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FINAL REPORT
AGRICULTURE POST-PRIVATIZATION
IN RUSSIA

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GLOSSARY OF RUSSIAN AGRICULTURAL TERMS

AKKOR (Assotsiatsiia Association of Individual Farms
krest'ianskikh (fermerskikh) and Agricultural Cooperatives
khoziaistv i sel'skokhoz-of Russia
iastvennykh kooperativov
Rossii)

APK (<u>agropromyshlenni kompleks</u>)	The agriculture sector (including "upstream" and "downstream" activities, supply to farm to market)
kolkhoz (<u>kollektivnoe khoziaistvo</u>)	collective farm
sovkhoz (<u>sovetskoe khoziaistvo</u>)	state farm
<u>krest'ianskoe khoziaistvo</u>	individual (peasant) farm
<u>fermerskoe khoziaistvo</u>	individual (US-style farmer's) farm
<u>podsobnoe khoziaistvo</u>	subsidiary farm (big farm which has been bought out by an industrial or other enterprise and now operates as unit of that enterprise)
<u>lichnoe podsobnoe khoziaistvo</u>	private plot
<u>priusad'ebnii uchastok</u>	private plot (synonym for previous, more official, term)
<u>assotsiatsiia krest'ianskikh khoziaistv</u>	association of peasant farms (one form of reorganized kolkhoz/sovkhoz)
<u>tovarishchestvo ogranichestvennoi otvetsvennosti (TOO)</u>	limited partnership (one form of reorganized kolkhoz/sovkhoz)
<u>aktsionernoie obshchestvo</u>	joint-stock company (one form of reorganized kolkhoz/sovkhoz)
<u>Rossel'khozbank</u>	Russian Agricultural Bank (state agricultural bank)
<u>Sberbank (Sberegatel'nyi bank)</u>	State Savings Bank

<u>raion</u>	district, county
<u>oblast</u>	province
<u>krai</u>	province
<u>administratsiia</u>	administration (provincial or raion government as a whole)
<u>upravlenie</u>	administration (unit within a governmental agency)
<u>Department</u>	Department (unit equivalent to a ministry at the oblast' or krai level, a new term not used in all provinces)
<u>otdel</u>	department (unit within a governmental agency)

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Change in the Russian countryside has been a constant topic of debate, and sometimes armed conflict, since Petr Stolypin began his reforms early in this century. We hope our work will help to make the "village question" an issue of interest to no one but historians by the time the new century begins. But it will be the men and women in the countryside, who are working to revive a land prostrated by poor policy and worse implementation, who must do the real work. They deserve our help as well as our deepest respect.

EXECUTIVE SUMMARY

This report has been prepared under the Agriculture Privatization Support Initiative. It recommends five thematic sets of activities be added to form a new component of USAID's Food Systems Restructuring project (FSRP). These activities are designed to help achieve the restructuring of the agriculture sector, spur economic growth, and help stabilize the rural economy in the Russian Federation. The assistance is designed as an integrated package comprised of five thematic technical subcomponents and one structural and managerial subcomponent. The recommended duration for this assistance is five years.

The design recommends using a holistic approach to achieve integrated interventions that will strengthen the operation of private markets and increase the efficiency of public goods. The synergistic effects of successfully addressing the problem in an integrated fashion will assist the development of a democratic market environment and help realize the latent opportunity for rural, non-production agriculture, small and medium-scale private enterprises to flourish. To maximize the impact of the holistic approach, it is recommended that integrated pilot activities be used. Through focusing pilot activities at selected sites, the assistance will address constraints to economic growth and political stability and maximize the impact of the mutually supportive effects of the interventions.

Section II of this design report identifies and frames the major constraints and concomitant economic and political problems. The report finds that while privatization of behemoth-like state enterprises and promotion of private plots are important accomplishments and should be encouraged, additional interventions must be initiated to develop efficiently scaled enterprises as the next stage in the post-privatization process. Restructuring of the large state and collective farming sector offers an opportunity to launch significant numbers of rural small and medium-scale enterprises providing non-production agricultural services to create large increases in employment.

Section III introduces recommendations for addressing the problem and explains the rationale underlying the choice of interventions. Significantly, the report recommends that interventions use existing Russian institutional capacity and argues against developing new institutions to implement its activities. Briefly, the goal and purpose of the recommended new component will be accomplished by achieving the following objectives:

- Raise the quantity and quality of policy analyses undertaken, increase capacity of selected institutions to diagnose and analyze policy issues, create a wider awareness of policy issues and options, and add raion-level information to the policy formulation process.
- Streamline the agricultural credit system to more adequately serve the new expanded demands of a privatized agriculture sector.

