CHEMONICS INTERNATIONAL INC.

PILOT TO SUPPORT FARM BREAKUP, REORGANIZATION, AND PRIVATIZATION IN RUSSIA

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FINAL REPORT

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FINAL REPORT

A. Introduction

As part of its effort to promote land privatization in the Russian Federation, the U.S. Agency for International Development commissioned a technical assistance project, the FARMS project, in November 1994 to test a number of innovative farm breakup and reorganization models in four Russian oblasts. Although most farms in Russia had been privatized in 1992, they largely retained their previous inefficient collective structures, which are ill-suited for market conditions. The goal of the project was thus to develop reliable information on models available under Russian law that would enable farms to adapt more flexible management structures, while shedding unwanted facilities and workers. At the same time, reorganization would help individual shareholders in former collectives realize their land and property rights.

The project would help make tested workable options available to farms seeking to reorganize, and thus facilitate more rapid reorganizations. One way the project disseminated the needed information was by establishing a trained core of Russian farm reorganization experts to lead a roll-out of the project to other oblasts. The project also developed a manual on farm reorganization procedures, which crystallized the knowledge gained by our experience in a comprehensive and easily accessible manner. Seminar-type training sessions also served to make farm reorganization concepts understood by a broad audience of administration officials and farm managers.

FARMS was grounded, in part, on the previous experience and methods of the International Finance Corporation (IFC), which had pioneered farm reorganization in Nizhny Novgorod. However, the IFC's reorganization approach was recognized as not having been the most optimal, in part, because of the considerable opposition Russian officials had evinced toward the model. A primary objective of Chemonics' work was thus to find ways to refine the IFC's system, and make it more adaptable to the broader Russian context. Throughout this report we point out where the Chemonics system differs from the IFC prototype.

With these objectives in mind, Chemonics International, with funding from USAID and under the auspices of the Russian State Committee for Management of State Property (GKI), undertook the seven month FARMS pilot project between December 1994 and June 1995 in the Vologda, Pskov, Kaluga and Saratov oblasts. Up to 20 farms were to be effectively broken up into independent farm operators, with members having land and property shares issued and distributed to them. In addition to these reorganizations, the primary deliverables of the project included:

- **Materials**. Various materials were tested and developed, forming the backbone of a national informational campaign that took place as part of a separate task order.

- **Training**. Training was provided on farm reorganization principles and procedures for Russian specialists and administration officials. As a result, a full complement of trained Russian experts would be in place by the end of the project.

- **Lessons learned and constraints assessment**. Chemonics provided an evaluation of the knowledge gained from the project and an assessment of all technological, policy, and regulatory constraints encountered in the course of FARMS.

- **Roll-out recommendations**. Chemonics developed recommendations for a roll-out program to other oblasts of the Russian Federation.

This final report summarizes the results obtained during FARMS according to each of these five primary deliverables. After first describing reorganization activities, we discuss each deliverable in a separate section, beginning with Section C below.

B. Farm Reorganization Activities

The bulk of Chemonics' effort during FARMS was devoted to developing thorough, practical, and time tested procedures in farm reorganization. In accordance with the task order, Chemonics set up four offices staffed with mixed Russian and American teams—most of them Russian—in Kaluga, Pskov (city of Veliki Luki), Saratov, and Vologda. The teams worked over the course of the seven months with 21 selected farms (one more than the contractual amount) in each of these oblasts, assisting them through every stage of the reorganization process as described below.

B1. Farm Selection Process

The selection process was generally uniform throughout the four regions and involved several stages. First, Chemonics specialists met with oblast administration officials, who on average identified about 15 farms they thought might be good candidates for the project (Pskov officials suggested 67 farms). These meetings at the oblast level took place in November and December 1994. A short questionnaire was then prepared and distributed to farms on the list to test their interest. Later, in December, a second longer questionnaire was prepared and given to the same farms. Chemonics also sent questionnaires to an average of about five farms per oblast who sent in unsolicited requests for assistance.

Chemonics recruited Russian farm specialists who were familiar with the farms being considered for selection. Chemonics used their knowledge, along with the results of the questionnaires, to trim the number of candidate farms to about 15 per oblast.

With the initial screening complete, Chemonics' technical teams began their field visits to the candidate farms. The first visit involved interviews with the director, key assistants, and the foremen of different farm units, during which the teams presented an overview of the project and a detailed explanation of the type of assistance they would be providing. This meeting was used to gauge various farms' interest in reorganization, and thus avert a potential negative outcome at a subsequent general farm meeting held later in the process. Chemonics' experience was that if the farm director was in favor of reorganization, but key farm specialists were against it, then chances were high that the reorganization motion would be turned down at the general meeting. Conversely, if most of the specialists were in favor, and only a minority were against it, then the motion would most likely pass, because the minority could later be swayed to embrace reorganization.

At the first meeting, copies of key documents were requested. The specialists inspected these documents to ensure there would be no legal problems that could delay or stop the reorganization process. Their review included:

- Checking the number of people on the current lists of shareholders to ascertain, in part, whether a large number of shareholders had been excluded from the lists. If a large number had been excluded, they might be able to mount an effective challenge to the reorganization process.

- Evaluating the farms' credit agreements and associated documents to see how much of the farm's property is used as collateral. If the bulk of property is collateralized, it may mean that a creditor could block reorganization by threatening to seek an acceleration of the repayment schedule.

- Noting any contracts that would point to the existence of an outside investor, such as an industrial enterprise. Farm reorganization might be compromised by an outside investor opposing the reorganization process.

Based on the first meeting, the candidate list was whittled down to about 10 farms per oblast, eliminating those farms where possible legal difficulties could have bogged the process down, or those where the specialists felt there was not enough support among the director's circle of specialists. A second more exhaustive meeting was then held with the remaining farms. These meetings included a broader range of participants, such as many specialized and non-specialized workers.

