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Azerbaijan Farm Privatization Project

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Azerbaijan Implementing Agency:
Agency for Support to the Development of the Agricultural Private Sector
Executive Summary

Nearly half of Azerbaijan’s eight million people live in rural areas. The nation’s per capita income was estimated at $710 in 2002. When Azerbaijan undertook its Farm Privatization Project (FPP) in 1997, the country was at the low point of a lengthy crisis in agriculture, which began with a 14 percent drop in output during 1985–90. The little-reformed former collective and state farms held the most productive land but could not farm it effectively. Agriculture faced a radically changing political backdrop, a declining economy, a loss of its labor pool, and war. Labor productivity, crop area, and crop yields were plummeting. By 1995, 66 percent of the rural population was living in poverty—20 percent in extreme poverty.

The goals of the FPP, originally conceived as a pilot project, were modest in comparison with the successes that were actually achieved, especially in land privatization. The foremost goals were to restructure six former collective and state farms and to transfer their assets to the local populations. Post-privatization farm-support services would allow new landowners to establish successful, independent private farms in the aftermath of the land reform. Accomplishing these goals on a pilot basis would help the government develop and implement suitable guidelines, procedures, and policies for privatization; these could be refined and later replicated throughout the agricultural sector. Less obviously stated among the goals of the FPP was poverty reduction through sector growth, off-farm job creation, and the provision of community-based services.

Background

The former collective and state farms faced macroeconomic instability and rampant inflation until 1995–96, rapidly deteriorating terms of trade, loss of their traditional export markets, and strong import competition. Their access to the credit and inputs traditionally provided by the state dwindled to almost nothing, and state-supplied and state-maintained machinery and irrigation and drainage (I&D) systems fell into disrepair. Moreover, until 1995 the country was wracked by war with Armenia and internal political turmoil.

Agrarian reform proceeded slowly before the FPP. By 1997 only livestock was held mostly in private ownership, which largely explained why livestock output did not suffer nearly as much as crop production. In contrast, by 1997 the output of former collective and state farms comprised only one-third and one-fifth of the 1990 level, respectively. Aside from the former collective and state farms and the small garden plots that everyone possessed (averaging 0.14 hectares), there were a growing number of leasehold and other family farms, typically run by former farm directors and other officials; these averaged around 20 hectares in size. Until 1996 all types of farms were subject to state production orders for “strategic” crops such as cotton and wheat.
Stimulating private farming

The FPP envisioned providing farm privatization and other support services to enable the rural population to sustain and benefit from privatized agriculture. Models would be created of various support services in six former collective and state farms that could be replicated elsewhere in the country. Districts were selected in various agro-climatic zones of the country, in order to adapt the model to local conditions ranging from coastal subtropical areas such as Lenkoran to steppe lowlands such as Salyan.

Farm privatization services were designed to facilitate privatization at the pilot farm, district, and national levels. The foremost goal was to create a mechanism to transfer the ownership of former collective and state farm assets to the local population in order to better use the land. The population in the project area was favorably disposed towards the transfer, mainly because the former collective and state farms had become so unworkable and the government supported privatization. Optimism concerning private farming was not yet established.

Important subcomponents of the initiative were to set up an accurate, cost-efficient land registration system to serve a land market in which collateralization increases the availability of credit; an effective and measurable process for registering titles to property; and efficient farm advisory and information service.

Farmer and community participation in the reform process

Farmers in the project areas identified the main constraints on productivity as poor access to land, farming equipment, inputs, markets, and reliable irrigation. More than 84 percent of farmers expressed a desire to obtain credit to overcome these shortcomings. FPP addressed this situation by furnishing post-privatization support to the newly created private farms, using Agroprombank as its agent. Training was to be offered to both farmers and lenders, and credit issued for seasonal working capital, livestock, farm machinery and equipment, and rehabilitation and development of I&D infrastructure. Dilapidated canals and drains would be rehabilitated in the pilot areas, and water users’ associations voluntarily created to manage operations and maintenance (O&M). A betterment levy and water charges would be instituted to recover a progressively larger portion of the costs of rehabilitation and O&M.

According to the stakeholders in the project areas, the chief causes of poverty at the start of the project were unemployment and poor social services (many of which had once been provided by the former collective and state farms), in addition to arrears in payment by bankrupt former collective and state farms and the lack of agricultural support services and credit. To address unemployment and improve social services, FPP included a community-development component to establish business centers for the creation of off-farm jobs, to begin the preparation of broader social-development initiatives targeted at the most vulnerable people, and to involve the community in privatization, decisions concerning credit allocation, and the management of critical community infrastructure such as drinking-water systems and schools.
**A revived agricultural sector**

FPP was “developed in close consultation” with an authoritarian government that both controlled power throughout the countryside (via the direct appointment of district governments) and remained strongly supportive of land privatization and farm restructuring. Its goals were consistent with and tightly integrated into Azerbaijan’s Poverty Reduction Strategy and the World Bank’s Country Assistance Strategy for Azerbaijan. Most of the agencies responsible for implementing FPP were strongly committed to the project. FPP sought to benefit from a strong institutional presence in the central government and in the pilot districts. A project-management unit was set up in the Azerbaijani cabinet, and project implementation units—comprised of local agricultural agencies and farmers—were created in each of the pilot districts.

