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**REPORT ON FARM REORGANIZATION AND
PRIVATIZATION IN RUSSIA**

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**Farm Reorganization and Privatization
in Russia**

**Phase I
Main Report**

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Arthur Andersen LLP

Cargill Technical Services, Inc.

Russian Federation
Farm Reorganization and Privatization in Russia

Main Report

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Glossary of Acronyms, Abbreviations and Spellings

Measurements

bn	billion (1000 million)
C	Centigrade
c	centner = 100 kg or quintal
c/ha	centners per ha
gm	grams
ha	hectares
kg	kilogram
km	kilometers
l	liters
mm	millimeters
mn	million
NPK	Nitrogen, Potash and Phosphate = chemical fertilizer
rub	rubles
T	tonne
T/ha	tonnes per hectare
VAT	value added tax

Types of Agricultural Enterprise

(See Annex 3)

Institutional Acronyms and Spellings

Agprombank	Agro-industrial Bank
AKKOR	Association of Farmers and Cooperatives of Russia
DoA	Department of Agriculture
Duma	Russian Parliament
GKI	Gosudarstvennyi Komitet Imushchestvo (State Property Committee)
komzyem	Land Committee
REC	Rural Enterprise Center
Roskomzyem	Russian Land Committee
Raikomzyem	Raion Land Committee
Sovkhoz Teknikum	State farm (educational)

Geographical Divisions and Sub-Divisions

krai	province, equivalent of oblast
oblast	province, equivalent of krai
raion	region of oblast or krai
syel	village

Types of Land Title

(See Annex 4)

Specific Terms for Agricultural Workers

fermer	farmer but usually refers to private farmer as opposed to worker on large collective farm
krest'yanin	peasant, as above

Stocks / Shares / Certificates

Akt	State certificate of entitlement to land (sometimes GosAkt)
aktsiie	Stock/share certificate
pai	share
imushchestvennie pai	property (asset) entitlement
Ustav	Articles of Association or agreement
zemelnie pai	land entitlement

Other Terms

komunikatse	communications, i.e., utilities, gas, water, often included in social sphere
kombinat	large processing and wholesaling plant
prikaz	Ministerial order
ukaz	decree, usually presidential
rentabilnost	profitability = profit divided by cost of sales (cost of sales = variable + fixed costs)
social sphere	utilities and/or social amenities (nursery, school, club, etc.)
Obsche Sobrannie	General Meeting of the Labor Collective:
Trudovoi Kollektiv	Legal basis for intra-farm decision making (can be abbreviated to General Meeting)

**Russian Federation
United States Agency For International Development**

Farm Reorganization and Privatization in Russia

Main Report

Summary

Background

1. Following the historic political events of 1991, fundamental changes are taking place in the Russian economy. Russian agriculture like other industries is in a state of transition from a centrally planned and controlled system to one based on diversified property rights and free markets. The building blocks of the former Soviet Union's so-called Agro-Industrial Complex were the state (sovkhoz) and collective (kolkhoz) farms. With an average size of 8,000 hectares these were substantial and often diversified enterprises. Since 1990, changes in policy and law have opened the way for restructuring of sovkhoz and kolkhoz and the development therefrom of farm enterprises owned, occupied and managed by entrepreneurs.

2. With few exceptions, "privatization" is already complete throughout the agricultural sector, by virtue of compliance with the law and the distribution of land and property entitlements to farm populations. Most agricultural land and assets are therefore effectively in private (if sometimes collectively exercised) ownership, to the extent that: (a) such land and assets have ceased to be state property and, (b) management in whatever form is no longer accountable to the state.

Task Order Objectives

3. In 1993, the United States Agency for International Development (USAID) provided funds to the International Finance Corporation (IFC) for a scheme in the Nizhny Novgorod oblast to establish a formal methodology for restructuring sovkhoz and kolkhoz. But there has also been activity throughout Russia to restructure farms by informal, home-grown and voluntary processes. The aims of the current Task Order are first, to establish what lessons informal examples of restructuring methodologies offer and whether any of their experiences are capable of being disseminated in a program which could have national significance and second, to design a suitable program based on one or a number of models. Phase I of the Consultants' activity addresses the first aim and culminates in this report.

Methodology

4. The Consultants fielded three teams with Russian counterparts to undertake reconnaissance work. The fieldwork was conducted in three distinct agricultural zones, covering six oblasts and krais: Stavropol and Krasnodar Krajs and Rostov Oblast in the south; Saratov Oblast in east central Russia and Tver and Pskov Oblasts in the northwest. A case study of each farm visited has been prepared from which the Consultants' conclusions and recommendations are drawn.

5. The data assembled in the 83 case studies and 25 sub-case studies which are a result of the Consultants' fieldwork present a picture of great diversity. The case studies are difficult to classify in a way which is helpful to an understanding of the factors which lead to "successful" restructuring in terms of processes or outcomes. However, the Consultants have designed a broad-based classification based on degrees of change as a guide to an understanding of the case studies.

Category	Degree of Change
A.	Sovkhoz/Kolkhoz with little or no perceptible change.
B.	Sovkhoz/Kolkhoz with major internal changes.
C.	Sovkhoz restructured into a number of smaller collectives
D.	Sovkhoz/kolkhoz restructured into various types of smaller units with or without head associations.
E.	Associations of Peasant Farmers formed as part of restructuring sovkhoz/kolkhoz.
F.	Associations of Peasant Farmers formed by farmers who left sovkhoz/kolkhoz.
G.	Individual (Peasant) Farms.

Motivation for Change

6. Directors/chairmen and senior staff of the former sovkhos/kolkhos have been the decisive influence in the initiation, processes and outcomes of reorganization, sometimes negatively and sometimes positively. The change in accountability of managers from state to workforce (and pensioners) is fundamental although not always immediately apparent. As economic pressures mount, time may prove that concerns about the ability of managers to resist reform and sustain a soviet structure without the consent of the new owners of agriculture's capital, are ill-founded.

7. The attitudes of individual officials and administrators at the oblast/krai and raion level also vary and have influenced both process and outcomes, although inconsistently.

8. In the present economic environment, most of the motivations for reorganization identified in the case studies do not apply. On larger collective/corporate farms, people see little or no immediate possibility of profitable farming, either collectively or individually. Motivation can be expected to increase only when the economic situation improves. The trigger for further reorganization is likely to be the bankruptcy of many large collective enterprises. In the immediate future, voluntary reorganization is unlikely to take place on a mass scale, and prescriptive change would be strongly resisted.

Public Information

9. Information and advice are keys to developing trust and a consensus for change, and for equipping participants to make rational choices on issues which materially affect their future. The case studies show that the dissemination of information about agricultural reforms has been patchy. There is a pressing need to provide unbiased information to participants before, during and after reorganization. New, practical advisory capacities need to be developed within and orientated to the private sector.

Legal and Procedural Framework

10. A legal and procedural framework for reorganization exists and despite its many shortcomings, it has been extensively applied and is broadly adequate. Detailed implementation has varied between oblasts and even between raions within oblasts, particularly in the determination of land and asset entitlements and allocation of land. Consequently the ease with which an individual (peasant) farm or association of farms is able to withdraw land and property from collective structures varies widely.

11. *Adjudication of Land Entitlements.* The adjudication of land entitlements had been completed on all farms visited. While there are exceptional instances of injustice, the results appear to have been accepted by the majority and no purpose would be served by revisiting the adjudication process as part of any current (including the Nizhny Novgorod model) or proposed scheme of reorganization. The policy and practice of treating certain categories of specialized farms under Regulation 708 needs to be reviewed.

12. *Allocation and Demarcation of Land.* Land has been allocated in one of three ways:

- general agreement between prospective leaders of emerging enterprises;
- allocation of land to groups and individuals by a designated specialist; or
- lottery.

13. No auctions or processes corresponding to the “auction” recommended by the Nizhny Novgorod model were found.

14. The case studies suggest that no particular process of land allocation commends itself over another and that there is no correlation between the process adopted and the apparent success or otherwise resulting outcome. Home-grown solutions founded on negotiation and agreement are more likely to gain commitment and be understood than imported ones. The “complicated” Nizhny Novgorod “auction” has been widely rejected as an option.

15. Experience suggests that individuals wishing in the future to secede from collective structures may face difficulties in obtaining possession to their own demarcated plot. Effective procedures for settling land allocation and demarcation disputes should be introduced in order to support individuals' rights to withdraw from collective structures and occupy land to which they are entitled.

16. *Adjudication and Allocation of Property Entitlements.* The property (buildings and fixed equipment, machinery, livestock and other assets) of former sovkhos and kolkhoz was usually divided into “Divisible” and “Indivisible” funds, with most “assets of common use” in the indivisible fund. There was much variation in the allocation of assets to one or other fund, especially for items like grain stores, repair workshops and fuel stores.

17. Property has invariably been allocated after land, usually by mutual agreement in accordance with the perceived needs of prospective new enterprises. Property assets have been valued at "balance sheet" rather than market values for adjudication and allocation purposes. Since there will be a continuing need to adjudicate and allocate property, this basis for valuing property assets should be reviewed and in addition, provision made for an arbitration procedure to settle disputes as to entitlement, value and allocation: (a) in the interests of equity, (b) to create and facilitate a more realistic market environment for property trading, and (c) to enable individuals to continue to separate from collective structures with their fair share of property.

Outcomes

18. A wide variety of enterprises has emerged from the reorganization of sovkhos and kolkhos, which are now trading under one or other of the juridical structures prescribed by law. Private farmers have emerged in every area although this trend is stalled. Most private farmers are ex-employees of former sovkhos and kolkhos but there are also incomers from other industries, with little or no farming experience, who have been granted land from the raion reserve or redistribution funds. Individual land entitlements are small, ranging from 0.3 to 12 hectares.

19. Examples of successes and failures are evident across the spectrum of reorganized enterprises. Good management is one key feature of the successful farms. Some superficially unreconstructed sovkhos and kolkhos (Category B) were clearly responding to market forces by reducing the workforce, setting up processing facilities and seeking new markets.

20. The degree of success of most individual (peasant) farms is closely related to the timing of their creation. Those who had started in 1991-1992, have benefited from preferential interest rates of 8% to 28% guaranteed by AKKOR (a union of private farmers) and from the effects of inflation on the value of assets bought previously. Those who are now debt free stand in stark contrast to most later participants whose entrepreneurial aspirations are being strangled by interest rates of 213%.

21. Many farmers who started alone, are beginning to group together in formal or informal associations (Category F) in response to difficulties of operating alone in the current economic climate for agriculture. These associations permit more effective use of resources while retaining a large degree of autonomy.

22. With the exception of individual (peasant) farms and small associations of farmers, the Consultants found little correlation between juridical structure and the quality and depth of real socio-economic change. A lack of understanding of the characteristics of different types of organization is one reason, while the disjunction between the formal and practical aspects of organization is another. While some Associations of Peasant Farmers are virtually unreconstructed kolkhos, others are excellent examples of people exploiting new opportunities.

23. There is no simple causal relationship between juridical status and extent of reorganization. Associations of Peasant Farmers tend to be the form preferred by the more progressive farmers. Good examples are entrepreneurial, flexible and increasingly diversified, while retaining the benefits of cooperation, labor sharing, and effective use of scarce machinery and equipment. Where membership of an association is voluntary and based on the satisfaction of mutual interests, there is considerable scope for achieving a flexible balance between independence and cooperation .

24. In the near term, further reorganization is likely to be the result of the bankruptcy, collapse and disintegration of the former sovkhoz and kolkhoz which are currently in the deepest financial trouble. In the absence of finance for new farm businesses, fragmentation into individual (peasant) farms may be the outcome, but it should not be prescribed or unduly encouraged and this type of farm structure should not be regarded as necessarily the most desirable result. Consideration of any optimum farm size or structure is inappropriate.

Critical Constraints

25. The most pressing problems in the countryside, are those which stem from national policy and the current overall economic situation.

26. **Land Markets.** There is little evidence thus far of the development of a land market as a means of buying or selling land or to support lending. The law and practice of leasing agricultural land are rudimentary and usually informal. While transaction-friendly land registries are the priorities of other projects, capacities to deliver impartial advice in land management and administration and services in support of buying/selling, mortgaging and leasing of agricultural land need also to be developed. Model agreements (particularly for tenancies specifically tailored for agriculture), enforceable at law or at arbitration are needed to ensure transactions are respected and effective.

27. **Social Sphere & Rural Utilities.** Although there is provision in the law for social sphere facilities and rural utilities to be transferred to local government, the approach and results have been inconsistent. The fate of the social sphere in rural areas remains a key peripheral issue to farm reorganization. Any basis whereby the burden of maintaining and managing these facilities falls unevenly on the rural population is unsatisfactory. A coherent federal policy is conspicuously lacking and most local administrations are reluctant to assume responsibility for financing and managing the social sphere if they can avoid it.

28. **Credit.** Access to credit at realistic interest rates with the ability to mortgage land and a bankruptcy law which prevents large enterprises from borrowing without expectation of repayment, are priority issues if restructuring is to continue. An overhaul of the cumbersome and monopolistic rural banking system is urgently needed.

29. **Taxation.** A complex system of taxes is collected while at the same time subsidies and soft credits are disbursed. The tax inspectorates must apply tax rules fairly and consistently within a realistic taxation policy. Simplification of farm taxation would assist the farm reorganization process.

30. **Costs, Prices and Markets.** Changes in the cost-price structure are inevitable as command economies transform to market economies and as prices change from values distorted by subsidies towards real values determined largely by principles of comparative advantage and import parity. The macro-economic environment and how it needs to adapt towards a market economy is not clearly understood by management and workers on farms or by oblast and raion administrations. Oblast administrators concerned with farm reorganization need to acquire a better understanding of the free-market macro-economic principles which apply to the changes now taking place in Russia.

Farm Reorganization Models

31. The Consultants have concluded that the case studies offer little scope from which to expand a national model which would be capable of addressing all circumstances in Russia. Nor is there a suitable model from elsewhere in the world. Moreover, the Consultants saw no evidence to suggest that the Nizhny Novgorod model, if applied, would have yielded better results than those achieved by local initiatives. The lack of a reorganization model has neither inhibited farm reorganization, nor is it the main factor which has caused restructuring to stall.

32. The constraints identified make it very unlikely that viable new businesses can be created through a program which focuses only on the reorganization process. However, the case studies offer examples of good and bad practice, with some excellent examples of practices tuned to the context and resources of specific farms and sensitive to the aspirations of the participants. These practices could lend themselves to development into a package of "models" -- rather than a simple, prescriptive process -- which could: (a) deliver integrated support to the preparation and implementation of restructuring plans, while (b) introducing the seed corn for private sector advisory services to agriculture-based enterprises for the longer term.

33. Models would focus on the development and means of delivery of:

- Information services;
- Arbitration;
- Farm reorganization and business plans;
- Appropriate farm business structures;
- Appropriate farm tenancy agreements; and
- Farm credit systems.

Project Proposals

34. The proposed project would support farm restructuring in one or more selected oblasts at the farm level, raion level and oblast level. A number of measures are proposed:

- Macro-economic and fiscal policy advice;
- Advice and training for rural business including: banking, credit management, and agro-processing;
- Development of Rural Enterprise Centers (RECs) in (say) four raions;
- Development of management accounting systems and accounting standards; and
- Development of lease and tenancy agreement models.

35. RECs would recover costs by selling services. In the initial project period of two years, it is not expected that farmers would be able to pay or would be willing to pay, for something that has not been proved to have a value. REC services would therefore be a project cost and the RECs would bill the project. Subsequently, farmer contribution to cost-recovery could be introduced progressively.

Russian Federation
United States Agency For International Development

Farm Reorganization and Privatization in Russia

Main Report

I

Introduction

1. Following the historic political events of 1991, major and wide-ranging changes are taking place in the Russian economy. Russian agriculture like other industries is in a state of transition from a centrally planned and controlled system to one based on diversified property rights and free markets. These reforms are proceeding against a political and economic background clouded by uncertainty and within a legal framework as yet ill-developed to serve the needs of free market agriculture.

2. The building blocks of the former Soviet Union's so-called Agro-Industrial Complex were the state (sovkhoz) and collective (kolkhoz) farms. With an average size of 8,000 hectares these were substantial and often diversified enterprises. Agriculture on private and household plots, although responsible for a disproportionate share of production, occupied a relatively insignificant 3% of arable land.

3. Since 1990, changes in laws relating to land and agriculture have, by degrees, increased the rights of individuals and corporate entities to acquire, manage and dispose of land and other agricultural resources in their own right. This policy has opened the way for restructuring of sovkhoz and kolkhoz and the development therefrom of farm enterprises owned, occupied and managed by entrepreneurs as individuals and in groups.

4. As of July 1994, the union of private farmers AKKOR, reported that almost 280,000 private farms had been established but that the pace had slowed. Figures for the number of private farms need to be treated with caution since they vary with the source and the definition of "private farm". "Individual (peasant) farm", the expression used throughout this report for individually owned and occupied holdings, should be distinguished from private household and subsidiary plots. The latter are not considered in this report.

5. In 1993, the United States Agency for International Development (USAID) provided funds to the International Finance Corporation (IFC) to design and implement on a trial basis, a scheme to restructure six sovkhoz and kolkhoz in the Nizhny Novgorod oblast along lines of genuine private ownership of land and capital. This scheme has evolved into a well-documented model, designed to be replicable throughout Russia.

6. This report, also financed by USAID, represents the final report in response to Phase I of a Task Order (see Annex 1) entitled Identification of Agricultural Land Privatization and Farm Reorganization Models. The report was prepared by Arthur Andersen & Co., S.C. and Cargill Technical Services (the Consultants) in August 1994 following field reconnaissance undertaken in June and July 1994. The report comprises two volumes: this Main Report and an Appendix volume.

7. The Main Report presents: an analysis of the Consultants' observations and findings; conclusions and recommendations; and proposals for a project designed to promote and encourage further restructuring. The Appendix volume contains detailed case studies of each farm the Consultants' visited during the course of field work.

II The Task Order

A - Objective

8. The initiative in Nizhny Novgorod has established with foreign assistance, a formal methodology for the restructuring of sovkhos and kolkhoz. However, there has been activity throughout Russia to restructure farms by less formal, home-grown and voluntary processes. The extent of this activity is evidenced by a steady increase in the number and diversity of farm enterprises from individual (peasant) farms to large corporate and collective holdings. By their nature, these examples of agricultural reorganization have been less well documented than the Nizhny Novgorod model.

9. The aims of the Task Order are firstly, to establish what lessons examples of such restructuring methodologies offer and whether any of their experiences are capable of being disseminated in a program which could have national significance and secondly, to design a suitable program based on one or a number of models. Phase I of the Consultants' activity addresses the first aim and culminates in this report. Any activity and level of effort required for a Phase II to address the second aim, will be defined following discussion of this report with USAID.

10. Both in the text of the Task Order and in discussions held with the Consultants in Moscow to refine and emphasize certain aspects of the terms of reference, representatives of USAID stressed their desire to focus the reconnaissance on "spontaneous" forms of restructuring, in other words those which have occurred principally on the initiative of the participants and which have resulted in the partial or complete break up of former structures.

B - Methodology

11. Following discussions with USAID staff and representatives of Gosudarstvennyi Komitet Imushchestvo (GKI), the Consultants fielded three teams with Russian counterparts to undertake the Phase I reconnaissance work. Each team was assigned two regions: Rostov and Saratov, Krasnodar and Pskov and Stavropol and Tver (see Figure 1).

12. Oblast, krai and raion officials and members of AKKOR were consulted in order to identify examples of reorganized farms to be visited by the teams. A case study of each example has been prepared and is presented in the Appendix volume. The Consultants' conclusions and recommendations are drawn principally from the case studies. Additional information and opinion was sought from a number of sources at the raion, oblast and federal level in order to place the Consultants' findings into the wider context.



USAID Farm Reorganization Task Order

*Regions in Russia Visited by Arthur Andersen/Cargill Technical Services
June Through August 1994*



Farm Reorganization

13. As a means to ensure the quality of data collected, the Consultants considered it necessary to offer some respondents the guarantee that confidentiality would be maintained. Accordingly, no proper names are given in the text of this main report and raions visited have not been clearly related to the appended case studies.

Choice of Field Sites

14. Although the Task Order requires the Consultants to examine instances of “spontaneous privatization”, with few exceptions, “privatization” is already complete throughout the agricultural sector by virtue of compliance with the law and the distribution of land and property entitlements to members of sovkhoz and kolkhoz. Agricultural land and assets are effectively in private (if sometimes collectively exercised) ownership, to the extent that: (a) such land and assets are no longer the property of the state and, (b) management in whatever form is no longer accountable to the state.

15. The Consultants have therefore read “privatization” to mean “reorganization”. In other words where changes in ownership had created the opportunity for choice in the management, use and control of land and assets, through the formation of new enterprises, ranging from the individual (peasant) farm to the former sovkhoz or kolkhoz now operating as a privately owned enterprise. “Spontaneous” has been taken to mean instances of reorganization, without the interference or influence of outside (especially foreign) agencies. The Consultants understood that alternatives to the Nizhny Novgorod model were subject of the investigation, in order to ensure that all options might be compared.