It was at that point, in January 1995, that Chemonics made a final selections of farms (4-6 per oblast). The principal criteria used for selection were as follows.

- Willingness of the director and technical staff to enter the reorganization process.
- Level of competence of the director and technical staff. Chemonics primarily sought to ascertain whether these individuals understood the process fully and could guide the work of the reorganization commission.
- Level of interest of farm members in forming their own enterprises.
- Level of support from the raion administration.
- Absence of any legal complications that could frustrate the reorganization process.
- Distance of the farm from the regional team's base of operations.

Using these criteria, the following farms were selected.

- Vologda oblast:
  Sidorovskoye (Grazovetskii raion)
  Ploskoye (Grazovetskii raion)
  Belovskoye (Vologodskii raion)
  Rossia (Ustejienskii raion)
  Svetliy Put (Ustejienskii raion)

- Pskov oblast:
  Iskra (Velikoluksky raion)
  Svetoch (Pytalovsky raion)
  Smychka (Velikoluksky raion)
  Zhogovskoye (Pytalovsky raion)
  Krasnoye Znamya, (Velikoluksky raion)
  Druzhba (Velikoluksky raion)

- Kaluga oblast:
  Pyatnitskoye (Babininsky raion)
  Gavrilovskoye (Kirovsky raion)
  Kuzminitchskoye (Kuibishevskiy raion)
  Lenino (Meshovsky raion)

- Saratov oblast:
  Osinovskoye (Engelsky raion)
  Uritskoye (Lysogorsky raion)
  Raskatovskoye (Mark raion)
  Selskaya Nov (Krasnokutsky raion)
  Novoselskoye (Marx raion)
  Pobeda (Marx raion)

B2. The Reorganization Process

In reorganizing each farm, Chemonics' specialists worked in cooperation with the intra-farm reorganization commission, a decision-making body consisting of about four to seven individual farm members formed for the purpose of managing day-to-day reorganization activities. In general, the specialists also followed the order of clearly defined farm reorganization stages that had originally been developed by the IFC in Nizhny Novgorod. These stages generally proved themselves to be practical within the context of the FARMS project. Each stage is described below.

Informational campaign. Prior to any decision by the individual farms, a targeted information campaign was launched by the Chemonics teams to acquaint farm members with the nature of the process, the key reorganization stages, the rights of the individuals, and the way these rights could be realized.

One group given special attention during the campaign were farm pensioners. On average, pensioners make up almost half of the shareholders in the farming enterprise and are often the most fearful of the process. They were likely to vote in favor of reorganization only if they thought they would be made better off. One way our specialists sought to convince them to vote in favor of reorganization was by stressing that pensioners are currently just shareholders with no written agreement for personal service (e.g., house repairs, transportation, etc). If they sought to have their personal services continued under the current system (one of their principal needs), they would have to rely on their relations with the farm director to get anything done. In contrast, following reorganization, the pensioners would have a contract obligating the head of the new enterprise, who rents shares from the pensioners, to perform the needed services, regardless of his/her personal feelings towards them. The pensioners' right to receive services would thus be solidified through reorganization.

Chemonics' activities in support of the information campaign included the preparation of brochures and leaflets on farm reorganization and their distribution to farm members; the establishment of farm information centers, usually a room located in the main office building where people could pick up relevant information materials; and the setting up of bulletin boards which gave a schedule of upcoming events related to farm reorganization.

Materials prepared during the course of the information campaign were of two types. One aimed to provide general information on farm reorganization to all members of the farm. This included, for example, copies of the reformist publication, *New Owner*, and specially made brochures on such topics as share owners' rights or the steps in the reorganization process.

Other materials were directed at specific groups. For example, there was a brochure on rental agreements for people such as pensioners, whose primary relation to the new enterprises was as lessors of land and property shares. For the more aspiring entrepreneurs among the farm members, we developed a brochure on how to form enterprises (see Section C on materials development for a list of the titles of the different FARMS brochures).

Many of the documents forming part of the information campaign were to have been done by a separate task order. However, coordination problems among task order leaders and differences of opinion with reference to the potential for success of the FARMS task order delayed collaboration with the communication task order. Therefore, the FARMS regional teams, with some support from the Moscow office, were obliged to develop their own brochures, a task they accomplished quite effectively.

Chemonics also organized group meetings and contacts between specialists and individuals on the farm to further explain the process and reduce concerns. Just as with the brochures and leaflets, meetings were of a general nature or targeted at specific groups, such as accountants or potential heads of new enterprises.

The information campaign generally continued throughout Chemonics' involvement with the farm.

The general meeting. The primary purpose of assembling all farm shareholders was to vote on the motion to reorganize. If the motion was approved, the general meeting created and named the intra-farm reorganization commission to lead the reorganization process. The commission has the authority to decide on the recalculation of shares, the individual eligibility for these shares, and the right to execute the redistribution of share certificates.

Furthermore, the general meeting establishes a general plan for reorganization. If the general meeting opts to begin reorganization, a decision is also made to give notice of employment termination to all workers, because, in most cases, the old enterprise will cease to exist. As a rule, Chemonics' specialists attended the general meeting and stood by to answer any questions from farm members.

The general meeting also serves other less legalistic purposes. It gives potential leaders of new enterprises their first chance to make themselves known to the other shareholders, and to make the first contacts for gathering employees, land, and property shares. In addition, the general meeting is a way for the members to vent their frustrations, regarding specific or general issues (e.g., the fact that their former system has failed). Much of the first part of the meeting is often

taken up by emotional, harsh recriminations. Frequently, pensioners blame the younger workers for ruining the farm. After emotions subside, the farm members generally take the decision that is in their best interests. Often the decision is to undergo complete reorganization.