Azerbaijan’s FPP accomplished successful land reform in a rapid process that was widely perceived as fair. FPP started as a pilot project to privatize land from the former state and collective farms and to provide post-privatization support services for the new private farmers. Its original timetable covered five years (1997–2001), but most of the project components quickly became the focus of long-term, nationwide endeavors. The project established a mechanism for rapid yet egalitarian distribution of land plots and an accurate, cost-efficient land registration system. The replication of these models throughout the country in 1998–99 resulted in the creation of about 825,000 new small farms.

FPP contributed to poverty reduction beyond that foreseen at its outset. Agricultural output in Azerbaijan grew by one-third between 1997 and 2002, with the largest jumps following the land reform, and crop area grew by 30 percent after the reform. Agriculture also absorbed around 400,000 new entrants as a result of the reform, and though this initially lowered labor productivity, the surge in output has since driven productivity to levels not seen in Azerbaijan since 1993. Rural poverty declined from 66 percent to 43 percent of the population between 1997 and 2001. Much still remains to be done, both to further strengthen farm services and supportive infrastructure and also to address the “non-income” aspects of poverty, by providing better services such as gas, drinking water, healthcare, and education.

**Driving factors: a committed and favorable political economy**

FPP benefited from a favorable political economy (an authoritarian government controlling power throughout the countryside). Moreover, there was a consensus among the rural population, reached from various viewpoints, that private farming was the only way to move forward in agriculture—if abuses could be kept in check. Privatization was voluntary, being based on the decisions of the farmer members to reorganize the collective and state farms, and thus momentum was built for the process from the bottom up. The process was choice-driven: farm members were allowed to decide which activities to undertake and how to manage their farm assets (land and nonland). 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. Other important factors included the macroeconomic stabilization of 1996 and the consequent lack of economic distortions during
the implementation of FPP; the focus of the project team on participatory institutions; and practical, flexible responses to impediments and contingencies.

Among the lessons: models for land privatization and farm restructuring worked only when they were tailored to specific national needs through learning and experimentation. Country ownership was critical not only in terms of support for implementation, but also for tailoring the models to fit the needs of the government and society.

The Farm Privatization Project (FPP) began in response to a severe crisis in agriculture in Azerbaijan, which began with a 14 percent drop in output in the 1980s.¹ The little-reformed former collective and state farms (FSKs) that held the most productive land could not fully realize the potential of the country’s 1.4 million ha of irrigated area due to a variety of reasons. The precipitous drop in output reached its nadir in 1997, when the FPP was launched. Because many of the unemployed had fled to agriculture from other sectors, the absolute numbers employed increased while output fell. Labor productivity, crop area, and crop yields plummeted as shown in Table 1. It was estimated that in 1995 66 percent of the rural population lived in poverty (with 20 percent in extreme poverty).²

Table 1: Agricultural GDP, Employment, and Crop Area in Azerbaijan, 1990-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (million mantas at 2002 prices)</th>
<th>Employment (1,000 persons)</th>
<th>Labor Productivity (percent of 1990)</th>
<th>Crop Area (1,000 ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>8,303,997</td>
<td>914</td>
<td>100 percent</td>
<td>1,857</td>
</tr>
<tr>
<td>1991</td>
<td>8,553,117</td>
<td>934</td>
<td>98 percent</td>
<td>1,878</td>
</tr>
<tr>
<td>1992</td>
<td>6,352,558</td>
<td>953</td>
<td>74 percent</td>
<td>1,810</td>
</tr>
<tr>
<td>1993</td>
<td>5,372,686</td>
<td>940</td>
<td>63 percent</td>
<td>1,787</td>
</tr>
<tr>
<td>1994</td>
<td>4,683,455</td>
<td>1,144</td>
<td>45 percent</td>
<td>1,638</td>
</tr>
<tr>
<td>1995</td>
<td>4,359,599</td>
<td>1,133</td>
<td>43 percent</td>
<td>1,518</td>
</tr>
<tr>
<td>1996</td>
<td>4,492,463</td>
<td>1,172</td>
<td>42 percent</td>
<td>1,397</td>
</tr>
<tr>
<td>1997</td>
<td>4,218,431</td>
<td>1,071</td>
<td>44 percent</td>
<td>1,261</td>
</tr>
<tr>
<td>1998</td>
<td>4,475,855</td>
<td>1,139</td>
<td>43 percent</td>
<td>1,094</td>
</tr>
<tr>
<td>1999</td>
<td>4,791,406</td>
<td>1,267</td>
<td>42 percent</td>
<td>947</td>
</tr>
<tr>
<td>2000</td>
<td>5,372,686</td>
<td>1,517</td>
<td>39 percent</td>
<td>1,147</td>
</tr>
<tr>
<td>2001</td>
<td>5,970,574</td>
<td>1,482</td>
<td>44 percent</td>
<td>1,268</td>
</tr>
<tr>
<td>2002</td>
<td>6,352,558</td>
<td>1,495</td>
<td>47 percent</td>
<td>1,312</td>
</tr>
</tbody>
</table>

Source: Azerbaijan Respublikasi Dovlet Statistika Komitesi, Azerbaijani Statistik Gosterijileri 2003, p. 501. *A new statistical classification for employment by branches was introduced in 1999, in which hunting is included into the previous category of agriculture and forestry. Goskomstat has revised downward the original estimate of the number employed in agriculture in 1999 (1,566,000).