- Provide farm management training and information necessary for farmers to operate efficiently and profitably in a market economy. A facilitating objective is to support institutions that develop, provide, and deliver information used in making farm management decisions.
- Facilitate the establishment of rural-based agribusinesses including input supply, transportation, wholesale and retail sales and distribution, technical services, processing, and manufacturing ventures.
- Shift responsibility for governmental and nongovernmental tasks that are the public concern (e.g., schools, housing, etc.) from former state and collective farms to government and other nongovernmental organizations. Assist grassroots democratization and emergence of entrepreneurship.

Sections IV-VIII present detailed discussions including the constraints, objectives, and recommended interventions (together with recommended staffing and levels of effort) for each thematic area: policy, agricultural and agribusiness credit, farm management, agribusiness, and social infrastructure and local government. These sections frame the technical issues, discuss how they are manifested at the regional and local levels, and describe specific interventions to address constraints.

Section IX proposes the integrated pilot activities, outlining the objectives and principal tasks. The integrated pilot approach is key to accomplishing the goals of the recommended interventions. Pilot activities will enhance the effectiveness of recommended interventions by focusing on coordinated implementation activities at the regional and local levels. They will also maximize management and administrative efficiencies of USAID and contractor personnel.

Section X provides a brief discussion of various administrative alternatives and outlines project monitoring and evaluation needs.

SECTION I INTRODUCTION

The privatization transition in Russian agriculture is in a very early stage. Initially, privatization has simply denationalized land and begun to break down extraordinarily large collective and state farms into smaller units. The new units cover a wide range of farm sizes from the very small to the very large. However, the bulk of the land remains in fairly large units that retain the old organization. This early, hesitant beginning requires carefully designed follow-up to make privatization effective.

The set of interventions proposed in this report is just such a design. The recommendations are based on a number of observations including brief but intensive field visits; interaction with a wide range of Russian officials at all levels; discussions with private and collective farmers, bankers, and businessmen; a review of innumerable documents; and the judgment of design team members. The report sets out a project that addresses the key constraints to an accelerating process of privatization.

In the design of the project and the individual intervention activities, the team has attempted to reflect two realities: the immense size of the agriculture sector and the need to address a number of interrelated issues simultaneously. In consideration of this we are suggesting an integrated pilot approach focused largely on selected oblast and raions. The program will test and implement activities with rapid impact potential that can be quickly extended to other areas. The expected result is an acceleration of the privatization process with accompanying increases in rural employment and incomes, along with more efficient resources use and a stronger overall rural economy.

The report begins with an examination of the problems surrounding the process of economic transformation in the Russian countryside. Following an analysis of the most important issues—agrarian policy, agricultural credit, farm management, agribusiness, and rural social infrastructure—a pilot approach combining multiple interventions is recommended. The paper concludes by discussing project management and administration.

Completing the transformation of Russian agriculture into a vibrant, market-based sector will not be easy or quick. Nevertheless, there are real possibilities to accelerate the process. Successful implementation of this project will capitalize on these opportunities and speed the process of democratic, market-oriented change in the countryside.

SECTION II STATEMENT OF THE PROBLEM

A. Background

Economically, the agriculture sector of the Russian Federation is characterized by:

- Forming an unusually large proportion of the overall economy for an industrialized country
- Unusually low factor productivity and efficiency
- An unstable level of output
- Low and presently declining productivity and efficiency

Politically, the agriculture sector of the Russian economy is characterized by:

- Extreme political sensitivity because of urban food security fears (as in less-developed countries)
- Disproportionately great political importance (as in all middle- and upper-income countries)

Increasing agricultural productivity is, therefore, urgent, and thus productivity increase is best pursued through the ongoing processes of privatization and marketization that will drive improvements in management and create more appropriately sized and efficient production units.

A1. Size and Scope of the Russian Agriculture Sector

Narrowly defined, agriculture in Russia represents about 15 percent of the gross domestic product and about 15 percent of employment (Annex B, Table I-1). However, the total population on collective state and individual farms is about 26 percent of the total population of the Russian Federation. That includes a disproportionate share of retired people and much, but by no means all, of the manufacturing and services structures for agriculture. Agriculture and the parts of the economy directly stimulated by its activities represent perhaps one-quarter of GDP.

The small- and medium-scale sector of the economy dominates employment growth in modern private enterprise- and market-oriented economies. This sector is essentially non-existent in centrally planned economies. Thus the most important issue in developing employment, private enterprise, and market orientation in Russia is creating such a sector that can quickly become a major factor in the economy.