The Chemonics team ensured that the general meeting was performed in accordance with the law, and thus could not be challenged later by disgruntled shareholders. For example, the general meeting agenda had to be announced and posted several weeks in advance, a quorum of shareholders (as described in the farm's charter) needed to be present, and voting had to follow proper procedure.

Following the general meeting, the intra-farm reorganization commission would assume the lead role in the farm reorganization, with Chemonics providing advice and consultational support throughout the process. One key aspect of Chemonics' assistance was the use of the firm's USAID-financed automated equipment. Computers were used to facilitate the recalculation of shares and photocopy machines aided in drawing up multiple certificates and other documents to be distributed to each member. Chemonics also provided blank documents for rental agreements and made up charter forms for newly formed enterprises.

Review/update of stockholders' lists. This task involved bringing the list of people up to date, who, according to criteria established in the laws of the Russian Federation, are entitled to receive land and property shares. The intra-farm reorganization commission was in charge of reviewing the shareholders' lists to make sure that all eligible participants were included. The commission also reviewed requests by individuals, who were not on the list, to be inserted. Chemonics' team provided consultation in cases when farms were not sure if a certain individual qualified for a share.

Inventory of land and property. Chemonics' teams assisted farms in reassessing the values of the land and property. The most time consuming part of reorganization was the inventory of non-land assets (including equipment, facilities, and inventory), taking into account depreciation and inflation. Most equipment had been assigned a monetary value in 1992 that had little to do with real value. Inflation further contributed to making these values virtually meaningless. Two methods of reevaluating property were used. The first involved finding and assigning a market value to each item, while the second multiplied the 1992 values by a coefficient established by the oblast administration.

Work to deliver certificates. Based on the newly-computed value of the property and the dimensions of the land area, the size of each individual's land plot and the value of his/her share in the non-land assets were calculated. This last figure was computed taking into account such factors as length of the individual member's service on the farm and his average wage during the last five years of active employment. Farm members then received certificates that defined the land and property shares to which they were entitled. Chemonics' specialists consulted with the farms during the process of share calculation, and then helped prepare and distribute the individual certificates.

Establishment of lots. Once all farm assets were classified, the intra-farm reorganization commission worked to establish appropriate lots in preparation for the division of property. At the conclusion of this process, those new enterprises, which would be formed as a result of reorganization, could begin to submit applications for the land and property lots. The commission generally assigned work on the lots to different members. For example, the agronomist was in

charge of land lots, while non-land asset lots were within the purview of the farm economists and engineers.

The establishment of plots is a delicate undertaking, insofar as one needs to prevent a dislocation of natural production networks. The primary goal was to assure that each lot represented a cohesive unit and included all the components necessary for work to occur. For example, a tractor would form one lot with all its implements, barns were counted with cattle, and garages and repair shops included all tools. Land plots were formed so that they would not be divided by a road, or other artificial division, within a single lot.

In assembling lots, land was evaluated using hectare points, whereby both the quality and surface area of the plot were taken into account. Land with the best quality soil was assigned a higher hectare point value, which was reflected in the values for each plot. Non-land assets were given values in share-rubles corresponding to their value assigned during inventory.

Once lots were established, they were advertised on the bulletin boards in the main office building with a corresponding value in hectare points (land) and share rubles (non-land). A map indicating where all land lots were located was also displayed on the bulletin board. Each asset was also assigned a number, which was fixed or displayed on that plot or item.

Filing bids. All individuals/parties wishing to bid on a single lot had to submit their formal intention to do so to the intra-farm reorganization commission. The bid was basically a written statement by the parties, claiming that they have in their possession a certain number of share rubles and hectare points, and are requesting permission to have the property assigned to them as bidders. The bidders had to show proof to the reorganization commission that they had in their possession enough agreements to rent or lease shares to cover the established values of the item requested.

All intentions to bid were made public in an effort to make the process as transparent as possible. In cases where no full agreement was reached and an auction type procedure was necessary, the process to file for intentions to bid went on for no less than three weeks, according to the requirements of Russian law. Following these steps, the initial decisions on division of property took place.

Division of property. A number of prescribed methods exist for dividing property. By far, the most often used in FARMS was by agreement, whereby the new enterprises reached mutually agreeable decisions as to what land and non-land assets each new enterprise should receive based on the shares each had managed to accumulate. Following the agreement, protocols are signed between each participating party and the division is considered complete.

Chemonics considers the division of property and land by agreement the best and most efficient method for dividing land and property. Our teams thus sought to have as much property transferred through agreement as possible. In this sense, our approach is clearly distinguishable from that of the IFC, which requires that an auction-type mechanism be used in every case, even where single bids have been placed on all items of property. Chemonics prefers the use of agreements because it precludes the possibility of resentment among farm members who otherwise may have thought they had received an unfair deal. Furthermore, it has been our experience that the auction is viewed negatively within Russian society, which considers auctions as instruments of bankruptcy or as a mechanism for hungry capitalists to grab up farms (even though such is not the

case). With such an existing bias, participants in the auction often come away with a negative psychological impression of the proceedings. Opponents of reorganization thus have seized on the auction as a bogeyman by which to discredit the farm reorganization process as a whole, stressing that the rural people are being sold out.[1]

Chemonics resorted to a controlled auction-type procedure similar to that used by the IFC for two farms in Vologda where an agreement could not be reached. Newly formed organizations bid on land and property using their accumulated shares in hectare-points and rubles respectively. It should be noted that this procedure is not a true auction for several reasons: 1) each participant knows how many hectare-points and share rubles every other participant has, 2) everyone knows what items every other party is going to bid on.

Chemonics added a feature not contained in the model of the IFC: a "time-out" pause. This was introduced when it became clear that the participants were bidding strictly based on emotions, and were not taking into consideration the actual values of the goods. At that point, bidding stopped and resumed at the starting price after a certain cooling off period.