¹ Agriculture experienced a 14 percent decline in output between 1985 and 1990 (25 percent for kolkhozy and sovkhozy), while employment rose by five percent. By 1990 kolkhozy and sovkhozy produced 76 percent of crops and 45 percent of livestock products. The sector accounted for 33 percent of employment throughout 1980s, although the absolute number employed in sector grew by 20 percent (mostly between 1980 and 1985).

Agrarian reform proceeded slowly before the FPP. By 1997 only livestock was held mostly in private ownership, which largely explained why livestock output did not suffer nearly as much as crop production. In contrast, by 1997 the output of FSKs comprised only one-third and one-fifth of the 1990 level, respectively. Aside from the FSK’s and the small garden plots averaging 0.14 hectares that everyone possessed, there was a growing number of leasehold and other family farms, typically run by former farm directors and other officials, which averaged around 20 ha in size. Until 1996 all types of farms were subject to state production orders for “strategic” crops such as cotton and wheat.

**Program Description**

Against this backdrop of economic malaise, stagnant reform, and impoverishment in rural locales, the Azerbaijan Farm Privatization Project was designed to stimulate land privatization and farm restructuring. The FPP envisioned the provision of farm privatization and other support services to enable the rural population to sustain and benefit from privatized agriculture. Models would be created of various support services in six FSKs that could be replicated elsewhere in the country. Districts were selected in various agro-climatic zones of the country, in order to adapt the model to local conditions ranging from costal subtropical areas such as Lenkoran to steppe lowlands such as Salyan.

Farm privatization services were designed to facilitate privatization at the pilot farm, district, and national levels. The foremost goal was to create a mechanism to transfer the ownership of FSK land and non-land assets to the local population, which could better utilize this land in smaller units. The population in the project area was favorably disposed towards the transfer, albeit more because the FSKs had become unworkable and the Government supported privatization than owing to optimism concerning private farming.  

An important subcomponent of this initiative was to establish an accurate, cost-efficient land registration system to serve a land market in which collateralization increases the availability of credit. The FPP was designed for the rapid privatization and registration of titles, albeit with lower accuracy of information and consequent legal security of owners than other systems recommended for Azerbaijan. In the long run the FPP design proved to be more adaptable to the massive scaling up of this component that occurred in 1998-99, as well as cost-effective and appropriate to the low initial number of land transactions.  

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3 World Bank, 2000, Social Assessment and Agricultural Reform in Central Asia and Turkey, World Bank Technical Paper No. 461, pp. 151-53; Other social assessments conducted for the project. 

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 that was expressed during early social assessments in the project area. FIAS sought to improve the knowledge of stakeholders concerning privatization and farm restructuring, business plans and independent farm management, land and credit markets, and agronomic practices. FIAS was required not only because most of these concepts were unfamiliar to FSK workers, but also due to the presence of a large cohort of inexperienced recent entrants into the agricultural sector.

Farmers in the project area identified the main constraints upon productivity as poor access to land, farming equipment, inputs, markets, and reliable irrigation, while over 84 percent of them expressed a desire to obtain credit to address these shortcomings. The FPP sought to address this situation by furnishing post-privatization support to newly created private farms. Credit would be furnished to qualified farmers, utilizing the Agroprombank (APB) as its agent. Training was to be offered to both farmers and lenders and credit issued for seasonal working capital, livestock, farm machinery and equipment, and the rehabilitation and development of I&D infrastructure. Dilapidated canals and drains would be rehabilitated in the pilot areas, and Water User Associations (WUAs) voluntarily created to manage operations and maintenance (O&M). A betterment levy and water charges would be instituted to recover a progressively larger portion of the cost of rehabilitation and O&M.

In order to address unemployment and improve social services, the FPP included a community development component to establish business centers for the creation of off-farm jobs, to begin the preparation of broader social development initiative targeted at the most vulnerable population, and to involve the community in privatization, decisions concerning credit allocation, and the management of critical community infrastructure such as drinking water systems and schools.

The FPP sought to benefit from a strong institutional presence in the central Government and in the pilot districts. A Project Management Unit was to be set up in the Cabinet of Ministers of Azerbaijan and Project Implementation Units created in each of the pilot districts. PIUs would be comprised of local agricultural agencies and farmers.

