ANNEX TO MANUAL OF THE FARM REORGANIZATION IN RUSSIAN FEDERATION

VOLUME THREE

Moscow 1995

MANUAL
OF THE
FARM
REORGANIZATION
IN THE
RUSSIAN FEDERATION

VOLUME THREE

ANNEX TO MANUAL
OF THE FARM REORGANIZATION

MOSCOW 1995

Manual of the Farm Reorganization in the Russian Federation,
in Three Volumes:

Volume One - Manual of the Farm Reorganization in the Russian Federation

Volume Two - Appendices to the Manual of the Farm Reorganization in the Russian Federation

Volume Three - Information Leaflets to the Manual of the Farm Reorganization in the Russian Federation

Submitted by Chemonics International, Inc. under
"Farm Reorganization Assistance Project"
Funded by US Agency for International Development
Contract № CCN-005-C-00-3116-00
Task Order № 5-0094-00

The Manual was developed in June 1995
Revised in November 1995

Information leaflets list

No.	Name of Inf. Leaflet	Addressed to	
1.	Why is reorganization necessary?	Members (participants) of farming enterprises; land and property share-holders	3
2.	Farm Reorganization Assistance Project.	Parties interested in farm	7
3.	What should one know about reorganization? Conducting a reorganization meeting.	Farm Commission, Reorganized farm members	11
4.	How to organize an information campaign in a restructured farm.	Commission	17
5.	What should the owner of land and property share know?.	Land and property shareholders	21
6.	How one can use land and property shares?	Shareholders Commission	25
7.	Who has the right for a land share?	Farm members, Farm Commission	31
8.	Property share fund calculation.	Farm members, Commission, specialists	35
9.	Property share calculation.	Farm members, Commission, specialists	41
10.	Who is entitled to a property share?	Farm members, Commission	45
11.	Property appraisal in market economy countries.	Farm members, Commission, specialists	49
12.	Application of official methods of property reappraisal.	Farm members, Commission, specialists	55
13.	Setting up new farming enterprises.	Farm members, Commission	59
14.	Guidelines for setting up a new farming enterprise.	Farm members, Commission	67
15.	What one should know while entering into a Lease Agreement?	Farm members, Commission, specialists	73
16.	Advantages of land share lease agreements	Farm members	77

17.	Starting-up your own business	Farm workers	**81**
18.	Marketing recommendations for agricultural producers	Farm workers	**85**
19.	Transfer of social sphere.	Commission	**91**
20.	Support of social sphere facilities.	Commission	**95**
21.	Provision of employment on the mass lay-off.	Commission	**99**
22.	Early retirement pensions.	Farm members, Commission	**103**
23.	Social services and privileges, rendered by agricultural commercial organizations.	Farm members, Commission	**107**
24.	Social protection of labor-veterans.	Farm members, Commission	**111**
25.	Financial-economic support of the privatized social sphere facilities.	Farm leaders, Commission	**115**
26.	Distribution of land and property in a process of farm reorganized farm.	Farm leaders, Commission	**119**

Leaflet # 1

Why is Reorganization Necessary?

WHY IS REORGANIZATION NECESSARY?

38 million people out of 154 million citizens of Russia live in rural areas. They constitute 12 to 13 million families, who own 120 million hectares of arable land and about 500 million hectares of other types of lands. Despite the enormous share in the country's economy and a huge number of workers during the previous decades, the agricultural sector has never managed to fulfill its main task - to guarantee a regular supply of food stuffs to the population. Russia continues to import more than 40 percent of all food products even though huge amounts of money are invested in agriculture.

Farms that did not perform received more subsidies than the better working farms. The milk maid whose cows annually yielded five thousand kilos of milk got approximately the same salary as the one whose cows yielded only 1.5 thousand kilos of milk. About one third of the crop yield was lost at the post-harvesting stage. People did not feel they were real owners of the cattle or main assets. Despite significant investments, Soviet agriculture remained unchanged.

Finally, everyone realized that there was a flaw in the structure, in the main principle of Soviet agriculture. The problem was formulated by specialists in the following way: Russian agriculture lacked the ability for self-development, it was not susceptible to economic or technological ideas and innovations. For this reason, it was proposed to set up economic structures that would be allowed to change the attitude towards labor and its results. Individual private farms, partnerships, cooperatives and joint stock societies were selected as economic structures capable of market-oriented production. The most important aspect of this process is the creation of new owners, who can be sure that they, their children and grandchildren will enjoy fruits of their labor.

Three years ago the first stage of privatization ended. Former state and collective farms re-registered as partnerships or joint stock societies, and continued to ask for and, what is most surprising, continued to receive, considerable state subsidies. As in the "good old days" these subsidies did not relieve the situation, subsidies disappeared completely. It happened because the great step was not made. First of all, land and assets of former state and collective farms that no longer belonged to the state were not transferred to the new owners. Secondly, farms that were formally re-registered did not get tuned to the new conditions and demands for the development. Few people thought of the new aims and ways of achieving them.

The majority of farmers became land and property share owners only on paper. In reality, many farmers do not know the location of their land share or their property, and cannot get certificates of land or property title. If with the beginning of reforms life in rural areas has deteriorated, it can only mean that farmers have not become real owners of rural land and property.

Reorganization means that smaller production units and individual private farms can be created on the basis of former state and collective farms with large collective property. According to calculations, to be viable a farm growing a traditional set of crops needs at least 40 to 50 hectares of land per family. In places where allocated land plots are smaller it is better to unite them into associations, partnerships, etc.

At the first stage of reorganization collectively owned land and property became common share property. This transformation was practically over by 1994. As a result of this process the structure of the agricultural sector was as follows: about 34 percent of all the state and collective farms retained their status; out of the farms that carried out reorganization and changed their organizational and legal structure the majority became either limited partnerships or mixed partnerships. More than 285 individual peasant farms have seceded from collective farms. Some of these farms have united and formed associations, which number now more than 2.5 thousand.

Reorganization is an ongoing process. Gradual changes are taking place in the mentality of people and in economic conditions. At present we would have started differently, but there is no way back: land and property were distributed in 1992 only on paper and the new owners did not get them in kind. In reality, owners did not get land plots or property units, that is why the second stage of privatization which starts now is necessary. The aim of this stage is to ensure conditions under which farmers can effectuate their right to own and to dispose of their land and property shares as the basis for taking the decision on the use of their land either individually or collectively.

The reorganization procedures are applicable practically to all the farms. The legislative basis of it is Resolution of the Government of the RF "On Reforming Agricultural Enterprises in View of the Nizhny Novgorod Region's Experience" and regulations "On Reforming Agricultural Enterprises" endorsed by it. The recently adopted Resolution of the Government of the Russian Federation "On Procedures for Effectuation of Rights of Land and Property Share Owners" is another very important document which endorses recommendations for the preparing and issuing of certificates of land and property share titles and for disposing of shares.

Reorganization procedures are well developed; it is enough to estimate the situation on the farm, to choose the correct way of reorganizing it, proceeding from its specific conditions and aims, and to act in accord with the legislation. The key is to take the correct decision.

Proper preparation and issuing of land title certificates means that former farm workers becomes land owners. From that moment the land owner owns a land plot, so to say, in times to come. Whatever happens to the collective or state farm, the land will be his. He, his children and grandchildren will own this land and nobody will be able to confiscate it. One can till the land alone or in a group (artel), he can lease his land site but this does not change the status of ownership.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 2

Farm Reorganization Assistance Project

FARM REORGANIZATION ASSISTANCE PROJECT

The project is carried out by *Chemonics International*, a leading international consulting firm in the field of agribusiness and argiculture, in cooperation with the Agrarian Institute of the Russian Agricultural Academy and with the participation of leading Russian experts.

The project is funded by the US Agency for International Development (US AID) assisting Russia in its economic reform and in its transition to the market-oriented economy. The project is realized with the support of the GKI.

The purpose of the project is to assist farms in their transition to a market responsive and economically viable form of production. One of the goals of the project is to test a farm reorganization program in four selected regions of Russia.

The primary outcome of this task order shall be training of a cadre of Russians who will continue effective farm reorganization assistance after completion of the pilot phase.

It is planned that in the course of the project, farms in selected regions will get assistance to more fully reorganize, and to collect and document legal, regulatory and other significant impediments and possible solutions to the reorganization process. It is also planned to develop a practical set of training reference materials that can be used for the continuation of reorganization program.

The main anticipated results of this assistance program include the following:

- a reorganization training manual and a set of materials to be used by specialists of the selected regions, managers and intra-farm reorganization commissions;
- development and approval of reorganization plans for farms, that have expressly demonstrated their readiness for reorganization (up to five farms in each region);
- registration in each selected region of new farming enterprises formed as a result of reorganization efforts;
- distribution of land and property of the reorganized farms carried out by agreement or through holding of intra-farm auctions and lotteries when necessary or when farms wish so;
- receipt of land and property transfer documents by farms created as a result of assistance program;
- a summary of the impediments and their solutions to the farms reorganization programs;

- development of proposals for farm reorganization regionally based programs of assistance to be continued by Russian teams;

- provision of guidance for continuation of a monitoring effort to track the on-going reorganization process and results on the target farms after the completion of the pilot project.

To realize this program regionally based teams of primarily Russian specialists have been established that will work locally and carry out intensive assistance programs with farms that are requesting assistance with the process of reorganization. Technical and administrative support will be provided to the regional teams by the Moscow core team made up of leading Russian experts.

Technical assistance and training will be provided on an on-going basis. The necessary consultations will be provided to all reorganized farms, raion and regional administrations, by regional teams and experts who may subsequently form part of a follow-on team which could continue the reorganization assistance in the region. The individual farm assistance will be based upon reorganization plans and schedules worked out by intra-farm reorganization commissions.

On-going full cooperation by raion and regional officials, agricultural departments, land committees and property management committees will be very important to the success of farm reorganization program.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 3

Conducting a Reorganization Meeting

WHAT ONE SHOULD KNOW ABOUT REORGANIZATION OF AGRICULTURAL ENTERPRISES

PREPARATORY STAGE

1. The legislative acts on agrarian reform adopted recently make a good basis for the implementation of a deeper reorganization of agricultural enterprises.
Reorganization of agricultural enterprises is carried out on a voluntary basis and enables each individual to freely choose the way how to implement his rights of owner of land and property.

2. The decision on farm reorganization is taken by the highest management bodies of the enterprise in compliance with their founding documents. Usually it is the general meeting of the farm members.

3. An intra-farm commission on land privatization and reorganization is set up to implement the reorganization. The composition of the commission shall be approved by the general meeting.

Usually the commission consists of the farm manager, chief accountant, 5 to 7 farm members. It is useful to include into the list representatives from rayon administration, department of agriculture, committee on land resources, property committee (with voice but no vote).