16. Farms visited by the teams were therefore chosen on the basis of the following criteria:

- particularly good and bad examples of reorganization;
- farms that had undergone substantial reorganization, often resulting in the division of a former sovkhoz or kolkhoz into a number of smaller agricultural enterprises;
- on the recommendation of regional or raion authorities and institutes, or AKKOR, who had been briefed as to the teams' criteria; and
- to ensure that a variety of reorganized farms were included in the research.

17. Teams visited farms, deploying research capacity as effectively as possible. Often teams sub-divided further, either visiting different farms in a raion or visiting different enterprises that had evolved from the former sovkhoz or kolkhoz, or different sectors of the population. Both quantitative and qualitative data were collected where possible. Quantitative data refers to size, populations, and productive structures. Qualitative data was collected by employing the Rapid Participatory Rural Appraisal (RPRA) technique. The technique is based on conducting semi-structured interviews with different members of a farm population. Information matrices were constructed to cover the basic aspects of reorganization and were used to structure the analysis that follows.

18. Thus, the case studies represent a highly selective rather than representative example of farm enterprises and consequently the tables in the text should be interpreted accordingly.

III Background

A - Agriculture

19. There are 222 million hectares of agricultural land in Russia with 132 million hectares (60%) arable and 65 million hectares (30%) classified as pastures. By the 1980's there were about 12,000 sovkhoz averaging 8,000 hectares and around the same number of kolkhoz averaging 6,600 hectares; together they accounted for 97% of agricultural land. Land reform began in 1990 when Russia was the Russian Soviet Federative Socialist Republic (RSFSR); since then almost all sovkhoz and kolkhoz in Russia have re-registered as business entities under the law, with the result that the state has thereby relinquished control of most agricultural land. The 280,000 individual (peasant) farms average 43 hectares and account for about 5% of agricultural land.

20. Russia's agricultural production has never been high by western standards due to structural and technical deficiencies. Crop yields have been up to 30% lower and livestock yields generally between 40% and 50% lower given comparable climatic zones. Livestock production accounts for around 60% of agricultural output. Overall, official statistics suggest production is falling due to reduced use of fertilizer and other inputs resulting from the cost/price squeeze on agriculture.

21. The fieldwork for this Task Order was conducted in three distinct agricultural zones, covering six oblasts and krais. Stavropol and Krasnodar Krai and Rostov Oblast in the south; Saratov Oblast in east central Russia and Tver and Pskov Oblasts in the northwest.

22. The southern region is typified by generally good to excellent black soils with a climate suitable for growing a wide range of crops, including a sub-tropical area by the Black Sea in Krasnodar where tea is grown. The emphasis in the region is on cash cropping although most former sovkhoz and kolkhoz carry substantial but declining herds of cattle for both meat and milk production. There are also substantial flocks of sheep for both meat and wool production.

23. In the Saratov area, soils and climate are generally less favorable with a narrower range of cropping possible with mixed farming systems prevailing. Very dry conditions in the southeast of the oblast give way to better soils and higher levels of precipitation in the northwest.

24. In the northwestern Pskov and Tver oblasts, soils and climate severely restrict cropping and livestock systems based mainly on cattle predominate. Soils are mainly acid, of low inherent fertility, and are frequently poorly drained. The growing season is very short making cash cropping somewhat risky. Cattle systems are usually based on forage in the form of hay or silage produced from timothy/clover leys and in a few instances from whole crop cereals. Grazing is very extensive on natural pastures, sometimes also cut for hay.

25. Much of the pig and poultry production for city consumers has always been produced on large intensive units but output has declined as a result of shortages and costs of inputs such as good quality protein and veterinary drugs. Large scale intensive production has to some extent been replaced by production from the private sector. Specialist beef feed-lots also exist but output from these is also declining.

26. Private farmers have emerged in every area although this trend is stalled. Most private farmers are ex-employees of former sovkhoz and kolkhoz but there are also incomers from other industries, with little or no farming experience, who have been granted land from raion reserve or redistribution funds. Individual land entitlements are small (ranging from 0.3 to 12 hectares) and many individual (peasant) farmers have grouped themselves into larger units based on land and property entitlements of family, friends, or neighbors. Some groups of individual farmers have formed marketing, processing and buying groups in response to economic pressures.

27. Currently, individual (peasant) farms account for an insignificant proportion of production. Mechanization on these farms was previously increasing (e.g., tractors had increased from 10 per 100 farms in 1990 to 68 in early 1993). However, this trend has reversed as there has been no replacement of machinery on former sovkhoz/kolkhoz for the last three years. This means there is insufficient machinery and equipment available for allocation to prospective private farmers now wishing to withdraw from sovkhoz or kolkhoz.

B - Agricultural Economic Policy

28. The agriculture sector has presented increasing problems to Government since farm collectivization in the 1930's. Agricultural output became insufficient for the state's needs during the 1970's and although production may have increased annually until a plateau was reached in the 1980s, this was achieved at great cost, particularly in relation to the import of feed grains for the livestock industry. From the outset of perestroika, it should have become clear that agricultural reform would need to form a central part of any reform of the economy as a whole.

29. Beginning with the RSFSR Law on Land Reform of October 23, 1990, a number of laws, decrees and government resolutions have been passed, allowing leasing and private ownership of land and property. (Land sales were restricted until October 1993). Under the legislation, some control over distribution was vested in the local Soviets of People's Deputies, who tended to be conservative, and sometimes hostile to the expansion of private farming. Further important steps were taken in December 1991 and March 1992 with decrees setting in motion the reorganization of sovkhoz and kolkhoz and reinforcing the rights of individuals to withdraw and farm in their own right. Sovkhoz and kolkhoz were directed to undertake reorganization by January 1, 1993, although re-registration was not completed by that date. In addition, programs for privatizing input distribution, agricultural services and food marketing/processing enterprises were introduced.

30. Even before 1990, attempts were made to improve agricultural efficiency through the creation of “contract leasing brigades”, which were attempts to introduce the profit motive by giving brigades a share of revenues after deduction of production costs as well as a degree of autonomy.

31. Agricultural reform since the beginning of 1992, have broadly included: liberalization of prices; reduction in subsidies; privatization of processing industries and commercialization of banks. Progress in reform has been hampered by a lack of clarity in the responsibility for policy formulation, a still inadequate legal framework, and a lack of consensus about strategy. Reform is not consistently supported in the regions nor at local or farm level.

C - Law

32. The concepts of land ownership are, as yet, not fully developed or understood in Russia. Public understanding of the law is being inhibited by:

- continuing lack of clarity and contradictions in the underlying legislation;
- delay and complication arising from the issue of decrees and legislation or enabling regulations at federal, oblast and raion levels;
- confused inter-relationship of administrative bodies and their respective areas of authority;
- presently blurred distinction in Russian law (and in local cultures) between ownership and use;
- frequent changes in the law.

33. This legislative complexity and lack of clarity would be difficult for the rural communities to respond to, even if they had access to legal advice. Generally they do not and consequently the legislation is often misapplied. The continuing delay in issuing the new civil code and the fundamental law on land is a matter of concern at many levels of authority and may further retard the development of a rural economy based on property ownership. As a matter of principle, legislation is required to clarify the legal framework within which citizens conduct commercial transactions, but not to prescribe what those transactions may or may not involve, except to the extent that the State has a legitimate interest in regulating economic relations or avoiding possible adverse consequences of particular transactions.

34. The law is lagging behind the needs of new commercial relationships. Much of the necessary enabling law already exists in Russia but is poorly drafted and often contradictory. Although the lack of a clear and comprehensive legal framework is a factor in the slow progress of farm restructuring, it is not currently the main one. Further piecemeal amendments to the laws will

not address the underlying inconsistencies of the Russian legal system and a comprehensive approach will be required to achieve a stable legal framework. Political factors make such an approach problematic.

D - Institutions

35. Policy making is effected through presidential decrees, government resolutions, and legislation passed by one or the other house of the Duma. There is no single institution with a clear mandate and responsibility for agricultural policy and land reform. Responsibilities of different ministries and other government institutions overlap, and there is confusion and competition between institutions for influence over and control of the process.

36. The Ministry of Agriculture at federal level and the oblast/krai administrations through their Departments of Agriculture are the bodies most directly concerned with agricultural reform. Due to growing regional autonomy, local administrations are able to exert influence on the speed and practice of policy implementation. GKI has overall responsibility for privatization and the Ministry of Agriculture for its nationwide implementation in the agricultural sector.

37. The Russian Committee for Land Reform and Land Resources (Roskomzyem), and its regional branches (komzyem at oblast/krai level and raikomzyem at raion level), coordinate land distribution, land survey mapping and registration. Roskomzyem also has overall responsibility for controlling and monitoring land use.

38. Government Resolution No. 86 required the establishment of Intra-Farm Privatization Commissions to administer and monitor reorganization on each farm. Commissions were instructed to include representatives from local administration, farm administration, labor collectives, raion agricultural departments, the local komzyem, and any creditors. Resolution No. 86 recommends that the director or chairman of the former sovkhoz/kolkhoz chairs the commission. The commission was responsible for managing and implementing the process of reorganization, and ensuring that rights to land and property were allocated in accordance with the law; there are sanctions for non-compliance. In practice, some intra-farm privatization commissions were composed solely of insiders, compromising the extent to which the equity of the process could be monitored.

39. AKKOR is the political pressure group representing private farmer interests and also provides support services through oblast/krai and raion branches although its effectiveness is patchy. AKKOR was responsible for administering soft credit programs at the beginning of the reform process. It also set up private banks and insurance companies to provide guarantees to commercial banks for loans to private farmers. Considerable problems are now presenting themselves as guarantees are called in on defaulting loans. AKKOR has an ambivalent relationship with the administrations at regional levels and it is difficult to gauge its independence from government.

40. Agroprombank supplies 60% of agricultural credit through about 1,300 branches. The large sectoral banks have become commercial banks and together with other newly-created commercial banks supply the balance of agricultural credits.

E - Land Reform and the Nizhny Novgorod Model

Terminology

41. Experience elsewhere in the world indicates that any process of land reform whether distribution, redistribution, restitution (to former owners) or consolidation must consist of three stages. In the first stage, **Adjudication**, the nature, extent and location of rights in land and any restrictions to which they may be subject (e.g., rights of way and easements), are finally and authoritatively determined according to law. It is usually a key principle that, in determining the rights, the process of adjudication does not alter them.

42. The second stage is called **Demarcation**, when the extent of rights once adjudicated, are physically described on the ground, usually in the presence of all concerned. The third stage, **Registration**, consists of recording a textual and graphical account of the rights in a register, often public, and often forming the basis on which the state then guarantees the rights against adverse claims of third parties. The logic of these steps is inescapable and very broadly speaking is mirrored in practice in Russia.

43. With certain exceptions (e.g., dwellings and household plots), there is no basis of prior possession or occupation by individuals of the land formerly occupied by sovkhos and kolkhoz, so that a sub-process of allocation has been necessary as part of the demarcation stage. The special circumstances in Russia, where the area of each arable parcel tends to exceed the area of an individual's rights, mean that allocation and demarcation do not necessarily lead to the extent of those rights being physically described on the ground. The processes are not thereby invalidated since rights can continue to exist in the form of undivided interests. However, the individual should know both the size of his/her land entitlement and broadly the location of the undivided interest.

44. In most cases of the reorganization of sovkhos and kolkhoz, the adjudication stage leads only to the determination of an individual's **Entitlement**. This remains an entitlement until the whole process is complete and title is registered either to a physically described parcel or as an undivided interest in one or a number of parcels.

45. In Russia the process of land reform and the definition of private rights of land ownership is complicated by the fact that a fundamental reorganization of occupation of the land by agricultural enterprises is going on at the same time with the contingent need to adjudicate entitlements to machinery, fixed equipment and other farm assets and working capital, collectively referred to in Russia as "property".

The Nizhny Novgorod Model

46. Critics have argued that the agricultural reforms are unlikely to achieve their objectives because: (a) in practice, economic and social dependency on collective structures and in particular on the old style of management will continue unchanged and, (b) the economic rewards expected to flow from a release of capital for individual initiatives will not therefore materialize.

47. IFC's aim was to address these criticisms by providing examples of sovkhoz and kolkhoz restructured into genuinely privatized and entrepreneurial units based on principles of legality, equity and clarity and on freedom of choice for the participants. IFC started work on designing its program in early 1993 and was ready to commence the first of six planned pilots in Nizhny Novgorod oblast by October the same year. One farm subsequently withdrew. The first "auction", a key stage of the IFC designed procedure, was held at Pravdinsky, one of the six farms, in November 1993.

48. The IFC process consists of seven stages which correspond more or less with the established principles of adjudication and demarcation, but with an additional auction mechanism which deals with the physical allocation of land and property:

- | | |
|-----------------|---|
| Stage 1. | Distribution of land and asset entitlement certificates to individuals. |
| Stage 2. | An information campaign. |
| Stage 3. | Pre-auction trading of entitlement certificates. |
| Stage 4. | Division of land and assets into auction lots. |
| Stage 5. | The auction. |
| Stage 6. | Post-auction trading of land and assets. |
| Stage 7. | Issue of certificates of title to land and assets. |

49. The process has the effect of radically splitting each farm into its component parts, represented by each participant's defined share of land and assets as expressed on separate entitlement certificates, which then become the currency for a closed auction. Before and after the auction opportunities are given to participants to choose to combine their entitlements (by sale/purchase, lease or subscription to a collective endeavor) with a view to forming new farm businesses or to separate on their own or in groups. The hope was that the auction would be competitive and a number of businesses would emerge from the original unit, each led by one or a small group of entrepreneurs.

50. IFC has claimed to pay strenuous attention to the law but in effect the process was designed in part to circumvent the moratorium on land transactions which existed before Decree 1767 of October 1993, on the grounds that trading in entitlements to land (i.e., a right to receive title to a divided or undivided parcel of land at some future date), did not amount to trading in land itself and was therefore legal. This feature of the procedure, the complex model documentation for

transactions, owner/occupier relationships and business structures, and the rules for the "auctions", make the IFC process somewhat rigid and complicated, raising criticisms that:

- few who get involved understand;
- the process is not easily implemented without considerable outside assistance; and
- therefore will not be readily accepted and replicable elsewhere in Russia.

51. The process offers no criteria or guidelines of its own for planning prospectively profitable businesses; decisions about the size and scope of enterprises which will emerge are made by the participants. While the process may achieve its own objective of splitting up sovkhoz and kolkhoz (in the case of one of the pilot farms, Niva, a 2,500 hectare farm split into just two parts) it neither tackles the fundamental, on-farm problems which afflict most of agriculture such as overmanning and technical inefficiency nor the legacy of unprofitable farm enterprises. Reports that "most" of the farms emerging from the process are "unviable", implying this is a consequence of the process, are however misconceived.

52. The adoption of the Nizhny Novgorod model is the democratic decision of the General Meeting of the farm. To that extent the process is claimed to be voluntary. Once a vote is passed to adopt the model, the procedures become prescriptive and comprehensive for all concerned and the option for a more evolutionary process of restructuring is consequently lost.

53. The Nizhny Novgorod model won government approval in April 1994 by virtue of Decree 324 which recommended the adoption of the procedure throughout the country and included a provision for establishing a training institute in Nizhny Novgorod.

54. IFC proposed to widen the application of the model by publishing a detailed manual designed to allow local administrators and farm managers to "do-it-yourself". In recent months, on-going work in Nizhny Novgorod, financed by the British Know-How Fund, has focused on the development of Farmers' Advice Centres. Designed to be complimentary to the IFC model, the centres will deliver land administration and farm business advice directly to participants both pre and post-restructuring.

IV Restructuring Processes

A - Motives for Reorganization

55. All farms visited by the Consultants had undergone some degree of reorganization; only three had elected to retain their former status (Case Study Nos. 2,15, and 40). All others had been transformed into one or more registered enterprises. The motivations for reorganization included:

- compliance with Resolution No. 86;
- improvement of productivity;
- fear of losing land;
- promises of assistance and soft credits by the federal government;
and
- the wish to be rid of unwanted management.

56. Many farms had been reorganized simply to avoid sanctions for non-compliance with the resolution. Opinions varied, but many felt that this had caused reorganization to be undertaken hastily and without adequate preparation. The imposition of reorganization "from above" had often resulted in "reorganization" in name only. Others felt that without this impetus, many farms would not have reorganized at all.

57. The belief that reorganization would improve productivity and profitability was based on the following assumptions:

- a) Reorganized units would be:
- easier to manage;
 - improve management's scope for decision-making in market conditions; and
 - improve management's ability to maintain good labor discipline.

- b) Private ownership of land and assets engenders a feeling of ownership (chustvo xoziaistvo), which would improve:
- labor discipline;
 - crop and livestock husbandry;
 - care of land; and
 - care of assets.

58. Reorganization, in some cases, was motivated by the fear that land could be lost/sold at some time in the future if not transferred to the private ownership of members (Case Study No. 28). This reflects a need for better dissemination of the laws on land ownership. In one case, reorganization was undertaken purely in order to get rid of an unwanted director (Case Study No. 35).

59. Because individual (peasant) farmers who started up in 1991-92 were able to access soft credits, larger sovkhoz/kolkhoz undergoing subsequent reorganization feel betrayed by government failure to deliver similar support.

60. There are some differences in motivations between formerly economically strong and weak sovkhoz/kolkhoz. Whereas the former had hoped to improve performance through reorganization, the latter often adopted reorganization as a last ditch attempt to save their livelihoods.

B - Reorganization Processes

Sequence

61. Reorganization can take up to 18 months. The typical sequence is as follows:

Step 1 - Adjudication of land and property entitlements.

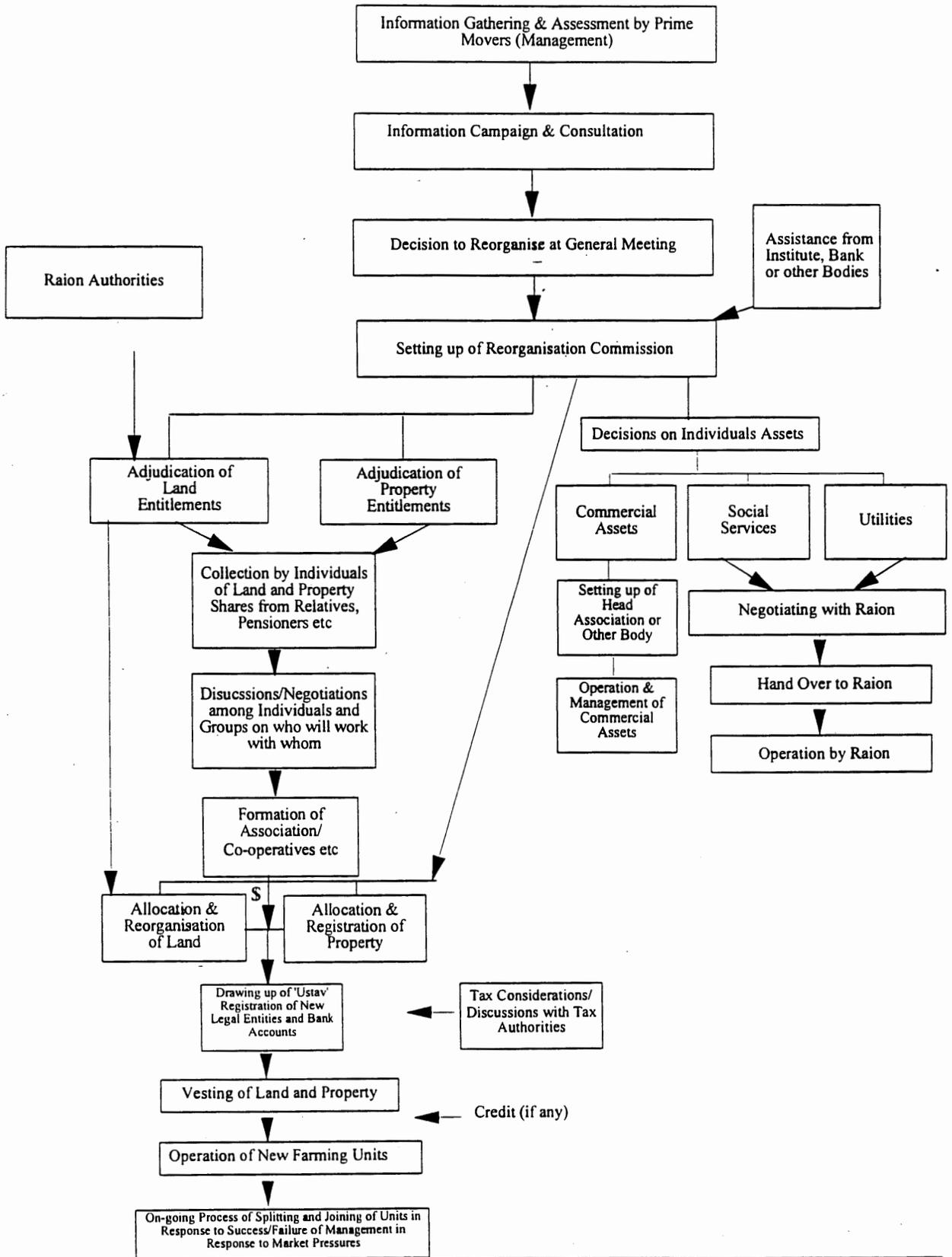
Step 2 - Commitment of entitlements to new production units.

Step 3 - Allocation and demarcation of land.

Step 4 - Allocation of property.

