

## Article

# Institutional Approach To The Development Of Cooperation In Agriculture

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**Abstract:** An innovative development paradigm in the economy of the Uzbekistan forces the need to rethink organizational arrangements among the producers of the agricultural sector. Despite the initiatives that have been established by the state to progress the collaboration in agriculture, in many occasions, the cooperatives are usually hampered by incomplete institutional infrastructure especially as compared to the established cooperative models in economies that pursue a market-based orientation. Earlier literature has mainly been based on conventional cooperative theory and has failed to provide systematic approach to the ways in which performance of cooperatives is affected by informal institutions, property rights as well as transaction costs. The current research applies a new institutional economics lens to examining how property rights and transaction costs influence the establishment as well as the functioning of agricultural cooperatives in Uzbekistan. The results show that unclear ownership rights, poor governance systems discourage participation and investments, whereas internal and external transaction costs reduce the effectiveness of operations. The democratic management processes are revealed to be weak enough to completely control the cost of agency or Self-seeking behavior. The study therefore presents an institutional configuration of agricultural cooperation which incorporates such dynamic relationship between institutions both formal and informal interacting together with the internal and external environment of the cooperative. All these findings indicate that increased transparency of property rights, reduced transaction costs, and the good alignment of institutions are imperative in developing good agricultural cooperatives. The subsequent empirical research ought to question the institutional models and come up with models that reinforced the informal support system to guarantee long-term sustainability of cooperatives in working together.

**Keywords:** agricultural cooperation, institutional approach, transaction costs, property rights, formal and informal institutions.

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## 1. Introduction

The transition of our republic's economy to a qualitatively new innovative development path demands the use of modern strategies for discovering and developing new interaction models between producers and market participants. This is driven by globalization, increased competition, the pursuit of leading market positions, fundamental changes in production and processing technologies, rising environmental protection requirements, and emerging new social priorities [1].

This situation directly concerns the agricultural sector as well. It is important to emphasize that achieving these goals is very difficult for certain economic entities. Therefore, in economically developed countries, various forms of cooperation exist to coordinate the activities of market participants. Such cooperation not only reduces

production and related non-production costs, as well as the cost price of products and services, but also provides opportunities for social support as a result of joint activities [2].

In our republic, special attention has also been paid to the development of agricultural cooperation. In particular, "Increasing the export potential of the agrarian sector, expanding the volume of value-added products, widely implementing product certification systems based on international standards, and developing cooperation relations are the main objectives of this priority direction" [3].

Taking this into account, it is crucial to understand the essence of agricultural cooperation, to systematize the views of various scholars, to identify the distinctive features, advantages, and strengths of its operation in developed and neighboring countries, to study advanced experience, and to develop practical guidelines and scientific recommendations for adapting this experience to the conditions of our republic. This is highly necessary at the current stage of our economic development [4].

#### **Literature Review**

The fundamental theoretical and methodological foundations of cooperation have been reflected in the works of several foreign scholars, notably U. King, E. Norson, R. Owen, F. Reiffisen, A. Sapiro, Ch. Fure, and others. In the development of the science of cooperation theory, significant contributions were made by Russian classical scholars such as A.V. Chayanov, M.N. Tugan-Baranovsky, N.P. Makarov, N.D. Kondratiev, I.V. Yemelyanov, among others. Additionally, the works of I.N. Buzdalov, V.A. Dobrinin, A.V. Tkach, K.I. Vakhitov, N.A. Kuznetsova, N.K. Figurovskaya, E.N. Kozlova, M.F. Shklyar, G.I. Shmelev, M.I. Kozyr, and other scholars have been dedicated to improving the organizational and economic mechanisms of agricultural cooperation [5][6][7][8]. In Uzbekistan, the development of cooperation in various sectors has been discussed in the works of Q.A. Choriyeu, B.B. Berkinov, Sh. Ergashkhodzhaeva, A. Madaliyeva, M. Aynakulov, A. Khurramova, R.Kh. Tashmatov, A. Abdullayev, A.J. Abdulloyev, and others [9][10][11]. Despite increased use of various tools of institutional analysis in recent years, studies of cooperative activities predominantly rely on traditional approaches. These studies cannot be considered systematic because the influence of informal institutions on the functioning of cooperative organizations is not taken into account. Issues related to forming an effective ownership structure in agricultural cooperatives, as well as choosing strategies and organizational models suitable for a developed market environment, remain insufficiently explored [12].