4. The first steps shall be the following:
- organization and conducting the general meeting;
- setting up the intra-farm reorganization commission;
- working out a reorganization plan specifying the dates of the main stages of reorganization.

5. The farms that have unpaid credits shall notify their creditors of the reorganization.

6. One of the most important stages of reorganization is information campaign, conducted during the whole term of reorganization in order to make it open and clear for every farm member.
The information campaign shall ensure that:
- all land and property share owners are informed of the activities carried out;
- information centers providing information on the main legislative acts, forms of agreements and applications and other necessary documents are set up on the farms;
- information leaflets explaining the rights of land and property share owners, the options of using those shares, rules of concluding agreements, issues of setting up

new enterprises or peasant farms, methods of land and property distribution and other issues pertaining to reorganization are prepared and distributed;

- consultations and seminars on various issues pertaining to reorganization are conducted;

Special attention during the information campaign shall be paid to informing the pensioners who are land and property share owners but do not work on the farm.

7. During the preparatory stage the following issues shall be considered as priority issues:

- transfer of the social sphere to the state and municipalities;
- the commission shall prepare the list of social sphere facilities (with their residual value) that are on the balance of the enterprise and are liable for transfer to appropriate local authorities. The list is then submitted to the local self-government bodies who shall take a decision on the transfer;
- privatization of housing that belongs to the farm. The specific option of privatization is determined by the reorganization commission and can influence the size of property shares.

If the above issues are not solved it can hinder the process of reorganization.

8. During the preparatory stage the intra-farm commission shall organize the work on certificates issuance. This includes:

- updating the list of land and property share owners;
- inventory of the farm property;
- determining the size of a property share. The farms that have already done this shall index the shares with regard to inflation;
- preparing certificates of property titles;
- organizing work with rayon committees on land resources, and namely:
    - inventory of lands that are owned by the farm;
    - land appraisal in hectare-points with regard to land quality;
    - preparation of certificates of land titles.

9. The preparatory stage is completed upon the issuance of certificates of land and property titles to all the land and property share owners.

CONDUCTING A REORGANIZATION MEETING

The decision on reorganization is taken at the general meeting of the members of the agricultural enterprise or any higher management body of the enterprise in compliance with its founding documents.

Approximate agenda for the first general meeting:

1. Inform the meetings about the reorganization goals. This general overview will not be an eye opener for the participants as the general meeting shall be preceded by an information campaign among the farm workers and pensioners. Each person present at the meeting shall have been informed of his ownership rights and possibilities arising as a result of reorganization.

2. Take a decision on reorganization in compliance with the founding documents of the enterprise.

3. Take a decision on the transfer of the social sphere (if it has not yet been transferred). Approve the list of facilities to be transferred (the list shall be previously discussed with the rayon administration).

4. Elect the reorganization commission or prolong the authority of the previous commission (in the former case, the list of members shall be determined beforehand and submitted to the meeting for consideration/approval).

5. Vest the commission with powers to adopt the reorganization plan without calling a general meeting.

6. Inform the meeting about the body or persons responsible for the continuous functioning of the enterprise and preservation of property during the process of reorganization.

Leaflet # 4

How to Organize an Information Campaign in a Restructured Farm

HOW TO ORGANIZE AN INFORMATION CAMPAIGN IN A RESTRUCTURED FARM

One of the special features of undergoing farm reorganization is a broad information campaign, aimed at making the process open and comprehensible for its participants. Resolution # 874 from 27 June, 1994 on Farm Reorganization, passed by the Government of the Russian Federation includes a special section on the information campaign as part of reorganization.

The information campaign is aimed at creating equal conditions for every worker (member) of a collective farm by providing detailed information on every stage of reorganization process, related events, rights and opportunities for owners of land and property shares.

Who is responsible for the information campaign in an agricultural enterprise?

- ***The Intra-farm Commission on land privatization and reorganization (Commission)***

The campaign should embrace:

- ***all*** *farm divisions*
- ***populated areas where*** owners of land and property shares reside

Special attention should be paid to informing the **pensioners.**

To conduct the information campaign the commission (upon necessity) uses services of farm managers and specialists, as well as independent experts and consultants. ***Announcements on the development of reorganization*** *are published, including in mass media.*

Responsibilities of the Commission:

- Pass the following information to all owners of land and property shares:

  - rights of owners of land and property shares,
  - means of exercising these rights,
  - all events taking place.

- Establish information points and provide in each one the following information:

  - Legal documents on reorganization, including the Russian Government Resolution # 874 from July 27, 1994 and #96 from February 1, 1995, etc..
  - farm reorganization plan with a schedule of its main stages,
  - forms of rent, purchase, gift agreements of land and property shares,

- lists of agricultural enterprises, farms and individuals willing to conclude agreements,
- recommended rent payments,
- other information on reorganization;

■ make all land and property share owners familiar with samples of blank documents, necessary to secure their rights and instructions to fill them in

■ monitor the reorganization process and inform all land and property share owners on all the steps taking place;

■ provide information:
- on creation of new agricultural entities and their managers;
- on the schedule and status of submitting applications for land and property;
- on the rules and dates of land and property distribution;

■ provide explanatory work for land and property share owners, organize meetings, consult on:

- possibilities to dispose of land and property shares,
- organizational and legal differences between entities of various types,
- rules of concluding agreements,
- ways to calculate rental payments,
- methods to appraise the contribution of the right to use land to the authorized capital,
- options of land and property distribution, including auction rules
- other issues of reorganization;

In an information campaign targeted at farms, materials from national and local press can be used as well as the assistance of the local administration, department of agriculture and land resource committee.

Leaflet # 5

What Should the Owner of Land and Property Share Know?

WHAT THE OWNER OF LAND AND PROPERTY SHARES SHOULD KNOW

Now you are owner of land and property shares.

Land share - *is part of the land of the farm whose member you are. It belongs to you. Land share gives you the right to become the owner of a specific land plot transferred to the farm's common property. Land shares on the farm are the same for all those entitled to them.*

Property share - *is your share in the common property of the farm.*
Property share gives you the right to claim equipment, machinery, buildings, or any other property equal to your property share value. Property share is determined by the contribution of the worker in the creation of the common share fund of the farm and is established on the basis of the length of service, annual salary or qualification quotient of the worker, and other indicators.

You must get all the documents confirming your right to the land and property shares:

- Land titles are issued in the rayon Committee on land resources. The title shall specify the size of the land share in hectares and in hectare-points -- which characterize the land quality in addition to the plot area.
- Property share certificates are issued by the farm. They shall specify the share value with inflation taken into account.

If your farm is in the process of reorganization, certificates are issued by the intra-farm Commission on land privatization and farm reorganization that is elected at the general meeting.

Having become owners of land and property shares you become liable for paying taxes and other fees if you do not entrust another person (for example, the tenant of your land plot) to do so.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 6

How Can One Use Land and Property Shares?

HOW ONE CAN USE LAND AND PROPERTY SHARES

During the process of reorganization you must decide on how to use your land and property shares. It's up to you to choose the option of using land and property shares stipulated by the Russian legislation.

HOW ONE CAN USE A LAND SHARE

- You can get a land plot for setting up a peasant farm or for individual farming. The size of the plot will be equal to your land share. Though the size of land plots in hectare points is the same for all the farm members, the real size of the plots may differ depending on land quality - the better the quality the smaller the plot.

- If you prefer to work collectively and want to become a member of a collective enterprise, you can contribute your land share or the right to use it for a certain period of time to the charter capital of one of the agricultural enterprises that are being set up on the basis of the reorganized farm. Together with your friends and colleagues you can set up a stock company, partnership or production cooperative (artel). Having contributed your land share to the charter capital you can get dividends depending on the results of the farm's activity.

- If you don't have any desire or ability to become an entrepreneur you can lease your land share to any citizen or enterprise engaged in agricultural production. This may be the farm where you work or it may be any agricultural enterprise or peasant farm whose leader you trust and who wants to rent your land. Then you must conclude a contract stipulating the term of lease and lease payment that you are going to get for your land share. The payment may be in monetary form, in products, or in services (plowing your vegetable garden, delivery of firewood, repairs etc.).

- You have the right to sell your share partially or completely. It can be purchased by other land and property owners, as well as by citizens and organizations for agricultural production purposes. Members of reorganized farms and newly set up enterprises have priority rights in purchasing the shares. You can get a lump-sum payment or be paid in installments. Payment can be in money, in products, or services. Think well before selling your land share. If you are not sure you want to sell it, you can lease it for a short term and consider the sale of your share later.

- You can bequeath all or part of your land share or give it as a gift to farm members or to any other citizen. You can give your share as a gift to your children or grandchildren who will then decide themselves what to do with it. While setting up a peasant farm, members of your family can give their shares as a gift to the head of the farm. The deed of gift shall be notarized and registered in the rayon committee on land resources. Land shares can be bequeathed to close relatives or to any other persons.

- You can exchange your land share or part of it for a property share. This is especially wise if you need equipment and machinery for your economic activity rather than land (for example, a cattle breeding farm, a workshop, etc.). The value of both property and land shares can be consolidated and you can get it in monetary form.

- You can use all or part of your land share to enlarge the private plot that you are using for farming and housing construction up to the established limit.

HOW ONE CAN USE A PROPERTY SHARE

- You can obtain property in kind for setting up a peasant farm, an agricultural organization, a service company, or for individual labor activity. You can unite with other property share owners and get the necessary property, or you can lease your property share or transfer it under the economic jurisdiction of other persons.

- You can contribute your property share to a newly set up enterprise (partnership, cooperative, etc.). If you contribute your property share to the charter capital you have the right to get dividends if the company makes a profit. You can also sell your share or get compensation if you leave the company.

- You can sell all or part of your property share at a market price to other owners of land and property shares of the same agricultural enterprise, as well as to the enterprises set up by these owners.

- You can give your property share or part of it as a gift to a peasant farm, other land and property share owners and enterprises set up by them.

- You have the right to exchange your property share or part of it for a land share.

- You can bequeath your property share or part of it.

- You can also enjoy other rights envisaged by the Russian legislation regarding land and property shares.

When you make up your mind and decide how to use your land and property shares, you shall file an application to the board or any other executive body of the farm specifying the way you are going to use them. If the farm is being reorganized, the application shall be filed to the Commission on land privatization and reorganization. The period of time during which you shall make your decision regarding the use of your land and property shares is set by the Commission.

After more than 95% of land and property share owners file their applications, the farm shall distribute land and property. During this process you or the enterprise you have decided to join have an opportunity to obtain land plots and property you are interested in.

In case you do not get certificates during the time set by the Commission, or, having received them, do not exercise your right to use them, your land and property shares will be considered unclaimed. The Commission can decide to transfer unclaimed shares under the economic jurisdiction of newly set up enterprises. In this case, other people will then take a decision instead of you.

Make your choice!