62. A generalized diagram of the reorganization process is illustrated in Figure 2.

Figure 2
Farm Reorganisation Process



Information and Assistance

63. Some fared better than others in terms of access to advice and information on reorganization. Information on technical aspects of reorganization, (schedules of land and property entitlement holders, maps of land and inventories of property, allocation of land and property to entitlement holders) had been reasonably distributed by regional or raion authorities in all the regions visited. Sound advice on the best subsequent use of land and property was notably lacking. Some managers and most non-specialist personnel were unable to answer questions as to the difference between, for example, a Limited Partnership and an Open Joint Stock Company, the difference between a founder member and a shareholder, or to explain the management structure of the new enterprise. At best, those that reorganized later were able to visit agricultural enterprises that had already undergone the process and learn from their experience.

64. There were, however, notable exceptions, both between regions and between farms within regions. Some reorganized farms had received valuable assistance from local research institutes and universities. Elsewhere the, level of information and advice available to any given farm was almost wholly dependent on the presence of motivated and educated individuals determined to seek out and access the information needed. (Case Study Nos. 8, 28, and 42).

Decision-Making in Reorganization

65. The decision to reorganize a given farm was always based on a vote by the General Meeting of the Collective of the sovkhoz/kolkhoz. However there are significant differences in the meaning of this process. In some cases, the decision was the result of an active decision-making process, among relatively well-informed members of the collective (Case Study Nos. 8, 28, 42 and Rostov case studies). In contrast, interviews with many farm personnel revealed that the decision to reorganize was either:

- not understood by even the majority of the voters;
- in compliance with the perceived will of the director or other powerful representative; or
- related to the threat of total economic disintegration of the enterprise.

66. The first two are the product of a passive decision making process while the latter is a reaction to a negative situation (Case Study Nos. 7, 32, 36, and 37).

C - Land

Adjudication of Land Entitlements

67. According to federal law, a norm was established in each raion by dividing the total of agricultural land by the total raion population of agricultural workers and pensioners. In some cases industrial workers had been included in the calculation, reducing the raion norm for an individual entitlement. After surplus land above the raion norm had been transferred to the raion redistribution fund, the raion reserve fund and/or the village administration, the remaining land of the former sovkhoz/kolkhoz is divided by the number of entitlement holders. The raion fund for redistribution is controlled by the komzyem, who retain the right to dispose of the land by leasing back to new agricultural entities (Case Study No. 39), allocating the land for private subsidiary farming, or utilizing the land for dacha plots. In some cases, social sphere workers were only able to obtain land from this fund.

68. "Specialized agricultural units" are exempted from privatization under Regulation 708 of September 4, 1994. The Consultants found instances where former sovkhoz and kolkhoz had successfully applied for this special status in order to avoid reorganization (Case Study Nos. 35, and 42). In Krasnodar, where there are a number of examples (tea plantations/ vineyards), the "specialized" land had sometimes been included in the overall calculation of land entitlements but was not subsequently allocated, effectively reducing the individual land entitlement.

69. There seems to be little rationality in exempting some of these "specialized units". There is no practical or agricultural reason why greenhouses, fish farms or breeding stations can not be privatized into an appropriate form of company or partnership. Activities such as tea growing and vineyards lend themselves well to small-holder management and occupation. Indeed, in one region, some specialized units had applied for permission to reorganize as it was felt that they would benefit from the new possibilities.

70. In accordance with the law, equal land entitlements, expressed in hectares but adjusted for land capability on the existing Russian index were distributed to members of most sovkhoz and kolkhoz. Percentages of cases in which land entitlements were distributed to workers, to pensioners and to social sphere workers are shown in Table 1. The four percent of cases where entitlements had not been distributed even to workers represent the specialized units.

Table 1.
Distribution of Land Entitlements

Category	%
Workers	96
Pensioners	94
Social Sphere Workers	72

71. That land entitlements were not always awarded to social sphere workers reflects inconsistencies in the legislation. Initially, the allocation of land entitlements to social sphere workers was based on the decision of the General Meeting of the Collective. The General Meeting is a somewhat arbitrary decision-making mechanism with decisions sometimes made on the basis of personal alliances and conflicts rather than on the basis of equitable principles.

72. The subsequent publication of Regulation 708 in September 1992, (some nine months after the process had been initiated and three months before the deadline for completion of the process) announced that social sphere workers should be given land entitlements. This caused enormous confusion, especially in cases where land entitlements had already been distributed. Some started the whole process again from scratch while others simply chose to ignore this provision of the regulation.

Allocation and Demarcation of Land

73. There are three critical factors to the allocation and demarcation of land:

- type of land title;
- whether individual land entitlements are to be demarcated or left undivided; and
- process of allocation.

74. *Types of Land Title.* The different types of land title are described in Annex 4. The distribution of each type in the sample is shown in Table 2.

Table 2.
Distribution of Types of Land Title

Land Title	%
Private ownership (sobstvennost)	56
Collective share ownership	39
Lease (arenda)	2
State ownership	2
Inheritable possession for life (pozhiznennoe vladenie)	1
Total	100

75. **Demarcation.** Demarcation of land into individually identifiable parcels was restricted to individual (peasant) farms and associations of peasant farmers, although not all associations had actually engaged in the process of demarcating individual plots of land. This is related to a number of factors including:

- the time and cost involved in surveying and demarcation; and
- the notion that if land is to be used for collective production, there is little purpose in demarcating individual land plots.

76. The demarcation of individual land entitlements held in collective share ownership is not required under Russian law and is only deemed relevant should an owner wish to withdraw his/her share.

77. The proportions of individually demarcated to undivided land among the farms visited is shown in Table 3.

Table 3
Individually Demarcated : Undivided Land

Land	%
Undivided	73
Individually Demarcated	27
Total	100

78. Although actual demarcation of individual land plots is often associated with strong feelings of private ownership, surprisingly this was not always the case. In one case, individual plots were demarcated in the belief that security of tenure for individuals would be assured although the land has continued to be farmed collectively (Case Study No. 28).

79. **Allocation.** Land had been allocated to new agricultural enterprises in one of three ways:

- general agreement between prospective leaders of emerging enterprises;
- allocation of land to groups and individuals by a designated specialist; or
- lottery.

80. No auctions or processes corresponding to an “auction” along the lines of the Nizhny Novgorod model were found.

81. The number of land entitlements introduced to a new enterprise was not always a limiting factor in the acquisition of land. Sometimes land entitlements were distributed after the distribution of land to new enterprises (Case Study Nos. 26, and 32). Differences between the total land entitlements of an enterprise and the land actually to be allocated and occupied were often reconciled by the enterprise leasing land from the village administration or the raikomzyem (Case Study Nos. 24 and 27). They may also receive the right to “perpetual use” of the land (besrochnoe polzovanie) from one of the raion land funds.

82. The distribution of the processes of land allocation in the sample is shown in Table 4.

Table 4.
Land Allocation Processes

Process Type	%
General Agreement	89
Lottery	10
Allocation	1
Total	100

Farm Reorganization

83. General agreement between interested parties was therefore the most commonly found method. Other factors governing the allocation of land included:

- the number of land entitlements held by an individual or group;
- a perceived need to maintain crop rotations (Case Study Nos. 24 and 27);
- according to the number of workers in a new enterprise (Case Study No. 32).

84. The allocation of ex-sovkhoz/kolkhoz land to individual (peasant) farmers was almost universally based on a decision of the sovkhoz/kolkhoz management.

Land Occupation

85. Whether ownership is collective or private is not consistently related to occupation and use; the Consultants found examples of all of the following practices where land was occupied collectively:

- All land in various forms of collective ownership is occupied and farmed collectively.
- Land in private ownership is not demarcated and is occupied and farmed collectively (Case Study No. 7).
- Land in private ownership is demarcated but is also occupied and farmed collectively (Case Study Nos. 8 to 8.4 and 28).

86. **Leasing.** Many pensioners, social sphere workers and others lease their land to individual or collective enterprises and producers. Payment is often in kind and notions that lessors retain substantial rights over such land and are free to dispose of it as they wish are poorly understood. The terms of leases vary, and are rarely documented or notarized, giving lessors little access to legal restitution of property rights.

87. Withdrawing land is explicitly recognized as a potential source of problems. In one case, seven workers had left a Limited Liability Partnership (TOO) and the TOO was happy for them to withdraw their land as they had no need of it. The TOO was, however, still using the land because it was believed by TOO and departing workers alike that they could not withdraw their land except to set up an individual (peasant) farm (Case Study No. 35).

Land Markets

88. There are very few officially recorded transactions in agricultural land, although some unofficial land transactions were reported in Krasnodar. In Rostov, instances of official land transactions were recorded which had been approved by the local raikomzyem. The usual

response to the Consultants' inquiries was that transactions are not legal. Although none of the respondents in the case studies had mortgaged their land, a representative of a bank in Stavropol reported that a few instances were occurring.

Land Registration

89. The registration of title to land continues to be complicated by a number of factors:

- Lack of consistent, clear and comprehensive regulations for registration;
- Lack of consistent data standards and formats;
- Inadequate mapping and capacity for surveying;
- The positive or negative attitude of local komzyem officials towards private ownership of agricultural land;
- The capacity and qualification of local komzyem officials for dealing with large numbers of new rights, as a result of reorganization; and
- Shortages of new certificates replacing the original GosAkts.

90. Where komzyem officials are registering land titles, the registration of large numbers of individual owners is presenting problems in terms of staff resources. This has sometimes been resolved by registering a number of entitlements together under the name of an individual or collective title holder. This is most common in the case of individual (peasant) farms where family members pool their land for registration under the name of the household head. There is a danger that this practice might deprive other family members of the right to dispose of their land.

91. Frequently the ownership of land held in collective share ownership is registered under the name of the collective with reference to an official list of the names of individual entitlement holders. The Consultants also found instances of land being registered in the name of the director/chairman of the sovkhoz/kolkhoz at the time of reorganization.

92. More worrying is the practice of registering ownership of land in the name of the lessee. Often lessors are pensioners with poor understanding of the implications of agreeing to such a practice. In the absence of formal documents, there is a danger that lessors will lose the right to sell their land or to pass it on to heirs. This practice is sometimes adopted to avoid taxation of lessors (Case Study No. 11) and indicates a need to rationalize the tax system.

D - Property

Adjudication of Property Entitlements

93. The property of former sovkhoz and kolkhoz was usually divided into “Divisible” and “Indivisible” funds, with most “assets of common use” in the indivisible fund. Although there is provision in the law for social sphere amenities to be transferred to the local administration, the approach has been inconsistent. There was much variation in the allocation of assets to one or other fund, especially for items like grain stores, repair workshops and fuel stores.

The Indivisible Fund

94. The indivisible assets of sovkhoz/kolkhoz have been treated in different ways and can be categorized for the purpose of analysis as follows:

- economically useful assets;
- utilities; and
- social sphere amenities.

95. *Economically useful assets.* Economically useful assets were allocated to the indivisible fund with a view to management following reorganization in a variety of ways:

- Ownership and management by a head association controlled by the Association of Peasant Farmers, then leasing or charging for services (Case Study Nos. 13 and 14).
- Joint ownership by user with a fee charging system; or
- Ownership by a separate company or partnership charging for services/use.

96. Each option has its advantages and disadvantages. Tax liability (particularly VAT) of trading in non-agricultural goods and services is a significant factor in the choice of option. Other factors include the burden of managing the assets and administering complex charging arrangements (Case Study Nos. 8 to 8.4).

97. *Utilities.* Utilities such as supplies of gas, water, electricity, heating and hot water are sometimes managed by a central or head enterprise or association, which may charge other enterprises and/or households for services. There is some resistance to paying for services and there are rumors of water supplies being cut off (Case Study No. 14). In one case, 56 apartments in two blocks had been without heating or hot water for two winters as a result of failure to resolve the question of responsibility for maintenance (Case Study No. 37). Electricity and gas is sometimes supplied by regional companies or by the raion administration. Supplies of heating,

water and hot water have to be managed locally by the village administration if there is no central or head association willing or able to do so.

98. *Social Sphere.* The transfer of social amenities to the balance sheet (account), care and control of local (village or raion) administrations was subject to much variation. In the case studies, the overall transfer of the social sphere occurred as shown in Table 5.

Table 5. - Transfer of Social Sphere

Transfer Type	%
Some Social Sphere Transferred	38
No Social Sphere Transferred	33
All Social Sphere Transferred	29
Total	100

99. Reasons for differences in the sample are as follows:

- a. Refusal of local administration to accept responsibility, for one of two reasons:
 - absence of adequate physical and financial resources for the maintenance of social sphere; or,
 - political resistance to assisting the reorganization of sovkhov/kolkhoz.
- b. Desire of the reorganized enterprise to retain care and control of social sphere amenities, for one of two reasons:
 - fear that social amenities would not be adequately supported or available;
or
 - historically based feeling of ownership of social amenities.

100. Social amenities had been transferred to the village administration, wherever it had successfully negotiated support for those services from the raion and/or regional (oblast or krai) administration, or from the newly-formed local enterprises. Support from the latter was often informal, and variously took the form of:

- continued maintenance of buildings;
- deliveries of free or cheap food to schools and nurseries;
- provision and maintenance of housing for social sphere workers; and/or
- maintenance of electricity, gas and water supplies.

101. Occasionally, there were more formal agreements between the village administration and the newly-formed enterprises for the continued support of the social sphere; in one instance a new village administration had been set up specifically to take over the running of the social sphere (Case Study No. 8).

102. In many cases, some assets had been transferred to the local administration. The nature and extent of this transfer was related to the extent to which the previous organization was in the process of becoming substantially restructured, in other words restructuring into two or more new enterprises. Where reorganization did not involve the disappearance of a strong or central enterprise, it was possible for it to retain responsibility for some of the social assets.

103. In Saratov and Rostov, managers of reorganizing enterprises had enormous difficulties negotiating with local administrations over a long period of time before they could be persuaded to take over responsibility.

104. Often the nursery which had been on the balance sheet of the former sovkhov/kolkhoz was the only asset to be transferred to the village administration. Reasons for this include:

- other social sphere amenities except the nursery had been transferred to the local administration some time in the past and the transfer of the nursery was then necessitated by the demise of the sovkhov/kolkhoz;
- the ease with which the village administration could acquire adequate support for the nursery from the raion and/or oblast budget; or
- wages for nursery workers were higher in administration-run nurseries than in sovkhov/kolkhoz-run nurseries.

105. Where none of the social sphere had been transferred to the village administration, they were either still on the balance sheet of a central enterprise or had essentially fallen outside of any sphere of responsibility. At one end of the spectrum, one strong kolkhoz insisted on the

importance of retaining all social amenities “because they are ours, we built them and are not prepared to give them away” (Case Study No. 2). In contrast, in another case where the village administration had initially refused to take on any responsibilities without guaranteed funding from raion or oblast, the nursery had remained closed for a year (Case Study No. 37).

The Divisible Fund

106. In accordance with federal law, the book value of the property in the divisible fund was divided into unequal property entitlements. The individual entitlement was adjudicated on the basis of a coefficient which was the product either of salary and length of service or of salary over the last “n” number of years (ranging from 5 to 25). In the latter case the coefficient was sometimes adjusted for pensioners in order to compensate for recent wage inflation. In other cases no coefficient was applied and the resulting adjudication was thought to be inequitable. The complexity of the process had two results:

- the actual calculation of property entitlements was not understood by most recipients, but
- there was little conflict about the size of property entitlements as a result of the opacity of the process.

107. Table 6 shows the percentage of cases in which property entitlements were distributed to workers, pensioners and social sphere workers.

Table 6. - Distribution of Property Entitlements

Category	%
Workers	94
Pensioners	88
Social Sphere Workers	48

108. Withholding property entitlements from social sphere workers is allowed under Regulation No. 708 at the discretion of the General Meeting of the Collective.

Allocation of Property

109. The allocation of divisible property was invariably undertaken after the allocation of land. Property was usually allocated to new enterprises by mutual agreement, in accordance with the perceived needs of the new enterprises for specific immovable assets and for specific pieces of machinery and equipment, livestock and consumables. The main criteria in the allocation of

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property were land holdings and intended economic activity. Sometimes assets had been distributed by a designated specialist (the agronomist in Case Study No. 24). Conflicts over the distribution of physical property were reported as were accusations that the “best machinery and equipment had been taken by others” (Case Study No. 37.4).

110. There were a few instances where single assets were allocated by lottery. In one case the items were in great demand, while in another, the lottery was adopted because of no demand for the assets (Case Study Nos. 32 and 24 respectively).

111. Where the distribution of debts had reduced the monetary value of property entitlements to less than the book value of assets, some assets remained unallocated (Case Study No. 27). Sales of property entitlements were few (Case Study Nos. 8, 20, and 26), and of varying significance. In the first two cases, dealing in entitlements was active. In the latter case, pensioners' entitlements had been sold because they lived too far away to benefit from the services offered in lieu of cash dividends. In many cases property was said to have been “given” to enterprises or to the named leaders of enterprises.

Dividends

112. Where reorganization had been initiated before the adjudication of land and property entitlements, property entitlements are not relevant to the allocation of concrete assets but only to the subsequent distribution of dividends (Case Study Nos. 26 and 32). These cases of reorganization before the adjudication of entitlements tend to have been enterprises which were in severe difficulties.

113. The current cost/price squeeze makes the payment of cash dividends virtually impossible for many reorganized enterprises, especially in northwestern regions. In these cases, some form of compensation is distributed in kind to entitlement-holders, although these do not reflect differences in the value of property entitlements invested in the enterprise. The proportion of profits distributed as dividends varies from 20% (Case Study No. 7) to 49% (Case Study No. 2). Interestingly, the former is an Association of Peasant Farmers while the latter chose to retain the status of kolkhoz. This indicates the impossibility of predicting behavior from the nature of the enterprise although distributing profits as dividends and paying lower wages is a means of incurring lower social security payments.

V
Restructuring Outcomes

A - Classification of Case Studies

114. The data assembled in the 83 case studies and 25 sub-case studies as a result of the Consultants' fieldwork present a picture of great diversity. The case studies are difficult to classify in a way which is helpful to an understanding of the factors which lead to "successful" restructuring in terms of processes or outcomes. In other words no key indicators of success came to light which suggest that one process or outcome, or combination of processes or outcomes, is pre-eminently suitable for adoption as a model. The classification presented in Table 7 is broad-based and designed only as a guide to the case studies discussed in this report and presented in the Appendix volume.

A. Sovkhoz/Kolkhoz with little or no perceptible change.

115. All of these - except Case Study No 40 which is a Sovkhoz Teknikum and therefore legally exempt from privatization - have restructured mostly into Joint Stock Companies (AO) or Limited Liability Partnerships (TOO) with adjudicated land and property entitlements. Field visits revealed that so far their change of juridical status had made little difference to the way they are managed with respect to labor relations, responsiveness to market conditions or change in internal organization.

B. Sovkhoz/Kolkhoz with major internal changes.

116. The juridical statutes adopted by this category are similar to Category A, although Case Study 15, remains a state-owned cattle breeding farm. The difference is, that due to entrepreneurial and participative management or pressure on management by worker/shareholders, substantial changes have taken place. Workers have a perceptible sense of ownership, management is enlightened, the enterprise is responding to the market (e.g., installing on-farm processing facilities), and surplus labor is being shed (mostly by natural wastage). These enterprises are likely to have better prospects than Category A.

117. Categories A and B account for possibly 90% of former sovkhoz/kolkhoz. They are likely to have independent (peasant) farms and associations around their fringes as illustrated by Figure 3.

C. Sovkhoz restructured into a number of AOs or Cooperatives.

118. These are mostly special cases, such as subsidiary farms of industrial enterprises, or farms that have gone part of the way towards Category D.

D. Sovkhoz/kolkhoz restructured into various types of smaller units with or without head association.

119. Most farms in Category D have undergone a systematic process of allocation of land and property and division into smaller units (classified under Categories E and G below) in accordance with the regulations. They include some outstanding examples of practices and actions sensitive to market forces (Case Study Nos. 12 and 42). Most have set up a head association to manage indivisible economic assets (such as grain storage and processing), and are owned and controlled by the smaller units in various ways. A few felt or feel no need for a head association. In such cases, indivisible assets were allocated or leased to another small association.

E. Associations of Peasant Farmers formed as part of restructuring sovkhoz/kolkhoz.

120. Category E covers a very wide range of farm sizes (200 hectares to 2,000 hectares) and several juridical forms, arising from the process of organized but voluntary restructuring of Category D. It includes informal and formal partnerships and associations of individual (peasant) farms. Membership frequently includes both workers and non-workers such as pensioners and social sphere workers who contribute their land and property only. In other cases membership is confined to active workers, and land and property is leased from others. The number of members varies from three or four to 90.

121. The nuclei for this category have been production brigades, and groups of friends, neighbors or relatives who agreed to work together, pooling their land, labor and property entitlements to perceived commercial advantage.

122. Some appear well-managed and successful as evidenced by members having invested in houses, vehicles and machinery; others, particularly specialist livestock units are struggling. There is an on-going process of joining and splitting with the strongest becoming larger.

F. Associations of Peasant Farmers formed by farmers who left sovkhoz/kolkhoz.

123. These are identical to Category E except that they were formed by farmers who left the sovkhoz/kolkhoz which (at the time) had not undergone radical restructuring, and simultaneously or subsequently joined together for economic advantage.