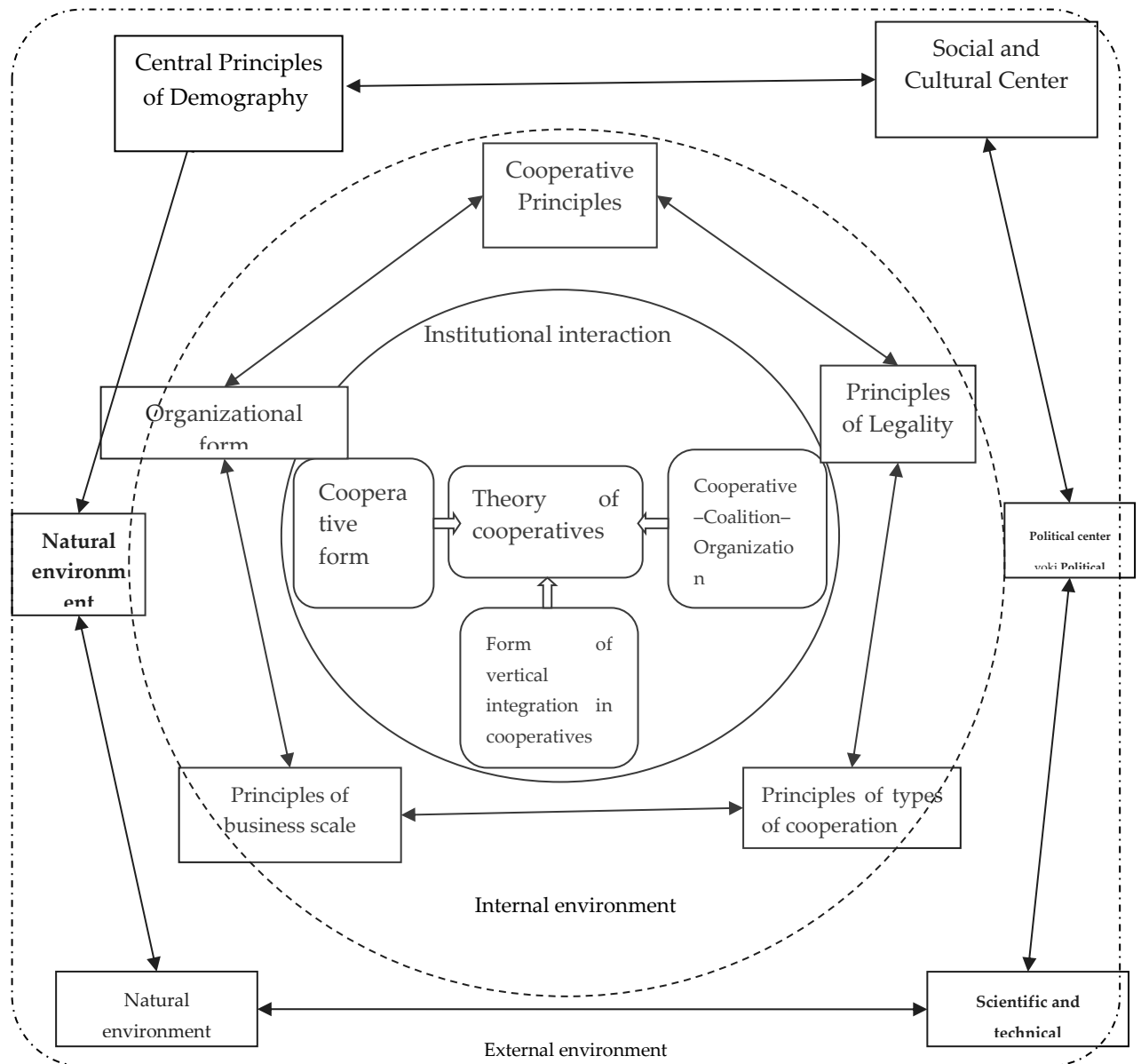
## **2. Materials and Methods**

The methodological basis of this study is the systematic analysis of the theoretical and practical aspects of the economic mechanism for solving environmental problems through the concept of the "Green Economy." This includes the formation and development stages of the "Green Economy" concept, the necessity of transition to a green economy, its factors, principles, and indicators. Additionally, the information base of the study includes articles by Uzbek scientists published in periodic journals and materials posted on the websites of leading scientific institutions, which discuss the goals, objectives, development stages, and priority directions of Uzbekistan's strategy for transitioning to a green economy. The empirical foundation of the research relies on data from the Statistics Agency under the President of the Republic of Uzbekistan, the Ministry of Agriculture of the Republic of Uzbekistan, as well as materials from the Ministry of Ecology and Environmental Protection of the Republic of Uzbekistan.

## **3. Results and Discussion**

It is important to highlight that in the Jizzakh, Samarkand, Tashkent, and Fergana regions of our republic, a total of 41 agricultural associations focused on fruit and vegetable production, including cooperatives, have been established across 8 districts. Additionally, in 2020, 31 agricultural associations (cooperatives) were planned to be created in 22 districts of the Fergana, Andijan, and Namangan regions. In 2021, the establishment of 100 agricultural associations (cooperatives) nationwide was planned [13]. However, unlike countries with developed market economies, where cooperative