Developed under the auspices of GKI of the Russian Federation

Leaflet # 7

Who Has the Right a Land Share?

WHO HAS THE RIGHT TO A LAND SHARE?

In accordance with Government Resolutions the following categories of people have the right to become land share holders:

- **Workers of agricultural profit-oriented entities (enterprises)** including those laid off in connection with staff reductions between January 1, 1992, and the introduction of land share ownership. (Part-time, seasonal workers and those employed by independent services agreements are not included.)

- **Pensioners retired from an agricultural profit-oriented entity (enterprise)** who continue to live on its territory, including those who get survivors' death benefit, disability pension and other types of pensions.

- **Pensioners residing on the territory** that became the property of an agricultural profit-oriented entity (enterprise) as a result of reorganization, who retired from the collective farm to which that territory used to belong.

- **Workers of social sphere facilities** situated on the territory of that enterprise (farm) and **persons temporarily absent** but entitled to return to that enterprise (servicemen, scholarship holders, workers sent to training or vocational courses, women on maternity leave can either dispose of the land share themselves or send a letter of attorney to their proxies).

- **Heirs of deceased persons** entitled to a land share but who had died before they received land share titles (if heirs apply for a land share title within the limitation established by the Russian Government).

All land share owners, if they present corresponding applications, are issued land share titles prepared by raion land resources and land survey committees. Land share ownership can be legalized only after the raion administration takes a decision on the transfer of land into collective ownership of an agricultural profit-oriented entity (enterprise). It is the intra-farm reorganization and privatization commission that organizes the issuance of land titles during farm reorganization process.

The "territory of an agricultural commercial organization" is land within the boundaries determined by the land assignment documents, issued prior to approval of new land redistribution projects in connection with farm reorganization. Pensioners residing in houses and living premises which are on the books of the enterprise at the moment when the enterprise becomes a land share owner, even if these houses are situated beyond its boundaries, are considered residents of this agricultural enterprise.

Leaflet # 8

Property Share Fund Calculation

PROPERTY SHARE FUND CALCULATION

1. WHAT IS A PROPERTY SHARE FUND?

A property share fund (PF) is the value of part of the farm's property which is subject to distribution. The property share fund is the basis for the calculation of property shares.

Indivisible funds, or service and support facilities, are not included in the property share fund. The share of each commodity producer in this fund is preserved in case independent enterprises are set up on the basis of the indivisible fund. This share gives them the right to use the services of the new enterprises on a cooperative basis.

2. PROPERTY SHARE FUND CALCULATION

The calculation of the property share fund is done on the basis of:

- Property inventory. During the inventory all discrepancies between the actual property and books shall be established.

- Balance sheet for the quarter prior to reorganization. The balance sheet shall include data of the latest (as of January 1, 1995) reappraisal of main assets. Main assets shall be reappraised on the basis of the replacement cost. The balance of the reorganized enterprise used for the calculation of the share fund is included in the package of documents for the issuance of certificates of entitlement.

3. PREPARATION OF FINAL DOCUMENTS

Responsibility for property inventory rests with the intra-farm commission on land privatization and reorganization of commercial agricultural organizations. An ad hoc subcommission can be set up to appraise the property of the farm and prepare documents for the calculation of property shares. These documents shall include:

a) The balance sheet of the reorganized commercial agricultural enterprise.
b) Inventory Statement with three categories:
   - Main assets liable to distribution;
   - Social sphere assets transferred to the local administration;
   - Property to be written off.
c) Current assets inventory statement .
d) Share fund calculation statement.
e) Property share calculation statement.

4. HOW TO CALCULATE THE PROPERTY SHARE FUND

A property share fund consists of:

- Main assets value
- Current assets value
- Monetary funds and secutities

minus

- Value of the social sphere transferred to the local administration
- All the debts
- Value of property written off

Property share funsa are calculated according to the following table:

Indicators	Cost of property as of " "_____199_ minus depreciation, thousand rubles
Main assets and investments (part 1 of the balance sheet assets part)	
Inventory and expenses (part 2 of the balance sheet assets part)	
Monetary funds and other assets (part 3 of the balance sheet assets part)	
Total	
Credits and other liabilities (part 2 of the balance sheet liabilities part)	
Social sphere facilities and engineering infrastructure (property inventory statement)	
Written off after the approval of the balance (property inventory statement)	
Total	
TOTAL LIABLE TO DISTRIBUTION INTO SHARES PROPERTY SHARE FUND (BALANCE OF ASSETS AND LIABILITIES)	

5. REAPPRAISAL OF MAIN ASSETS

Main assets shall be reappraised as of January 1, 1995. Reappraisal is carried out the in following manner:

STAGE 1:

First, the full replacement cost of the main assets is calculated. This can be done in two ways:

Method 1: ***on the basis of quotients recommended by the State Committee on Statistics.*** (full balance value of the asset before reappraisal is multiplied by the quotient recommended by the State Committee on Statistics for this type of main assets).

Method 2: ***on the basis of market prices.*** In this case one should bear in mind that reappraisal on the basis of market prices can be done by independent experts only or on the basis of certificates of the prices of similar new objects received from producers, trade organizations, or information received from mass media or special literature.

STAGE 2:

Book-keepers of the enterprises shall determine the residual replacement cost of the main assets on the basis of depreciation of the object.

6.PROPERTY INVENTORY

You can avoid complications while calculating the property share funds if you follow some of the recommendations given here.

•The inventory commission shall establish:

- Main assets on the farm's balance subject to distribution and to be written off.
- Current assets of the farm.
- Social sphere facilities and engineering infrastructure transferred to the local administration.

• When establishing the main assets you must take into account that:

1) The main assets shall be grouped by type (tractors, trucks, combines).

2) The list shall contain state and inventory numbers of the vehicle and the year of manufacture.

3) All barns and cattle farms shall be included in the list together with the value of buildings, structures and equipment and the number of head of cattle.

4) Workshops and repair shops shall be included in the list together with the value of buildings and structures.

5) Warehouses shall be appraised without the value of property stored there.

6) Office buildings shall be appraised together with the office equipment.

The inventory shall also include the value of all the unfinished projects, the cost of plowing, the value of winter crops, perennial plants etc. Each field shall be included on the list together with the description of the unfinished production and its value.

Leaflet # 9

Property Share Calculation

PROPERTY SHARE CALCULATION

1. WHAT IS A PROPERTY SHARE?

A property share is the share of each member of an agricultural organization (enterprise) in the total value of the property share fund.

The size of the property share is determined by:

1. The size of the property share fund. The property share fund is the value of the property of the agricultural organization subject to distribution.

2. The labor contribution of the member of the agricultural organization to the creation of this property fund. The labor contribution is calculated on the basis of a) length of service on the farm, b) average annual wage or qualification quotient of the worker, and c) other indicators.

The indicators shall be approved by the general meeting of the owners and shall be the same for all the categories of people entitled to property shares.

2. LABOR CONTRIBUTION CALCULATION

Labor contribution is calculated by average annual salary (year-ruble). There are two main methods of calculation:

Method 1:
The annual average wage of each person during the period of not less than 5 previous years (for the pensioners - 5 years taken for the calculation of pension) is multiplied by the total number of years worked on the farm.

Annual payments are indexed. The index is a ratio of the average wage of the previous year to the average wage of the current year. This index is multiplied by the sum of the total annual wage of the worker in the current year. Annual wages of pensioners are calculated the same way.

Method 2:
Qualification quotients of the workers are determined by dividing the tariff wage level by the tariff wage of the worker of the main profession, taken as a unit. The length of service on the farm is multiplied by the qualification quotient.

3. PROPERTY SHARE CALCULATION

Property share of each worker is calculated in the following manner:

- The sum of labor contributions of all the farm members is calculated (S).
- The value of property share fund (PF) is divided by the total sum of year-rubles.
- This is the quotient (Q) for the calculation of property shares (Q = PF ÷ S).
- Property share (PS) of each member is calculated in share rubles. The labor contribution of each member (LC) in share rubles is multiplied by the quotient (PS = LC x Q).

The sum of all property shares shall be equal to the value of the Property share fund. The calculations are made according to the following table:

#	Names of persons entitled to property shares	Length of service on the farm	Average wage or qualification quotient	Labor contribution, thousand year-rubles	Property share, thousand rubles
	Total on the farm				

Certificates of property share entitlement are prepared and issued on the farm.

Preparation and issuance of certificates during the farm reorganization are carried out by the intra-farm commission on land privatization and reorganization.

Leaflet # 10

Who is Entitled to a Property Share?

WHO IS ENTITLED TO A PROPERTY SHARE?

The following categories of people have the right to become property share holders:

- **Workers of commercial agricultural enterprises** including those dismissed because of staff reductions after January 1, 1992, and up to the present when land share ownership was introduced in compliance with these recommendations. *(Part-time, seasonal workers and those who work on the basis of independent services agreements are not included);*
- **Pensioners retired from an agricultural profit-oriented organization** who continue to live on its territory, *including those who get survivors' death benefits, disability pensions, and other types of pensions.*
- **Pensioners who live on the territory** transferred to the agricultural profit-oriented organization in the process of reorganization, but who retired from the farm to which this territory previously belonged;
- **Workers of the social sphere facilities** (medical, cultural, educational and other institutions) situated on the territory of that enterprise;
- **Persons temporarily absent** from the farm but having the right to return to that enterprise *(servicemen, scholarship holders, workers referred to training courses, women on maternity leave). The above persons can either dispose of the land share or send a letter of attorney to their proxies who will dispose of the land share in accordance with the absent person's instructions*;
- **Heirs** to persons who had the right to land share but died before the issuance of certificates, in case they apply for them within the limitations established by the Russian legislation.

On the decision of the general meeting of participants (members) of the commercial agricultural organization other categories of people also have the right to property shares:

- Workers of social sphere facilities that are located in the territory of the commercial agricultural organization;
- Persons who had worked on the farm for a long time and resigned at their own will, or who were transferred to other organizations.

The right of property share ownership arises on the date the general meeting of participants (members) of the commercial agricultural organization approves the list of persons entitled to property shares.

All the property share owners are issued certificates stating the value of the property share according to the model. During the reorganization of a commercial agricultural organization the commission on land privatization and reorganization prepare and issue the above certificates.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 11

Property Appraisal in Market Economy Countries

PROPERTY APPRAISAL IN MARKET ECONOMY COUNTRIES

Notice: *The methods described below are not officially recommended for Russian enterprises. Their application at present is impeded by a high inflation rate and lack of reliable information on retail prices for all kinds of agricultural property. We hope introducing these methods will help in the analysis of present and future farming activities.*

- **When is a Farmer's Property Is Appraised?**

Usually a farmer thinks of the property market price only at the moment of purchase. Later on he is more interested in the amortization, credit repayment, etc. - that is, how the property is used and what profit can be extracted from its utilization. The balance price is most important for a farmer during this period.

