pay it. Inputs are very expensive.

In interviews, processors and farmers indicated that they respected the legality of a signed contract, and would do their best to fulfill contract terms. However, processors and farmers exhibited pragmatic beliefs about their ability to keep their contractual promises. One processor told me, "Contracts are possible, but not realistic, not profitable. If I have a contract, then I should fulfill the price terms. It is not in my best interests."

#### *Vertical Integration*

I heard managers of food processing companies in both Taldykorgan and South Kazakhstan Oblasts describe their plans to rent land and vertically integrate along the supply chain. They explained that this was easier than dealing with the uncertainty of negotiating contracts with suppliers only to be left wondering if the terms would be fulfilled. Vertical integration represents a strategy for coping with unpredictable bargaining transactions. One processor in South Kazakhstan Oblast' declared, "This year we decided to plant our own cucumbers and tomatoes, because it will turn out to be two times cheaper. Also, for the first time this year, we established a greenhouse for vegetables."

Processors have been negotiating bargaining transactions long enough to have formed a belief that negotiating managerial transactions would be easier. In other words, instead of negotiating with legal equals, processors are attempting to create an economic situation that enables them to negotiate the physical transfer of goods with "inferiors" or employees. Hybrid

transactions could also arise. One processor in Taldykorgan Oblast' put it the following way:

It would be cheaper [if I had my own land]. Then, if people were my employees, and I gave wages, these people would be responsible for doing exactly the kind of work that I demanded of them.

Kazakhstan's land tenure system does not enable ownership of agricultural land, but it does enable agribusinesses and other private entities to apply for land from the Land Fund. In this way, some food processors have been able to acquire land. The manager of a food processor in Taldykorgan Oblast' described the challenge that she faced when trying to obtain land shares:

They promised us land that was far away, but we refused because transport would have been a problem. We rent some land, but it is a little risky, because if next year they don't want to rent we will be out of land. We don't want to invest in cultivation or irrigation, and then not be able use it.

Acquiring land shares is one of the only ways to vertically integrate, thereby controlling links along the supply chain. When I would ask government officials what they thought of the vertical integration phenomenon I was observing, I would receive enthusiastic responses about the importance of specialization. One government official put it this way:

Everyone should be occupied with their specific tasks. In other words, farmers should be occupied with production and processors should be occupied with canning. Some processors try to both produce raw materials and process canned goods, but in my opinion they should concentrate on one occupation. They can form contracts.

No official expressed support for the kind of sectoral restructuring a few of the processors with whom I spoke championed. For local government officials, vertical integration seemed inconsistent with the Soviet-period role of coordinator and interlocutor between farmers and processors. The phenomenon of vertical integration raises questions about what is motivating processing companies to acquire land leases and cultivate for themselves. Economics theory would suggest that this is rational decision-making that represents a solution to the high costs of

contracting.<sup>13</sup> The relative asset wealth of processors compared to small-scale fruit and vegetable producers offers additional explanation.

During field research in 2008, I heard a lot about drip irrigation technology that was being aggressively promoted by an Israeli company at local agribusiness trade shows and through a demonstration farm in Zhambul Oblast'. Drip irrigation does have proven cost-saving outcomes over the long term. It is attractive to crop producers, but is cost prohibitive for the asset-poor, small-scale farmer. On the other hand, a food processor manager, who had begun to develop a credit history, could be in a financial position to take advantage of this advanced technology. I observed this process starting to occur. Greater access to credit is a contributing factor to the phenomenon of vertical integration among food processors.

#### *Presence of State Support*

Interviews with officials at *raion* and oblast level agriculture departments revealed that local government officials are operating under assumptions about what their roles are in a post-Soviet context. These officials field questions about credit and taxes. They administer national programs. One official from the *raion* agriculture office explained:

Every Saturday and Sunday, we organize drop-off points for farmers. Then we take the raw materials to the bazaar. We try to support our *raion*. This department supports the *okrug*<sup>14</sup> with transport and fertilizers. The *akim* will subsidize the prices of inputs to local farmers by 20 percent, for example.

In conversations with local government officials, I often heard them describe state policies that were designed to assist agricultural producers and processors, but some area farmers and processors would relate stories of disappointment at not being included or able to take advantage of these programs.

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<sup>13</sup> See Oliver Williamson's work on transaction costs.

<sup>14</sup> An *okrug* is a district within a region.

One exception to this disappointment was the “Social Production Corporations” that were beginning to emerge in South Kazakhstan Oblast’. The purpose of the Social Production Corporation was to coordinate markets similar to the way the Soviet-period agro-industrial complex was coordinated. Local officials in Shymkent expressed great enthusiasm for this program, which was designed to assist farmers with inputs, processors with equipment, and to coordinate the marketing of goods.

The main goal of the Social Production Corporation is to solve problems of the villages. Villagers become members. For example, if there is no irrigation water, it will address this.

The principle underlying the program was that, “When farmers stand on their own feet, they will supply better products.” I was able to ascertain in further interviews that only the poorest farmers became members—those who could conceive of no other way to sustain their livelihoods. But disappointment came to these “members” too. One farmer described a situation that had occurred a few weeks before:

This year they worked and gathered us together, but it didn’t work out. We had formed a contract with Pavlodar to come, but the Kamaz from Pavlodar never came. It didn’t work out.

One food processor described an agribusiness forum that he had attended early in 2008 in Shymkent. KazAgroMarketing, one of the State Owned Enterprises charged with implementing priority agricultural programs, organized the forum. The processor related how at the forum a representative of the government explained that the government understood that agribusinesses had little capital at the beginning of the season. To address this challenge, the representative announced that the government would subsidize 20% of beginning of season costs. At the time, forum participants were encouraged, but the processor ended the story by saying, “As of yet, we have heard nothing more about this.”