The transformation of state and collective farms offers the single most important opportunity for development of small and medium-sized enterprises. Rising farm incomes

derived from increased factor productivity in agricultural production stimulates the development of such enterprises because of the structure of consumption of rural populations. Concurrently, the small service firms that arise from the transformation of state and collective farms massively increase the number of entrepreneurs. Many of these new enterprises, such as machinery repair and associated machine shop activities, can rapidly branch out into a wide range of production activities reaching far beyond the immediate rural area. Such market-driven small enterprises will (as in most modern Western economies) generate new employment opportunities over time.

Stimulation and support of these activities has an aggregate impact far more important than reform of the small number of capital-intensive, large-scale agribusiness enterprises. Small and medium-scale enterprises will generate entrepreneurship and employment while increasing income. Facilitating this development involves quite different forms of assistance than privatization of large-scale, necessarily more bureaucratic organizations. The real measure of the transformation of the Russian economy will be the number and aggregate size of new business created, not the shift of large-scale enterprises from the public to the quasi-public sector.

A2. Agriculture and Public Finance

About 13 percent of GDP, and hence about one-quarter of public expenditures, goes to various types of subsidies and income transfers to the agriculture sector. This statistic overstates direct agricultural subsidies since it includes the social costs of physical infrastructure, schools, and pensions. But the volume of subsidies and their relative ineffectiveness means that until the subsidies stop or are redirected, post-privatization reform cannot be completed.

A2a. Agricultural Subsidy Mechanism

Until Mikhail Gorbachev's perestroika reforms took hold in 1987, financial flows within the Soviet economy did not matter much. Ordinary cash was used as a medium of exchange and denominator of value only in paying workers and employees and in consumer good sales. Even in the consumer market, price controls meant that having available cash was less important in determining who could obtain an item than knowing someone who had access to the item, since official prices did not reflect value and there were constant shortages of all desirable goods.

Although producers' goods such as agricultural inputs and most farm produce had values denominated in rubles, their distribution was actually counted in physical units. Payment for farm inputs and state purchases of farm produce (all but a small percentage of marketed field crops and livestock products went to the state) were done by accounting transfers through the banking system. Bank approval and an allocation order from a planner for the physical item to be purchased were needed before an enterprise or farm could withdraw funds from its bank account. So the flow of funds among producers was sealed off from the circulation of funds among consumers.

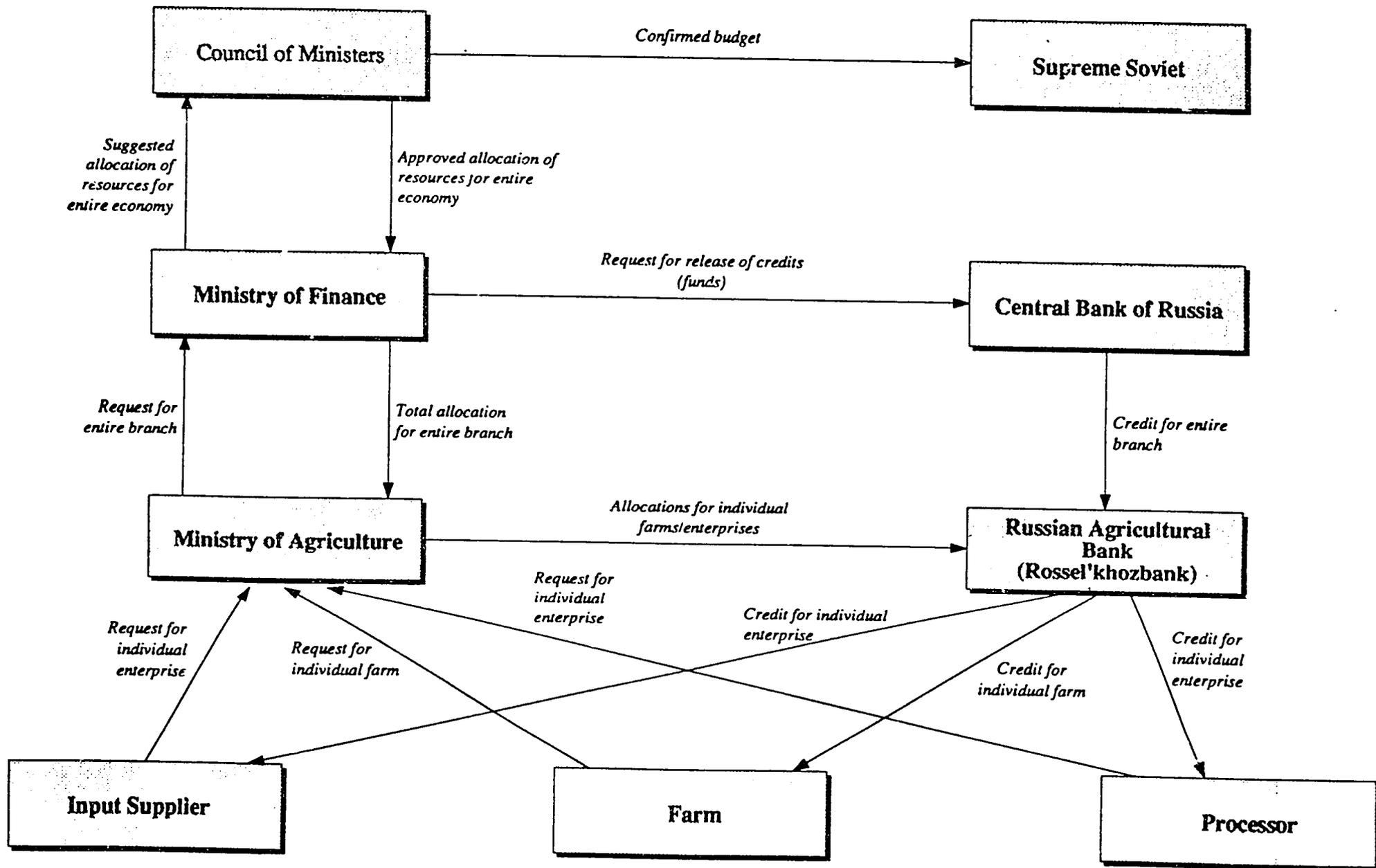
The annual production credit any farm, (giant collective unit or private smallholding) needs for the time between the moment when inputs must be purchased and planted and the time when the crop can be harvested and sold was never really money at all, since it involved accounting transfers in a giant shell game among state-controlled agencies. Similarly, longer-term investment credit reflected administrative allocation of resources to agricultural enterprises, not any measure of market value. Such credits could be and were routinely forgiven the farms, since in any event the state was simply shifting money from one pocket to another. The important concern was not the volume of credits, which always evened out over time or could be written off with the stroke of a government pen, but the volume of physical output. Financial flows followed from, and were determined by, production plans. Although central planning has largely broken down, the financial mechanism still works as it did under the old system.