The third method involved the use of a lottery. The system was used to allocate land and property among the intra-farm cooperatives created in the Pskov oblast (see Section B3 below, Results of Reorganization, for an explanation of the intra-farm cooperative). Two farms in Kaluga also used a lottery to distribute some property, although this method was used only when the bulk of assets had already been distributed by agreement and only a few items remained.

Chemonics attended the general meetings at which assets were divided, standing by for consultation as required.

At the conclusion of the meeting, new owners were named, and acts of transfer were prepared and validated. The act of transfer is a document that officially marks the transfer of the asset from the collective farm to the new owner. We recommended that the new owners should take possession within 48-72 hours of the transfer of ownership, because otherwise the equipment might be stolen. The new proprietors were also advised to have padlocks and keys ready to assure theft would not take place.

Preparation of starting sheets for new enterprises. Following the transfer of property, the reorganization commission, with cooperation from Chemonics, put together an initial balance sheet for each enterprise formed during the reorganization process. These balance sheets set forth the value of assets and liabilities received by each newly formed enterprise, with the aggregated total for all new enterprises equaling the last balance sheet of the reorganized farm. In those cases where a full breakup occurred (see next section for a discussion of the various reorganization techniques) each new enterprise assumed a debt in proportion to the ruble assets it owns. Where only a "split-away" occurred (see explanation in B3. below), the original farm kept most of the debt, as the individual/family farms were able to start their work debt-free in exchange for leaving some assets behind.

[1] In the United States, a farm auction carries a similar humiliating stigma.

Registration. Chemonics' teams assisted the newly formed enterprises in submitting documents needed for their registration to the raion administration. The new enterprises came into legal existence from the moment of registration.

The registration packages are different depending on the type of enterprise created. For individual/family farms, which are not considered legal organizations under Russian law, the registration requirements are simple. The process is more complicated when it involves limited liability companies or other types of enterprises. In general, however, the registration packet includes the charter, copies of rental agreements, a list of the shareholders, and the relevant biodata.

Prior to registration, Chemonics' teams helped select the organizational form of the new enterprise. They then assisted the future mangers in preparing their charter and establishing the exact number of shareholders and administrative structures each enterprise would have. Chemonics also assisted the new enterprise in putting together the registration package that corresponded to the legal form of the enterprise.

Land survey and publication of individual land plats. This step was undertaken as an experiment by our Vologda farms—it is not part of the IFC's Nizhny-Novgorod model. It included a land survey to establish the precise location of each individual farm member's specific plot. The survey is intended to make it easier for members to leave the new enterprise should they decide to do so in the future.

Concurrent with their work through each stage of the reorganization process, Chemonics' specialists spent considerable time and effort on the following two essential activities.

Assembling the new enterprises. Groups of individuals interested in forming their own companies received continuous consultational assistance from Chemonics on most key issues relating to the establishment of a private company, including what type of legal form the enterprise should adopt; how to gather enough land and property shares to obtain the land and equipment needed; and what type of agreements to reach among themselves and with other shareholders whose land the new enterprise intends to use. Chemonics' legal advisors prepared the founding documents for each new enterprise, including the basic members agreement and the charter.

Transfer of social assets. Prior to reorganization, most farms had assets on their balance sheets that had nothing to do with production, generating considerable negative cash flow on the collective farm. These included social infrastructure such as schools, healthcare facilities, and social clubs, as well as communal facilities and services such as heat, gas, and sewage. The Russian government has sought to transfer these types of assets to the balance sheets of the local municipalities and administrations, which would assume the costs for maintaining these facilities and services (in accordance with federal decree number 724). Each Chemonics regional team had a social services expert, who encouraged the local administration to accept this transfer.

By the end of the project, June 1995, six farms—five in Vologda, and one (Pyatnitskoye) in Kaluga—had completed the process of reorganization. Another eight had divided up land and property and were working on final activities, such as preparing documents for the registration of new enterprises and putting together the divisional balance. We expect them to finish shortly. The remaining seven farms had not accomplished the actual division of property, but Chemonics considers them so far along in the process that they will not likely turn back.

B3. Results of Reorganization

The 14 farms that have either already finished or are on the verge of completing the reorganization process have adopted one or a combination of the following three fundamental reorganization techniques recognized by Russian law.

Breakup (Razdeleniye). Under this model the original farm breaks up into a limited number of enterprise units, which divide all land, assets, and debt among themselves. The original farm ceases to exist as a result. This approach was adopted by four farms in Vologda, and by the Pyatnitskoye farm in Kaluga.

Split-away (Videleniye). In this case, adopted by 12 of the farms in all regions, the primary result of reorganization is the formation of a few small individual or family farms (termed "peasant farms") from the original farm. Russian law distinguishes between these individual farms and enterprises that result from farm breakup insofar as the individual farms are not given the status of "juridical persons" (i.e., full-fledged legal organizations). The original farm's status or existence is not automatically affected by the split-away; it may continue to exist as before, break up, or change its legal status. We found that split-away often occurred in combination with other types of reorganization. In one case (the Druzhba farm in the Pskov oblast), the entire farm broke up, leaving nothing behind. In some cases, where many family/individual farms split away, the creation of an association takes place to render services such as repair, input supply wholesale, grain drying and storage, and marketing to these newly created individual/family farms.

Transformation (Preobrazovaniye). Under this reorganization form, observed in the case of four farms in Pskov and one in Vologda, the original farming unit remained largely together but adopted a legal form which gave it more flexibility. Furthermore, the transformation process led to a sharp reduction in the number of shareholders and also the exclusion of some of the least productive workers. At the same time, the farm may establish two or more intra-farm production cooperatives, which are legally still part of the old farm but function as separate units with their own accounting systems. This way, the farm seeks to give its internal units more independence and facilitates a future breakup, while at the same time minimizing tax liabilities that would be assessed if the cooperatives were legally formed entities.