This is another example of how the state orchestrates among its citizens an impression of great understanding and support, but does not deliver. Kazakhstan's middle-income country status means that it does not receive the kind of donor-sponsored development assistance that many of its Central Asian neighbors do. Indeed, the U.S. Agency for International Development recently moved its regional headquarters from Almaty to Dushanbe, Tajikistan. The state lacks a coherent strategy for agricultural economic development that reflects the evolving economic order.

### **The Case of Kyrgyzstan**

Evidence suggests that, if not for the facilitating role that international development organizations played, a similar security of expectations in commercial relationships between suppliers and sellers in the fruit and vegetable sector in Kazakhstan would have also characterized the situation in Kyrgyzstan. Like in Kazakhstan, coping strategies, which gradually transformed into commercial practices, emerged in Kyrgyzstan's agricultural sector following farm restructuring and land reform. These commercial practices were influenced by beliefs about how best to interact during the transition from a planned to a market-oriented economy. These beliefs of newly private buyers and sellers in the agriculture sector reflected created imaginings<sup>15</sup> about a future economic order.

The government of Kyrgyzstan was not involved in shaping this "vision" of a future economic order. Instead, it was a passive participant in creating the economic vision that was used to guide the transition from a planned to a market-oriented economy.<sup>16</sup> It did little to

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<sup>15</sup> Created imaginings are beliefs about what the future could be (Bromley 2006).

<sup>16</sup> One high-ranking Western development practitioner, referring to Kyrgyzstan's approach to economic reform, told me that Kyrgyzstan was considered the most "passive" of all former Soviet Republics.

facilitate the process of economic transition among the citizenry aside from implementing the sweeping changes in working rules that had been prescribed by international development organizations early in the transition. Furthermore, it did not actively promote an alternative economic vision to the one promoted by international development organizations in rural communities after 2000.

After independence, the government of Kyrgyzstan withdrew from its role as facilitator of bargaining transactions within the agriculture sector, leaving newly private agricultural producers and food processors to navigate marketing channels largely on their own. While new landholders and processors learned to cope, an increasing proportion of new landholders slipped into subsistence farming. In response to this post-privatization situation, international development organizations established an economic development agenda that focused on rural market development. In 2002, the rural market development agenda shifted to prioritize the formation of standard form contracts between farmers and processors. International development organizations promoted this type of activity because they perceived as nonviable the observed coping strategies of suppliers and processors, which had led to new norms of business conduct.

Development assistance activities were motivated by a “knowledge as development tool” paradigm. International development organizations became the purveyors of knowledge, and thus of an economic vision. Citizens negotiated the rapid and broad changes in working rules and property relations after recovering from the initial shock of these reforms. Their coping strategies led to new norms of business conduct that provided a security of expectations among newly private buyers and sellers in the agriculture sector. Although these norms reflected a collective economic vision among rural citizens, they were inconsistent with the economic vision projected by international development organizations. To international development organizations these

norms indicated a need for assistance.

Once international development organizations became actively involved in fostering relationships between processors and farmers, the nature of the contract and whether the contractual relationship continued or not was sometimes dependent on development organization representatives' beliefs about what that relationship should look like. In other words, it did not necessarily depend on the buyers and sellers who were parties in that relationship. Findings suggest, however, that between processors and farmers there can be abundant sympathy for market challenges (Cormier 2007). This sympathy frustrated the contractual relationship ideally promoted by international development organizations. In other words, when quality was lacking or payment was late, processors and farmers were quick to forgive the discrepancy. This phenomenon is indicative of perceptions among suppliers and processors that their interaction was reasonable given existing contingencies. Sympathy for non-fulfillment of contractual terms was not evident among development organization representatives who facilitated the contractual relationship between processors and farmers.

## **Conclusion**

While international development organizations in Kyrgyzstan facilitated new norms of business conduct in concrete ways, accelerating the process of arriving at stable commercial relationships, in Kazakhstan the government claims of assistance were largely empty promises. Newly private buyers and sellers in Kazakhstan's agriculture sector adopt many of the same coping strategies as do their Kyrgyzstan neighbors, but the pace at which those coping strategies become norms is slower, and high levels of uncertainty are sustained.

I showed how Kazakhstan's and Kyrgyzstan's parallel processes of commercial practice

transformation yielded different outcomes. In Kazakhstan, food processors began to vertically integrate in order to address the disorderly and unpredictable commercial practices that characterized their relationships with fruit and vegetable suppliers. These buyers and sellers in the fruit and vegetable sector negotiated a transition from managerial transactions to bargaining transactions and back to managerial transactions—or hybrid transactions. Coping strategies yielded settled beliefs that managing employers was the best way to supply a business with raw materials. Fruit and vegetable suppliers and processors in Kyrgyzstan collectively arrived at norms of business conduct that reflected a transformation from managerial transactions to bargaining transactions.

This study contributes to theories on transition economies in that it provides reasons for why contractual arrangements might appear to be ad hoc and not indicative of market economic behavior. Research on contracting practices in Kazakhstan's agriculture sector led to several conclusions. First, contractual relationships evolve along a continuum from managerial to bargaining transactions—as old rules and roles are increasingly replaced by new rules and roles that reinforce emerging commercial practices form. Second, bargaining transactions reflect differing levels of security of expectations. Third, an economy transitions from planned to market-oriented when commercial practices transform into commercial customs as expectations become more secure. This research emphasizes that new economic orders form from the volition of citizens acting collectively—the process is not necessarily top-down, originating with the introduction of new working rules, which were negotiated through the rationing transactions of authoritative agents.



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