G. Individual (Peasant) Farms.

124. These vary in size from about 25 hectares to 250 hectares and occur both on and off restructured sovkhoz/kolkhoz. Farms were put together by pooling family land entitlements and allocations of land from the raion and/or leasing in various ways from pensioners and social sphere workers.

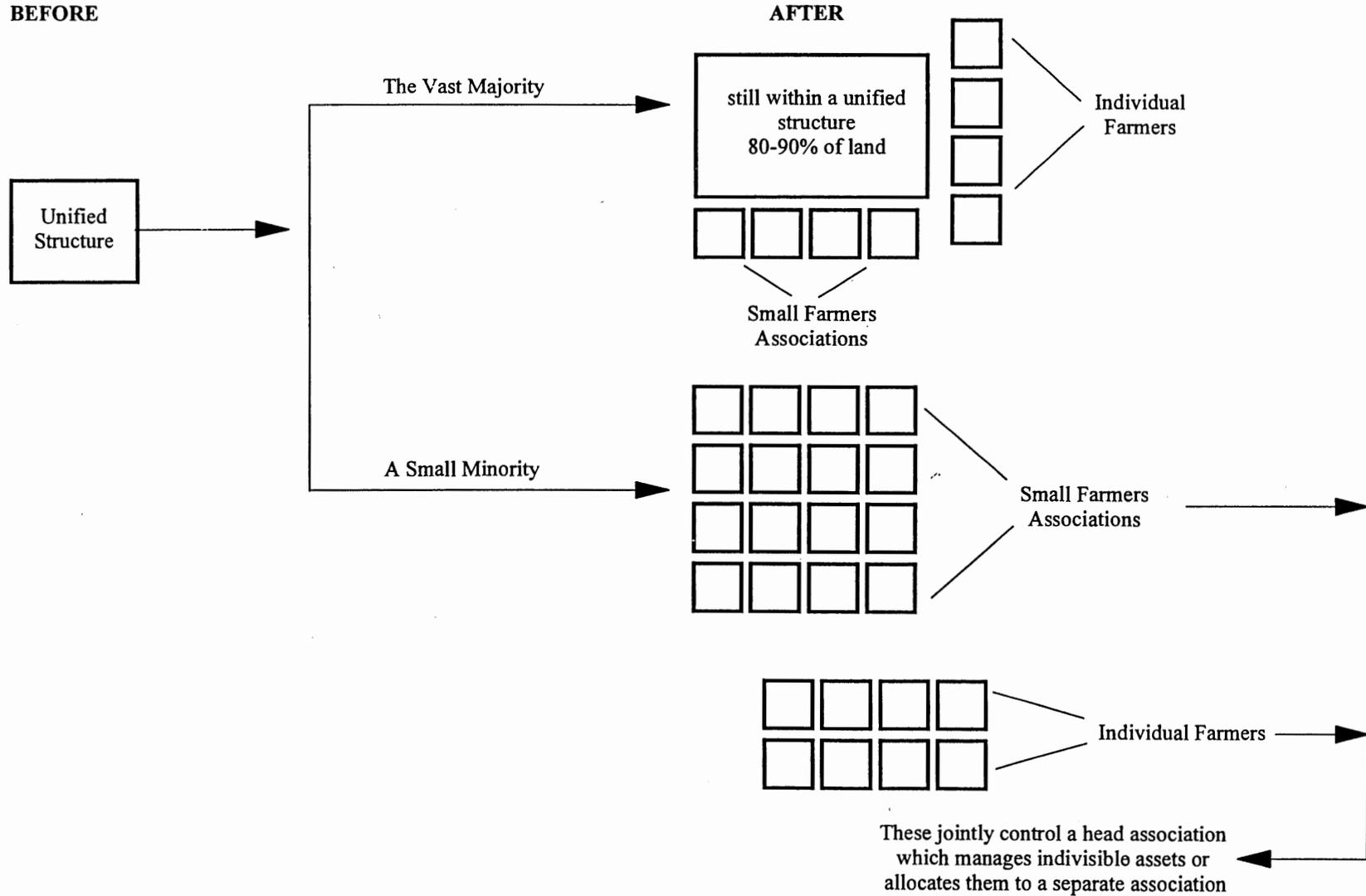
125. Table 7 identifies the category of each case study, while Figure 3 is a simplified illustration of typical outcomes of reorganization.

Table 7. - Classification of Case Studies

Category	Case Study Numbers
A Sovkhoz/Kolkhoz with little or no perceptible change	1, 3b, 6, 7, 17, 20, 22, 28, 40, 52, 55
B Sovkhoz/Kolkhoz, with major internal changes	2, 15, 27, 38, 38, 1
C Sovkhoz restructured into a number of AOs or Coops	29, 39, 39.3, 39.4, 32, 36
D Sovkhoz/Kolkhoz, restructured into various types of smaller units with or without head associations	8, 11, 12, 13, 14, 16, 24, 26, 36, 37, 41, 42
E Private Farmers Associations formed as part of restructuring sovkhov/kolkhoz	8.1, 8.2, 8.3, 8.4, 11.1, 11.2, 11.3, 12.1, 12.3, 12.4, 12.5, 13.1, 13.3, 13.4, 14.1, 14.2, 14.3, 14.4, 14.5, 36.1, 36.2, 36.3, 37.1, 37.2, 37.3, 37.4, 40.1, 40.2, 41.1, 41.2, 53
F Private Farmers Associations formed by farmers who left sovkhov/kolkhoz	3, 18, 19, 31.1, 39.1, 39.2, 43, 46, 47, 49, 50
G Individual (Peasant) Farms	1.1, 3.1, 4, 5, 9, 10, 12.2, 13.2, 25, 40, 48, 51, 54

Figure 3

Diagrammatic Illustration of Restructuring of Sovkhoz/Kolkhoz

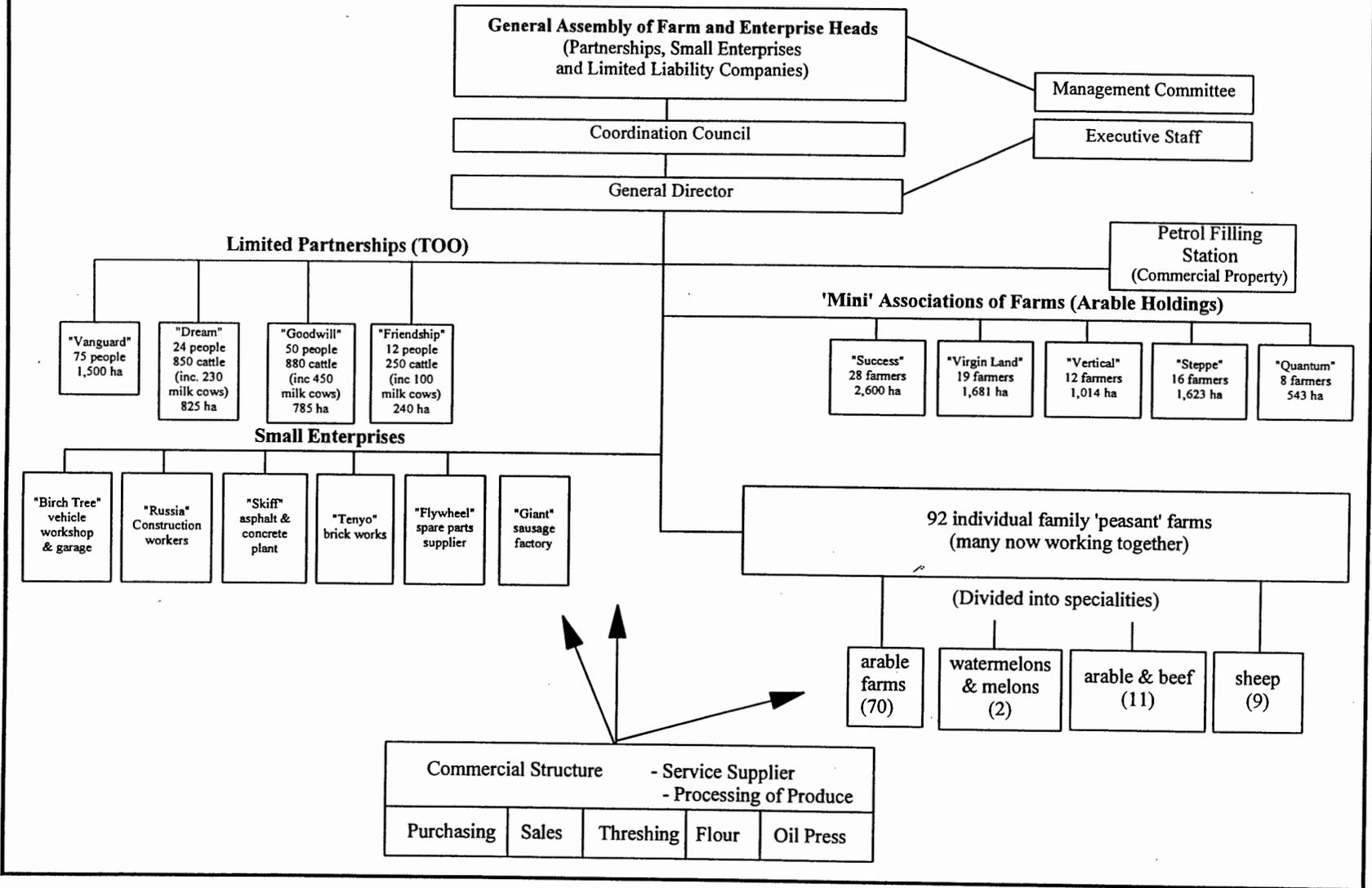


B - Structural Outcomes

126. A wide variety of enterprises has emerged from the reorganization of former sovkhoz and kolkhoz, which are now trading under one or other of the juridical structures prescribed by law (see Annex 3). The breakdown of enterprises in Table 8, based on the juridical status adopted (there is no simple correlation with the Consultants classification), does not reflect the distribution of such enterprises throughout the agricultural sector as a whole, because former sovkhoz/kolkhoz which have been reorganized into single, large AOs, TOOs, or agricultural cooperatives were largely deliberately excluded from the sample, although they represent the majority.

127. The diverse nature of the structures and trading relationships which can emerge from a single sovkhoz or kolkhoz is illustrated by Figure 4. The example drawn from Rostov oblast is a particularly good example of a pre-planned split, negotiated by agreement.

Figure 4
Trud Organizational Structure



Individual (Peasant) Farms

128. Twenty three individual (peasant) farmers (Category G) were interviewed by the Consultants individually or in groups. They have acquired land in one or a combination of three ways:

- as private property from sovkhoz/kolkhoz;
- as private property from the raion redistribution fund or the raion reserve fund; or
- leased from raion or village reserve or redistribution funds.

129. In some cases, former workers had severe difficulties in acquiring land from the sovkhoz/kolkhoz, but all individual (peasant) farmers interviewed had eventually managed to obtain land from one or other source. They were often allocated land on the fringes of sovkhoz/kolkhoz, and some complained that they had received the worst land, in dispersed plots, or located far from settlements, roads, and other amenities.

130. Movable and immovable property necessary to farm have been acquired in the following ways:

- property entitlements, realized in kind, and allocated by the management of the sovkhoz/kolkhoz from which the individual (peasant) farmer has withdrawn; and/or
- purchased using personal capital, the cash value of property entitlement, or credit raised independently.

131. There were reports of aspiring private farmers having received neither property nor cash compensation from the sovkhoz/kolkhoz. Some had resorted to personal capital and bank loans in order to acquire necessary machinery and equipment.

132. The degree of success of most individual (peasant) farms is closely related to the timing of their creation. Those who had started in 1991-1992 have benefited from preferential interest rates of 8% to 28% guaranteed by AKKOR and from the effects of inflation on the value of assets bought previously. Those who are now debt free stand in stark contrast to most later participants whose entrepreneurial aspirations are being strangled by interest rates of 213%.

133. One of the most significant advantages of managing a small, privately owned enterprise is the potential for diversification in response to market forces. On the one hand there are a number of good examples of this (Case Study Nos. 4, 33, and 36.3). On the other hand, the need for the "commercial" activities of individual (peasant) farmers to be licensed (a laborious bureaucratic process) and anomalies in the tax regime imposed by local authorities are together undermining the ability of these farms to be flexible and responsive to markets (Case Study No. 25.1).

134. Many farmers who started alone are beginning to group together in formal or informal associations (Category F) in response to difficulties of operating alone in the current economic

climate for agriculture. These associations permit more effective use of resources while retaining a large degree of autonomy.

Collective Outcomes

135. Table 8 shows the distribution of types of juridical structure (other than individual (peasant) farms) which emerged in the case studies.

Table 8.
% Distribution of Agricultural Enterprises by Type of Juridical Structure (Excludes Individual Peasant Farms)

Type of Enterprise	%
Association of Peasant Farmers	41
TOO	18
AOZ	14
AOO	12
Agricultural Cooperatives	5
TO	2
Association of Agricultural Cooperatives	2
Union of Collective Entrepreneurs	2
TOZ	1
Kolkhoz	1
Sovkhoz	1
Agrofirm	1
Total	100

136. With the exception of individual (peasant) farms and small associations, the Consultants found little correlation between juridical structure and the quality and depth of real socio-economic change. A lack of understanding of the characteristics of different types of organization is one reason and the disjunction between the formal and practical aspects of organization is another. For example, while some Associations of Peasant Farmers are virtually unreconstructed kolkhoz (Case Study Nos. 7, and 28), others are excellent examples of people exploiting new opportunities (Case Study Nos. 8, 43, and 44). Yet, there are further distinctions between, for example, Case Study No. 7 and Case Study No. 28; the former retains a purely rhetorical commitment to collective endeavor, the latter was impressive for its sense of cooperation and mutual responsibility.

137. Enterprises in Category B which had chosen to retain the status of kolkhoz (Case Study No. 2), are engaged in considerable market-oriented economic activity, investing in processing facilities and receiving substantial dividends on their investments. Another "unreconstructed" Category B

enterprise was clearly responding to market forces by reducing the workforce, setting up processing facilities and seeking new markets (Case Study No. 15).

138. There is no simple causal relationship between juridical status and extent of reorganization. Associations of Peasant Farmers tend to be the form preferred by the more progressive farmers. Good examples are entrepreneurial, flexible and increasingly diversified, while retaining the benefits of cooperation, labor sharing, and effective use of scarce machinery and equipment. Where membership of the association is wholly voluntary, and based on the satisfaction of mutual interests, there is considerable scope for achieving a flexible balance between independence and cooperation (Case Study Nos. 8 to 8.4).

Table 9.
Shareholders

Shareholder Type	%
Workers	56
Pensioners	44
Total	100

139. In most cases, it was difficult to ascertain the distinction between founder members/shareholders and simple shareholders. Usually this was interpreted as the distinction between workers and pensioners with voting rights attributed to all shareholders or to workers only.

140. The average number of shareholders on reorganized agricultural enterprises is 373, which masks a range from less than 5 to 3,500.

Management

141. Reorganization results in changes in ownership of land and property and the ability to adopt a variety of structures in the attempt to increase profitability. One of the most critical elements both of reorganization and of profitability is management. "Private ownership of the means of production" is sometimes assumed to be a critical aspect of improved motivation and increased productivity. In practice, management structures of new enterprises are not directly affected by the specific juridical form (AO, TOO, Union of Cooperative Entrepreneurs, etc.), although Associations of Peasant Farmers are sometimes genuinely voluntary associations where all members participate in group decision making processes.

142. The role of the director remains crucial, but is sometimes complemented by an elected management council, committee or other form of control of executive power. However the presence of a management council or committee is not necessarily a reliable indicator of the extent of member/shareholder control. As was the case for pre-privatization management, "rubber-stamping" decisions "suggested" by a strong director is not uncommon (Case Study No. 36.3). In some cases however, an elected management council exercises genuine control over the decision-making powers of the director (Case Study Nos. 11 and 26).

143. General meetings of members/shareholders are another mechanism for exercising democratic control of management. The frequency of general meetings of members/ shareholders is only a general indicator of their involvement in decision making, and may be simply opportunities for "rubber stamping" the decisions of the director. A few cases were found where general meetings were consulted for specific decisions (Case Study Nos. 8 to 8.4, 26, and 28). In the worst cases there had been no meetings of shareholders for more than a year (Case Study Nos. 24 and 36.2).

144. Where they are not involved in decision-making, workers continue to feel more like employees than shareholders. Where cash flow problems create delays in wage payments, "employees" are more likely to cease working, while "shareholders" are more likely to try to find solutions. Drawing worker/members into the management process increases a sense of responsibility and reduces the problems of labor discipline. This was evident where workers continued to work in spite of delays in wage payments (Case Study Nos. 26 and 28).

145. The personality and management style of the director are critical to the development of viable enterprises. Very often the former director of the sovkhos/kolkhoz continues to manage either the reorganized enterprise, or one of the newly formed enterprises. If more than one enterprise has emerged from a former sovkhos/kolkhoz, these are very often managed by former specialists (chief economists, agronomists, engineers). Management styles vary from dictatorial to consensual. Although, strong, top down management is highly valued by some rural people, the Consultants found that a more consensual approach was better geared to market conditions. There are some excellent examples of what can be achieved by high quality "top down" management (Case Study Nos. 2 and 36.3), but dependence on the personality of the director can mean that his departure or death means the disintegration of the enterprise (Case Study No. 27).

146. In other cases, more participative management is enabling economically weak enterprises to maintain a degree of cohesion and mutual support that was highly valued by members (Case Study Nos. 6 and 28).

147. In a few cases, there was either extremely poor management or no management at all. In one case, a weak former sovkhos had split into six AOs which were being managed by inexperienced workers. All were in extreme difficulties (Case Study No. 32). In another case the management had virtually abandoned the new enterprise, finding a source of income in the town. The Consultants were told that "there was no one else who could manage the enterprise anyway" (Case Study No. 36.2). In the former case, the economic weakness of the former sovkhos was explicitly blamed on years of inadequate management and the subsequent loss of specialists. This weakness had simply been transferred to the smaller, newly established AOs. In Pskov, up to 70% of farm directors had left since reorganization.

148. Some of the most successfully managed examples of reorganized agricultural enterprises are the Associations of Peasant Farmers (Category E), although there are significant exceptions (Case Study No. 7). The independence of the individual (peasant) farm in terms of land ownership of a sometimes demarcated plot, combined with sole and independent responsibility for ones livelihood, creates a strong basis for participation in management. Where membership of such associations has been voluntary or based on freely made assessments of individual or group interests, the resulting structure reflects the strong motivations of the members for the pursuit of common interests. Even where an entire kolkhoz had been transformed into an Association of Peasant Farmers in order to continue to operate "as a collective", there was a notable sense of mutual responsibility (Case Study No. 28). Other examples were found in Rostov (Case Study Nos. 11, 13, 14, 15, and 16) and in Stavropol (Case Study Nos. 8 to 8.4).

C - Economic and Social Outcomes

Arable Production and Markets

149. There are major differences in arable production and yields between zones of good natural and climatic resources and less favorable zones. Production has either remained fairly constant (especially in black earth zones) or fallen. In a very few cases private farmers have managed to increase yields progressively by good husbandry and use of new varieties. Reasons for reduced production include:

- inability to finance purchases of fuel for cultivations and harvest at the right time due to poor cash flow;
- reduced or often zero inputs of fertilizer and other agro-chemicals;
- the decreasing efficiency of worn out machinery and equipment; and/or
- abandonment of irrigation.

150. Current interest rates and the increasing disparity between costs of fuel, electricity and manufactured goods on the one hand and agricultural output prices on the other, are major causes of these problems. Most of the reorganized large-scale farms have not replaced any machinery in the last three years. Where loans had been incurred for the acquisition of machinery and equipment, this was not based on sound financial management (Case Study No. 36.2). Much time is spent searching for spare parts and cannibalizing machinery. However most new enterprises are reasonably self-sufficient in mechanical repair skills or have retained access to central repair facilities.

151. Decreasing demand and inefficient markets are also causing drops in production. Demand has fallen as consumers' purchasing power has been reduced, and rural consumers produce for themselves more of their household needs. The widespread practice of paying wages in kind, often in grain, potatoes or forage, further reduces local demand. Reduction in livestock numbers has resulted in reduced demand for feed grain, and silos in Saratov, Rostov and Stavropol were said to have large stocks.

152. Market inefficiency is related to the continued existence of monopoly suppliers and buyers. Local monopoly suppliers charge prices higher than competitive markets would allow, and there is no effective distribution system. Vehicles, agricultural machinery and processing equipment is poorly designed and manufactured, so crop losses and fuel consumption are high, and machinery life is short. Large, overweight machines cause serious soil compaction.

153. State-controlled buyers, especially of grain, only privatized in 1994, have either not paid in full for deliveries of the 1993 crop, or have paid up to six months late. There was some distinction between individual (peasant) farmers and other forms of organization. In the south, most individual (peasant) farmers had been paid for their 1993 grain harvest, but it was clear that this could not be expected again. With high inflation, this drastically reduces the value of cash payments, causing severe cash flow problems, and driving farms into debt. Alternatively, managers stop paying any wages/dividends in cash.

154. State orders, especially for grain, are no longer issued and producers will have to find their own markets. Local purchasers raise the farm gate to wholesale price by a factor of three or four, driving up consumer prices and restricting farm incomes and cashflow. Imports of foreign grain and other commodities were also cited as a reason for problems with marketing; this was apparently linked to corruption, with credits extended to grain processing plants if they accepted imported grain or wool.