The approach adopted by the 14 farms that have already achieved distribution of land and property is summarized as follows.

Name	Type of Reorganization
VOLOGDA	
Svetly Put	Breakup into 3 enterprises; split-away by 12 individual farms.
Rossia	Split-away by 4 individual farm; transformation into limited liability company.
Sidorovskoye	Breakup into 4 enterprises; split-away by one individual farm.
Ploskoye	Breakup into 3 enterprises.
Belovskoye	Breakup into 3 enterprises; split-away by 4 individual farms.
PSKOV	
Iskra	Transformation with creation of two intra-farm cooperatives; split-away by one individual farm.
Svetoch	Split-away by seven individual farms, which formed their own association.
Smychka	Transformation with creation of 3 intra-farm cooperatives; split-away by one individual farm.
Zhogovskoye	Transformation with creation of 10 intra-farm cooperatives; split-away by one individual farm.
Krasnoye Znamya	Transformation with creation of 3 intra-farm cooperatives.
Druzhba	Breakup into 10 enterprises; split-away by 32 individual farms, which formed their own association.
KALUGA	
Pyatsnitskoye	Breakup into 2 enterprises; split-away of 19 individual farms, which formed their own service cooperative.
Gavrilovskoye	Split-away of 8 individual farms, which formed their own association.
Kuzminicheskoye	Split-away of six individual farms.

Those newly created organizations adopted the following organizational forms.

Limited liability companies. Where enterprises were created as a result of a breakup, they almost invariably became limited liability companies. Akin to the Western concept of a corporation, the most attractive feature of this form for the farmers is that its members are not personally liable for debts/losses of the company, but only to the extent of their share in the enterprise.

Individual/family farms. Generally, these are close to sole proprietorships or small partnerships in the Western sense, with owners personally liable for their losses. However, as stated above, Russian law does not give these farms separate legal organizational status. Where more than one individual has joined to create an individual/family farm, the land and property is owned in common and cannot be subdivided when individual members leave. Those who may wish to leave in the future would receive monetary (or possibly in-kind moveable property) compensation only.

Associations. In the case of the reorganization of two farms in Pskov, the resulting enterprises and individual farms teamed together to form an association—created under law to represent the interests of its members and to provide services to them. The associations were generally created as a way for the small individual/family farms to receive mutual support from each other.

Cooperatives. In the case of two former collectives in the Kaluga oblast, cooperatives were formed to provide a variety of services, such as repair, to those individual/family farms which had split away. In Russia, the cooperative is usually a workers' collective or "production cooperative" where dividends are distributed according to the amount of work performed.

Closed joint stock companies. In the case of two Kaluga farms, the individual/family farms which split away contributed stock to form two closed joint stock companies—a meat processing facility and a services and repair shop. The closed joint stock company is somewhat comparable to a public Western style corporation that distributes its own stock; although, in the closed Russian variant, an individual stockholder can only transfer his shares to another person or entity only after obtaining the permission of the other shareholders.

The following chart represents a breakdown of the newly formed enterprises by type of adopted organizational form.

Name	Units Formed	Limited Liability Companies	Family and Individual Farms	Associations	Cooperatives	Joint Stock Companies
VOLOGDA						
Svetly Put	15	3	12	0	0	0
Rossia	5	1	4	0	0	0
Sidorovskoye	5	4	1	0	0	0
Ploskoye	3	3	0	0	0	0
Belovskoye	7	3	4	0	0	0
PSKOV						
Iskra	2	1	1	0	0	0
Svetoch	9	1	7	1	0	0
Smychka	2	1	1	0	0	0
Zhogovskoye	2	1	1	0	0	0
Krasnoye Znamya	1	1	0	0	0	0
Druzhba	43	10	32	1	0	0
KALUGA						
Pyatnitskoye	22	1	19	0	1	1
Gavrilovskoye	9	0	8	0	1	0
Kuzminicheskoye	7	0	6	0	0	1
TOTAL	132	30	96	2	2	2

Saratov. Chemonics farm reorganization activities in the Saratov oblast were largely unsuccessful. As can be seen from the above tables, no farms completed the reorganization process there. The principal reasons for this lack of success can be summarized as follows:

- The Chemonics expatriate team were not able to establish good working relationships with the oblast and raion administrations, which largely viewed the FARMS project as a Western conspiracy to destroy agricultural potential in the Saratov region—one of the so-called "Black Earth" regions of Russia.

- The Saratov region was traditionally "closed" to foreigners and many of the people there viewed foreigners with great suspicion. This resulted in much difficulty selecting farms. The initial farms selected were found to be unwilling partners and others were selected. Several of this latter group voted not to go ahead with reorganization in the general meeting, and it was too late to select new farms.

- The winter of 1995 was mild and planting season came early. Farms which willingly participated began planting before the reorganization process had advanced beyond the "point of no return." This effectively shut-down reorganization activities until the fall, and all momentum and enthusiasm were lost.

- The Chemonics team in Saratov differed with the Moscow office on the technical approach, focusing more on ensuring the viability of those units to be broken away from the main farm. Considerable time was spent providing "technical assistance" to farms and in establishing good personal relations with farm managers and specialists. As the farms were "difficult," it was thought that this more gradual approach to building confidence between the expatriate team and farm personnel would result in more willing participation in the future. However, in the end, there was insufficient time as spring planting caught up with farm reorganization activities.

In recognition of the lack of willing participation on the part of oblast and raion officials, USAID/Moscow ordered the early closure of the Saratov office, effectively terminating operations there one month earlier than anticipated.

B4. Form of Land Share Use

For the most part, shareholders of land not interested in farming opted to rent their land shares to the newly formed enterprises. These rental agreements were generally for one year with a possibility of extension. Payment was in the form of either services (mostly plowing of the private garden plots) or products, such as grain, firewood, and hay. The value of these services and products amounted to an average of about 300,000 rubles per year/share ($1.00 = approximately 4,500 rbs.).

