Social Assessment Helps Ensure Benefits of Agricultural Privatization for Kazakhstan Farmers

The Government of the Republic of Kazakhstan (GOK) attaches high priority to agricultural reform, since the agricultural sector accounts for 25 percent of the labor force, 12 percent of GDP, and significant export revenues. Despite substantial progress with reform, several factors continue to undermine performance in the sector. These factors include:

- Potential reduction in farm employment and increased rural income inequality, as newly privatized farms shed labor in an effort to improve productivity
- Impact of divestiture of social services by farm enterprises
- Inadequate input supply and output marketing channels
- Unclear role of government in agriculture
- Weak institutional and legal framework
- Lack of information to farmers about their options and rights as shareholders.

The GOK has requested support from the World Bank for an Agricultural Post-

Privatization Assistance Project designed to support the development and commercialization of privatized farms and agroenterprises in two areas of the country and thus improve rural productivity and incomes. The project will assist farms and associated enterprises to restructure and improve productivity by:

- Supporting the establishment of rural advisory and information services
- Furthering the development of a sound legal and institutional framework for secured lending and protection of creditor rights
- Facilitating commercial bank lending for working capital and medium-term financing for restructured farms and other rural enterprises.

Social Assessment

The principle objective of the social assessment (SA) was to understand the roles and status of different stakeholders in the privatization and restructuring process, and to identify ways to maximize benefits and mitigate possible

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negative impacts of the project. To carry out
the SA, several social research methods were
used. First, previous SAs of the agricultural
sector (undertaken for the Irrigation and
Drainage Improvement Project - IDIP),
economic and sector work (ESW), and an SA
for the Water and Sanitation Project were
reviewed; lessons learned were incorporated in
the present SA.

Second, a socioeconomic survey of 600
households (farm workers and independent
farmers) was carried out, and 100 in-depth
interviews were held with managers of base
farms (the large remnants of former collective
and state farms); managers of procurement,
marketing, and consulting organizations;
managers of agricultural processing and
storage enterprises; and officials of local-level
agricultural departments. In addition 14 focus
group discussions were held with farm work-
ers, heads of base farms, and independent
farmers.

The SA was carried out by members of the
Kazakhstan Social Science Network under the
leadership of Bilesim International
Kazakhstan, a marketing research firm, with
the support of the Academy of Sciences and
Academic Institutions in Almaty, Akmola, and
Taldy-Korgan. A World Bank social scientist
designed the SA and provided guidance to the
SA team. This report captures the findings of
the SA process at the project appraisal stage,
and raises a number of issues that need to be
addressed through the SA process during the
implementation and monitoring stages.

**Key Social Development Concerns**

A number of key social development
concerns, resulting from the impacts of
privatization and restructuring, were
identified by the SA. First, the SA found a high
level of dissatisfaction with the outcome of
reforms and growing impoverishment and
hardship. Unemployment is likely to continue
to rise as a consequence of restructuring
efforts, and thus to further exacerbate the
situation.

The SA also revealed that extremely low
provisions of public utilities (such as electricity,
gas, water supply, and telephone services) to
the rural population further aggravate the
difficulties faced by rural people in meeting
their basic needs. Lack of electricity, in
particular, restricts access to information,
thereby intensifying the growing information
gap between farm workers and those who
were close to the leaders of state farms and
districts, including heads of former state farms
and specialists of state/collective farms. The
SA found that lack of information, whether
legislative, financial, or technical, is one of the
major factors making farm workers vulnerable
to exploitation by farm managers and local
officials, and thus undermining public trust in
the privatization process (see box 1).

Another important concern identified by the
SA is that lack of funds and credit constitutes
a major obstacle preventing farm workers
from leaving base farms and establishing their
own farms. Farmers have virtually no access to
commercial credit, and when it is available,
interest rates are very high. The SA also noted
that both the quality of and access to social
infrastructure in the countryside had also been
greatly reduced during the transition. Most
hospitals and kindergartens on the farms have
been closed, some schools have been closed,
and practically everywhere cultural
institutions have ceased to function. Lack of
social infrastructure has intensified the impact
of the transition on the rural population,
particularly those most vulnerable—young
people, the elderly, and the disabled.