Livestock Production and Markets

155. In all regions visited, large-scale livestock production has declined steeply, except in a few cases where managers had decided to try to ride out present difficulties and await a change in the market. To some extent this is off-set by the number of livestock in private hands. The falling numbers and productivity of livestock is directly related to profitability in this sub-sector. The effects are particularly serious in the northern regions (Tver and Pskov), where agricultural production is livestock based. Processors of meat and milk fix the price for deliveries, and frequently fail to pay on time, or insist on paying in kind. In one instance the processing plant would only accept deliveries of milk, if suppliers agreed to be paid in butter (Case Study No. 36.2).

156. According to respondents, marketing problems are due to reduced demand for meat and milk products, and to local self-sufficiency in many rural households, which have their own cattle and pigs. Other reasons cited include unfair competition from cheap imports. In Tver, local butter was 200 rubles per kilo more expensive than imported New Zealand butter (which is not subsidized). Locals assume that imported butter is "humanitarian aid" and would like to stop such imports. Imported wool from Australia is competing on price and quality with production from southern Russia. The demand for sheep meat has also fallen.

157. Farmgate prices of milk varied considerably and were supported by oblast subsidies. In Tver, the frequently cited cost of producing a liter of milk was 600 rubles, with a farm gate price of about 220 rubles per liter including subsidies. Although the figure for production costs needs to be treated with caution, they indicate local perceptions of the extent of price disparities. Productivity of livestock is also falling due to the high cost of purchased feed resulting in inadequate nutrition. Annual milk yields were less than 1,000 liters per cow in some areas.

158. As large areas in the northwest are almost wholly dedicated to cattle production, and sheep are important in the northwest areas of southern Russia, the seriousness of the situation can not be over-emphasized. Some of the new enterprises which have emerged from reorganized

sovkhoz/kolkhoz are now wholly dependent on livestock production and their chances of survival are slim. There are also gender issues involved as many women are employed in livestock production, particularly dairying.

159. Decreases in production and productivity are often blamed on reorganization as the freeing of markets and reduction in subsidies have been introduced simultaneously.

Profitability

160. Profitability could not be gauged quantitatively because:

- many transactions are made on a barter basis;
- input and output quantities and relationships are distorted by lack of finance;
- the Russian farm accounting system does not lend itself to farm budget or gross margin analysis.

161. Almost all agricultural enterprises are facing extreme difficulties. There is little direct linkage between profitability and size, type of ownership (private or collective share) or juridical structure. In each category, there are survivors and casualties, depending primarily on the quality of management.

162. Individual (peasant) farms and small associations are tending to fare better than their larger, collective counterparts for the following reasons:

- They have greater flexibility to reduce unprofitable production (to subsistence levels if necessary), to feed unsold grain to livestock, to diversify, or to add value (e.g., small bakeries);
- They employ minimum labor and exclude heavy drinkers and "idlers", whereas many of the larger enterprises continue to be overmanned;
- Workers are often better motivated and prepared to work longer hours when necessary; and
- They have accumulated less debt, not being forced to borrow to pay wages or to support the social sphere.

Labor

163. Problems with “labor discipline” are frequently cited as one of the major motivations behind current reforms. The Consultants found that private ownership and control of the means of production are an important factor in labor productivity, but are by no means the only factors. Almost all individual (peasant) farmers and members of small farmers associations reported increases in labor productivity: a willingness to work long hours when necessary and reap the benefits of “going fishing”, instead of pretending to work, when there is nothing that needs doing. Even an employee of a private farmer expressed a preference for working for a private farmer because of the more rational use of his time and energy (Case Study No. 4).

164. However, the link between the form of ownership and organization and labor productivity is not a simple causal one. Where single entities had been transformed into Associations of Peasant Farmers, two trends were observed. Where good labor productivity and management/labor relations had already been established on the former sovkhov/kolkhoz, these were still in evidence in the Association(s) of Peasant Farmers that emerged (Case Study Nos. 8 to 8.4 and 28). However, in some Associations of Peasant Farmers, labor productivity was reported to be as poor after reorganization as it had been before (Case Study No. 7).

165. There was also a positive relationship between reported labor discipline and productivity and the sense of community and mutual responsibility where it had been maintained on a sovkhov/kolkhoz. Labor discipline and productivity was reportedly good on an example of a former kolkhoz (Case Study Nos. 2 and 30), in an Association of Peasant Farmers which was in reality a wholly-collective enterprise (Case Study No. 28), in a struggling TOO (Case Study No. 26), and in the Associations of Peasant Farmers engaged in genuinely re-structured activities (Case Studies Nos. 8 to 8.4). The critical factor remains the quality of management of a given enterprise.

166. Many large reorganized enterprises report worsening labor discipline and productivity. Main reasons include the traditional ones of alienation, lack of stimuli and sanctions, and alcoholism. Post-reorganization, deteriorating labor discipline and productivity are also rational responses to:

- reduction in the real value of wages;
- excessive delays of several months in the payment of wages;
- non-payment of wages altogether; and
- payment of wages in kind.

167. As local populations believe that these problems are associated with reorganization, they conclude that worsening labor discipline is due to reorganization.

168. Generally agricultural wages have not kept pace with wages in other sectors and wages of local social sphere workers are often cited as examples. Delays and non-payments of wages are

common in all areas. Payment of wages in kind is widespread, both in response to cash flow difficulties and in order to avoid the heavy taxation that is added to the cost of net wages.

169. The reduction in the value of wages increases the time and attention given to individual subsidiary farming activities. This has a number of results including:

- further reduction in local demand for agricultural produce; and
- the establishment of a measure of food security for agricultural workers.

170. The notion of labor productivity as an indicator of overall efficiency should be treated with caution. Although low labor productivity in Russian agriculture is well-documented, when wages are generally low, it is of little economic significance whether many people are paid little or few people are paid well.

171. There is an inherent conflict of interests between shareholders and workers. Shareholders look for increased profits (including reduction of the workforce), while workers need continued employment. As the identity of shareholders and workers coincides in most reorganized collectives, it is unlikely that this contradiction will be resolved in the near future: agricultural workers generally identify more easily with their interests as workers than with their interests as shareholders. Maintaining current levels of employment also reduces the dangers presented by the alternative. All managers of rural enterprises recognize the inherent dangers of a large, unemployed rural underclass. Mitigating the threat of theft and vandalism by maintaining employment was said to be the lesser of two evils.

172. At present there is little official rural unemployment as a result of reorganization. Much hidden unemployment or underemployment remains, and the potential for future rural unemployment is enormous. Of those who had lost employment as a result of reorganization, the vast majority are “the heavy drinkers and others with a bad attitude to work”.

Attitudes

173. Attitudes to the results of reorganization tend to vary with the economic fortunes of the enterprise. Individual (peasant) farmers who started early, benefiting from preferential interest rates and which are currently well-equipped and debt free, are the most positive. Similarly members of genuine Associations of Peasant Farmers appreciate the independence and flexibility of their new status. Some of the members of larger, privatized enterprises are also positive towards reorganization of ownership, care and control of rural resources, but feel betrayed because expected benefits are being eroded by the inequities of the current climate for agriculture. However most of the rural population do not understand the distinction between macro-economic factors and “reorganization”. They believe that current economic difficulties are caused by reorganization because they have occurred more or less simultaneously.

174. The more vulnerable, less educated or less qualified older generation are generally more confused and conservative than their younger, better educated counterparts. Pensioners are often nostalgic for earlier times, when economic security was assured. Many people of all social categories are extremely worried about their livelihoods and their prospects for the future. Almost without exception, rural people are angry as one agricultural reform after another is imposed, and each reform is appears to result in worsening local conditions. The overwhelming message was one of anger and frustration with official policies, perceived to be based, not on practical knowledge of local conditions but on political considerations.

Social Consequences

175. Assessment of the social consequences of reorganization is difficult, as reliable figures on socio-economic indices are not available. It is reported that life expectancy is decreasing, and morbidity increasing. Alcoholism is an increasingly serious problem, with very many men suffering from alcohol abuse. There are inadequate facilities for treating alcoholics, and many are facing unemployment. In a single case, alcoholics were offered the choice between unemployment and accepting 50,000 rubles for treatment (Case Study No. 28). There are worries about allowing the sale of land as "alcoholics will sell their family's land for a bottle of vodka".

176. Although pensioners are worried about the effects of reorganization on their access to free/cheap goods and services formerly provided by the sovkhoz/kolkhoz, their position is not necessarily a cause for concern. In most cases, informal services were still off to pensioners as "rent" or as "dividends". Although there is an argument that these services do not reflect the "market value" of land or property entitlements, pensioners are themselves more interested in the continued supply of these goods and services. In the current cost/price squeeze, non-payment of cash dividends is universal and not specifically related to pensioners' lesser bargaining power. Further, pensions are paid out of the federal budget and are received regularly. Often pensioners are better off in cash terms than working people. As the pension and benefits system is not means tested, some pensioners actually fare quite well receiving a number of statutory benefits.

177. The most serious aspect of reorganization as far as children are concerned is the danger of closing nurseries. In one instance, the nursery had been closed for a year post-reorganization, and had only recently re-opened after lengthy negotiations with the raion. (Case Study No. 37). In a related case, reorganization had been motivated by a desire to control the use of profits to provide local services including a nursery. The lack of profits had made this impossible and children as young as two were being left unattended while their mothers went to work (Case Study No. 36.2). Nurseries and local schools are often the only source of adequate nutrition for the children of particularly problematic families. For the time being, most local reorganized enterprises continue to provide goods and services including foodstuffs to local schools and nurseries either for free or at farmgate process. This is done out of good will and the recognition that it is their children who benefit. Further economic pressure on reorganized enterprises may, however, cause changes which would be detrimental in the absence of adequately funded local administration support.

VI

Conclusions and Recommendations

A - Motivations for Change

Management and Workforce

178. Directors/chairmen and senior staff of the former sovkhos/kolkhos have been the decisive influence in the initiation, processes and outcomes of reorganization, sometimes negatively, sometimes positively. The change in accountability of managers from state to workforce (and pensioners) is fundamental although not always immediately apparent. As economic pressures mount, time may prove that concerns about the ability of managers to resist reform and sustain a soviet structure without the consent of the new owners of agriculture's capital, are ill-founded.

179. The most successful examples of organized restructuring, which include enterprises which have maintained a collective form, were seen on what had been large and well-managed sovkhos and kolkhos. Enlightened managers had usually taken the trouble to visit and learn from the experience of other reorganized farms, held prior discussions with all participants-to-be and were fully committed to and involved in the process. In contrast, poorly managed sovkhos and kolkhos had often lost their more dynamic senior staff and workers before engaging in restructuring.

180. Seven decades of communism have instilled a collective mentality in workers, many of whom lack the inclination to work independently and administer their own assets. Sense of ownership is not yet a driving force for the majority and on many of the enterprises which have emerged under one of the collective or corporate forms, workers have little sense of being self-employed and little change in attitudes to work. There are notable exceptions on some large units, with a strong correlation between past success and present performance, invariably due to the existence and retention on the farm of enlightened and skilled management with the ability to motivate.

Officials

181. Lack of a coherent policy, weaknesses in the legal framework, and the growing autonomy of oblasts vis-à-vis the federal government, lead oblast and raion administrations to vary in their interpretation of laws, depending on the extent to which they support or oppose farm reorganization. Oblast administrations may help or hinder the flow of state funds to private farmers, and distort or impede markets and inter-oblast trade.

182. The attitudes of individual officials and administrators at the oblast/krai and raion level also vary, and have influenced both process and outcomes, although inconsistently. In some oblasts, (e.g., Rostov), the Governor is a proponent of restructuring, and there is a supportive section in the Department of Agriculture. In Pskov, the Department of Agriculture is also supportive. In Saratov

officials in one raion took the initiative to promote the break up of a sovkhos because they thought losses would thereby be reduced.

183. Cases were found where those determined to restructure their farms faced entrenched administrative resistance and had to appeal to Moscow for support. There were good examples where this persistence paid off.

Recommendation

184. **Local attitudes should be carefully weighed before selecting a project area for donor-assisted farm reorganization.**

B - Current Prospects for Reorganization

185. In the present economic environment, most of the motivations for reorganization identified in the case studies have ceased to apply. On larger collective/corporate farms, people see little or no immediate possibility of profitable farming, either collectively or individually. Motivation can be expected to increase only when the economic situation improves and there are prospects of returns becoming commensurate with risk.

186. Between 25% and 40% of reorganized enterprises in the regions visited are expected to be technically bankrupt by the end of 1994. Failure to replace equipment over the last three years means that there are few assets to be distributed to shareholders. Property entitlements will be small or negative if debts are offset against assets. Without medium term credit at reasonable rates of interest, agricultural producers can not buy equipment or finance operations. In the worst case scenarios, the enterprises will experience complete collapse, with land distributed to shareholders and a reversion to subsistence farming. The threat is greater in northwestern regions which depend on livestock production and where large areas of arable land may be abandoned.

Conclusion

187. The trigger for further reorganization is likely to be the bankruptcy of many large collective enterprises. Some individuals will use the opportunity take their land and asset entitlements and start private farms or associations while others will resort to semi-subsistence farming. **In the immediate future, voluntary reorganization is unlikely to take place on a mass scale and prescriptive change would be strongly resisted.**

C - Public Information

188. Rural people are often conservative and wary of change, the more so in times of hardship and uncertainty. Information and advice are keys to developing trust and a consensus for change and for equipping participants to make rational choices on issues which materially affect their future. The case studies show that the dissemination of information about agricultural reforms has been patchy and to some extent countered by vigorous and occasionally unscrupulous opposition. AKKOR representatives complain that the media have tended to be reactionary and AKKOR has responded by publishing its own newspapers.

189. There is a pressing need to provide unbiased information to participants before, during and after reorganization. The right decisions are most likely to be made by well-informed people. No single institution, in any of the oblasts in the study, has the capacity to deliver comprehensive information and advice across the range of law, taxation, land relationships, farm business planning, management, accounting, and financial management.

190. The Department of Agriculture is represented in every raion but it has little or no experience or resources to deliver services to private farmers. AKKOR has the right orientation to private farmers, but limited manpower, and the caliber of AKKOR personnel in the raions is highly variable. Some regional institutes have useful capacities, but they generally tend to be too specialized and academic.

Recommendation

191. New, practical, advisory capacities need to be developed, drawing on existing resources (including Departments of Agriculture) but clearly within and orientated to the private sector.

D - Reorganization Procedures

Legal Framework

192. The procedures laid down in the enabling legislation for the reorganization of sovkhos and kolkhos, had been more or less followed by intra farm commissions in all of the case studies. Detailed implementation has varied between oblasts, and even between raions within oblasts, particularly in the determination of land and asset entitlements and allocation of land. Consequently, the ease with which an individual (peasant) farm or association of farms, to which the allocation of land and property is crucial, varies widely. The majority of reorganized farms in which land and assets have remained in collective ownership and occupation is not so affected.

Conclusion

193. **A legal and procedural framework exists, it has been extensively applied and is broadly adequate.**

Adjudication of Land Entitlements

194. The principles of adjudicating land entitlements are set out in law and associated regulations. Some ambiguity and lack of detail has led to different local interpretations. In some cases, variations in methodology have resulted in excessively small land allocations and allocation of a large surplus to raion reserves. Some specialized units, treated as exceptions under Regulation 708, could have lent themselves well to privatization.

195. The sovkhos or kolkhos general meeting has been the sole arbiter for the exclusion or inclusion of individuals or groups, (e.g., social sphere workers and pensioners), often on the basis of personal relationships or individual popularity. The lack of impartial adjudication or an effective disputes procedure has created some perceptions of unfairness and consequent social tension.

Conclusions and Recommendations

196. **The adjudication of land entitlements had been completed on all farms visited. While there are exceptional instances of injustice, the results appear to have been accepted by the majority and no purpose would be served by revisiting the adjudication process as part of any current (including the Nizhny Novgorod model) or proposed scheme of reorganization.**

197. **The policy and practice of treating certain categories of specialized farms under Regulation 708 should be reviewed.**

Allocation and Demarcation of Land

198. The case studies suggest that no particular process of land allocation commends itself over another and that there is no correlation between the process adopted and the apparent success or otherwise of the outcome. Home-grown solutions founded on negotiation and agreement are more likely to gain commitment and be understood than imported ones. The "complicated" Nizhny Novgorod "auction" has been widely rejected as an option.

199. Experience suggests that individuals wishing in the future to secede from collective structures may face difficulties in obtaining possession to their own demarcated plot. While a right to withdraw land exists under the law, there are no effective provisions for settling disputes.

Recommendation

200. **Effective procedures for settling land allocation and demarcation disputes should be introduced in order to support individuals' rights to withdraw from collective structures and occupy land to which they are entitled. A cheap, quick and impartial arbitration service possibly serviced by Roskomzyem should be developed.**

Adjudication and Allocation of Property Entitlements

201. As in the case of land, the principles of adjudicating property are enshrined in the law, which has by and large been applied. The coefficients to be used for determining the size of entitlements, particularly in terms of length of service, are not sufficiently well-defined in the law; nor is the definition of those who qualify precise. While the General Meeting has power to arbitrate, it is not necessarily impartial.

202. The practice (also specified in the Nizhny model) is to use book values as the basis for quantifying the property entitlement. This understates value, even when book values have been adjusted by the minimum wage index. No problem exists if asset entitlements are traded internally in the reorganization process, but it has posed a risk in the sale of entitlements by pensioners or others who do not wish to farm and who do not understand the situation clearly. Pensioners, who tend to receive the lion's share of these assets, and others have thus sold entitlements for cash or in kind at an undervalued price resulting in unnecessary hardship.

203. Allocation of property by negotiation and agreement, reflecting grouping of individuals into farming units, had produced satisfactory and equitable results; some examples of injustice were reported where management or other powerful groups had exerted undue influence on the outcome. When management had taken the initiative to split away from a sovkhos or kolkhoz, the better machinery had often gone with them. Conversely, when workers had split away they had been given the worst equipment.

204. **Indivisible Assets/ Farm Buildings.** In Russia, buildings are treated as property and therefore separately from the land on which they stand. If the underlying and adjoining land is not in due course allocated to the new owners with boundaries demarcated, rights of way to buildings and land needed for new buildings and building expansions, are likely to be sources of dispute in the future.

Recommendation

205. **There will be a continuing need to adjudicate and allocate property. The basis for valuing property assets should be reviewed and provision made for an arbitration procedure to settle disputes as to entitlement, value and allocation: (a) in the interests of equity, (b) to create and facilitate a more realistic market environment for property trading, and (c) to enable individuals to continue to separate from collective structures with their fair share of property.**

E - Outcomes**Juridical Forms**

206. The implications of adopting one or other of the juridical forms prescribed by law are not well understood and the choice, which varied widely from case study to case study, was virtually irrelevant to the reorganization process or the outcome in terms of economic prospects or real social change. In many cases it was tax considerations, not considerations of capitalization, risk, distribution of profits, farm business efficiency or accounting practice, which determined the choice.

Collective Structures (Categories A to C)

207. Where reorganization has resulted in continued collective ownership and/or occupation of the former sovkhov and kolkhoz, there has so far been a limited effect on productivity, efficiency in the use of land and other assets, management style or labor motivation but there are notable exceptions which suggest that collective structures should not be summarily abandoned. In the current macro-economic environment, many collective/corporate farms are unprofitable but remain a lynch pin of stability in the countryside. Those most likely to survive were the most successful collectives before reorganization, usually characterized by relatively better resources, a viable mix of production enterprises and effective management.

208. In cases where managers, brigade leaders, senior specialists, and technicians have left to set up on their own, the former sovkhov and kolkhoz have been weakened. In areas close to towns, there has been an exodus of skilled workers to urban employment. A resulting shortage of managers, technical specialists and skilled workers presents an important constraint to agriculture. Efforts to streamline and modernize the agricultural education system, are being supported by some agencies, notably TACIS. The outmigration of the best human capital from the agricultural sector is an unavoidable consequence of the economic depression in the sector; there is no short-term solution.

Division into Smaller Units (Categories D and E)

209. Reorganization into smaller units has had successes and failures. Successes often stem from prior cohesion and motivation within groups of workers, flexibility, and an inheritance of effective management. Failures are tending to stem from specialization and inflexibility to switch to more profitable enterprises (e.g., from dairy to crop production) and an inability or disinclination to shed labor combined with poor management. The division of a sovkhoz or kolkhoz into new units based on former specializations (brigades) is not necessarily the best way forward without a prior and careful assessment of business prospects.

210. **Indivisible Assets.** There are a number of options for owning and managing indivisible, economically useful assets and facilities such as grain stores and workshops following reorganization. Decisions need to be made on a case by case basis. There must be effective management, a fair system for charging for services and the arrangement must be tax-efficient. In the present climate, users will tend to benefit by maintaining a degree of control over management.

Associations of Peasant Farmers and Individual (Peasant) Farms (Categories F and G)

211. Small associations have some chance of survival in the current climate where they can combine the advantages of individual ownership with those of working as a team and employing economies of scale, such as the sharing of equipment and processing facilities. The trend for many individual (peasant) farmers to associate together to gain these advantages is marked.