A second common technique was for shareholders in a new enterprise to contribute the use of shares they received to the newly formed enterprise. This form was particularly popular in the Pskov oblast, where the vast majority of farm members remained within the one farming unit. Other means of disposing of the land, such as by sale or gift were more rare. The following table illustrates statistics on land use by members of the individual farms, where land and property has been allocated to new enterprises.

Name	Number of Shareholders	Lease	Contribution of Right of Use	Sale	Gift	Other
VOLOGDA						
Svetly Put	453	196	107	97	0	53
Rossia	591	583	0	0	0	8
Sidorovskoye	484	480	0	0	0	4
Ploskoye	457	440	3	14	0	4
Belovskoye	523	519	0	0	0	4
PSKOV						
Iskra	260	20	0	0	2	1
Svetoch	291	0	281	0	0	10
Smychka	338	151	169	0	0	0
Zhogovskoye	369	208	75/21	0	5	1
Krasnoye Znamya	755	0	643	0	0	10
Druzhba	375	26	175	7	25	48
KALUGA						
Pyatnitskoye	96	65	31	0	0	0
Gavrilovskoe	353	17	233	0	0	103
Kuzminitchskoye	488	395	0	0	0	93
TOTAL	5833	3100	1717	118	32	339
Percent	100	53	29	2	1	6

C. Materials Development

A key Chemonics task under FARMS was to prepare a series of comprehensive materials on farm reorganization, which would facilitate the project's nationwide roll-out. In keeping with this assignment, Chemonics created a three-volume procedures manual, which brought together and formalized the practical experience of the project as well as some aspects of the experience of the IFC in Nizhny Novgorod. The procedures manual incorporates all documentation and procedures necessary under Russian law. It is thus meant as a practical working tool for any person directly involved in farm reorganization, ranging from administration and institute officials to farm managers and members of intra-farm reorganization commissions.

A preliminary draft of the procedures manual was completed May 31, 1995 and was presented to the GKI and USAID at a June 23 exposition. It is currently ready for nationwide distribution.

The procedures manual consists of three volumes.

Volume I. The first four chapters lay out the fundamentals of farm reorganization, including its legislative basis. The remaining seven chapters describe, in detail, each of the main stages of farm reorganization, one chapter per stage. Each of the chapters also sets forth the basic principles involved in each stage, as well as practical recommendations for efficient implementation.

Volume II. This volume is an appendix containing models for the fundamental documents used throughout the reorganization process, including all charters and statutory documents. Sample

documents include sample calculations of the property share fund and individual property shares, a list of shareholders, founding documents for different legal forms, a divisional balance sheet, and other relevant materials. These samples were derived directly from Chemonics' work with the pilot farms, during which they were tested and corrected numerous times. Below, is a full list of the documents contained in the manual appendix.

No.	Document Subject
1.	Terms of reference on reorganization commission
2.	Notice on dismissal
3.	Notice to creditors
4.	Reorganization plan
5.	Land inventory statement
6.	Inventory documents
7.	Sample of fixed assets list
8.	Calculation of property share fund and individual property share
9.	Sample of property share calculation
10.	Information on reorganizing farm
11.	List of shareholders
12.	Calculation of land share
13.	Certificate of entitlement to a property share
14.	Certificate of a land title
15.	Letter of intent to create a new enterprise
16.	Preliminary agreement (on creating a new enterprise)
17.	Founding agreements for different legal forms: general partnership, limited partnership, limited liability company, added liability company, closed joint stock company, production cooperative, and consumer cooperative
18.	Agreement on creation of a new peasant farm
19.	Sample of the list of land and property lots
20.	Application for the participation in land and property distribution
21.	Documents for the auction implementation
22.	Application for exchanging land and property
23.	Fixed assets transfer statement
24.	Divisional balance sheet
25.	Application for registration of a new enterprise
26.	Registration certificate of a new enterprise
27.	Model contracts: land share lease agreement, multilateral land share land lease agreement, land share sale and purchase agreement (lump sum), land share sale and purchase agreement (payment in installments), property share sale and purchase agreement, property share sale and purchase agreement (payment in installments), and property share deed of gift
28.	Model contracts for hiring: individual services contract with the director, individual services contract for the employees, and agreement between head of individual farm and hired workers

Volume III. This volume is also an annex containing 26 information leaflets (2-3 pages each) developed during the FARMS project and distributed to members of the pilot farms as part of the information campaign. This volume contains a list which describes the most appropriate recipient for each individual leaflet. Following is a table describing the titles of each of these leaflets.

No.	Name of Information Leaflet	Addressed to
1	Why is reorganization necessary?	Members (participants) of farming enterprises, land and property share-holders
2	Farm Reorganization Assistance Project	Parties interested in farm
3	What one should know about reorganization Conducting a reorganization meeting	Farm commission, reorganized farm members
4	How to organize an information campaign in a restructured farm	Commission
5	What should the owner of land and property share know?	Land and property shareholders
6	How one can use land and property shares	Shareholders, commission
7	Who has the right for a land share?	Farm members, farm commission
8	Property share fund calculation	Farm members, commission, specialists
9	Property share calculation	Farm members, commission, specialists
10	Who is entitled to a property share?	Farm members, commission
11	Property appraisal in market economy countries	Farm members, commission, specialists
12	Application of official methods of property reappraisal	Farm members, commission, specialists
13	Setting up new farming enterprises	Farm members, commission
14	Guidelines for setting up a new farming enterprise	Farm members, commission
15	What one should know while entering into a lease agreement?	Farm members, commission, specialists
16	Advantages of land share lease agreements	Farm members
17	Starting-up your own business	Farm workers
18	Marketing recommendations for agricultural producers	Farm workers
19	Transfer of social sphere	Commission
20	Support of social sphere facilities	Commission
21	Provision of employment on the mass lay-off	Commission
22	Early retirement pensions	Farm members, commission
23	Social services and privileges rendered by agricultural commercial organizations	Farm members, commission
24	Social protection of labor veterans	Farm members, commission
25	Financial-economic support of the privatized social sphere facilities	Farm leaders, commission
26	Distribution of land and property in a process of farm reorganization	Farm leaders, commission

In addition, Chemonics filmed one of the two farm auctions in Vologda. The film was meant as an educational tool for future reorganization work by any party.