Market appraisal of the property purchased and located at the farm becomes important in transactions with the property (sale, lease, mortgage etc.). In a market-oriented economy the appraisal of real estate and private property is based on its market cost.

- **Who Appraises a Farmer's Property and On What Terms?**

Professional appraisers usually appraise the property. They can be invited by a farmer as well as by an organization that is interested in the appraisal of the farmer's property. For example, rural banks who provide credit to farmers often have their own appraisers.

The cost of appraisal services does not dependent on property cost and is usually not high. The payment is based on the time spent by the appraiser to do the work. Usually a professional appraiser has the necessary information at his disposal (regularly updated market prices for similar kinds of property across the state and the region, auction prices etc.). This data is usually stored in computers using special software for its processing and calculation. This software saves the appraisal from being a time-consuming procedure.

In addition, the local appraisers are usually familiar with the state of property on the regional farms serviced by them. Communication with the property owner and with the information sources on market prices and the state of the market for the given product is not a problem. In many cases, granting credit is preceded by the property appraisal at the bank's expense.

- **What Preliminary Information is Needed for Property Appraisal?**

Several indicators are needed for the analysis of the farm financial operation:

- Purchase price
- Depreciation charges
- Net balance price
- Current market price, i.e. the price that this piece of property can actually be sold for in the given region at given time.

In any transaction with the property, including mortgages, the current market price becomes the main indicator.

- **Property Appraisal Methods.**

There are 3 main methods of appraising the property market cost:

- Statistical (or comparative) method.
- Replacement method (estimation of the object replacement cost).
- Profit assessment method.

For a qualified appraisal of agricultural property all three methods are used, as a rule.

1. Statistical Method

The statistical method consists of analyzing and comparing transaction terms and prices for similar objects in the same locale (especially for the real property). The cost being estimated is compared to similar objects sold, which are chosen from the best and effectively used property.

Some transactions with the property most closely resembling features to the appraised objects are chosen. Furthermore, these property sale acts are compared, both among themselves and with the property being appraised. The following is considered during the comparison:

- Time of the sale.
- Quantitative description of the object (size for a land allotment).
- Quality of the object (for a land allotment: location, state of logistics on it).
- Peculiarities.

Because there are no two absolutely identical objects, each of the above-mentioned factors in the act of sale is given a dollar price compared to the analyzed property. These corrections are then added to or subtracted from every particular sale. Thus, the price of the property being analyzed relative to the one sold is obtained in this manner.

Seasonal updating of the sales prices is based on statistics, as well as the appraiser's experience and knowledge. State of logistics (quality and effectiveness of its operation) is reflected in the prices and level of depreciation of the property being analyzed and the one sold. The previously sold property upon which the analysis is being made should be sold recently and be very much like the analyzed one.

2. Replacement Method

In this approach the appraiser analyzes the constituents of the property being assessed (quality and quantity of disposed materials, labor expenses, and others) and calculates their market replacement cost. Analysis and calculation is done in comparison to property of the same type, in the sense of use and material value.

Land allotments and plots are considered separately in accordance with the established market classification. Every plot belonging to a certain type is calculated on the basis of what is typical for this type market price.

Buildings and constructions are assessed on the basis of newly constructed object price minus depreciation. Depreciation is the reduction of cost as a result of wear and tear as well as functional and economic obsolescence.

3.Profit Assessment Method

Application of this method is possible in an environment where not only full information on market prices is available, but also credit interest rates are stable enough and comparable with the inflation rate. The cash flow statement of the enterprise is also used in this method, and it takes a certain knowledge of book-keeping methods.

With this approach the appraiser calculates annual net income from the property under the conditions of regular management and operation. Typical indicators of crop yield, price level, and expenses are used. The rate of capitalization (what profit can be extracted - percentage of the current market property price) is derived on the basis of the calculated, expected and current incomes from the utilization of identical property.

Usually the appraiser has access to both the expected and current net incomes from the agricultural real estate operation, as well as the market prices for each kind of property being sold. The appraisal market price of the object can be estimated on the basis of its calculated current rate of capitalization.

4. Final analysis

At the final stage, all three procedures are compared and the most appropriate method for the given type of property is selected. Each method is useful, since they are all meant to complement one another when calculating the final price of the object.

Leaflet # 12

Application of Official Methods of Property Reappraisal

APPLICATION OF OFFICIAL METHODS OF PROPERTY REAPPRAISAL

During the last reappraisal (January1, 1995) of the main assets, two methods were permitted: 1) application of recommended reappraisal coefficients, and 2) market prices. An enterprise can use either one or both of the methods for reappraisal, but assets of a similar type should be appraised using one method.

Regardless of the chosen method, the base for reappraisal comprises: a) inventory; b) total book value; and c) residual value (after depreciation) of the object being reappraised.

The first stage: **Total book and residual value of the object.**

- Total book or original value (the property purchase cost) is determined on the basis of primary data from stock-taking documents: inventory statements or cards for the main assets, technical certificates or other appropriate documents. If the property item is written off during the inventory, it must be registered in the Main Assets Write off Statement. All changes in the inventory documents must agree with book-keeping data.
- The balance value of main assets is determined by subtracting the accrued depreciation value on the reappraisal date from the total book value for the same date.
- If one uses a special reappraisal table (RT), it is necessary to insert total book and residual value of each object into the fourth and fifth columns respectively.
- To reduce further calculations, one determines the residual value share in the total book value prior to reappraisal. For each object this share is determined by dividing the item's residual value by its total book value (D = residual value /total book value).

The second stage: **Calculation of the total replacement cost**

Total replacement cost can be determined by the recommended coefficients and/or according to market prices.

1. Reappraisal according to the recommended coefficients.
Total book value of each object is multiplied by the recommended coefficient for the given type of assets. The result is the total replacement cost after the appraisal.

2. Reappraisal according to the object market price.
Insert the actual market price of Jan, 1 1995 for the given type of main assets objects into the entry "Total replacement cost"

To determine the total replacement cost of the object by market price (replacement method) one should confirm it with:

- independent appraisal organizations' references;
- new identical objects price information, received from the producers, marketers, input suppliers or from enterprises that purchased new similar main assets;
- or information on prices published by mass media, in advertisement or special literature.

The third stage:

Calculation of the residual replacement cost.

The residual replacement price for an item (after depreciation) is calculated by multiplying the total replacement price of the object (an estimation) by the index D previously calculated (residual price share in the total book value prior to appraisal).

Updating the depreciation rate of the objects (change in the wear percentage compared to the one prior to the appraisal) is not considered in the method (except in the case when books contain negative balance price).

The depreciation rate (percentage) of each particular object after appraisal must stay equal to its depreciation rate in the books prior to the appraisal.

While appraising completely depreciated main assets, i. e. more than 100% worn (according to books), the balance price of which before reappraisal was negative, one should insert "0" into the entries of balance price prior and after reappraisal.

The fourth stage

Calculations adjustment

1. Actual reappraisal coefficient calculation

Actual reappraisal coefficients are calculated to within 0.1 by dividing the total replacement cost after reappraisal by total book value prior to it (RT column 8 = col. 6 : col. 4).

The actual coefficient can differ from the recommended coefficients. But in case of significant divergence - more than 1.5 times - the numbers input into the calculation should be reviewed.

2. Depreciation rate calculation.

Depreciation rate prior to reappraisal = 100% - (residual price share in the total book value) x 100%. In the RT table it is done as following: col. 10 = 100% - (col. 5 : col. 4) x 100%;

Depreciation rate after reappraisal = 100% - (residual replacement cost share in the total book value) x 100%. In the RT : col. 11 = 100% - (col.7 : col.6) x 100%.

It should be kept in mind, that the depreciation rate of an item does not change after the reappraisal. That is why, if the calculation is correct, the indices of depreciation rate prior and after the appraisal will be equal.

Leaflet # 13

Setting up New Farming Enterprises

SETTING UP NEW FARMING ENTERPRISES

The process of reorganization is aimed at setting up agricultural organizations (enterprises) that are economically viable in the conditions of a market economy, and provide more effective and flexible management and organization of agricultural production and marketing. New organizations are set up on the basis of the private property of farm members.

During reorganization, land and property share owners can make a decision on individual labor activity, or set up individual farms or commercial agricultural organizations of various legal forms by consolidating their land and property shares.

Decisions on what type of organization to set up or which organization to join are made by land and property owners independently, of their free will, on the basis of their rights, alternatives, and existing economic conditions.

One of the most importat factors when setting up new enterprises is the availability of leaders (the most resourceful farm members) who can assume responsibility for setting up new enterprises and to whom other farm members can entrust the use of their land and property shares. Most often it is the farm leaders, unit leaders or chief specialists who become the initiators of setting up new enterprises.

During reorganization the farm can break up into several smaller independent entities. The break up can be implemented on the basis of territory and result in the emergence of smaller and more manageable enterprises. The break-up can also be carried out according to production. In this case new enterprises are set up on the basis of existing units and infrastructure, or are set up anew and are assigned land plots, equipment and machinery, or buildings against the land and property shares of those farm members who decide to become members of new enterprises.

New organizations may include:

Agricultural production enterprises. The basis for these enterprises is the existing production infrastructure - units, crop growing teams, cattle breeding farms etc.;

Processing enterprises (bakeries, smoke houses, fruit and vegetable processing, milk processing etc.);

Service enterprises, specializing in sales and input supply. The basis for these enterprises can be mechanized threshing units, grain, chemicals, fuel storages etc.;

Repair and maintenance enterprises specializing in repair and maintenance of agricultural machinery, transportation services. These enterprises can be set up on the basis of garages, repair shops etc.;

Support enterprises (wood processing, construction, etc.).

The process of setting up new agricultural enterprises during farm reorganization consists of the following main stages:

1. **Form a group of resourceful persons** to carry out preparatory work. This group is formed by the persons who want to set up a new enterprise.

2. **Determine the main types of activity** and specialization of the new enterprise.

3. **Determine the need** in agricultural lands, property, equipment and machinery proceeding from the types of activity and planned volume of production. On the basis of all the estimates and land and property share size one shall estimate the number of workers of the new organization and the number of land and property shares it would be necessary to buy or lease. It is also necessary to estimate the number of permanent and seasonal workers.

4. **Choose the appropriate legal form** in compliance with the Civil Code of the Russian Federation from the following forms of commercial agricultural organizations:

Full partnership: Participants are engaged in entrepreneurial activity in the name of the partnership and bear responsibility for all property for the obligations of the partnership.

Limited partnership (or kommandit partnership): Full partners carry out entrepreneurial activity in the name of the partnership and are liable for the obligations of the partnership with all of their property; contributors, or kommandists, bear the risk of losses connected with the activity of the partnership within the limits of the amounts of the contributions made by them and shall not take part in the entrepreneurial activity of the partnership.