practices have evolved over many centuries, in Uzbekistan, new cooperative structures have been rapidly established through state initiatives. Therefore, to evaluate current and prospective organizational models of cooperatives in the agricultural sector, an institutional approach has been introduced, which accounts for the stable interactive relationship between the external environment, cooperative practices, and cooperative theory, see figure 1. In studies dedicated to urgent issues related to cooperatives at all stages of their life cycle, the institutional approach holds particular importance because the institutional environment consisting of both formal and informal institutions (constraints that govern the behavior of organizations or individuals), alongside market institutions (such as trading rules, investment attraction, and other components of the economic environment) shapes the specific scope of any organization's, including cooperatives', activities [14]. For example, the specific nature of an agricultural consumer cooperative, which manifests as a socially oriented organization, requires studying social factors alongside economic factors influencing cooperative development, which can be conducted using tools of institutional economic analysis. The ownership structure and control system of cooperatives differ from those of other organizations and private enterprises [15]. The differences from investor-owned firms lie in their objectives: a cooperative aims to offer the best services to its owners, whereas a firm aims to generate high returns on investments for its investors. Unlike private enterprises, a cooperative has many members who all have equal rights. However, the democratic governance mechanism does not guarantee the rapid and efficient formation of a common opinion; it does not eliminate opportunism, agency costs, or suboptimal decisions.



**Figure 1. Institutional approach to cooperation and its interrelation with the external and internal environment.**

From the perspective of neo-institutionalism, we consider an agricultural cooperative as an institutional structure a specific form of economic management created voluntarily by agricultural producers to address general economic, social, and other issues arising in interactions with resource suppliers, product consumers, financial and other institutions, as well as the state and local communities. This structure differs in its objectives, ownership composition, control mechanisms, and methods of income distribution.

Property rights are understood as social institutions that define legal constraints and rules for the use of resources. These include rights to the net income remaining after all obligatory payments (residual claims) and the rights to make decisions regarding the use of assets not clearly defined by law (residual control rights). These rights possess certain characteristics, and limitations on them reduce the incentives, interest, and motivation to join cooperatives. Such characteristics include the structure and rules of ownership, the appropriation of a portion of the income, and the time frame associated with these rights. Foreign experience shows that a major source of many problems faced by operating cooperative organizations is the weak allocation of property rights. Firstly, management

and control mechanisms are not related to the volume of operations or the amount of capital contributed to the cooperative. Secondly, when a participant leaves the cooperative, they are not able to sell their share of the capital at market value instead, they receive a return of their share excluding dividends from non-distributable funds, and payments on increasing shares are made only after three years from their formation. This situation reduces agricultural producers' interest in investing in cooperative activities, which means that the organizational models of cooperatives must be changed to improve property rights. An organizational model, as we understand it, is a set of important organizational features that determine the market behavior of an economic entity and enable the implementation of the main principles of service provision. The model for organizing cooperative business is defined by a similar set, including the composition of property rights, management and control mechanisms, as well as the form of participation of each cooperative agent in its activities. When we consider cooperative activity as an endless chain of transactions and a complex set of contracts, the importance of the institution of property rights becomes clearly evident. The agricultural transition reforms have abolished the previous order of transaction management, forcing agricultural producers to adopt new market mechanisms for dealing with resources, land, and products. The outcomes of these transactions largely determine the efficiency and costs of cooperative operations, since cooperatives were created precisely to organize transactions that individual producers could neither perform alone nor were permitted to do. This situation necessitated defining the classification and main structural components of such a unit. Supply cooperatives incur costs related to searching for prices and resource quality, while marketing cooperatives bear expenses for gathering information about buyers all of which constitute external transaction costs, including costs of interaction with all external partners. Within the organization, there is another category of costs that can be attributed to internal transactions: first, the costs of creating, maintaining, and modifying the organizational model; second, the variable costs of the organization's operations, which include agency costs and costs related to the physical transfer of goods and services within the cooperative through the linkage of technological chains. Analyzing the composition of transaction costs in cooperatives shows that their magnitude depends on how the cooperative is organized and how effective its ownership and management structures are.

#### 4. Conclusions

The current research is part of the empirical-based body of literature on cooperation in agriculture by developing an institutional-analysis method to explain how property rights, transaction costs and formal and informal institutions affect the well being of cooperatives. One of the key points that can be made about Uzbekistan is that its prolonged failure at establishing clearly defined transferable property rights and a poorly functioning incentive framework limits the desire of farmers to join cooperatives. Moreover, high operational costs of transactions, internal, i.e., organisational frictions and agency expenses, as well as external, i.e., costs spent on market search-information and bargaining, have a significant negative influence on the cooperation operational performance. Such conclusions raise the possibility of the cooperative success being dependent not only on the policy support but also on the strategic realignment of both ownership models, managerial practices, and institutional governance structures. Additional studies might be enhanced by the empirical testing of institutional performance on different regional models, measurement of the socio-economic effects of the implementation of the recast cooperative structures, and the exploration of the functioning of mechanisms which result in the matches between informal and formal regulatory principles. These efforts provide the foundation through which more sustainable, inclusive, and productive cooperative systems can be generated in transitional agricultural economies. The methodological advantages of the new institutional theory have been examined in studying agricultural cooperatives, particularly in analyzing property rights, the composition of transaction costs, and the influence of

formal and informal institutions on the economic behavior and incentives of agents within cooperatives, as well as the organization's behavior in the market environment. The concept of an agricultural cooperative has been clarified, establishing that it differs from other types of economic activities by its goals, ownership structure, control mechanisms, and methods of income distribution.

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