Multiple copies of the farm reorganization manual have been provided to USAID/Moscow and Washington in both English and Russian, on diskette, as well as professionally bound, printed copies. As such, additional copies are not part of this final report.

D. Training Activities

A key objective of the FARMS project was to train a team of Russian specialists in farm reorganization, who would then later spearhead the general national farm reorganization roll-out under a future task order. This training task was largely fulfilled on a practical level. Each regional team had between 10 and 14 Russian specialists on its staff, many of whom had been selected for

their previous work in farm administration and rural reform. Approximately five members per region were assigned as coordinators to an individual farm, and the rest functioned as management, legal, social sphere, economic, and accounting advisers attached to the team. The training was largely hands-on, as these staff members worked their way through each stage of the reorganization process in collaboration with the intra-farm reorganization commission and expatriate experts. A total of 20 other Russian specialists also were attached to the core team in Moscow.

It should be noted that this hands-on training did not just benefit the Chemonics team specialists, but also the members of the intra-farm commissions who went through the process guided by our specialists. These individuals are possible resources for neighboring farms decide to undertake reorganization on their own.

Nevertheless, the project did have some formalized training components, as follows.

- The most important was the week-long general orientation seminar for all new team members, which took place in Moscow in December 1994 and covered all the relevant Russian laws and regulations. The instruction was based, in part, on the experience of the IFC in Nizhny Novgorod, while the Russian Agrarian Institute contributed its own expertise. It was at this seminar that Russian team members received their first in-depth training in farm reorganization concepts.

- One-day introductory seminars were also held in each region to present the project and all the facets of farm reorganization. These workshops were largely meant for local administration officials, including oblast and raion officials, as well as managers of farms which were candidates to participate in the project.

- Each regional team conducted its own one-day sessions on specialized topics at the farms. Sample issues included: how to reorganize a farm, how to create new enterprises, and the impact of taxes on farm reorganization decisions. These workshops were directed mainly at the personnel of the participating farms.

E. Lessons Learned and Assessment of Constraints Encountered

Based on its experience with the FARMS project, Chemonics determined that farm reorganization is a practicable undertaking. The step-by-step methodology tested by Chemonics proved itself as a workable instrument by which farms could become more efficient and market-oriented.

Chemonics found that the Nizhny Novgorod concept developed by the IFC could be made more effective and palatable to Russians with a few key alterations. The two most important of these amendments are:

- Using an auction-type procedure as a last resort, and instead rely on agreements to distribute the property of the former farm to newly-created enterprises. As discussed above, auctions carry a stigma and therefore should be used as sparingly as possible.

- Breakup should not be emphasized as the only acceptable form of reorganization (as was done by the IFC). Simple split-aways by individual/family farms, or the adoption of a different legal form with the introduction of internal accounting units, are among the

other possible effective reorganization paths recognized by Russian law. Freedom of choice was found to be a prerequisite for successful farm reorganization in Russia.

Our experts also found that the farm reorganization can readily be adapted by local Russian personnel, and thus does not require the massive levels of external support provided for by the IFC, which relies on large numbers of interns and expatriate consultants to reorganize each single farm. In Chemonics' experience, local administration officials and farm managers already have substantial knowledge concerning the farm reorganization process. They also have a solid grasp of such essential concepts and procedures, such as making balance sheets, taking land and property inventories, calculating share values, etc. In addition to a few new concepts (such as organizing an auction-type procedure) they principally need instruction in how to apply their present knowledge to farm reorganization (e.g., learning to form lots according to cohesive production units, instead of assigning a lot to every inventoried item).

In light of the above discussion, it is obvious that there are few technological constraints to farm reorganization in Russia. Policy and regulatory constraints are somewhat more significant. Chemonics learned that a variety of obstacles had to be overcome in this sphere, primarily at the local level. Opposition was not concerted but piecemeal, depending on the attitude of the individual raion. In contrast, we found that many national and oblast officials were very much in favor of the project, and did their most to accommodate the Chemonics teams and their project. The issues we faced included:

- The question of social services transfer was particularly problematic. Under Federal Decree Number 724, local administrations and municipalities are required to take over social infrastructure transferred to them from local farms—items such as maintenance of schools and communal services. However, many raions have been reluctant to accept these services and facilities, in part, because of the cost associated with their transfer and maintenance. The raions find ways by which to avoid accepting the transfer, e.g., by arguing that property transfer documents are not in order.

- Most of the farms are burdened with crushing Soviet-era debt, which made some of them reluctant to reorganize for fear that they would not survive on their own under the debt allocated to them, or because of concerns that the debt would not be fairly apportioned. Despite the fact that this is debt from a different era, when market forces did not prevail, most regional administrators have refused to write off any large portion of that debt owed to government entities.

- Local tax authorities often played a disruptive role, as they sought to apply the same rules applicable to industrial enterprises seeking to obtain revenue from transactions undertaken during reorganization. For example, some of the raions refused to grant exemptions to those new enterprises resulting from reorganization from the payment of registration fees.

- Farm managers often retain a subservient attitude towards raion officials. Raion officials thus sometimes became overly involved in the process, seeking to push the farms towards models of reorganization preferred not by farm members, but by the raion administrations.