Limited responsibility society: Can be founded by one or several persons who have made contributions to the charter capital. The participants are not liable for the obligations of the society and bear the risk of losses connected with the activity of the society within the limits of their contributions.

Additional responsibility society: The participants bear subsidiary responsibility for obligations with their property in a multiple that is identical to the total value of their contributions.

Closed joint-stock society: The charter capital is divided into a specific number of stocks that are distributed only among the founders or other previously specified group of persons. The stockholders do not bear responsibility for the obligations of the society and bear the risk within the limits of the value of their stocks.

Open joint-stock company: Participants can sell stock without the consent of other participants. In compliance with Russian legislation this society has the right to conduct an open subscription for the stocks issued by it and the free sale thereof. Therefore, while setting up an open joint-stock company it is necessary to meet several requirements. It is necessary to register the prospect of issuance of securities

and then publish it. This legal form may prove to be very complicated for a rural entrepreneur.

Production cooperative (artel): This is a voluntary association of citizens for the purpose of joint production or other economic activity. The specific feature of a production cooperative is that members of the cooperative shall take part in the economic activity of the cooperative and the share contributions of the members shall be combined.

The most important criteria for the selection of a legal form complying with the goals of the new enterprise are:

- Responsibility of participants for the obligations of the enterprise which include:
  - Their property, as with full partnership or for full partners in limited partnership.
  - Their share of contribution, as with the limited responsibility partnership, or contributors of a limited partnership.
  - A package of shares in stock companies, etc.

- Distribution of profit:
  - In compliance with the labor contribution in cooperative.
  - In proportion to the contributions into the charter capital or shares in the joint capital in economic societies and stock companies.
  - Getting dividends in stock companies.

- Right and obligation to work in the new enterprise.

- The conditions of leaving the new organization. This is one of the most important criteria that should be considered so that land and property share owners can dispose of their shares freely. These conditions may imply:
  - The right to leave the organization any time irrespective of the desire of other participants.
  - The right to get the value of property in joint capital.
  - The right to get the value of the share or corresponding property upon the completion of the fiscal year, and other rights.

While choosing the legal form of the new enterprise it is necessary to take into account various factors, and to analyze all legal forms and choose the best form for the specific case. In a big collective, for example, the typical reluctance to have more privileged members would preclude the use of a limited partnership as a legal form. In a limited partnership management is effected by full members, and the contributors do not have the right to participate in the management or entrepreneurial activity of the partnership. If there is a small group of individuals who trust one another, and who share similar ideas and have similar qualifications, then a limited partnership may become the best legal form for their enterprise.

For tax purposes, the number of workers of the new enterprise is very important. Enterprises that employee fewer than 50 workers can pattaine some advantages in taxation.

The Organizational Meeting. This meeting shall be attended by those who are interested in setting up a new enterprise and have the necessary qualifications to become members of the new enterprise, as well as land and property share owners whose shares the enterprise would like to lease or to buy (for example, individuals who live close to the territory where the new enterprise is going to get the land).

After the meeting those individuals who have decided to become members of a new enterprise (or intend to do so in the future) should sign a letter of intent, confirming their decision to set up a new enterprise. This letter can also be signed by the members of the reorganized farm who want to lease their land and property shares. The letter of intent is the basis for future work with the land and property share owners.

With the results of the meeting in mind the initiative group prepares a ***founding agreement*** which then shall be discussed and adopted by the meeting of the farm members. After this, the agreement is signed by the persons contributing their land and property shares into the charter capital of the organization. The charter of the organization is also drawn for commercial entities. The official registration of the organization can take place only upon the submission of the founding documents and the balance sheet that is determined on the basis of land and property distribution.

At the same time as the preparation of the founding documents, or even before the registration, ***land and property share owners shall be canvassed.*** During this period the terms of the sale of land and property shares are determined, and agreements are drafted.

Land and property share owners ***file applications to the reorganization commission*** informing it of how they are going to dispose of their land and property shares. Together with the letter of intent and draft lease agreements these applications shall be the guarantee of the fulfillment of the obligations of both parties.

Newly set up agricultural organizations apply for participation in the ***distribution of land and property*** of the farm with the aim to purchase agricultural lands in kind, buildings, equipment, machinery and other resources necessary for their activities. After the applications are filed for not less than 95% of the land shares and 95% of the property share fund, land and property are distributed among the newly set up organizations. Distribution is effected on the basis of an agreement, by lottery or by an intra-farm agreement. An auction is usually held in cases where there is more than one application for one land plot or piece of property and where an agreement has not been reached.

The divisional balance is made on the basis of land and property distribution and is filed together with other documents for the ***state registration*** of a new enterprise in the established manner.

After the registration, ***agreements are signed with the land and property share owners.*** The signed agreements on the contribution of land or property shares to the charter fund shall be registered in the rayon committee on land resources and land survey. The sale-and-purchase agreements, deeds of gift and bequest, or exchange of the land share for a property share shall be notarized.

Contribution of land and property shares into the newly set up organization, except for the production cooperative (artel), does not guarantee work in this enterprise. Under the new Civil Code, newly set up organizations bear no liability for hiring all those who have contributed their shares. It is mandatory that full members of a cooperative be guaranteed for work activity.

In order to coordinate their activities, and represent and protect their mutual property interests the newly set up enterprises can set up associations or unions that shall not be commercial organizations under the Russian laws.

Leaflet # 14

Guidelines for Setting up a New Farming Enterprise

GUIDELINES FOR SETTING UP NEW AGRICULTURAL ENTERPRISES

You want to set up a new agricultural enterprise. You have a vague idea about it. What kind of an enterprise it will be, how it is going to operate - all of this can be determined ***after*** the property of the reorganizing farm has been distributed and you have received land plots and property against your land and property shares (your own and the ones that you will accumulate). Then it will be time to prepare your business plan.

Nevertheless, even at the stage of filing your application for land and property you must determine the following:

- What type of activity is your enterprise going to be engaged in, what kind of commodities are you going to produce, what services are you going to render? Please, remember that under the current tax laws agricultural production has different tax privileges compared to other types of activity.

- What will be the desired volume of production? This will determine not only the needs in buildings, equipment, machinery and land, but also the number of workers for your enterprise. You must bear this in mind while filing your application for the property of the reorganizing farm and accumulating additional land and property shares (lease, purchase or co-ownership).

- Your main goal is to set up an effective enterprise that has a reliable, though, most likely, not very high income and the lowest possible production costs. Making a large profit in Russian agriculture will be difficult. Moreover, a large profit will result in higher taxes. In order pay those higher taxes you will need access to liquid assets, which in agriculture is always a big problem due to the seasonal nature of production. More important is viability and stability of production which will enable you to expand.

Note: *You must find out the types and size of taxes you will have to pay, but do not let it be the cornerstone of your decisions and activity. Remember that fines and penalties for untimely payment of taxes can be higher than the profit you might want to hide.*

The following are issues the beginning entrepreneur should be fully aware of:

1. ***Sales and marketing*** (looking for customers, organization of shipment, and probably, retail trade).
2. ***Production processes*** (equipment, machinery, seeds, fertilizers, feeds necessary for your enterprise and distribution processes).
3. ***Hired workers.*** How to work with them, and with the co-owners of your enterprise. Remember that you will have to deal with such difficult problems as dismissals and salaries.

4. ***Bookkeeping,*** including financial settlements, liabilities to tax agency and creditors, etc.. You must either know how to solve these problems yourself, or hire qualified consultants or full-time workers.
5. ***Risk.*** You will have to learn to take risks. This factor is present in every type of commercial activity, but in agricultural production it is more vivid.

Preparation for your future activity:

1. Determine the list of crops or livestock you would like to produce.

2. Think about the possible ways of selling your products. You can assess your market possibilities as low, medium, or high. You must have answers to the following questions:

- Do you have or can you establish direct links with the processors? Are these links reliable? What will the terms be?
- Will you have to use the services of agents?
- Do you have possibilities of establishing links with retail shops and
- supplying them with your products?
- With whom can you cooperate in order to jointly realize or process your products? How much will shipment cost?

3. Think about input supply of your enterprise with regard to:
- Buildings and premises (not only for production purposes but also for storage).
- Equipment (your own or leased).
- Current assets (where to get them, how much it might cost).

• During the first stages, try to determine what you need most. Do not purchase any "extra" equipment at the auction or during distribution.

• Estimate how much the maintenance of equipment will cost. Maintenance of some "extra" facilities might increase your costs; also, bear in mind that you will have to pay property tax, and that the property may be burdened with debts that you will have to pay back. You will also have to insure many types of property.

• Calculate the approximate depreciation costs. Estimate if you will have to purchase any other equipment or goods.

4. Consider the issues of personnel and salaries. Estimate how much you will have to pay as dividends to the share holders, to lessors of land and property shares.

5. Estimate how much you will be able to produce with regard to yield and productivity rates and the size of the land plot. Calculate the potential aggregate costs. Try to estimate what the result (profit) of your activity may be.

6. Estimate the cost of production. Try to envisage a number of options so that you will be able to make changes if necessary.

7. During the final stage, you can make an estimate of regular payments and other liabilities, though you will need quite reliable data on your economic activity to be able to do this. Try to foresee if you will be able to make all necessary regular payments in due time. Draft the balance sheet of your enterprise for the beginning and the end of the year.

- Draft a plan of cash flow which will include the initial balance of cash and the needs in cash. The needs in cash are determined by calculating all of the expenses (maintenance and rehabilitation of immovable property, equipment, machinery, daily expenses).

- Determine your needs for credit resources, which might cover the balance between the cash available and your needs for cash. Update your production plan on the basis of the final results.

- Try to calculate all the payments and expenses by the month so that you will know what sums are involved and when you will need cash or credit.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 15

What One Should Know While Entering into a Lease Agreement

WHAT ONE SHOULD KNOW WHILE ENTERING INTO A LEASE AGREEMENT

If you want to start independent viable production on the plot of land that you have received from the reorganized farm, you may not have enough land even if you accumulate all the land shares of your family members. In this case you will have to buy or lease additional land shares. On the other hand, as a land share holder you have the right to lease your land share for agricultural production to a legal entity including the enterprise where you are a worker or a member.

What does it mean to lease a land share?

Leasing a land share means that a tenant obtains the use of rights to the land share in exchange for the rent he/she pays to the landlord.

A landlord (or lessor) is a person who leases land. A tenant(or lessee) is a person who rents land.

In order to avoid disputes and contradictions on lease issues you should consider the following matters carefully:

- Who is the other party of your lease?
- For what term is the lease made?
- What are the terms of the lease?

Choosing a tenant or a landlord

The majority of land share holders do not have any experience entering into lease agreements. Though you may know people on your farm well enough, you may not have the experience of dealing with them as landlords or tenants.