**Implementation Process**

The goals of the FPP were consistent with and tightly integrated into the Azerbaijan Poverty Reduction Strategy (PRSP, which stresses the importance of poverty reduction in rural areas of Azerbaijan through; land privatization and farm restructuring, the formation of land markets in which land is collateralized, the establishment of a viable rural credit market, the rehabilitation of

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I&D systems and improved management of them, the creation of off-farm jobs in rural areas, and
the improvement of social assistance in rural communities.\(^7\)

The FPP was developed by a Government that both controlled power throughout the
countryside (via direct appointment of district governments) and remained strongly supportive of
land privatization and farm restructuring. There was a strong commitment to the FPP among most
of the agencies responsible for implementing it. The agencies and their relationship to the project
are described below:

- The First Deputy Prime Minister and the Minister of Agriculture led the National Agrarian
Reform Commission.\(^8\)
- The Ministry of Agriculture, which would be reorganized beginning in March of 1999,
became the home of the project’s Farm Information and Advisory Services unit.
- The State Land Committee (SLCC), created in 1992-93, was chosen for implementing land
registration and cadastre (over the Geodesy and Cartography Committee, with which it
merged in 2001 to become the State Land and Cartography Committee).
- The Agroprombank (APB) had weak capacity and a long tradition of lending “soft credit” to
farms. APB required outside stimulus to perform as expected.
- The State Amelioration and Irrigation Committee (SAIC) had an ambivalent relationship with
the project: although its construction trusts and the infrastructure it managed received much-
needed investment, the creation of WUAs threatened to reduce its jurisdiction and ultimately
result in the downsizing of its staff.\(^9\)
- The PMU was highly dedicated to its work, and its chief was well attuned with the needs and
limitations Government.
- Hayat, a national NGO selected to implement the community development component, had
great enthusiasm, albeit lacked adequate capacity.

The nature of privatization in Azerbaijan often varied according to the character of the
local leaders of district governments (former \textit{raykomy}) and municipalities (former \textit{sel’sovety}),
which were thrust into land reform and farm restructuring by the executive branch of the central
government. The local authorities occasionally interfered even in the districts where the FPP was

\(^7\) Republic of Azerbaijan, 2001, Interim Poverty Reduction Strategy Paper and Joint IDA-IMF Staff
Memorandum of the President of the International Bank for Reconstruction and Development and the
International Development Association and the International Finance Corporation to the Executive
Directors on a Country Assistance Strategy for the Azerbaijan Republic, Report No. 19892-AZ.

\(^8\) Other members of the Commission were politicians, administration officials, scientists, and
representatives of the National Bank and Agroprombank (APB).

\(^9\) The Institute for Water Management Planning (Azgiprovodkhoz) carried out the technical design of I&D
works.
implemented. Following their election in 1999, municipalities entered the institutional arena. Significant governing powers and property were to be transferred to them from the district governments.

The original timetable for implementing the FPP covered five years (1997-2001). Privatization and land administration, training of PMU, PIU, APB, and State Land Committee (SLC) staff, the preparation of business plans, and monitoring and evaluation were to extend for the duration of the project (1997-2001). The formation of legally registered WUAs would continue through the third quarter of 2000, while capital repairs of I&D structures would be completed a year in advance of this. It was planned that the community development and preparation of a broader social development initiative would proceed through the end of 1998. In practice, most of the components of the project became the focus of long term, nationwide endeavors (registration and cadastre, FIAS, WUAs, credit) that are still being implemented, while others were extended during the project period (I&D rehabilitation, community development), due to various contingencies.

There were significant adjustments made to the FPP during implementation. Chief among these was privatization and farm restructuring on a widespread basis and at a rapid pace well ahead of the initial expectations of their designers. This required the ramping up of the post-privatization support components, which evolved into follow-up initiatives in agriculture, water management, and rural development.

**Land Privatization and Farm Restructuring**

Land privatization was implemented in the pilot districts and then replicated nationwide in 1998-99 in a rapid process that was largely devoid of the abuses that characterized the distribution of land and other assets in many transition countries.

Land privatization began in earnest in the pilot districts in January of 1998 and was completed with the issuance of unique parcel identification numbers to all plots in June of 1999. All fertile arable land in the selected FSKs of the pilot districts was transferred to villagers. Individual landowners (and later households) received titles in the form of certificates (akty), one copy of which was made for the owner and the other for the SLCC to keep on record in Baku.

Most of the rural population of Azerbaijan view the land privatization promoted by the FPP as an egalitarian, open, and rapid transfer of assets with a minimum of abuses of the land reform on the part of the local elite. Several features of the privatization component contributed to its relatively smooth implementation and replication. First, privatization was voluntary, being based on the decisions of the farmer members to reorganize the FSK, and thus momentum was built for the process from the bottom up. Second, the process was choice-driven: farm members were allowed to decide which activities to undertake and to make decisions regarding the management of their farm (land and non-land) assets. Third, 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. Fourth, in hopes of minimizing conflict over access to critical I&D and infrastructure, the SLCC established configurations that accounted for these factors and utilized soil fertility in determining plot size and location. Finally, a lottery system was employed to distribute plots. Officials and land recipients alike perceived it as fair.

During 1998 over 575,000 titles to FSK land were issued to new owners (as many as 80,000 titles per month in the latter half of the year), and another 114,446 in 1999 (as shown in Tables 2 and 3 below). By January 1, 2002, out of 869,785 families that had obtained land, 838,233 had received titles, and 97 percent of land earmarked for privatization had been distributed (1,349,800 ha out of 1,391,600 ha). According to the SLCC, the only areas with incomplete title registration are located near the unstable border with Armenia.