Management Accounts and Auditing

212. Russian farm accounts are designed as a financial and tax reporting system, which is useless for farm management purposes. Accounting systems should: recognize the business structure adopted, provide essential management information (gross margin and cash flow analysis), and books should be kept in a form capable of being audited to protect the interests of shareholders.

Conclusions and Recommendations

213. **Examples of successes and failures are evident across the spectrum of reorganized enterprises. Good management is a key feature of the successful enterprise. In the near term, further reorganization is likely to result from the collapse and disintegration of the former sovkhoz and kolkhoz which are in the deepest trouble. In the absence of finance for new farm businesses, fragmentation into individual (peasant) farms may be the outcome, but it should not be prescribed or unduly encouraged and this type of farm structure or size should not necessarily be regarded as the most desirable result. The diversity of agroclimate, land resources and farming systems and the capacities and abilities of individuals should enable a**

range of farm size to develop through the operation of market forces, consequently, consideration of any optimum farm size or structure is inappropriate.

214. Farm accounting systems should be developed which reflect the juridical form adopted and needs of farm business management, shareholder protection and a rational taxation system. Accounting and farm business advisory capacities need to be established to deliver services for these purposes at the farm gate.

F - Land Markets

215. Many observers regard the fragmentation of ownership as a key issue in land reform in the former Soviet Union and Eastern Europe; the perceived risk being that potentially efficient large-scale farms, with the ability to compete in world markets, may be broken up at the extreme, into subsistence-level small holdings. Others have proposed that the break-up of large structures into "family" farms, which have appeared to form the backbone of agriculture in western Europe, is the most desirable outcome of reform.

216. In reality, complex forces will come into play as the market economy develops. Given: (a) a free and open market in land transactions (including sale/purchase, mortgages and tenancies), and (b) freedom for individuals and groups to associate in forms of collective holding, the size and nature of farm holdings will adapt and diversify in response to macro and micro-economic factors, government signals and incentives and individual choice. In western jurisdictions, capital taxation, inheritance practices and divorce law have tended to be at least as important as agricultural policy in determining holding size.

217. Although buying and selling land has been lawful since October 1993, there is very little evidence of market activity so far. Administrators tend to deny transactions are legal on the grounds that no mechanism or procedures exist. This attitude appears to derive partly from the Soviet concept of the law as controlling and directive rather than permissive and enabling. The lack of clear procedures for registering land transactions is an impediment to transactions taking place but not an absolute bar to a process which is the key to reallocation of land resources in a market economy.

218. A number of initiatives, backed by development aid agencies (e.g., World Bank, TACIS, USAID) are underway to develop transaction-friendly land registries with the aim of providing a measure of security for land titles sufficient to support a market in the sale/purchase and mortgaging of land. Registries are not sufficient in themselves to create a market and buyers, sellers and mortgagors will require advice from independent professionals when dealing in land, for the purposes of valuation, marketing and registering the transaction.

219. Simple farm tenancies should be an option for those unwilling or unable to occupy their land but who are also unwilling to sell it. Tenancies offer opportunities to successful farm businesses to expand their holdings without the greater commitment of capital required to purchase land. Lettings

of agricultural land are essentially different from lettings of commercial or residential premises and demand special provisions which balance the need for reasonable security and stability for the tenant through the agricultural production cycle with the right of the landowner to receive a fair rent and eventually resume possession. The law and practice for agricultural lettings is rudimentary, most lettings are informal and undocumented with rents paid in kind.

Recommendations

220. While transaction-friendly land registries are the priorities of other projects, capacities to deliver impartial advice in land management and administration and services in support of buying/selling, mortgaging and letting of agricultural land need also need to be developed. Model agreements (particularly for tenancies specifically tailored for agriculture), enforceable at law or at arbitration, are needed to ensure these transactions are respected and effective.

G - Social Sphere & Rural Utilities

Social Services

221. The fate of the social sphere in rural areas is one of the key issues linked to farm reorganization. Any basis whereby the burden of maintaining and managing these facilities falls unevenly on the rural population is unsatisfactory. Neither farmers nor reorganized sovkhos/kolkhoz are in a position to manage or finance these services following restructuring. Continued financing of the social sphere by high interest loans which are unlikely to be repaid is an unrealistic option.

222. The quality of local services is of vital concern to villagers. Farmers are prepared to pay taxes or carry out repairs and servicing, but not both. Families are also prepared to pay for such services as kindergartens if it is within their means to do so.

223. Transfers of the social sphere to local authorities are inconsistent. A coherent federal policy is conspicuously lacking and most local administrations are reluctant to assume responsibility for financing and managing the social sphere and avoid it if they can. The policy in some raions is to refuse to accept social sphere facilities until they have been put into good condition.

224. An organized transfer of the social sphere will not occur without reforms to local government financing. The level of taxes required to be raised will depend in part on the extent to which the facilities will continue to be provided to all citizens free of charge. To this extent, the transfer of the social sphere is also dependent on further reforms of the social security system.

Utilities

225. The law and policy on public, rural utilities (roads, gas, electricity and water) is equally unclear. The terminal points of public responsibility for these services are ill-defined.

Conclusion

226. **The reorganized farm sector is unable to support the social sphere. A coherent policy for the financing and management of social services and utilities is needed at Federal and Oblast levels which can be implemented by raion administrations.**

H - Critical Constraints

Farmers' Priorities

227. The list of the constraints on farm profitability most frequently mentioned by respondents during field work and shown in Table 10 below indicates that the most pressing problems in the countryside are those which stem from national policy and the overall economic situation. The issues which top the list are not specifically related to the restructuring process, but until they begin to be addressed effectively, Russian agriculture will continue to decline and restructuring activity to be stalled.

Table 10. - Key Issues Mentioned by Interviewees

Issue	Percentage of Interviewees Mentioning Issue
High Interest Rates	88
Price of Inputs	85
Cost/Price Disparities	80
Late Payment/Bad Debt	74
No Markets	70
High/Complex Taxation	69
High Borrowing	55
Corruption	18
Input Shortages	11
High Level of Imports	10
Other Issues	<4

Interest Rates, Credit and Banking

228. The high real interest rates prevalent since October 1993, combined with delayed payments for produce and a severe cost/price squeeze, have triggered a serious liquidity crisis on farms. Many former sovkhos and kolkhos have pledged their property several times over, partly to finance the social sphere. Many are effectively bankrupt but unlikely to repay their debt because the specific borrower may be impossible to identify following reorganization. Private farmers can not escape repayment so easily.

229. Investment in farm production and in agroprocessing and new wholesaling channels, (which would help to break the power of local monopolies and generate rural employment and tax revenues) are equally fettered. Most oblast and raion administrations seem to be unaware of the linkages between credit, production, marketing, employment and the tax base in a market economy.

Conclusion and Recommendation

230. Access to credit at realistic interest rates with the ability to mortgage land, and a bankruptcy law which prevents large enterprises from borrowing without expectation of repayment, are priority issues if the restructuring is to continue. An overhaul of the cumbersome and monopolistic rural banking system is urgently needed. There is also a need to assist the embryonic commercial banks to increase their credit management capacity and their ability to evaluate applications and supervise farm loans.

Taxation

231. The farm community displayed little understanding of the accounting or tax implications of their original choice of juridical structure. Much effort has since been expended by some in further reorganizing businesses and land holdings as they have become wise to the tax treatments of different structures. The interpretation of tax regulations by tax inspectorates is inconsistent; sanctions for transgressions are frequently punitive and information on changes in the tax regime slow to be communicated to taxpayers.

232. The tax treatment of the same juridical form varies between oblasts. Commercial decisions can be driven by tax considerations; tax has acted as a disincentive to the development of farm-scale processing enterprises which the tax inspectorate did not regard as agricultural activity. Amendments have recently been made to correct this anomaly. VAT continues to militate against the division of large enterprises into smaller ones, favoring large integrated operations whose internal transfers are not taxed.

233. Tax is a disincentive to leasing; leasing of land is not considered to be directly productive and rents attract a high tax rate. Informal arrangements are often adopted to avoid tax; rents are paid in kind. Fear of potential land tax increases is discouraging individuals from taking land to which they are entitled into ownership.

234. Tax also acts as a disincentive to payment of cash wages. Barter is widely used as a means to pay wages and settle debts, hindering development of a rural cash economy and leading to a loss of revenues to the state.

235. Farmers may be liable to assessment for at least eight different taxes. Few understand the complexities of tax and even if they do, they have to employ bookkeepers and spend unproductive time completing tax returns. Delayed returns attract heavy fines and freezing of bank accounts. A tax evasion and avoidance mentality is developing as a result.

Conclusions and Recommendations

236. Oblast administrations have scope to rationalize tax policy and its implementation at oblast and raion level. A complex system of taxes is collected, while at the same time subsidies and soft credits are disbursed. **The tax inspectorates must apply tax rules fairly and consistently within a realistic taxation policy. Simplification of farm taxation would assist the farm reorganization process.**

Costs, Prices and Markets

237. Changes in the cost-price structure are inevitable as command economies transform to market economies, and as prices change from values distorted by subsidies towards real values determined largely by principles of comparative advantage and import parity. Russian farmers are experiencing a particularly painful switch, aggravated by taxation and credit policies, which is currently worsening rather than improving. The macro-economic environment, and how it needs to adapt towards a market economy, is not clearly understood by management and workers on farms, or by oblast and raion administrations.

Conclusion and Recommendation

238. While macro-economic and fiscal policy are mainly national policy issues, oblast administrations have considerable autonomy in applying and interpreting federal law. **Oblast administrators concerned with farm reorganization need to acquire a better understanding of the free-market macro-economic principles which apply to the changes now taking place in Russia, and take informed action to:**

- **support market-oriented farm development to the extent possible within the limits of oblast autonomy;**
- **avoid counter-productive distortions of local price and trade policies; and**
- **foster the development of more efficient marketing channels to reduce the spread between farm gate and consumer prices.**

I - Farm Reorganization Models

239. Policies of privatization are founded on the belief that private enterprise in a market economy is a more efficient producer and deliverer of goods and services than the state. Privatization, in the broadest sense of the word, of Russian agriculture is involving five distinct but related activities:

1. The disposition of land by the state to individuals on the basis of their prior membership of kolkhoz or employment by a sovkhov;
2. The valuation and division of other assets and working capital formerly the property of the state and its distribution to farm populations;
3. The establishment of new farm businesses either by individuals or in some collective form;
4. The establishment of novel (to Russia) relationships between those who own and those who manage agricultural land and capital; and
5. The creation of a public registry inter alia to record ownership and enable transactions.

240. The first of these activities is broadly complete and the stage of the Nizhny Novgorod model which deals with the adjudication of entitlements is therefore superfluous. The fifth activity, while an important result of current land reform policy, is not central to this Task Order.

241. The question posed by the Task Order is whether one or a number of models exist, which could be formalized and packaged into a nationally applicable program, within the overall aims of reinforcing individual autonomy and liberty and of implicitly boosting agricultural production.

242. The model would need to accommodate wide variations in:

- Climate, soils and land capability;
- Size, structures and populations of existing farms;
- Motivations, aspirations and mores of farm populations;
- Motivations, aspirations and abilities of managers;
- Attitudes and capabilities of local government;
- Existing farming systems, crops and crop rotations;
- Nature and range of agro-processing facilities;

- Existing provision and standards of fixed equipment and infrastructure;
- Existing provision and standards of farm machinery and plant;
- Existing provision and future of social sphere and utilities; and
- Prospective profitability of different enterprises in a market economy.

Conclusions

243. The case studies offer little scope from which to expand a national model which would be capable of addressing all circumstances in Russia. Nor is there a suitable model from elsewhere in the world. Moreover, the Consultants saw no evidence to suggest that the Nizhny Novgorod model, if applied, would have yielded better results than those achieved by local initiatives. **The lack of a reorganization model has neither inhibited farm reorganization nor is it the main factor which has caused restructuring to stall.**

244. **The constraints identified make it very unlikely that viable new businesses can be created through a program which is focused only on the reorganization process.** However, the case studies offer examples of good and bad practice, with some excellent examples of practices tuned to the context and resources of specific farms and sensitive to the aspirations of the participants. These practices could lend themselves to development into a package of “models” -- rather than a prescriptive process -- which could: (a) deliver integrated support to the preparation and implementation of restructuring plans, while (b) introducing the seed corn for private sector advisory services to agriculture-based enterprises for the longer term.

Recommendations

Requirements for “models” exist in the following areas:

245. **Information.** The development and delivery of information packages designed to inform both local administrations and those contemplating restructuring of the various rights and obligations under the law, and to prepare the latter for the decisions to be made.

246. **Arbitration.** The development and delivery of a service to resolve disputes arising from the wish of individuals or groups to withdraw from collective structures specifically in the context of:

- (1) The valuation and allocation of property; and
- (2) The allocation and demarcation of land.

247 **Farm Business Plans.** The development and delivery of farm business plans, from wholesale plans for division and reorganization of collective structures to the preparation of plans for individual businesses.

248. **Business Structures.** The development and delivery of model juridical forms genuinely appropriate to agriculture and its production cycles (including provisions for the management structure of collectively owned “indivisible” assets) and their:

- (1) Rules for the subscription of capital.
- (2) Asset valuation practices.
- (3) Associated accounting packages.
- (4) Business management practices.

249. **Farm Tenancies.** The development of a model farm tenancy agreement appropriate to agriculture and its production cycles including provisions for:

- (1) Rent reviews.
- (2) Maintenance of good standards of husbandry.
- (3) Termination.
- (4) Compensation for improvements.
- (5) Reference of disputes to arbitration.

250. **Farm Credit.** The development and delivery of a model farm credit package together with specific provisions for:

- (1) The application for credit.
- (2) The bases for valuation of the collateral offered.
- (3) Lending criteria and loan draw-down.
- (4) Repayment and the consequences for default
- (5) The registration of the lender's interest.

251. No model is sufficient in itself without a means of delivery. Proposals for delivering these recommendations are spelled out in the following section.

VII Project Proposals

A - General Description and Objective

252. The project would support farm restructuring in one or more selected oblasts at three levels:

Level 1 - through disseminating at the farm level, information and assistance to those proposing to exercise their choice to restructure by tailoring procedures to their circumstances and needs and providing advice on suitable frameworks for business structures and owner/occupier relationships;

Level 2 - by development of support and advisory capacity to meet the needs of reorganizing farms and new rural businesses at the raion level; and

Level 3 - through the integrated improvement of macro-economic and fiscal policy at the oblast level.

253. The project would be innovative in the sense that it would be:

Design-as-you-go: Separate identification, preparation, appraisal and implementation stages would be avoided with start-up as soon as financing needs are identified and agreed.

Bottom-up: With emphasis on working at the farm level and starting up project activities in one raion as quickly as possible.

Training-the Trainers: Avoiding long-term and heavy employment of foreign technical assistance, the project would aim to build Russian capacities to provide specialist advisory and support services to farm reorganization and rural enterprise development immediately. Such support services would be based on sound cost recovery principles with the aim of eventual full privatization.

B - Project Area

254. The first project oblasts would be selected according to the following criteria:

- Good agricultural production potential, implying the black soils area of central southern Russia;
- Positive attitude of administration towards the development of the market economy; and
- No duplication of or overlap with other similar donor programs. In this context it should be noted that the IFC/Know How Fund program at Nizhny Novgorod may be extended to Rostov and Orel and a World Bank regional development project, which is in preparation, may involve Nizhny Novgorod, Voronezh and Belgorod.

255. Based on the case study work undertaken by the Consultants, Krasnodar, Stavropol or Saratov could be considered. Other oblasts may have been recommended by Chemonics.

C - Project Period and Timing

256. The project would run initially for two years but be extendible. Pre-project start-up activities could commence almost immediately and would include selection of oblasts as well as preparation of terms of reference for and recruitment of expatriate technical assistance. Russian staff would be recruited at the start of the project.

D - Project Components

247. The project components would embrace the following features:

- (1) Macro-economic and fiscal policy advice to the administration of the oblast by an expatriate policy advisor;
- (2) Advice and training related to rural business enterprise development: banking, credit management, and agro-processing;
- (3) Development of Rural Enterprise Centres (RECs) in (say) four raions. These would initially be associated with Departments of Agriculture but operating as separate units, and with the aim of eventual flotation as private sector agencies. Eventually they would provide *inter alia* a real estate agency and brokerage service. RECs would provide advice on law, legal business structures, land administration (including land markets and

land registration), business organization and management, business planning and financial control, as well as technical advice.

- (4) RECs would serve the needs of all privatized rural and agricultural enterprises. RECs would be started up with technical assistance from a mobile support team of two long-term expatriate advisors (Farm Management, Business Management) supported by short-term inputs from other specialists to be defined during implementation (indicatively Farm Accounting, Agricultural Law, Land Administration and others).
- (5) Accounting inputs would develop management accounting systems and accounting bases specific to the needs of a particular business for management, fiscal and audit reports.
- (6) Agricultural law and land administration inputs would develop lease and tenancy agreements designed to balance the interests of landowners with security of tenure for tenants and encourage an open market in the letting of land.
- (7) Russian counterpart staff and support staff would be employed and would take over the operations of the REC as soon as possible, leaving the technical assistance team to move on to start up another REC in another raion.
- (8) It is expected that one REC will be able to serve two average raions, or one large raion.
- (9) Local Russian expertise in law, land management, accounting and other areas would be bought in by RECs as needed, from the private sector and from specialist institutions in the oblast.
- (10) The RECs would achieve cost-recovery by selling their services on a fee or commission basis. In the initial project period of two years, it is not expected that farmers would be able to pay, or willing to pay for something that has not been proved to have a value. REC services would therefore be a project cost and the RECs would bill the project. Subsequently, farmer contribution to cost-recovery would be introduced progressively.

- (11) Assistance by RECs to further implementation of farm reorganization. This is basically the procedure laid down by law but enhanced by better provision of information to participants, and adequate consultation between participants, so as to ensure fully-informed decision-making.
- (12) Project Management through a Project Management Unit (PMU) involving one expatriate advisor (agriculturist or agricultural economist) with project management experience, a Russian counterpart, and support staff (accountant, secretary, driver). The Policy Advisor would also be located in this unit.
- (13) Training for Russians involved in farm reorganization or related areas (e.g., farm business management, banking, credit management, agroprocessing, and marketing). Training needs would be identified during implementation but would emphasize study tours within Russia to learn from other experience and outside Russia to study first hand experience in other market economies.

E - Organization and Management

248. Given the autonomy of oblast administrations and the weakening links with parent ministries in Moscow, the project would be oblast-based and a Project Management Unit (PMU) in Moscow would not be needed. The linkage with ministries in Moscow (MOA, MOF, and GKI) would be through USAID, which would appoint a Project Officer.

249. The PMU would be located in the oblast Administration and would report to a steering committee comprising the oblast Heads of Administration, Agriculture and Finance, Komzhyem and the GKI territorial office. The PMU and Policy Advisor would operate at the oblast level. Technical assistance to banking and credit would operate at oblast and raion level and would be organized by the PMU in collaboration with the REC for the raion in which the bank is located.

250. Work programs related to farm reorganization and rural enterprise development would be agreed by the PMU and the REC with the raion Head of Administration. Implementation would be the responsibility of the raion agriculture department. The program in each raion would be coordinated by a mini steering committee comprising the Head of Administration, DOA and, Raikomzhyem.

F - Project Costs

251. Detailed costs are not presented at this time and would be determined in Phase II subject to the conclusions and recommendations of this report being accepted and agreed. As an approximate guide, base costs excluding contingencies for the above project proposals are estimated at between \$3 million and \$5 million over two years for one oblast.

October 18, 1994 c:\wpwin\docs\revrep2

ANNEX 1: TASK ORDER

STATEMENT OF WORK

IDENTIFICATION OF AGRICULTURAL LAND PRIVATIZATION AND FARM REORGANIZATION MODELS

I BACKGROUND

Privatization is the most successful part of the Russian government's program to transform its centrally-planned economy to a market economy. More than 8,000 large and medium-sized enterprises have already been privatized through voucher auctions since December 1992. Tens of thousands of small-scale enterprises have been privatized, primarily in retail trade, public catering and services.

The Russian government's privatization program to date has focused on small-scale privatization, the mass privatization of large and medium-sized enterprises and complementary initiatives such as the development of capital markets. The next logical step is a program to accelerate the privatization of urban and agricultural land, including the development of a legal and regulatory framework that will ensure a functioning land market as well as efficient titling and transfer procedures.

The introduction of a comprehensive and secure right to private ownership of land in Russia is an essential part of the country's economic and social transformation. Private land ownership encourages long-term business planning and investment, creates a source of collateral highly preferred by the creditors, and reinforces individual autonomy and liberty.

Russia has taken important first steps toward land privatization. Since 1989, when legal changes began to establish a formal legal basis for family farming, the number of private family farms in Russia has steadily grown to over 260,000. There have been several small experiments and one USAID-assisted pilot land privatization and farm reorganization program that is underway in the oblast of Nizhny Novgorod.