If you are leasing your land, you should choose your tenant by his/her personal traits, sense of responsibility, honesty and ability to keep promises. Tenants' personal traits are sometimes more important than the terms of payment provided for in the lease.

At the same time, a tenant needs to be a business-minded person, as he/she must make a profit from the land he/she leases. It is the profit from which he/she will pay you your rent.

The length of the Lease

It is advisable to make a short term lease (for instance, for one year) for the following reasons:
1) new agricultural enterprises are generally unstable;
2) the tenant may be new and unfamiliar to you;
3) a short term lease allows the landlord to keep title to the property.

After several years of leasing your land you may consider a longer term lease. By that time you, as a landlord, will be able to accumulate some experience and to better evaluate the existing conditions and your own needs.

A lease agreement is signed for a certain period of time and is automatically extended unless dissolved by one of the parties prior to its termination. In order to secure stable agricultural production it is advisable to notify the other party of plans to dissolve the lease well before its termination. The time limit for notification may be stated in the lease agreement.

Terms of the Lease

The terms of the leases may differ. This is especially true for different forms of rent payments. Rent can be paid in cash, in goods, and/or in services.

Land lease relations are new for our country, which is why rent is regulated in a certain way. Thus, in the leases the rent is evaluated in monetary terms irrespective of the form of payment. This monetary form evaluation depends on the yield of the main crop and productivity at the reorganizing farm.

As most farms have no previous experience entering into leases, the Reorganization Commission must take upon itself the following tasks (at the stage when new enterprises are being set up and contracts concluded):

- Calculation of an average rent for a land share.
- Development of a list of goods and services to be offered to land and property holders against rent.

*Approximate rent calculation: The Reorganization Commission evaluates an average yield (in tons) of the main crop for a particular farm (Y) and determines what part of the crop can be assigned for rent payment (D). A yield per land share(ZD) is calculated (YZD): YZD = Y * ZD. The price of a ton of the main crop is determined (C) and an approximate annual rent payment(A) is calculated: A = YZD*C*D.*

As a rule the rent is not paid in cash but in goods or services and the Reorganization Commission must give its recommendations regarding approximate prices for goods and services. The level of prices shall correspond to the existing level of prices for goods and services in the given area. These prices are considered as approximate and can be easily changed by parties entering leasing agreements. If rent is paid in cash the leasing agreement must provide for its indexation. The indexation must be carried out in accordance with minimal salary growth.

Parties to leasing agreements should remember the following:

When choosing a tenant, the landlord should take into consideration the terms of agreement and the tenant's personal traits. Sometimes it is better to make a long term agreement with a reliable tenant for a smaller rent then to make a seemingly more profitable agreement with a person who can fail you.

At the same time one should remember that tenants now also have a choice. There is no acute land shortage at the majority of reorganized farms, so asking for a very high rent might not make sense.

Leaflet # 16

Advantages of Land Share Lease Agreements

ADVANTAGES OF LAND SHARE LEASE AGREEMENTS

In the process of farm reorganization all farm members receive land shares. Among these members are pensioners and other persons who no longer work.

Thus, we have a situation in which some farm members own land shares but do not till the land, whereas others wish to engage in agricultural production but do not have enough land shares for a full scale farm. In this situation, selling, leasing, or giving a land share as a gift become a necessity.

Before reorganization is completed every land share holder disposes of his/her land share. In comparison with other methods of disposing of one's land share, leasing has several advantages:

Advantages for the Landlord (the person who leases his/her land share):

- The Landlord remains the owner of his/her land share. For many rural dwellers, who upon receiving land shares for the first time in their lives feel like land owners, this might be an important factor.

- The lease agreement allows one, after a certain period of time, to change his/her decision regarding land share. If in a year or two your circumstances change and one's lease expires, one can dispose of one's land share differently.

- The Landlord does not have to till his land himself, nor does he have to think about where to get seeds, equipment or fuel, or about how to harvest the crop.

- Land leased to the farm will be used for agricultural production--also an important factor for people in rural areas who have been tilling that land for many years.

- The Landlord does not till his land but receives rent.

- There are various types of rent payments: Land may be rented for cash, a share of the crop, or a combination of both. Other services, such as chopping wood, repairing the house and outbuildings, plowing the vegetable garden, etc., may also be included.

Advantages for the Renter (the person who rents land)

- Leasing additional land allows the renter to enlarge production and to make the business viable. The land share of many farm members is so small that it does not allow for effective production.

- Leasing, in contrast to buying, does not require significant resources. Rent payments are made in installments, and for the renter, payments are an expense and not income. Rent does not decrease the Renter's income, but rather decreases his/her taxable income.

- The terms of the Lease can be different, and the right for redemption can be provided for, securing a more rational use of land.

Thus, leasing relations can be advantageous for both parties, for the Landlord or land share owner and for the Renter who makes use of the leased land shares.

It should be kept in mind that leasing relations are between the seller and the buyer, and what is advantageous for one party sometimes is disadvantageous for the other partr. That is why you should seriously consider your lease agreement before signing it.

Land leasing is widely used in many countries of the world. In many cases farmers themselves lease and rent land. A farmer can in some cases lease part of his/her land and at the same time rent another more convenient plot from his/her neighbor.

Below is how an American farmers describes lease agreements:

"On our farm we have land leases where we rent to and from my neighbours. These leases are both long term and short term. The terms are share crop and crop lease. The majority of land plots are leased for one year (short-term lease). The short term leases are normally renegotiated each year to delineate any changes that may have occurred in the market and/or different sized parcels of land.

We lease one parcel of land on a five year lease. The terms of this lease agreements are different because of the need to make costly irrigation improvements, which are made by the renter. The longer lease allows the renter more time to pay for these improvements. The landlord gains by having his property improved. This is a win, win situation".

To reiterate, there are two main points to leasing:

1) Initially give strong consideration to short term lease agreements.

2) The character of the renter is as important as the terms of the lease.

Leaflet # 17

Starting-up Your Own Business

STARTING-UP YOUR OWN BUSINESS

You cannot or do not want to set up a big enterprise. You are right, a small enterprise is easier to manage. Even with a small enterprise, you will face problems concerning your enterprise management, marketing your products, and getting some services.

American farmers believe that you can organize and support your enterprises together. Below are some types of enterprises that will help you become profitable.

Flour mill

A simple, small-scale flour mill would benefit villagers. This mill could be family or cooperatively owned and managed. Understandably, it is difficult for an individual to start a flour mill. However, perhaps it would be possible for a cooperative of individual farmers or several cooperatives to jointly develop and own a flour mill. The owners could then have their own bakery and sell products using their own recipes in the village and in near-by population centers. The grain used in the mill could be locally raised or purchased, thereby adding value to local grain.

Equipment rentals

A cooperative could own and rent small scale equipment to farmers. The farmers would get their field work accomplished in a timely and affordable manner, and the owners of the cooperative would be able to maintain and pay for their equipment and show a profit.

Greenhouse enterprise

A cooperative of local farmers could have a small cold-frame greenhouse to aid in the production of vegetables for themselves and for sale in the market. This would help supply their own family needs and open another avenue to the cash market. A cold-frame greenhouse constructed of wood and plastic sheeting would be adequate. If the enterprise is successful, further investment in a more costly hot house may be pursued. The cooperative should make improvements slowly to help eliminate risks from over-expansion and over-spending. Maximize profits and minimize expenses.

Mobile butcher

Individuals, cooperatives, and/or associations may wish to be part or full owners of a mobile butchery business. The butcher has a small facility where the meat carcasses may be cooled and processed. He also owns a mobile unit that is capable of holding four or five head of butchered cattle, hogs, sheep, etc. The butcher travels to the farm, kills the animal, eviscerates the animal, removes the hide, splits the animal in two for easier handling, and hangs the halves in the mobile unit. The mobile unit has a generator to provide electricity for powering winches, etc. Water is also brought with the mobile unit for cleaning the carcass. The offal is taken away and disposed by the butcher. The butcher then takes the meat to his processing plant where the it is aged the required amount of time. After the aging process the animal is cut into

steaks, roasts, hamburger, etc., wrapped in paper, and then frozen. The cuts of meat will be packaged according to the instructions of the buyer. The use of mobile butchery units has several advantages: the cost of transporting the animal to a large slaughter house is eliminated and there is no shrinkage from transporting to and waiting at the slaughter house. A mobile butchery is a case where smaller is better. The efficiency of a small scale enterprise is evident to the benefit of producers, buyers, and processors.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 18

Marketing Recomendations for Agricultural Producers

MARKETING RECOMMENDATIONS FOR AGRICULTURAL PRODUCERS

Stages and Procedures for the Organization of Marketing Products

1. Main organizations or buyers of agricultural produce:

- State procurement organizations supplying federal funds, including, *Zagotzerno,* raion and oblast branches of *Roskhlebproduct* and others.

- Oblast and raion procurement organizations (*Raizagotzerno* and others).

- Consumer cooperatives (one should keep in mind that at the moment in most oblasts of Russia consumer cooperatives are very weak in terms of the volume of goods they procure or the level of their activities).

- Raion wholesale procurement organizations.

- Processing plants (dairy plants, meat packaging plants, plants processing fruits, vegetables and flax, plants producing starch, sugar, concentrated fodder, breweries, etc.).

- Other agricultural producers who may be using your products. For instance, cattle farms may use the produce of plant growing farms;

- State or private food stores.

- Food markets.

- Public catering enterprises open for general public or canteens at industrial enterprises, organizations, schools, kindergartens, etc.

2. If you are producing something that was formally produced and marketed by the farm where you used to work, ask the management or the sales people of that farm how they marketed that produce.

Additional information can be obtained from other producers such as farmers from your raion or neighboring raions if they are not your competitors.

If there is competition, the task of obtaining information becomes more difficult. Then a producer must get addresses and telephone numbers of the above listed organizations from oblast or raion information services.

3. Always verify the exact address or the location of the facility where you have to deliver your produce. In many cases this location does not coincide with the address where it is finally realized. For instance, wholesalers may have temporary and permanent storage places, warehouses, etc.

4. After verifying the delivery point the producer shall determine how he can transport his produce - by car, by river, or by rail. The distance for which to transport goods also has to be checked.

5. If the producer has to use freight as a means of transportation, he should inquire about the price for transporting one ton per one kilometer to the appropriate organization.

6. If the producer delivers goods by his own transport, he has to calculate the cost of fuel per 100 or 1000 tons of goods, depreciation costs, and handling charges if he hires freight handlers, dispatchers, and others.

7. All possible buyers and possible delivery options including transportation costs have to be entered into a special information table (1), which will assist the producer to finally calculate his profit.