**Table 2: Percentage of Private Farms in Various Size Categories in Azerbaijan, 2001 (percent)**

<table>
<thead>
<tr>
<th>Size Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0&lt;1 ha</td>
<td>20.6</td>
</tr>
<tr>
<td>1&lt;2 ha</td>
<td>11.4</td>
</tr>
<tr>
<td>2&lt;5 ha</td>
<td>39.1</td>
</tr>
<tr>
<td>5&lt;10 ha</td>
<td>10.1</td>
</tr>
<tr>
<td>10&lt;20 ha</td>
<td>2.5</td>
</tr>
<tr>
<td>20&lt;50 ha</td>
<td>1.2</td>
</tr>
<tr>
<td>50&lt;100 ha</td>
<td>0.4</td>
</tr>
<tr>
<td>&gt;100 ha</td>
<td>0.3</td>
</tr>
</tbody>
</table>


Land reform changed the profile of farms. Table 2 indicates that most farms are small, with few over 10 ha remaining. According to SLCC the average size of farms is 2.54 ha, ranging from 1.02 ha in the Mughan-Salyan and Lenkoran-Astara regions to 5.92 ha in Apsheron. Land holdings of the farms are fragmented, with 78 percent of farmers holding two or more parcels, and occasionally distant from the settlement. Besides the nearly 825,000 family farms created in 1998-2002, there remain only around 40 FSKs (mostly state seed farms), 168 production cooperatives, 2,600 leasehold farms, and 408 other agricultural enterprises.

The land reform in Azerbaijan entailed the privatization of most arable cropland to private owners, as well as the allocation of significant tracts of pasture and infertile cropland (mostly rainfed or salinized) to municipalities. State land was kept in a reserve fund, and municipalities were given the right to lease their land holdings, as well as to collect the land tax (from which most farms are presently exempt). Most municipalities possess only minimal funds and weak managerial and technical capacity, and acquiesce to the district government. The Government of Azerbaijan is considering various options to resolve this matter.

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Another challenge encountered during the course of the project was the distribution of non-land assets, which the Ministry of Agriculture was reluctant to privatize, owing to the existence of significant FSK debts. The project implementers succeeded in convincing the Government to write off the FSK debts. However, either the elite were favored in distribution of these assets, or else equipment was used by various types of collectives without any clear ownership of the machinery. The ownership of some non-land assets that have not yet gone out of commission is still in question.

**Registration, Cadastre, and Land Market**

The land privatization component of the project had to address significant weaknesses in the registration and cadastre system. First, the local SLCC offices could not maintain the registry, owing to a lack of equipment and authority: farmers had to travel to Baku to access their titles and information and to obtain land valuations. Over the next few years registration would be simplified and the fees for it reduced, the cadastre rectified and updated, and ten district departments of the SLCC established with full powers to register and manage titles and land transactions, using a computerized, Internet-connected information system. The creation of a nationwide unified cadastre of both land and buildings is one of the components of the Agricultural Development and Credit Project (ADCP), launched by the Government and World Bank in 1999 to build upon the achievements of the FPP. Like the FPP, the ADCP aspires to help the SLCC utilize the cadastre as a public service and promote the development of a land and property market.

Although the land market remains nascent, it appears that the growing accessibility of and security afforded by registration and cadastre system is inducing landowners to increasingly prefer registered transactions. Most land sales (roughly 90 percent) in 2003 were from private land, and the rest from state land. The registration of leases, which remain mostly informal, has grown from almost nil in 1998 to nearly 500 in the first ten months of 2003; these were taken from a fairly even share of private, state, and municipal land.

**Irrigation and Drainage Infrastructure**

The rehabilitation of I&D systems began as soon as the project was launched in 1997. Most irrigation works were carried out by SAIC or a joint stock company created from a SAIC construction trust and completed in 1999 or 2000. Over 200 km of canals were rehabilitated, around 85 km of new canals constructed, almost of 200 km of drainage collectors or pipes repaired, and hundred of weirs, gates, wells, and other structures replaced or refurbished. However, the conveyance efficiency of the canal network remained in the 45-55 percent range and did not reach the targeted 50-65 percent, due to quality control problems encountered during construction and well as poor maintenance thereafter on the part of the newly formed Water User Associations.

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12 World Bank, 1999, Azerbaijan Agriculture Sector Note: Building Post-Reform Recovery, p. 27.
**Water User Associations**

Besides the family farm, the Water User Association (WUA), created to operate and maintain I&D infrastructure, is the most permanent and significant institutional manifestation of the FPP. With the aid of an international WUA specialist, in 1998 six WUAs incorporating several subgroups and 152 Water User Groups were founded in 21 villages, serving 6,233 members and all of the irrigated area of the pilot farms (10,617 ha). Despite some setbacks in collecting water charges from their members, WUAs expanded operations (beyond the pilot districts, at the request of adjacent villages) and contributed to the revenue of the State Amelioration and Irrigation Committee (SAIC), which typically manages and maintains primary and secondary canals up to the border of the WUA.