Most significantly, the presidential Ukase No. 1767 of October 27 1993 has laid the ground for a significant transformation of rural, suburban and urban land ownership and agricultural reform in Russia. The main elements of the Ukase are the general right, in private transactions, to buy, sell and mortgage land which is owned, eliminating a former five and ten year moratorium on private sale, introduction of Evidence of Land Ownership Certificates and simple procedures for registration without prior surveying, conversion of certain land leases into ownership, improved guarantees of land ownership (including indemnification for expropriation by the State). The ukase provides for the issue of land shares in agricultural enterprises currently under joint common or joint participatory ownership (the existing collectivized sector) and ability of holders of such shares to sell them or mortgage them or the right to receive a land plot in kind for peasant farming purposes. It also provides for land sales for additional creation of private farms to be organized by local committees for land use. The ukase further charges GKI with the privatization of agricultural processing enterprises, and other enterprises in the agro-industry area which had not previously been subject or privatization. In addition, the ukase abolishes, starting in 1994, obligatory deliveries and other forms of forced taking of agricultural production by the State.

Implementation of the decree is likely to make a major difference for several types of agricultural enterprises and land owners:

- Issue of evidence of ownership certificates and registration for the currently 260,000 private farms,
- Right of land owners to buy, sell and mortgage, and the right of owners of land shares to claim land represented by the shares and withdraw the land to start a peasant farm,
- Issue of ownership evidence and registration for 40 million small plot owners (household plots of farm workers, dacha plots, garden plots),
- Issue of ownership evidence and registration for urban land owners,
- Issue of land shares to member of collective agricultural enterprises, and confirmation of the ability of land share holders to claim land represented by the shares and withdraw the land to start a peasant farm, and
- Mandatory privatization of agro-industry once the 1993/94 privatization program is adopted.

The change in legislation provides a real chance for the establishment of land markets and a process of reform of agricultural enterprises. Additionally, a large number of agro-industrial enterprises will enter the Mass Privatization Program.

However, implementing measures will be crucial to realizing the promise of the ukase. The main thrust of the land reform program thus will be on generalized policies, procedures, mechanisms and instruments such as registration procedures (which should be essentially self-supportive through user fees), certificate issue, measures to enable simplified land surveys (with private sector involvement, where possible), a very active communications campaign, continued effort at the regulatory level, measures to support land market functioning and the development of model legal forms for farms. The emphasis is also on adopting immediate corrective policies that can result in immediate corrective steps being taken.

The overall objectives of the Land Privatization and Farm Reorganization and Land Titling Program are to:

- accelerate privatization of urban and agricultural land, including State reserve lands and land currently held by State and collective farms and their legal successors;
- increase land ownership rights to allow owners to pledge land and land rights owned by them;
- introduce mechanisms whereby owners will hold secure, tradeable titles to the land that they possess; and

- introduce a legal and regulatory framework that will enhance land markets, production and distribution.

The Land Privatization and Farm Reorganization and Land Titling Program will require a comprehensive and multi-faceted approach with illustrative initiatives such as:

1. Identification of Land Privatization and Farm Reorganization Models
2. Pilot Titling and Registration
3. Legal and Regulatory Framework
4. Public Education

Work under the first component above, as detailed in this work plan, will be undertaken by two contractors. The goal of this approach is to identify and recommend different models for land privatization and farm reorganization so that the best model(s) suitable for this activity in Russia may be selected. Each contractor is required to visit different regions when examining spontaneous land privatization models. In the event that one government agency holds sole responsibility for a particular activity, one representative from each consulting firm would form as a team to conduct joint interviews. Contractors are to work separately and independently to come up with approaches that delineate both the positive and negative aspects of the proposed model so that the GOR could have alternative solutions to land privatization models that are:

- practical
- replicable
- standardized
- market oriented
- transparent
- cost effective
- innovative

The Russian Privatization Center, created as an independent entity within the Russian government, will cooperate with others to be named, such as the Presidential Commission on Questions of Real Estate and Proposals for the Creation of a Unified State System of Registration of Real Estate ("the Commission"), in coordinating policy development and implementation aspects of this technical assistance program. In coordinating the technical assistance, the Center will work extensively with entities other than GKI in the Russian Government, such as Roskomzem, Gosstroi and others as appropriate, as well as private institutions and enterprises at central and regional level.

II OBJECTIVES

Apart from a series of agrarian reform measures initiated by the Russian government, as well as the donor-assisted pilot land privatization effort in Nizhny Novgorod, the steady increase in the number of individual peasant farms since 1989 appears to have resulted to a considerable extent from a process of spontaneous privatization. Farmers have elected to start their own farms. This farm creation process has been made possible by a series of enactments, and has occurred on a voluntary basis. Mostly, farm creation has occurred via withdrawing land from a collectivized enterprise or by obtaining land free from the State land reserve. Less frequently, land was purchased. In view of the extensive *de facto* privatization of agricultural land that has already taken place, the first step in the context of this overall comprehensive approach is to undertake a thorough review of land privatization practice to date, both formal and spontaneous. The objective of this work plan is twofold:

- to determine if any of the existing modalities and practices can be formalized and packaged into an agricultural land privatization program that can be implemented rapidly on a national basis, and
- if appropriate, to design the national program on the basis of existing practices.

The tradeability of land titles is absolutely crucial to the development of land markets and land reform in Russia. To allow this process to occur most effectively, the private sector must take the lead in managing land markets, while the government's role should be reduced to that of performing an oversight function which ensures transparency and fair play. Therefore, many functions previously provided by the government must be transferred to the private sector.

III TASKS

1. Undertake Critical Analysis of Current Land Privatization Initiatives.
 - a. Identify regions where agricultural land privatization has taken place on a significant scale, either formally or as a result of government-sponsored and/or donor-assisted land reform initiatives or spontaneously on the basis of a grass-roots movement initiated "from below" by private citizens and farmers. The process of identification should include the following:
 - (1) the reorganization of collective and State farm joint-stock companies or some other form of share enterprise;
 - (2) the complete subdivision of former collective and State farms into individual peasant farms on a voluntary basis;
 - (3) other forms of creating individual peasant farms, by one or more individuals leaving a collective or State farm, or from State reserve lands;
 - (4) the donor-assisted pilot agricultural land privatization program in Nizhny Novgorod; and

- (5) other cases of agricultural land privatization that appear to have resulted from a process of spontaneous privatization.
- b. Conduct a thorough assessment of land privatization initiatives currently under way in the regions identified under (a). The appropriate methodology will vary depending on the type of model approach, but in general the assessment should consider the following aspects of the privatization process:
- (1) identification of laws, decrees and other legislation serving as the legal basis for land privatization;
 - (2) procedure for land survey/documentation of plot description;
 - (3) procedure for title/lease registration and for issuance of evidence of ownership;
 - (4) method of land valuation;
 - (5) method of determining the size of land holdings offered to individuals or groups;
 - (6) ability of groups/individuals outside of the farm collective to gain access to ownership;
 - (7) tradeability of land titles and leases;
 - (8) identification of groups critical to success of land privatization and titling;
 - (9) factors inhibiting the downstream commercial viability of the privatized assets, including marketing of agricultural production, non-land asset availability and acquisition, ability to use land as collateral or mortgage asset;
 - (10) restrictions on land use or profile; an
 - (11) incentives used to mobilize support of farmers, community leaders and government officials.
- c. Investigate specific factors which have favored spontaneous small farm creation in some regions and offer proposals on creating favorable conditions elsewhere in Russia.
- d. Conduct interviews with political, public and private sector organizations to determine public sentiment toward market reform efforts relative to land in collaboration with GKI/RPC's public information advisors.
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- e. Document international models of farm reorganization relevant for the Russian context, including legal documentation.

2. Select Land Privatization Model(s)

Based on their findings under Task 1, the consultants will offer recommendations on the selection of one or more models for agricultural land privatization and farm reorganization that will include the following elements:

- a. Identification of the critical constraints inhibiting the rapid implementation of land privatization and farm reorganization.
- b. Proposed solutions aimed at eliminating constraints identified in (a) and resolving other problems that could impede the implementation of land privatization and farm reorganization on a mass scale.
- c. Recommendations on which the existing modalities and practices, if any, can be formalized, standardized and packaged into one or more model approaches that can be rolled out on a national basis. (The number of models selected will depend on the extent to which adaptation to regional variations in circumstances and requirements is judged to be necessary). Consultants will highlight for each model reviewed and selected:
 - (1) pros and cons;
 - (2) market based methodologies;
 - (3) transparency/fairness;
 - (4) replicability; and
 - (5) effectiveness to date, including:
 - changes in practice,
 - increase in quality/quantity of output,
 - downsizing,
 - diversification,
 - inter-regional trade,
 - etc.

3. Design a Land Privatization and Farm Reorganization Program

Consultants will prepare a Work Plan for the rapid implementation of the model approach to land privatization and farm reorganization identified under Task 2. (If no appropriate model is identified, the consultants will design a new pilot approach).

- a. Prepare all methods, procedures and documents necessary to support a cost-effective, transparent and rapid implementation of a model approach, including:
 - (1) methods for calculation of shares in collective farms including designation of land plots to be sold;

- (2) streamlined procedures to speed applications and approvals from collective farms' members and management;
- (3) methods to ensure broad participation;
- (4) methods for sale of shares (via vouchers/cash, percentages of shares allocated through closed subscription to collectives, the public through open subscription, retained by the state for future sale);
- (5) methods to ensure actual transfer of ownership from public to private sector.

4. Assistance to Individual Collective Farms

Consultants will, if appropriate, put in place a resource to assist farms in one or more regions to prepare and implement reorganization as follows:

- a. Preparation of all methods, procedures and documents necessary to support rapid implementation, drawing on models identified, including:
 - (1) methods for allocation of property and land shares in collective farms; and
 - (2) streamlined procedures to speed applications and approvals from collective farm members and management.
- b. Mobilization of teams of expatriate and local Russian experts to implement activities on the ground while working closely with collective farm members and community leaders.

IV RESULTS

Upon completion of this work plan, the following result will have been achieved:

- A work plan for model approach(es) to land privatization and farm reorganization in Russia will have been developed and presented to GKI/RPC, the Commission, and USAID for approval.

V LEVEL OF EFFORT

The estimated level of effort required for this project is 786 days of expatriate labor and 778 days of Russian labor.

VI SKILLS REQUIRED

All foreign experts should have a minimum of 5 years of experience in the relevant fields. Training and technology transfer skills will be critical. GKI/RPC requires that the team include experienced professionals in the area of land privatization and farm reorganization. The emphasis of the assignment is on providing insights and developing models in a short time frame. The need is therefore for experienced staff capable of working with farmers, Russian institutions. GKI/RPC will review the proposed team in detail and reserves the right to review its composition during the process.

Specialties shall include legal and farm privatization/reorganization specialists. Russian language capability of non-Russian staff is highly desirable among field staff. In the case of absence of Russian language capability, the consultants have to ensure that appropriate translation and interpreting resources are made available.

Consultants are expected to involve Russian expertise to a very significant degree. As a guideline, consultants are expected to create a project team which is at least two-thirds Russian in composition. Russian experts shall either be hired individually or through subcontracts with Russian organizations.

VII REPORTING REQUIREMENTS

Technical assistance needs to be implemented with considerable flexibility and pragmatism to reflect the changing environment. However, significant shifts in approach and changes in work plans will require written approval by GKI/RPC and USAID. The form of reporting and communication with client personnel shall be tailored to the needs of the work program and facilitate project monitoring on the part of GKI/RPC, the Commission and USAID.

Consultants are required to provide the following reports:

1. The contractor will provide a work plan and schedule at the beginning of the project, both in English and Russian. The work plan will be submitted within one week after contract signing for approval by GKI and USAID/Moscow. The report should include the following information:
 1. Project objectives
 2. Main anticipated results or targets
 3. Timetable for key achievements, events (eventual phasing of projects, review points)
 4. Financial and personnel resources
 5. Project responsibility and key managers, specialists
 6. Anticipated coordination needs with other projects.

- 2. Fortnightly Project Management Report in English to be delivered to GKI/RPC project manager, covering the following:

Project Update

- 1. Key events
- 2. Key outputs (reports, key memos)

- 3. Problems identified, open issues requiring decision:

Upcoming 2 weeks

- 1. Key events
- 2. Key outputs
- 3. Expected problem areas, decision needs
- 4. Coordination needs (other projects)

- 4. Monthly Reports will be submitted at the end of each month. The reports will be comprehensive but precise in detail and will report on only that information which is crucial to the success of the project, including issues of implementation and achievements plus any proposed changes or refinements to the work plan.

Monthly Project Status Update

Date.....

A. General Information

- 1. Project Name:
- 2. Project start date:
- 3. Anticipated project end date:
- 4. Project Manager:
- 5. Other project management staff:
- 6. Contractors/Subcontractors involved:
- 7. One-paragraph project description:

B. Last Month Update

- 1. Key events
- 2. Key outputs (reports, key memos)
- 3. Problems identified, open issues requiring decision

C. Next Month Forecast

1. Key events
2. Key outputs
3. Expected problem areas, open issues requiring decision
4. Coordination needs (other projects) (decisions)

This summary on progress and problems will be included in each report in both English and Russian.

- D. Consultants will also provide a monthly Budget Status Report which shows total funds expended under each line item (level of effort, subcontracting and equipment purchase) using the following format:

Total Budget Allocated per line item	Current Expenditures Reporting Period Expenditures	Cumulative Balance	Budget	Remaining Time assuming current expenditure	Project rate of expenditure
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- E. Consultants shall also provide information on days worked by individual consultants on a bi-weekly basis and indicate expenditures for fees in the period as well as budgeted fee amount for the individual and remaining fee budget:

Days allocated per individual \$	Total budget allocated per individual	Days billed during this period	Current expenditures this reporting period	Cumulative Expenditures	Balance days
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Name
.....

Name	Sum	Sum	Sum	Sum	Sum
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- F. At the completion of the contract the contractor will prepare an End of Contract Report which will detail the lessons learned, weakness or vulnerability in the systems developed and opportunities. The report should also provide recommendations to address the identified weaknesses and opportunities.

VIII MANAGEMENT RELATIONSHIP

The contractor will report to USAID/Moscow, GKI/RPC and the Commission (or others to be named) with ultimate oversight provided by USAID/Washington.

IX SPECIAL INSTRUCTIONS

1. In the course of implementation, the consultants will produce documentation and guidelines which may be used for replication by other institutions. These should be instructive,

streamlined and adaptable to various environments in different regions of Russia and will not require extensive foreign expertise but utilize local expertise for implementation.

2. Equipment to be purchased is for the purpose of jump-starting the program. This procurement will be a pilot effort and will demonstrate efficiency and cost effectiveness. Under further activities, including the development of new institutions, these institutions will be required to bear the cost of further equipment procurement. The procurement must demonstrate efficiency, cost effectiveness and conform with USAID procurement regulations.
3. Consultants will make a firm commitment to stay on site for the duration of the project. Consultant travel off site should be limited to essential trips related to the project or be approved by USAID/Moscow. See USAID policy letter on international travel dated September 10, 1993 from USAID contracting officer, Jerry Kryschtal.
4. During the course of the work, many institutions and foreign consultants will simultaneously undertake selected initiatives. To ensure the overall success of the effort, unusual coordination and team work will be required in order to get the job done quickly, efficiently and effectively. Unnecessary duplication of past efforts should be avoided and, instead, consultants should work in a collaborative spirit, sharing information and lessons learned.
5. The Contractor shall obtain the approval of USAID/Moscow and USAID/Washington before making any changes in personnel assigned to the Project. In addition, the Contractor shall obtain the approval of USAID/Moscow if personnel assigned to this Project shall be out of Russia or working on other projects in the NIS or another country at any time during the Project being implemented under this Task Order. This must be documented.
6. The Contractor shall make a firm effort to recruit and train Russian staff for operating roles so that the role of foreign contractors can be diminished.
7. Prior to having interviews with foreign or local press, releasing press releases, holding news conferences, or other communications with the news media regarding activities under this Task Order, the Contractor will consult with appropriate officials of the host country entity receiving assistance as well as USAID personnel concerning any such proposed communications. The Contractor agrees to coordinate such communications with the host country entity and USAID as necessary to ensure that the role of the host country entity is accurately explained and described.

The following language is taken from the Prime Contract:

8. In no event will any understanding or agreement, modification, change order, or other matter which modifies the terms of the contract between the contractor and any person other than the contracting officer be effective and binding upon the US Government.
9. Any changes to the work plan or budget for this Task Order which may be requested of the Contractor by the host government or any other party will require an amendment to the Task Order. The amendment will require the signatures of the Contracting Officer, the Contracting Officer's Technical Representative (COTR), the USAID Mission Director and the Contractor. Any deviations to the work plan or budget for this Task Order made by the Contractor based on the direction of the host government or any other party will not be reimbursed by AID.
10. In the course of training for implementation by Russian staff, the consultants will produce well-documented materials as appropriate. These should be instructive, streamlined and adaptable to various situations.
11. Other institutions and foreign consultants will be involved with related privatization initiatives. To ensure the overall success of the effort, unusual coordination and team work, including sharing information and lessons learned, will be required in order to get the job done most efficiently and effectively. Contractors will work in close collaboration with projects working on land privatization and land titling activities.

ANNEX 2: LAW AND LEGAL ISSUES

LAW AND LEGAL ISSUES

Land Law

The process of liberating the legal system from the long-standing restrictions against private ownership of the means of production, including land, began in 1990 with the enactment of the RSFR law on land reform (November 23, 1990), the RSFR law on ownership (December 24, 1994) and amendments to the constitution. Together these established the right for real and artificial persons to own land in addition to the State, although with a restriction on disposal, other than back to the State within 10 years. The "moratorium" has since been removed.

The RSFR land code, published in April 1991, completes the basic legal framework of land law. While legitimizing private ownership of land, the code retains some concepts more suited to the Soviet command economy and is inconsistent with full ownership in the sense of "withdrawal" of ownership. For example, it is understandable in the context of a society where use of the land for productive purposes is in the gift of the State and is in fact used by the State through one of its organs of economic production (i.e. the collective). In a property owning society such a concept undermines the development of a market in land and the availability of credit secured on land.

The years 1992 and 1993 saw the publication of numerous legal instruments of varying degrees of force aimed at regulating or facilitating the development of private land ownership. At the end of 1993, the publication of Decree 1767 "On regulating land relations and development of agrarian reforms in Russia" completed the process of liberalization to date.

One law and three decrees form the basis for the reorganization of collective farms: The law on peasant farms; Decree 323 on urgent measures for implementing land reform in the RSFR; Decree 86, actually a ruling of the government, which sets out procedures by way of implementation of Decree 323 and sets the timetable for reorganization of State and collective farms; and Decree 708 on measures for reorganizing collective and State farms. These compelled these bodies to reform into one of a number of permitted legal entities, with the object of facilitating the transfer of ownership of the means of production to them (or to their members) from the State. Five categories of entity were permitted:

- Associations of Private (Peasant) Farmers;
- AOZ or AOO;
- Collectives;
- State Farms; and
- Agricultural Cooperatives.

The collective and State farm structures were retained for those worker groups who wishes to retain their former structure, but the ownership of the productive assets was divested from the State to them in any event, with the right (subject to specific exceptions) for individuals to withdraw from the larger entity and to receive a quota of land and moveable assets as their share of the whole.

Most former collective or State farms have, notwithstanding that they may have reformed into an AOZ, retained their management structure and collective form of "ownership" of land and assets.

Few have elected (as they were entitled to do) to allocated land to those entitled to share it in physically defined parcels. Land and property entitlements are thus akin to shares in a company.

Although it would appear that much of the underlying or legitimizing law is in place to permit private ownership of and dealings in land and assets, and to establish in law the various forms of commercial structures (partnership, etc.) required in a market system, much of the necessary enabling infrastructure is lacking. So land sales are "not possible" because there is no adequate means to record them. Inheritance is impeded because notaries have no established mechanism to record succession. Mortgaging of land is not undertaken because there is no means of protecting the mortgagee's limited interest in the land and no mechanism for conducting title searches or recording priority of interests. Legislation, simple forms and registers to facilitate ll these aspects and more will be required for a market in land to develop.

Social Sphere

The law relating to the transfer of the Social Sphere by the former sovkhoz/kolkhoz to the local municipal authorities is unclear, or at least unclear to those who must work within it. A major aspect of the Social Sphere in rural areas is the maintenance of health, education and social services.

At the level of the oblast, the consultants were told that there is a clear mechanism for transfer to the raion authorities, starting with an application from the farm director to the raion, who must in turn apply to the oblast. The oblast approves the transfer and allocates a budget for maintenance of the facilities to the raion, who must then accept the transfer.

There is understandable reluctance on the part of raion administration to take on the Social Sphere because there are no funds available for the raion to manage it. This clearly requires federal intervention to ensure that the system of transfer is implemented quickly after the farm has decided to restructure. The Social Sphere costs otherwise represent a growing burden on the farmers remaining within the former sovkhoz/kolkhoz structure.

It is also unclear whether the policy in some raions (Pischarnokopoye is an example) of refusing to accept Social Sphere items until they have been put into good condition is lawful, although it is not unreasonable. Some short-term federal aid is likely to be required to "kick start" the additional service and maintenance provision which the raions will have to undertake when they absorb the Social Sphere.

Transfer of the Social Sphere will not happen successfully without changes to the tax system to provide for adequate funding. The level of taxes required to be raised will depend in part on the extent to which the Social Sphere facilities will continue (if they now are) to be provided to all citizens free of charge. To this extent, the transfer of the Social Sphere is also dependent on clarification of the laws relating to Social Security entitlement in Russia.

Service Infrastructure

The physical infrastructure of the supply of water, gas, electricity, telephone and telecommunication signals, sewerage, drainage, the ownership and responsibility for roads and associated maintenance and connection of services, is commonly included within the broad definition of the Social Sphere.