8. Communicating with the buyer (in person or by telephone), the producer shall negotiate:

- The volume of purchases within the timeframe that interests the supplier. For milk the timeframe is one day in winter and several hours in summer (for short distances only). For plants and grass - from two to three days to one month (if there is storage on the farm). The timeframe is determined by the buyer.
- The purchase price which is determined by the buyer for state procurement and by agreement of both parties for other cases.
- Payment procedure, including prepayment, delay in payment and sanctions in case of delay, as well as other conditions which are established by agreement of the parties.
- Length of the contract and, correspondingly, the total volume of goods to be supplied. For milk, for instance, one month or one year. For crops - the whole or a part of the crop.
- Schedule of deliveries convenient for the supplier and the buyer.
- The procedure for drawing up the contractual documents describing obligations and rights of the parties.

9. If a producer realizes his produce through a marketing service, all marketing costs are to be covered by the service. In this case, the producer contracts a marketing service and determines its realization fee.

The following is be taken into consideration: a normal marketing fee shall not exceed the costs of direct transportation and marketing plus VAT paid by the marketing service plus a normal profit that a procurement organization is making at that raion at the given moment of time. A normal profit equals an average marketing price per unit of product minus average marketing costs per unit of product (cost of sales). It can be presented by the following formula A= B - C, where A is a normal profit for the realization of a unit of produce (one ton, one centner, one liter), B is an average marketing price per one ton, one centner or one liter of that product in that raion at the given moment of time, and C is an average of transportation and marketing costs.

It is difficult for the producer to obtain information on sales and sales costs for different marketing services and suppliers. Those who have this information keep it secret. This is why the producer can himself determine an approximate normal realization profit by examining all the available data on different receivers, different transportation and sales costs (see p.p. 1-8 and the table below). He must do this in order not to be overcharged by the marketing service which might be overcharging the producer for two reasons:

a) Because it does not perform and has excessive sales costs while not being able to charge high enough prices.

b) Because it is trying to cheat the producer by taking advantage of his ignorance. In this case the producer has to find a different marketing organization.

10. An agricultural producer should unite with other agricultural enterprises or individual producers of a similar produce in his efforts to find and contract a marketing service. In this case all the efforts aimed at collecting and examining data and making the necessary calculations will be distributed among all the interested suppliers. It is necessary in this case to assign one, two or three persons from among the producers whose functions will be mostly coordination of this work. The coordinators shall be remunerated at the expense of all the producers, and the size of remuneration shall be established by agreement among all the members of the group. Each member of the group contributes to the remuneration fund in proportion to the volume of his goods.

11. Table 1 below is an example of how entrances should be made about possible milk buyers and how full direct sales costs should be calculated.

Let's assume that a producer owns a herd of 100 cows, and out of them 50 are dairy cows with an average milk yield of 15 liters per day. The producer has one truck with a 3-ton carrying capacity. He hires three freight handlers to load and unload milk-churns, and one truck driver who is also a dispatcher which allows the farmer to fully dispatch fresh milk within an 8-hour working day if this milk is sold out. Calculation of full costs and the actual demand for milk show that for that producer it is better to supply milk to the dairy plant despite the low price the plant offers for milk because the plant is ready to buy off all the milk. If the milk supplier chooses to realize a part of his produce through a shop, a canteen and a restaurant his driver and freight handlers will spend too much time transporting and handling milk to numerous receivers. As a result they might not be able to dispatch all the milk within one working day. The milk might go sour and losses in this case will be higher than profit made due to high sales prices.

Table I

Information on Buyers, Prices and Sales Costs

(Product - fresh milk. The total volume to be sold in one day - 750 kilos)

N	Information/ Receivers	Dairy Plant	Shop N1	Shop N2	Canteen	Restau-rant
1.	Possible volume of purchase, in kg	750	200	200	100	50
2.	Price per kg in rubles	1000	1400	1400	1200	1500
3.	Total price for the possible volume of purchase in rubles	750 000	280 000	280 000	120 000	80 000
4.	Shipment distance in km	20	25	30	15	30
5.	Payment to driver (per 10 km) in rubles	500	500	500	500	500
6.	Number of raions per day if the carrying capacity of the truck is 3 tons	1	1	1	1	1
7.	Gasoline consumption per ton per km in litters	0,1	0,1	0,1	0,1	0,1
8.	Price of A-76 gas per litter	1000	1000	1000	1000	1000
9.	Total cost of gasoline and lubricants per day in rubles	50 000	65 000	75 000	38 000	75 000
10.	Depreciation costs per day in rubles	0,1	0,1	0,1	0,1	0,1
11.	Freight handler's payment in rubles per factual volume of work	20 000	20 000	20 000	20 000	20 000
12.	Dispatcher's payment per day in rubles	10 000	10 000	10 000	10 000	10 000
13.	Total transportation costs	82 000	97 500	108 000	69 500	108 000

Developed under the auspices of GKI of the Russian Federation

Leaflet # 19

Transfer of Social Sphere

TRANSFER OF SOCIAL SPHERE

The decision on the transfer (sale, lease) of social sphere facilities (clubs, houses of culture, medical centers, libraries, day care centers, schools, sanatoria etc.) and housing is taken by the general meeting (meeting of authorized representatives) of the work collective of the reorganized enterprise on the proposal of the intra-farm reorganization commission. The meeting shall be attended by 3/4 of the total number of the farm workers (authorized representatives), and the decision is considered taken if 3/4 of those present vote for it.

- Some social sphere facilities can remain on the books of the reorganized enterprise in the interests of the work collective.

- The decision of the work collective is then discussed with the village administration (village Soviet).

- In case of disagreement of the village administration the decision on the social sphere transfer is taken by the rayon administration.

- The list of facilities subject to transfer is made on the basis of inventory. The list shall contain the residual cost of these facilities. The intra-farm commission shall consider the list of the facilities and draft proposals for each of them.

- During the transfer of the social sphere the intra-farm commission shall:

  - Determine the order of free transfer of social sphere facilities to new entities.
  - Appraise the facilities subject to privatization.
  - Determine the order of the transfer of social sphere facilities to municipalities or to other legal entities.
  - Assist in the privatization of housing in compliance with the Russian legislation.
  - Provide control of the purpose or designated use of social sphere facilities.

- Free transfer of social sphere facilities of common use is recorded in the transfer-reception act. The act shall specify the year of commissioning of the facility, its balance cost, physical depreciation, debt obligations.

- Agricultural enterprises' debt obligations on the construction of the facilities transferred free of charge shall be transferred to the local administration.

- The social sphere facility shall be sold on the basis of the purchase-and-sale act. Educational facilities (schools, libraries, training centers etc.) are not subject to transfer.

- The social facilities are leased on the basis of the lease contract.

- The reorganized enterprise has the right to sell or lease housing or other social sphere facilities (except for the educational facilities) to legal entities and individuals in compliance with the Russian legislation.

Leaflet # 20

Support of Social Sphere Fasilities

SUPPORT OF SOCIAL SPHERE FACILITIES

Options for support of social sphere facilities, assets and liabilities which are left on the books of enterprises:

- Village or raion administrations can allocate means for the support of social facilities and their maintenance.

- A contract can be concluded between an enterprise and raion (rural) administration on privileges for the enterprise, such as postponement of tax payments, loans, subsidies, privileged credits and material and technical assistance. Privileges match the enterprise expenses for the support of social sphere facilities.

Options for the support of facilities transferred to municipalities, individuals and legal entities:

- A raion or rural administration can create a municipal enterprise offering services to the population.. An association can be formed with the aim of creating conditions for the functioning of social sphere facilities such as repair services, shops, and canteens. Reorganized farms and industrial enterprises, organizations and entities, and rural and raion administrations can become members of these associations.

- Individuals who have privatized social sphere facilities can create consumers' cooperatives, offering different types of services.

- Local administrations can form specialized funds to support social facilities and render social services.

Leaflet # 21

Provision of Employment on the Mass Lay-Off

PROVISION OF EMPLOYMENT IN THE CONDITIONS OF MASS LAY-OFFS

- Russian legislation regulates relations between employers, representatives of work collectives, and local authorities (regional and raion dministrations) in the conditions of mass lay-offs.

- Mass lay-off means that more than one percent of the labor force is released within one month because of liquidation of an enterprise or staff reductions.

- An enterprise management shall pass information on the possible mass lay-offs to the bodies of the Federal Employment Service not later than three months prior to the lay-off.

- Local government authorities, employers, and bodies authorized by the workers (including trade unions) shall work out a plan of measures aimed at providing employment or rendering of social guarantees to workers in the event of mass lay-offs.

- The Russian legislation recommends to the local government authorities in the event of mass lay-offs :

Coordinating re-training programs or vocational training courses for released workers; Designing measures aimed at temporary employment and devlopment of public works.

Organizing a financial analysis of enterprises and measures aimed at the reduction of the labor force.

Rendering financial assistance to enterprises planning mass lay-offs in the form of loan guarantees, privileged credits, subsidies and postponement of tax payment.

Assisting settlement of conflicts between an enterprise management and representatives of its work collective in the event of a mass lay offs.

Leaflet # 22

Early Retirement Pensions

EARLY RETIREMENT PENSIONS

- With their consent, the unemployed, whose length of service qualifies them for a full old age pension (including those qualified for a privileged pension), irrespective of intermissions they might have had in their service, can be granted an early retirement pension. An early retirement pension can be granted not more than two years prior to the retirement age.

- If an unemployed person (whose length of service qualifies him for an old age pension) reaches an early retirement age and if the employment service does not have a suitable place of employment, the raion employment center issues to the unemployed individual, at his request, a standard application form for an early retirement pension.

- The unemployment service stops paying unemployment benefits from the day the person is issued a standard application form for an early retirement pension.

- The size of a pension for an unemployed person is calculated on the basis of the wage or salary prior to unemployment.

- If an unemployed person refuses to accept a suitable job offered to him by the employment service he loses his qualification for an early retirement pension.

Leaflet # 23

Social Services and Privileges, Renderend by Agricultural Commercial Organizations

SOCIAL BENEFITS AND PRIVILEGES PROVIDED BY COMMERCIAL AGRICULTURAL ORGANIZATIONS (IN ADDITION TO THOSE ENVISAGED IN THE AGREEMENTS WITH LAND AND PROPERTY SHARE OWNERS)

The charters and founding agreements of the reorganized agricultural enterprises can stipulate social benefits and privileges.

The decision on including specific benefits and privileges into the founding documents is taken by the highest management body of the enterprise - general meeting of authorized representatives.

The following benefits are established by the decision of the highest management body:

- additional payments to the pensioners, additional payments to state benefits;
- payments from the unemployment assistance fund set up by the enterprise;
- public catering;
- preventive disease measures;
- transfer of housing built by the enterprise with payment on the basis of its residual cost upon the expiry of a certain period of work on the farm;
- repair of housing assigned for temporary use;
- compensation due to price rise;
- payments for students who have been sent to educational institutions by the farm, organization of advanced training courses;
- material and financial assistance for labor veterans and workers for special merits;
- setting up a fund or participation in setting up local administration maintenance funds;
- benefits and privileges for certain categories of workers (old people, poor families, large families) regarding daily cervices and private plot farming;
- transportation and other services at reduced prices.