The formation of sustainable water user associations requires an enabling environment, adequate cost recovery and revenue to support both the WUA and O&M, and management capacity.\(^{13}\) The FPP furnishes yet another example of the fact that these conditions often require several years to achieve. Several difficulties hindered the development of WUAs. First, WUAs still lack an adequate legal framework; their status as a profit-making enterprise exposes them to harassment by the tax inspectorate. Decree No. 43 of 2000, which handed the O&M of former on-farm I&D infrastructure to the district irrigation departments of SAIC, introduced significant confusion into the jurisdiction over these networks, most of which were located inside the command area of the WUAs. The management capacity of WUAs remains weak, despite significant training. Moreover, WUAs fail to pay adequate attention to maintenance, with the result that some infrastructure rehabilitated for the FPP was in danger of deteriorating even during the life of the project (especially in Salyan District). Furthermore, water charges are extremely low, covering only around one-tenth of the cost of O&M, and even at this rate collection is problematic (the nationwide rate is only 25 percent of charges, far lower than in the pilot districts). Finally, SAIC is reluctant to streamline its staff, budget, and powers and adopt a supplier-client (rather than command) relationship with water users (and WUAs). District SAIC departments are more concerned with obtaining revenue from WUAs than fostering them.

Between January of 2001 and May of 2002, 574 WUAs were registered in Azerbaijan, serving 621,965 ha (or around half of the irrigated land in the country). Because the task of training and sustaining existing WUAs and creating new ones still lies ahead, the Government of Azerbaijan and the World Bank launched the Irrigation Distribution System and Management Improvement Project in 2002.\(^{14}\)

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Rural Credit Services

Among the components of the FPP, credit faced perhaps the most difficult environment, owing to the almost complete lack of a sound rural financial system, the unfamiliarity of most farmers with credit markets, and the long tradition of poor financial management of the only agent available, Agroprombank. The PMUs and PIUs succeeded admirably in launching an information and education campaign for the new private farmers concerning the purpose and the use of credit. District credit commissions on which private farmers held positions discussed credit applications in a town hall setting that lent transparency and a sense of fairness to the proceedings. Because of the public nature of credit disbursement and strenuous actions taken against defaulters during the project, the recovery rate remained at around 90-92 percent (except for 2001, when it fell to the 70-80 percent range due to low prices and drought before rising again to 90 percent in 2002).

The improvements in the performance of APB and the lightening of the tax burden upon farms came about as a result of the steadfast and repeated insistence by project personnel (sometimes over a period of years) for better conditions for the farmers within the emerging credit market, coupled with the willingness of the Government to act upon its recommendations. The Government of Azerbaijan in 2001 declared its intention to replicate the credit model produced under the FPP elsewhere in the country under the aegis of the Agricultural Development and Credit Project.

Farm Information and Advisory Services

The first step towards making Farm Information and Advisory Services (FIAS) available to the rural public was the establishment in 1997 of a unit in the Ministry of Agriculture. By 2000 FIAS centers had been established in all of the pilot districts. These were later merged with the business centers founded under the community development component. FIAS activities such as mass media releases, the publication and distribution of booklets, and workshops involving farmers were launched for the land, I&D, and credit components, as well as for business practices, independent farm management, and agronomic practices. By 2002 the FIAS center in the Ministry of Agriculture had published and distributed 15 booklets, 24 information brochures, and posters covering a broad range of topics. Sixty training courses were conducted, and three national level seminars addressed over 12,000 farmers. In May the FIAS component of the FPP was transferred to the ADCP.

Community Development and NGOs

In 1998 the task project team selected Hayat, a national NGO, to implement the community development component. The NGO established business centers in all pilot districts, held three community development seminars, trained 25 community development specialists, and conducting a survey of the vulnerable population. However, it was found that Hayat lacked the capacity to fulfill its mandate therefore it was removed from the FPP.

After the departure of Hayat from the project an international social development consultant arrived in Azerbaijan in March of 2002. She organized the PMU to begin community-
based social service and infrastructure provision, beginning with rural water supply and sanitation. The team established community-based water associations until the close of the project in June of 2003.

**Project Management Unit**

The Project Management Unit and other agencies that were directly involved in implementing the FPP gained significant capacity during the process. Training was a constant endeavor, which reached 30 senior and middle level management staff in the SLCC, and 50 staff members of the Ministry of Agriculture Extension Services Center, as well as the entire PMU. Through implementing the project these participants in the FPP learned new skills in surveying and mapping, registration, managing land transactions, conflict resolution, information management, credit appraisal, procurement, financial management and accounting, I&D management, soil testing, community development, and education and mass information and campaigns. Possibly the most difficult, yet significant, area of progress for the PMU has been accounting and financial management. The PMU also developed significant linkages within the Government and World Bank, which gave it the capacity that was required to meet the challenges posed by the ramping up of the FPP and start-up of the ADCP. In order to better coordinate agrarian reform projects in Azerbaijan, the Government made the PMU a permanent institution in the Cabinet of Ministers, designating it in February of 2000 as the Agency for Support of Private Agriculture in Azerbaijan.