The problems relating to these items, in terms of identifying who is responsible for them and how they are to be paid for, are similar to the narrow definition of the Social Sphere outlined above.

In addition, there must be a decision at the federal level to define the point at which such facilities cease to be "public" facilities (i.e. available for common use and guaranteed, even if not actually provided by the State) and become the responsibility of the recipient of the service or the individual user of the facility.

In the absence of a developed market system or adequate (or any) means of charging for individual consumption of utilities (there are no meters to measure individual consumption of electricity in rural areas, for example), the State must retain primary responsibility for the preservation of the physical fabric of the infrastructure of the country, funded through taxation, until private provision becomes practicable. The position currently varies from raion to raion. Some have accepted all social sphere and utility burdens but are now experiencing difficulty in meeting the cost of maintaining them. Others are obstructing the transfer while still others are claiming willingness to take on the burden, but only after the physical infrastructure is rendered into good repair.

Monitoring and Dispute Resolution

Successful restructuring in Rostov Raion depended heavily upon the intensive involvement of external facilitators/consultants. This was not so in Pskov Raion where the limited restructuring observed had taken place in the context of much smaller units which had the benefit of established systems developed during the period of the leasing brigades. The level of external involvement evident in Rostov is likely to be impracticable nationwide, although there appears to be an under-used resource in the form of the many institutes and educational establishments which might be recruited to provide such external assistance as may be required. External assistance took the form of explanation of the new laws and alternatives, monitoring of the process of reorganization, land quality assessment and the avoidance or resolution of disputes. The institutes could usefully be recruited to set up specialist advisory, monitoring and arbitration units.

Farm Tenancies

Leasing will be an important part of the private market in land and one of the main mechanisms for farming units to adjust the amount of land in production to suit market demands. There is currently no form of lease agreement available to regulate the relationship between landlord and tenant and balance their interests. This is not currently seen as a problem, but it will become so as the market in land develops.

A standard form of tenancy should be introduced by legislation, having the following basic characteristics:

- A description of the land by reference to a plan.
- A minimum term of 3 to 5 years. At the current stage of development of private farming in Russia, a minimum term favors the farmer by giving a degree of security which may encourage investment in land quality improvements and impose a degree of stability in the market. (Note: This provision is not universally accepted by the land experts. The alternative is to leave the term to be agreed by the parties with a limited minimum or no minimum).
- A formula to review any rent payable by the tenant. Currently, lease rents are fixed at the outset. If rent is paid in cash, inflation will erode its value. This will discourage landlords and limit the supply of land for lease. As many lease rents are paid "in kind", the standard lease must also allow for this. Many pensioners rely on the inflation-proof payments they receive under such arrangements.
- Mandatory compensation of tenants for the value of unexpired inputs (e.g. residual fertilizer/manurial values) at the end of the lease. This will be an incentive to tenants to undertake continuous soil improvement and good land management.
- Mandatory compensation of tenants for the value of permanent improvements made by the tenant during the lease with landlord's approval (e.g. new buildings and structures). This will be an incentive for tenants to improve production facilities.
- Restrictions on land use, definition of the elements of good husbandry and of the standard of maintenance of buildings and structures and the division of responsibilities between the parties. This will establish benchmarks of reasonable land management standards in respect of which failure on the part of the tenant may lead to termination of the lease or payment of cash compensation for deterioration due to tenant's failure to repair.
- Provision for automatic year to year continuation, subject to termination by notice. This will allow the continuation of arrangements acceptable to both parties without formality.
- The flexibility to accommodate the conduct by the tenant of any farming business ancillary to the primary agricultural purpose of the tenancy without leaving the special legislative framework covering farm tenancies.
- Provision of a mechanism for arbitration of disputes.

Legal Issues

The concepts of land ownership are as yet not fully developed or understood in Russia. Public understanding of the law is being inhibited by the continuing lack of clarity and contradictions in the underlying legislation; delay and complication arising from the production of decrees and legislation or enabling regulations at Federal, Oblast and Raion levels; the confused inter-relationship of administrative bodies and their respective areas of authority; the presently blurred distinction in Russian law between ownership and use; and the frequent changes in the law. This legislative

complexity and lack of clarity would be difficult for the rural communities to respond to even if they had access to legal advice. Generally, they do not and the consultants were told that, in consequence, the legislation is often misapplied.

The delay in issuing a new civil code and the fundamental law on land was expressed to be a matter of concern at many levels of authority and may, subject to the comments below on the issue of gradual transition, further retard the development of a rural economy based on property ownership.

As a matter of principle, legislation is required to clarify the legal framework within which citizens conduct commercial transactions, but not to prescribe what those transactions may or may not involve, except to the extent that the State has a legitimate interest in regulating economic relations or avoiding possible adverse consequences (e.g. environmental or social) of particular transactions.

The law thus often lags behind the development of new commercial relationships. Much of the necessary enabling law already exists in Russia but is poorly drafted and on occasion mutually contradictory.

Although the lack of a clear and comprehensive legal framework is a factor in the slow progress of farm restructuring, it is not currently the main one. Further piecemeal amendments to the laws in this sector will not address the underlying inconsistencies of the Russian legal system and a comprehensive review is required to achieve a stable legal framework. Currently, political factors make such a review unlikely. As a matter of legal form, all land occupied by former sovkhoz/kokhoz has been or should have been privatized (i.e. ownership has passed to the workers as a collective group through the medium of the registered enterprise) reallocated through the mechanism of redistribution or reserve land banks (i.e. ownership has passed to the municipal authorities). It has also, to a small degree, subsequently passed to private individuals in physically designated parcels. But institutionalized barriers exist to this next stage of development of farming enterprises as privately owned, economically independent entities. These include:

1. **Entrenched administrative resistance.** The traditional reliance of the Russian legal system on the executive to fill any legal vacuum vests excessive authority in Raion and Oblast administrations. While the law is uncertain, executive officers act as informal law-makers, interpreting, enforcing or "making" law as they see fit. This produces inconsistency of application of laws and -- where executive officers are indisposed to prioritization and economic restructuring -- overt or covert obstruction. An example of the latter is the reported reallocation of animal production units into the "specialist" category (for which special dispensation is given in Decree 708) without adequate or lawful justification as a means of holding up the partitioning of productive land.
2. **Adverse or unclear tax structures.** The complexity of Russian tax structures is working against the development of a property-owning, money-based economy and again provides opportunities for obstruction. The observed inherent social responsibility of most Russians indicates that if taxes are fair and are seen to be spent on socially beneficial objects, they will be paid. Currently the rural population is managing a material part of its economic activity on a system of barter, leaving to a loss of revenues to the State and the establishment or preservation of an "avoidance mentality". Tax codes are interpreted inconsistently and in some instances this has discouraged individual initiative. Also, fear of potential land tax increases is discouraging individuals from taking land to which they are entitled into ownership.

3. **The existence of vladenie.** The transitional tenure of vladenie (inheritable lifetime possession) and its relationship to the oblast norm which limits the amount of land which may be farmed in ownership by an individual, is acting as a disincentive to farmers who received land in vladenie from the state to convert that land into full ownership. If they do so, they may exceed the oblast norm and will have to pay for any land in excess of that amount. As this land cannot be traded, it will distort the operation of the market in land. A once and for all automatic conversion to full ownership of this and other limited forms of land use is recommended.
4. **Withdrawal from privatized entities.** It is currently unclear what rights exist for members of a private farming entity (an association for example) to leave with land entitlements. This will inhibit the establishment of private farm holdings. Such withdrawals have occurred, either by agreement or bankruptcy of the entity, but opportunities for obstruction are considerable while the legal position is unclear.
5. **State repossession.** The transfer of the Soviet right of the State to withdraw use rights (e.g. breach of land use controls or failure to meet land quality norms) into a system of property ownership is damaging to the underlying rights of ownership which the process of prioritization is intended to promote. This will also impede the development of a land market by endangering the security available to lenders and discouraging mortgaging of land. Other means of regulating land use and land quality must be used (fines, fiscal measures, etc.) which do not undermine the developing understanding of ownership rights.

ANNEX 3: JURIDICAL STRUCTURES

JURIDICAL STRUCTURES**1. Association of Peasant Farmers (Juridical entity)**

This form occurs where a number of farmers have come together to pool their land, labor and machinery, and operate a collective bank account. Normally there is an agreement (ustav) which sets out the rights and obligations of members who continue to own their land and machinery.

2. Association of Peasant Farmers (Informal)

The same as above, except there is no common bank account and no common juridical entity. They may or may not have a written agreement (ustav). This is also called an informal partnership.

3. Agricultural Cooperative

The notion of cooperatives existed in the USSR. New legislation is expected within the next few months. This is not conceptually different from Farmers' Associations except that all members are expected to be active workers.

4. General Partnership (Polnoye Tovarischestvo)TO

This general partnership is an association of several individuals or juridical entities established for the purpose of conducting their business by a mutually agreed contract.

All participants in a TO bear unlimited joint liability for its obligations to the extent of all their assets.

The assets of a TO are formed from the partners' contributions and profits will be distributed on the basis of their proportionate ownership.

Juridical entities who are participants in a TO will preserve their independent status and the rights of a juridical entity.

5. Kolkhoz

This is a type of collective farm where land and property is owned collectively by the workers whose rights are enshrined in an ustav including the right to elect the Director at a General Meeting and establish policy. Under the Soviet system, the Communist Party "advised" the General Meeting what to decide and there was no practical difference from a sovkhoz.

6. **A Limited Partnership or Closed Joint-Stock Company (Aktzionernoye Obschestvo Zakritovo Tipa) AOZ/TOO/TOZ**

A closed joint-stock company is fundamentally the same as a limited partnership for all practical purposes. It is an association of individuals and/or juridical entities established for the purpose of jointly engaging in commercial activity. The authorized capital shall only consist of the founders' contributions (shares).

All the partners are liable for the company or partnership's obligations to the extent of their contributions. Partners only have the right to transfer their shares to other persons with the consent of the other partners. Assets are formed from a partner's contributions and profit will be distributed on the basis of the partner's shareholding.

7. **Mixed Partnership (Tovarischestvo Smeshannovo Tipa) TCT**

A mixed partnership is an association of several individuals and/or juridical entities established on the basis of a mutually agreed legally binding contract.

A TCT may be comprised of full members and contributing (investing) members. Full membership will bear full joint liability for the obligations of the partnership to the extent of all their assets. Contributing members will be liable for obligations according to the extent of their investments in the partnership.

8. **Open Joint Stock Company (Aktzionernoye Obschestvo Otkritovo Tipa) AOO**

An AOO is an association of several individuals and/or juridical entities established for the purpose of operating a commercial business. Shareholders are liable for the obligations of the company to the extent of their shareholding.

An AOO will not be liable for the property obligations of shareholders.

The capital of an AOO may be raised from the sale of shares by open subscription and retained profits.

The free sale of shares is allowed on terms specified by Russian Federal law.

9. **Personal Enterprise/Peasant Farm/Private Individual Farmers/Fermerskii (Semeinoe Chastnoye Predpriyatiye)**

Personal enterprises mean those constituting the property of a private person or held in common by members of the family.

The assets of a personal enterprise are formed from the assets of the individual or family and profits retained. A person or family has the right to establish a personal enterprise (farm holding) by acquisition of a State owned enterprise.

The owner of a personal enterprise is liable for all his obligations. A personal enterprise will have its own name indicating its legal status and the name of the owner.

10. **Sovkhoz**

This is a State farm where land and property is owned by the State and management is appointed by the government.

ANNEX 4: TYPES OF LAND TITLE

TYPES OF LAND TITLE

The five types of title, which together comprise the land tenure framework, are as follows:

1. **Substvennost**

Nature of Title: Equivalent to ownership.

Term: Effectively in perpetuity.

Granted to: Citizens (but not foreigners) as: (a) Individuals or (b) Joint Collectives - where each member's land is not separately identified and (c) Share Collectives - where each member's land is separately identified.

Entitlement/Price: (i) Former farmworkers and all members of their households, farm pensioners and professionals (e.g. doctors in rural settlements receive an average share of agricultural land calculated by reference to the total available in a district free of charge). More land may be bought at a "normative" price per hectare, 50 times the land tax, subject to an upper limit of area set locally.

(ii) Plots for houses and associated use in rural areas, according to the local "norm" free of charge.

(iii) Plots for gardening and stock-rearing previously granted transferred to ownership free of charge and plots newly granted on marginal agricultural or waste land according to local "norm" also free of charge.

(iv) House plots in cities and settlements are charged for but payment may be waived for certain categories of people (e.g. pensioners)

Conditions: (i) May be passed on by inheritance but not by gift.

(ii) Agricultural land acquired free of charge may not be sold for ten years from date of temporary certificate of ownership precluding any realistic mortgaging. (This condition has been amended to allow sale).

(iii) Land must be used for the purpose for which it was granted. A change of use or failure to meet certain productivity targets on agricultural land could lead to forfeiture.

- (iv) May not be transferred or assigned to foreigners.

2. **Pozhiznennoe Vladenie**

Nature of Title: Inheritable possession for life.

Granted to: As for Sobstvennost.

Term: Life but capable of being passed to heirs and successors.

Entitlement/Price: Alternative to Sobstvennost at the claimant's option, free of charge.

- Conditions:
- (i) Title may not be sold but may be leased though not subdivided.
 - (ii) Must be used for the purpose assigned.

3. **Arenda**

Nature of Title: Lease

- Granted to:
- (i) Citizens.
 - (ii) Foreign Citizens.
 - (iii) "Stateless" persons.
 - (iv) "Juridical" persons.
 - (v) Foreign states, Foreign "Juridical" persons and international associations and organizations with or without Russian and foreign participation.

- Term:
- (i) Right to grant leases is restricted to the state except for: (a) those temporarily unable to work or on active military service, students and minors until the age of majority, and (b) collective and other cooperative agricultural enterprises and joint-stock companies, for terms not exceeding five years.
 - (ii) Use restricted to purpose stipulated in lease.
 - (iii) Lease may be inherited for remainder of term if lessee dies before expiry of lease.
 - (iv) Lessees of the State have a right to buy at some later date.

4. **Indefinite or Permanent Use (Bezsrochnoe Polzovanie)**

Nature of Title: Effective use in perpetuity. Differs from Sobstvennost in that rights cannot be inherited or sold. Appears to apply to sites of buildings and not to agricultural and undeveloped land.

5. **Temporary Use (Kratkosrochnoe Polzovanie)**

Nature of Title: Short lease.

Granted to: Citizens, enterprises, institutions and organizations.

Term: Not exceeding 3 years except certain categories of people, e.g. pensioners, and for reindeer breeding and stock ranching for which limit is 25 years.

Rent: Not specified by law, set by local authority, in some cases free of charge.

Conditions: Use only for purpose for which granted.

Source: World Bank Report No. 12711-RU, LARIS Project, May 26, 1994.

**ANNEX 5: LAND REFORM LAWS, DECREES AND
RESOLUTIONS**

**LAND REFORM IN THE RUSSIAN FEDERATION
PRINCIPAL LAWS, DECREES AND RESOLUTIONS**

THE CONSTITUTION OF THE RUSSIAN FEDERATION

The Constitution of 12 December 1993. Recognizes private, state, municipal and other forms of ownership of land. Permits land sales.

BASIC CIVIL LAW

The RFSR civil code (Adopted 11 June 1964). Last amended 24 December 1992 by law 4215-1 (new civil code anticipated).

LAND LAWS

1. **On Land Reform**
23 October 1990. Amended 27 December 1990.
Reintroduces the concept of land ownership in Russia.
2. **On Peasant Farms**
22 November 1990. Amended 27 December 1990.
Establishes a legal framework for private family farms.
3. **On Ownership in the RFSR**
24 December 1990 (supplemented and amended on 24 June 1992, 14 May 1983 and 22 and 24 December 1993).
The basic law concerning land and property rights.
4. **The RFSR Land Code**
25 April 1990.
Defines the basis of land ownership, use and disposition. Revised code prepared by the Supreme Soviet in 1993, but not approved by the President. Most of the Land Code was pronounced invalid by a Presidential Decree on 24 December 1993. The Federal Assembly is responsible for preparing a new land code (currently awaited).
5. **On Payment for Land**
11 October 1991.
Provides methodology for determining sales price, land tax and lease payments (only for State land leased to individuals).
6. **On the Rights of Citizens to Acquire as Private Property and to Sell Land Parcels to Conduct Subsidiary Farming and Dacha Operations, Horticulture and Private Housing Construction**
23 December 1992.
Permitted land sales of small land parcels (generally less than 0.5 hectares in these categories).

7. **Fundamental Law of the USSR on Leaseholds**
23 November 1989. Amended 7 March 1991 by law 2015-1. Basic landlord and tenant law.

PRESIDENTIAL DECREES (UKAZE)

1. **On Urgent Measures for Implementation of Land Reform**
No. 323, 27 December 1991.
Provides for the restructuring of State and collective farms and the establishment of a State land reserve for reallocation of agricultural land to individuals.
2. **On Regulations for Determining Norms of Free Transfer of Land to Private Property**
No. 218, 2 March 1992.
Established procedures for determining land entitlements for State and collective farm workers and other individuals applying to establish private farms.
3. **On Procedures for the Sale of Land Parcels During Privatization of State and Municipal Enterprises**
No. 631, 14 June 1994.
Establishes procedures for sale or long-term lease of land in respect of State and municipal enterprises undergoing privatization.
4. **On Additional Measures for Allotting Land Parcels to Citizens**
No. 480, 23 April 1993.
Supplements earlier decrees concerning allocation of land to private owners and sets out guidelines.
5. **On Certain Measures to Support Peasants (Private) Farms and Agricultural Cooperatives**
No. 1139, 27 July 1993.
6. **On Regulation of Land Relations and Development of Agrarian Reform in Russia**
No. 1767, 27 October 1993
Removes restrictions on the sale of land, and confirms the right to mortgage land. Simplifies the procedures for registration of land. Establishes a simplified "Certificate of Title" as the basic land registration document. Confirms the mandate of the State Land Committee to administer the land registration system.
7. **On Tax Payments for the Sale of Land Parcels and Other Operations in Land**
No. 2118, 7 December 1993.
Establishes system of fees for land transactions, land inheritance and land grants.

8. **On the State Land Cadastre and Registration of Documents of Rights in Real Estate**
No. 2130, 11 December 1993.
Declares establishment of a unified property registry (for both land and structures) and allocates responsibility to the State Land Committee.
9. **On Strengthening of State Supervision Over the Use and Protection of Land During Implementation of Land Reform**
No. 2162, 16 December 1993.
Imposes penalties for inappropriate use of land.
10. **On Introduction of Land Legislation of the Russian Federation in Accordance with the Constitution of the Russian Federation**
No. 2287, 24 December 1993.
Declares to be invalid portions of the April 1991 Land Code, the 1990 Law on Land Reform and description of land auction procedures from Decree No. 1767 of October 1993.

GOVERNMENT RESOLUTIONS

1. **On Supporting the Development of Peasant Farm**
No. 9, 4 January 1991.
Introduces measures to facilitate the establishment of private family farms.
2. **On Procedure for the Reorganization of Collective and State Farms**
No. 86, 29 December 1991.
Sets out procedures for reorganization of State and collective farms.
3. **On Determining the Size of Land Tax and Normative Prices for Land**
No. 112, 25 February 1992.
Outlines an administrative approach to assess land values by region.
4. **On Land Monitoring**
No. 491, 15 June 1992.
Appoints State Land Committee and Ministry of Ecology and Natural Resources to monitor use of land.
5. **On Perfecting the Implementation of the State Land Cadastre in Russia**
No. 622, 25 August 1992.
Specifies principles for operating and maintaining State Land Cadastre with primary responsibility to State Land Committee.

6. **On Procedures for the Privatization and Reorganization of Enterprises and Organizations of the Agro-Industrial Complex**
No. 708, 4 September 1992.
Confirms and expands procedures for reorganization of State and collective farms. Introduces specialized privatization program for food processing and agro-service enterprises.
7. **On Affirmation of Principles for Compensation of Loss of Ownership, Land Use and Land Leasing and Associated Loss of Agricultural Production**
No. 77, 28 January 1993.
Established procedures to compensate land owners and lessees for damage to soil or agricultural production caused by third parties or in the event of land seizure by the State.
8. **On the State Program for Monitoring Land in Russia in 1993-95**
No. 100, 5 February 1993.
9. **On Affirming the Procedures for Approval of Land Purchases and Sales of Small Land Parcels**
No. 503, 30 May 1993. Sets out procedures for free sale of small land parcels.
10. **On the Procedures for Exercising State Control Over the Utilization and Protection of Land in the Russian Federation**
No. 1362, 23 December 1993.
11. **On the Experience of Agrarian Transformation in Nizhny Novgorod Oblast**
No. 324, 15 April 1994.
Approves the results of the Nizhny Novgorod farm restructuring pilot project; calls for establishment of a regional training center in Nizhny Novgorod to prepare specialists to carry out farm restructuring work; and orders the reparation of regulations and procedures governing the process of farm restructuring by 15 June 1994 (not yet implemented).

OTHER DOCUMENTS

1. **Recommendations for the Reorganization of Collective and State Farms**
14 January 1992.
Sets out detailed procedures for the reorganization of farms.