Leaflet # 24

Social Protection of Labor-Veterans

SOCIAL PROTECTION OF LABOR-VETERANS

Retired labor-veterans shall retain the rights of members of the work collective in which they worked before retirement. They retain the right for the improvement of their living conditions, the right to use social facilities, cultural and educational institutions belonging to the enterprise, and the right to participate in privatization and auctioning of the enterprise.

Retired labor-veterans shall enjoy the following rights and privileges:

- The right to free medical assistance at the same medical institutions they were assigned to prior to retirement.
- The right to an annual leave without pay of up to one month at a time convenient for them.
- Irrespective of their place of residence, veterans enjoy the right to the free use of all types of public transport, and in rural areas they also enjoy the right to the free use of automobile transport (except for taxis) and the right to a reduction of 50 percent of the local train and boat fares.
- The right to a reduction of 50 percent of the rent for their total living space (within the limits of social norms). This reduction is also true for family members residing together with the labor-veteran.
- The right to a 50 percent reduction of the cost of utilities. Labor-veterans residing in houses that are not centrally heated get a 50 percent reduction of the cost of heating fuel purchased within the established norms and a 50 percent reduction of the cost of transporting the fuel.

Enterprises, irrespective of their form of ownership, and local government authorities have the right proceeding from their peculiarities and labor conditions to establish any additional benefits and privileges for persons who have special services to one's organization or enterprise.

Leaflet # 25

Financial-Economic Support of the Privatized Social Sphere Facilities

FINANCIAL-ECONOMIC SUPPORT OF THE PRIVATIZED SOCIAL SPHERE FACILITIES

Economic support mechanism of the privatized social sphere facilities (repair services, sales and public catering enterprises, daily services, consumer goods production etc.) should be formed as a tool, used by different levels of authority - state (RF territorial formations), local (raion and village administration) and trade (agricultural enterprises administration and others).

The most important component of the economic mechanism is the financial-credit mechanism that includes taxation, formation of non-budget funds and crediting.

Encouragement of private initiative and business activity should take place first of all in social infrastructure facilities that are in critical state at present: technical support of daily services, rural construction complex, maintenance of the engineering infrastructure.

Tax allowances in these spheres of activity can provide:

- reduction of the tax rates, including property tax payments due to oblast and raion budgets;

- deduction from the tax payment for the reported period, for example, for the time of enterprise set up;

- Purpose oriented tax allowance, including tax credits (taxation deferment).

To support social sphere the purpose oriented independent funds are set up: rural development fund, communal cooperatives support fund, and others. Sources of income for these funds can be:

- financial (budget) appropriations;
- annual fund members' payments;
- financial resources saved by different arrangements for solving economic problems, voluntary payments and donations from individuals, enterprises, institutions and organizations;
- income from arrangements conducted in favor of the fund (local loans, lotteries, auctions, publishing activity);
- part of penalty means enterprises and organizations paid for ecological and other violations, harming living conditions in the rural districts;
- profit allocations from the enterprises and organizations founded by the fund;
- earnings from rendering services;
- income from bank investments into securities;
- granting and bequeathing cash and other property to the fund;
- other attracted means.

In inflation economy environment, when crediting is impeded, chances to get favorable credits are reduced. Resources of Special Bank, founded by the Rural Development Fund can become a source of favorable crediting.

Municipal loans, including issuance of municipal bonds, can be an additional source of credits for rural administration. Municipal bonds have special tax status and are issued for a short term. Commercial banks, pension and social funds, socially oriented agricultural and industrial enterprises can be main investors into municipal bonds.

Another important part in the system of economic mechanism are material and property elements. It comprises allocation of accommodation for entrepreneur activity, warehouses, uncompleted constructions of the municipal property; use of engineering infrastructure networks, concession of a privilege to use raw materials sources and so on.

Developed under the auspices of GKI of the Russian Federation

Leaflet # 26

Distribution of Land and Property in a Process of Farm Reorganized Farm

DISTRIBUTION OF LAND AND PROPERTY IN THE PROCESS OF FARM REORGANIZATION

When land and property owners decide how to dispose of their shares, distribution of land plots and property of the reorganizing farm is carried out with the view of acquiring specific land plots, buildings, pieces of equipment and other property.

Land and property share holders may obtain land and property share only for the purpose of agricultural production or servicing agricultural production.

Land and property are distributed among:

- agricultural entities set up as a result of farm reorganization and on the basis of land and property shares contributed by farm members (participants);
- land and property owners who opt for individual private farming or individual enterpreneurship.

Land and property distribution is organized by Intra-farm Reorganization Commissions.

Land and property distribution is a key element of the farm reorganization process. Land plots and property acquired as a result of reorganization form the basis for viable production at newly established individual and collective farms.
In the process of land and property distribution disputes and conflicts are not uncommon, specially in situations when several land and property owners apply for the same plot or piece of property. These disputes and conflicts are often settled by farm managers at their own discretion. Lack of information on the part of land and property owners leaves room for abuse during land and property distribution.

To avoid such a situation a broad information campaign shall be organized with the view of:

- making land and property distribution process open and transparent for all the participants;
- informing all the farm members regarding land plots and property to be distributed, rules of distribution and timeframe within which it is carried out.

Information campaigns shall be organized by Intra-farm Reorganization Commissions.

In order to secure fairness, distribution of land and property should be organized with consideration for objective factors. These factors are the size and number of land and property shares, which owners have in their possession or contribute to the newly set organizations, and are expressed in hectare- points or share rubles. In the process of distribution an organization gets for its activities a land plot the value of which in hectare points equals the total amount of land shares contributed to the charter capital of the organization by its founders or transferred to it by lease and other terms. The value of property (in share rubles), which an organization obtains,

equals the total amount of property shares belonging to share owners who have decided to become members of the organization or who have transferred their property to it on different terms.

Land and property distribution can be carried out in different ways:

- by agreement;
- by lottery;
- by intra-farm auction.

Different methods can be combined, for instance, lottery bidders can make agreements in order to avoid conflicts and disputes.

The choice of method for the distribution of land and property depends on the specific circumstances on each farm, on the ability of bidders to reach agreements and the prevalence of disputes and conflicts.

An auction is usually organized by farm decision if there is more than one bidder for the same plot or a piece of equipment and they cannot reach an agreement . An auction is a fair mechanism of settling disputes.

A lottery, despite its apparent simplicity, often results in difficulties connected with the necessity to trade land plots or pieces of property won at the lottery for those needed for the normal functioning of the new enterprises. That is why lottery is an effective means of distribution only in cases when similar objects are put up for distribution.

Whichever mechanism of land and property distribution the farm chooses the preparatory process and the process of actual distribution shall comprise several stages aimed at:

- securing every bidder equal rights to participate in distribution;
- making the process open and free from any abuse.

The following steps are obligatory for distribution by auction ,agreement, or any other means of distribution.

The main stages of preparing for and carrying out land and property distribution are:

1. ***Preparatory stage*** during which:

- ***Lists of land plots and property units for distribution are made*** (as in the case of auctions they are called lots). Lots shall be prepared by the intra-farm reorganization commission. Land lots are formed on the basis of the existing fields and plots. Land sites separated by roads and other natural or man-made boundaries shall form separate lots. For the formation of property lots farm fixed assets shall be divided into production units which can function independently. Property lots may comprise one unit (a tractor or a truck) or several units (for instance, a dairy farm including buildings, equipment, livestock and all the necessary infrastructure). Current assets (commodities, feed, seeds, fertilizers, fuel, construction materials, etc.) shall be divided into lots by type of product. In forming lots the reorganization commission shall take into consideration the

existing production structure at the given farm and its peculiarities, and shall try to form lots with the aim of securing viable production at the newly set enterprises and avoiding consequent disputes and conflicts.

- ***Descriptions shall be prepared for each land or property lot.*** Lot description shall include inter alia:

  - for land lots - size in hectares and evaluation in hectare-points;
  - for property lots - residual price according to the last property appraisal.

Lists and descriptions of lots shall be made according to the results of appraisal carried out during farm reorganization. Only available units, their actual status and value shall be included in the list. If property included in a lot is encumbered with liabilities (credits for its appropriation, collateral or lease) that information must be specified in the list lots.

- ***An information campaign shall be aimed at the disclosure of:***
  - the list of land and property lots and a map outlining borders of land plots;
  - the rules according to which land and property distribution will be carried out;
  - the date of the auction;
  - time and form of bids to be submitted to the intrra-farm reorganization commission.

The reorganization commission shall disclose that information no later than three weeks prior to the deadline for submission of bids.

- ***Registration of bids*** for land and property shares. Bidders for land and property shares are agricultural enterprises set up on the basis of reorganizing farms and individual land and property share owners who have opted to establish individual farms or for individual entrepreneurship.

In their bids bidders shall specify the intended type of activity, the number of available hectare-points and share rubles, the list of land sites and property lots for which they bid.

The commission shall verify each bid for accuracy and correctness.
The commission shall notify each bidder about the exact place and time of the auction.

2. The main stage during which land and property are distributed among newly set enterprises and individual farmers.

If distribution of land and property can be carried out by agreements the reorganization commission shall at this stage organize talks and negotiations with the aim of settling disputes and conflicts. Commission members participate in these talks and negotiations. It is advisable to invite representatives of raion administration, agricultural department, committee on land resources and state property management committee to the final stage of these talks and negotiations.

Intra-farm auctions for the distribution of land and property shall be organized if there are conflicts and disputes or several bidders bid for the same land plot or piece

of property. In order to carry out an auction the reorganization commission shall prepare a set of documents including a list of lots, a description of the purchasing power of each bidder, land and property certificates and other documents. The set of documents shall be approved by the commission and submitted to the raion administration not later than a week prior to the auction. Auctions shall be carried out in accordance with the Rules for the intra-farm auctions for distribution of land and property approved by the Government Resolution No. 874 of July 27, 1994.

Irrespective of the method of distribution - by agreement or by auction - the results of the land and property distribution shall be recorded in a protocol signed by the bidders, the Chairman of the Commission and by the raion administration representative. The protocol will later serve as the basis for the issuance of documents certifying the rights of new owners for the specific land plots and property units.

3. ***The final stage*** during which

- plots of land and property won by bidders can be traded with all transactions reflected in a corresponding protocol;
- non-agricultural land which has been used by the reorganized farm shall be distributed among newly set farms;
- the divisionional balance sheet is prepared and submitted together with foundation documents necessary for the registration of newly set farms;
- actual transfer of property to new owners takes place;
- land survey is carried out if necessary and new owners are issued land plot certificates for the land plots they obtained as a result of distribution of land and property of the reorganized farm.