**Impact Analysis**

Agricultural output in Azerbaijan grew by around $450 million between 1997 and 2003 and rural poverty declined and that agricultural policy was placed on a sound footing, the IDA, IFAD, and Government investment into the FPP was more than justified.

Privatization placed valuable assets in the hands of the population. One group that did not benefit from the transfer of FSK land is Internally Displaced Persons, who constitute around 10 percent of the population: the share of those with access to agricultural land in rural areas is only half of the average. The growth of the livestock herd was also impressive (by around 40 percent over the same period), due to its earlier privatization.

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Table 3. Rural Household Agricultural Assets in Azerbaijan, 1995 and 2001

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Households with Land</td>
<td>78.4</td>
<td>97.0</td>
</tr>
<tr>
<td>Average Land Plot size (ha) (Owners)</td>
<td>0.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Percent of Households with Livestock*</td>
<td>75.8</td>
<td>86.3</td>
</tr>
<tr>
<td>Size of Herd (Owners)*</td>
<td>1.9</td>
<td>3.2</td>
</tr>
</tbody>
</table>

* In terms of cows.


The transfer of land and other assets, many of which had been inefficiently or not at all utilized to date, inculcated a strong sense of proprietorship in the new landowners. This newfound interest in working the land, combined with the rehabilitation of I&D infrastructure and the availability of seasonal capital to purchase inputs, led to a sharp increase in productivity in the pilot districts.

Much more statistically significant are the indicators that show that agricultural output in Azerbaijan grew by one-third between 1997 and 2002, with the largest jumps following land privatization. Despite a drought in 2000-01 that resulted in scarce water supplies in many irrigated locales, crop area grew around 30 percent after the reform, as did crop yields. Agriculture also absorbed around 400,000 new entrants as a result of the land reform, which initially lowered labor productivity. However, the surge in output has driven labor productivity to levels not seen in Azerbaijan since 1993.

A survey of the project area conducted in 1998 found that in all of the pilot districts significantly more villagers viewed the privatization of land as having a good or neutral than a bad effect upon their well being. The major exceptions were those without knowledge of farming or ability to work the land independently.\(^{16}\) The land privatization is widely credited in the media and society with lowering of the percentage of the rural population below the poverty line (as measured in expenditures) between 1997 and 2002 (from 66 percent to 42.5 percent), and even driving it below the urban poverty rate (which fell from 66 percent to 55.2 percent during the same period).\(^ {17}\) Ownership of land and other farm assets is strongly linked with poverty reduction.

A factor that tempers the assessment of the poverty reduction impact of the FPP is the dramatic rise in non-income poverty in rural Azerbaijan. Access to drinking water, electricity, gas, schools, health, and other municipal and community services declined throughout

\(^{16}\) World Bank, 2000, Social Assessment and Agricultural Reform in Central Asia and Turkey, p. 152.

Azerbaijan.\textsuperscript{18} Owing to its poor early performance, the community development component did not mitigate non-income poverty as much as was originally intended.

\section*{Driving Factors}

\subsection*{Commitment and Political Economy for Change}

The implementation team of the FPP benefited from a strong element of country ownership and commitment to land privatization and farm restructuring on the part of key ministries and the executive branch of the Government of Azerbaijan. Key agencies such as the Ministry of Agriculture and the National Agrarian Reform Commission viewed land privatization and farm restructuring as the only means of combating the malaise that gripped agricultural production in the mid-1990s. Moreover, there was a desire to attract foreign direct investment into the oil industry after significant reserves of high grade hydrocarbons were discovered underneath Azerbaijan’s portion of the Caspian Sea. Investors such as British Petroleum had to be convinced of the business-friendly, reform-minded intentions of the Government. Furthermore, the Government could easily afford to pursue land reform in rural areas. Oil and caviar, not land, are the most profitable resources and revenue streams for the Government (in contrast to Uzbekistan, for example, where cotton revenues support the state budget).

\subsection*{Institutional Innovation}

Under the auspices of the FPP, several new institutions were introduced to the countryside: among them are land reform and rural credit commissions, town hall credit meetings, WUAs, and Community Associations. In addition, it is likely that several informal cooperative institutions were created to meet local needs that have not yet been identified (and should be in order to utilize their potential). Sustaining the institutions that provide farm support services under the ADCP and other projects will determine the final outcome of the FPP over the course of the next decade.

\subsection*{Learning and Experimentation}

The comprehensive approach to land privatization and farm support services taken by the FPP made learning and experimentation a necessity. From the outset of the FPP the Government had made explicit its intention to benefit from international experience, and the project personnel deliberately set out to learn more about the area in which they were working and find ways to adapt their considerable experience to local conditions. They obtained feedback through social assessments and monitoring and evaluation reports, as well as regular supervision missions and constant consultation with the Government. Changes in the legal and institutional environment and even the weather affected various components of the project:

\begin{quotation}
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• Over 30 laws and decrees between 1995 and 2000 were adopted concerning land reform, and many were hurriedly drafted; other parts of the legal framework, such as a law for WUAs, had to be created from scratch and are still being developed.