One constraint noticed at the national level was that, in general, procedures for selling land were not clearly defined, and this seemed to stifle participants' eagerness to engage in

reorganization. According to Russian law, sales of land are permitted, but with some restrictions. These include limitations on the use of land for agricultural purposes and first buyer rights for members of the collective farm. How to implement both of these conditions baffled some of the farm members we worked with, sometimes making them less willing to reorganize.

In any case, none of the obstacles encountered were so significant as to hamper further farm reorganization in our view. Chemonics recommends a roll-out of the project as a course of action that would most likely succeed.

F. Recommendations for Roll-out

During Chemonics' work on FARMS, it was decided that certain fundamental principles would guide the practical implementation of any roll-out project.

- For farm reorganization to succeed on a large scale, it must be led by the appropriate local administrative body at the oblast and raion levels. International donor agencies do not have the resources to reorganize 25,000 farms. A reorganization institutional capacity at the oblast and raion level is essential to lead and assist farm commissions in farm reorganization.

- Local agricultural educational institutes in each oblast must take the lead in training local officials. A network of separate farm reorganization training centers is prohibitively expensive to establish. The most effective and efficient way for large numbers of people to receive training is to make farm reorganization courses a permanent part of the curriculum at local institutes.

- Farm reorganization should be strictly a voluntary process, from which farms can withdraw whenever their members decide it is in their interests to do so. Farms should also be able to choose from the variety of reorganization paths and ownership forms available under Russian law. Therefore, any roll-out project should be geared towards having a broad range of permissible variants.

As a result, a roll-out should be almost exclusively devoted to training Russian government personnel and institute faculty in reorganization procedures and provide the equipment, training materials, and necessary financing to facilitate the process. The officials trained would be largely members of newly-formed oblast and raion farm reorganization working groups, which would then provide leadership and technical assistance to reorganizing farms. The role of the contractor would be to assist the working groups throughout the life of the project in carrying out their mission, procuring equipment, producing training materials, training of trainers, and monitoring and evaluation of the process.

The contractor's training activities in the roll-out project would revolve around a series of extensive (probably five-day) training seminars in all facets of farm reorganization.

- Initially, the contractor would use the experienced Russian specialists trained during FARMS to provide instruction to the faculty from one selected institute in each oblast who will later teach farm reorganization. These seminars would be given only to those agricultural educational institutes that agree to make farm reorganization a permanent part of their academic curriculum.

- After that, the trained institute faculty, with assistance from the contractor's specialists, would teach officials from the oblast and raion-level working groups.

- The project could then expand to additional oblasts by having the personnel of the selected institutes in those new oblasts come to a seminar at the institute in a neighboring oblast that has already been taught. The process would then begin again in the new oblast, with the local institute teaching members of the new working groups.

Once the initial instruction is completed, the contractor would begin its final task, *the follow-on assistance to the raion working groups*. Teams of two farm reorganization specialists would be assigned to each oblast to provide continuous support and consultation to the personnel of the raion working groups for the duration of the project. At the same time, they would monitor the progress of the working groups in conducting the reorganization of the actual farms. The institutes would continue to provide training in farm reorganization to new oblast and raion working groups and other interested individuals.

Any follow-on project would result in the reorganization of additional farms in both hub and satellite oblasts. Reorganization would be performed by the raion working groups, staffed by the State Committee for Management of State Property and Department of Agriculture personnel, and guided by experienced Russian FARMS team members. The goal of the roll-out project would be to strengthen Russian capacity at the oblast and raion levels to direct farm reorganization, so that the skills and know-how are available to undertake farm reorganization nationwide.

G. Level of Effort Monitor

The following table presents the expatriate and Russian level of effort (in person months) used in carrying out the FARMS project.

	Budgeted LOE	Invoiced LOE	Balance LOE	Balance Percent
Expatriate	2,547.00	2,550.50	-3.50	-0.14
Russian	9,282.00	9,690.50	- 408.50	-4.40

H. Financial Report

The following table presents the original task order budget, the amended budget after the reduction in overhead rate in accord with Chemonics' audited indirect cost rate, and the actual and final expenditures under the project.

	Line Item	Dollars Budgeted	Total Invoiced	Total NICRA ADJ	Adjusted Invoiced	Dollars Remaining	Percent Remaining
1.	SALARIES						
1.1	HO Expatriate	139,271.69	109,613.67		109,613.67	29,658.02	21.30
1.2	ST Expatriate	375,317.08	481,634.40		481,634.40	-106,317.32	-28.33
1.3	Local Hire	515,338.00	495,130.54		495,130.54	20,207.46	3.92
1.4	Local Support	81,681.00	59,344.61		59,344.61	22,336.39	27.35
2.	FRINGE	209,392.54	230,809.14	10,177.01	240,986.15	-31,593.61	-15.09
3.	OVERHEAD	861,508.39	909,135.89	-89,012.90	820,122.99	41,385.40	4.80
4.	TRAVEL	123,310.24	116,933.06		116,933.06	6,377.18	5.17
5.	ALLOWANCES	682,229.63	601,919.87		601,919.87	80,309.76	11.77
6.	SUBCONTRACTORS	148,425.60	113,062.34		113,062.34	35,363.26	23.83
7.	O.D.C.	531,377.22	578,096.98		578,096.98	-46,719.76	-8.79
8.	SUBTOTAL TASK ORDER	3,667,851.39	3,695,680.50	-78,835.89	3,616,844.61	51,006.78	1.39
9.	G & A	103,433.41	104,218.19	-2,223.17	101,995.02	1,438.39	1.39
10.	SUBTOTAL	3,771,284.80	3,799,898.69	-81,059.06	3,718,839.63	52,445.17	1.39
11.	FEE	226,277.09	225,333.99	-4,806.82	220,527.17	5,749.92	2.54
12.	TOTAL TASK ORDER	3,997,561.89	4,025,232.68	-85,865.88	3,939,366.80	58,195.08	1.46