**Institutional and Organizational Issues**

A number of institutional and organizational
issues emerged from the SA. First, the SA
pointed out that bureaucratic obstacles are a
major factor preventing farm workers from
becoming independent farmers. Second, the
SA revealed the coercive manner by which
managers of some base farms convinced farm
workers to transfer land and property rights to
them, either temporarily or permanently. Lack
of information on farmers rights and options
undermines farm workers' ability to negotiate with managers.

Third, the SA identified a growing potential role for private enterprises (many of which are former state organizations) in providing services to independent farmers. Fourth, the SA found that privatization has not changed the process by which key decisions regarding economic activity are made. Farm workers are, for the most part, removed from farm-management decisions, except for occasional consultation regarding harvesting dates. The SA raises the question of how best to increase the participation of farm workers in farm-management decisions and in establishing and managing farms of their own.

Fifth, the SA noted farmers' interest in uniting with other farms to establish associations of peasant farms. However, the SA reveals that cooperation or association of farmers and workers of base farms is limited, due to lack of resources and experience. Finally, the SA identified a potential role for the services of special consulting organizations. Farm managers and managers of supply organizations and processing facilities would like to use the services of such organizations for financial and legal advice, technological support, marketing, and access to information.

The SA recommends that the project adopt an information/communications component as part of a participation framework that includes an intense public information campaign covering the following topics:

- Privatization and restructuring options
- Rights and responsibilities of farm managers and members in corporate farms of different types
- Characteristics of profitable base farms
- Opportunities and constraints in independent farming
- Farm management principles.
A systematic information campaign would play an essential role by informing farmers of their rights and options, encouraging farm workers to participate in the decisionmaking process, and motivating them to manage farms of their own.

**Monitoring and Evaluation**

The SA recommends a framework for a systematic monitoring program to maximize learning and development effectiveness in the pilot project. The framework calls for identifying input, process, output, and impact indicators to address: (a) changes in the composition, magnitude, and content of demand for advisory services and credit; (b) the adequacy, responsiveness, accessibility, and effectiveness of the advisory centers and participating financial institutions; (c) economic and social impacts of public information campaigns, advisory centers and networks, restructuring plans, investments, and the divestiture of social infrastructure at the farm and community levels; and (d) the impact of small-scale investments in local commercial and service enterprises and the emergence of new opportunities for private entrepreneurship at the community level.

**SA Impact on Project Design**

While the SA will continue to guide the implementation and monitoring stages of the project, some implications for project design — with respect to such key issues as rural advisory and information services, an empirical base for formulating a program to mitigate the impact of divestiture of social assets and reduction in the labor force, and commercial bank lending — are listed below.

*Rural Advisory and Information Services.* The SA not only confirms the need for rural advisory and information services, but proposes that: (a) rural advisory centers place priority on financial and legal advice, and (b) an intense public information campaign be carried out with a specific focus on farmers. The SA also recommends that the advisory centers monitor demand and utilization, and respond to changing priorities and levels of sophistication over time.

*Mitigation and Employment Opportunities.* The SA recommends that efforts be made to help local administrations assume responsibility for social infrastructure and to provide start-up capital for local commercial and service enterprises, both to reduce unemployment and to serve local needs through the private sector.

*Commercial Bank Lending.* The SA confirmed the need for capital to induce restructuring, establish both large and small new farms, and increase production. For the sake of equitable and broad-based development, however, the project should ensure that the credit demands of large units do not overshadow the needs of smaller units. Thus, a portion of the credit should be reserved for small independent farms. The SA also led to a process whereby applicants for credit are screened to prevent loans from going to farm enterprises that have irregular ownership until the farm structure has been revised and rights are returned to the workers.

**Next Steps**

The SA process should be ongoing, since conditions in the project areas are changing rapidly. Specifically, continuous assessment should provide data to assist in developing approaches to promote the private sector in farm communities, thereby providing employment to people displaced by the restructuring process.