• New institutions had to be refined on the spot, in particular after it became clear that the Government intended to replicate them nationwide. For example, the model for information and education campaigns for land privatization was created through cooperation between the SLCC and PIUs (with input and advice from the task project team) during the first round of land privatization in the pilot districts.

• In response to changing conditions for WUAs, the task project team attempted to win for them a new legal status (non-profit) and clearly define their jurisdiction vis-a-vis district irrigation departments (on-farm). Cost recovery from WUAs proved much less than expected, owing to the unwillingness of SAIC and local governments to levy higher water charges. The new institutions also had to be encouraged to engage more fully in maintenance works and to supervise the quality of rehabilitation and development of infrastructure.

• A constant calibration of the credit component proved necessary, because the tax burden had to be lifted, and Agroprombank was reluctant to improve various aspects of its operations, such as its credit management information system.

• After an NGO proved incapable of implementing the community development component, a new direction (that of community associations) was pursued per the recommendations of an international consultant.

• Rules for and payment of the staff of the PMU had to be adapted to conform to the Azerbaijan Labor Code.

**External Catalysts**

The FPP benefited from several factors external to the project that contributed greatly to its success. These factors are; (i) technical and financial assistance from international financial institutions, (ii) macroeconomic stability, (iii) the likely threat of “Dutch Disease” and currency appreciation from oil revenues made the development of agriculture all the more urgent, (iv) the devolution of powers and responsibilities in rural areas to municipalities was already in the works by the launch of the FPP, and the transfer of land to municipalities proved to be a catalyst for both deeper land reform and a unified cadastre, and (v) the ethnic makeup of rural areas of Azerbaijan is relatively homogeneous (and social responses to change in rural ethnic enclaves are remarkably uniform). This feature of rural society made the models developed under the project easier to replicate and conflicts easier to avoid.
Lessons Learned

There are many simple, yet significant lessons to be learned from the FPP. Some of the lessons emphasized below concern the involvement of the Government and society, while others relate to specific components of the project.

• **Models for land privatization and farm restructuring work only when they are tailored to specific national needs through learning and experimentation. This was particularly true of the land privatization mechanism.** Developing this model required constant social assessment, monitoring, evaluation, and hands-on supervision. Ideologically charged, doctrinaire recommendations, such as the adoption of a more intellectually appealing registration and cadastre model along the lines advocated by TACIS, had to be quickly discarded in the interest of the practical exigency of placing as many titles in as many hands as possible, in a rapid, yet egalitarian manner.

• **Country ownership of the FPP was critical not only in terms of support for implementation, but also in terms of tailoring the model to fit the needs of both the Government and society.** The Government of Azerbaijan assigned a high priority to the FPP in its national planning. The central executive branch was able to resolve interagency conflicts and thrust agrarian reform to the fore in rural areas, despite some resistance from the local governments and elite. Moreover, there was a consensus among the rural population, reached from various viewpoints, that private farming was the only way to move forward in agriculture.

• **After the Government acquires ownership and ramps up a project, it must follow through with long term support for the endeavor.** A recent public expenditure review of Azerbaijan concludes that Government support for agriculture is too low to meet the sector’s challenges. For instance, as of 2001 the Government did not support credit unions outside of IDA-funded projects.19

• **Capacity enhancement for both the Government and beneficiaries gave the FPP a much better chance of success.** The Agency and SLCC are excellent examples of capacity enhancement through training, learning on the job, and scaling up projects through technology transfer. Local level capacity building in WUAs and rural credit institutions will ultimately determine the success of these components. The institutional development of support services such as WUAs and credit mechanisms is a long term endeavor, requiring constant capacity building and attention.

• **Information campaigns and flexible participatory approaches are essential to increase transparency and to inculcate a strong sense of proprietorship in private farming.** The FPP utilized an aggressive information campaign and directly involved the farmers in

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19 World Bank, 2003, *Azerbaijan Public Expenditure Review*, pp. 88-89. “Higher expenditure shares on irrigation and rural credit are justified.” Expenditures for administration are “extremely high.” The authors conclude that agricultural research, land registration, and veterinary services could be downsized.
privatization, credit, and the management of I&D and drinking water systems. This approach, together with the provision of credit, gave farmers both the means and the motivation required to boost productivity under otherwise difficult conditions in agriculture.

- **Post-privatization support services that require significant institutional and financial innovations are long term endeavors that require constant attention and adjustment to changes in the enabling environment.** The credit, WUA, and community development components are still being implemented under various projects on a nationwide basis. There are significant impediments to the success of these components, such as Decree No. 43 of 2000 concerning SAIC jurisdiction over on-farm I&D systems, which must be addressed, while other unknown challenges and contingencies lie ahead.

- **Community development is an integral part of land privatization and farm restructuring.** This is especially true in many transition countries like Azerbaijan where FSKs were fundamentally involved in the provision of social services and the maintenance of community infrastructure. The FPP tried to address this problem with a community development component. However, the NGO lack the capacity to perform as expected, with the result that non-income poverty remained higher than it might have been.
References


CASE STUDIES IN SCALING UP POVERTY REDUCTION