Funds for agriculture are allocated and distributed through a hierarchical process, shown schematically in Exhibit II-1. (The process is essentially the same for each branch of industry, although most others have moved somewhat further away from dependence on state resources.) Based on the plan for physical output they receive from the Ministry of Agriculture, production enterprises determine their annual need for credits by category of expenditure. The requests are then aggregated by the district and province subunits of the ministry and communicated to Moscow, which collates all the requests and sends them onto the Ministry of Finance. That ministry in turn summarizes requests for funds from all state-owned enterprises and collective farms and determines, in consultation with the Ministry of Economics, how available financial resources (always less than the requests, of course), should be allocated. The consolidated plan for allocation (the draft budget) goes to the national government (Council of Ministers), which until the parliament was disbanded in October 1993, presented the budget to the Supreme Soviet for enactment into law. The Council of Ministers directs the Ministry of Finance to work out detailed allocations for each industrial branch based on the budgets overall appropriations. The Ministry of Finance then requests the Russian Central Bank to release credits to the banks that serve each branch of the economy. Those banks then distribute credits to each individual enterprise with the approval of the appropriate branch ministry.

Until 1987, all revenues from sales throughout the economy were at the disposal of the central government. So long as the planners knew the size of the overall economy, they could allocate resources so that credits and goods were available as needed. The system never worked very well, but because the whole economy effectively formed one vast enterprise within which prices could be set at the planner's whim, no very large imbalance between income and receipts, or demand and supply of physical commodities, ever appeared. (Constant shortages of almost everything and the general use of expeditors and bribery to obtain scarce items indicated that in practice there was a substantial imbalance between supply and demand, but those facts could be ignored by the planners as distortions of a basically sound system.)

Once reforms really began to allow individual ministries and enterprises some independence in determining what to produce, with what inputs, and at what price, however, the planned amount of funds to be disbursed and the actual funds available could no longer

Exhibit II-1: Flow of Agricultural Subsidies in Russia



be made to balance by administrative command. The Council of Ministers solved the imbalance by decreeing that more money be printed. But since no more real goods were produced as the money supply increased, the value of the ruble declined, requiring more credit to buy the same commodities. And as enterprise freedom increased, more and more impersonal, state-credit accounting rubles became truly monetized, leaking into the personal, or cash, money supply. (Russian enterprise managers explain that impersonal bank account funds can be converted into cash in-hand and withdrawn by providing a sympathetic bank official with a small percentage of the transaction value.) Thus the attempt to preserve state financing of the economy and state subsidies has been one major cause of hyperinflation.

A2b. Agricultural Payments Crisis

As Exhibit II-2 shows, the government appropriates funds for agriculture for a variety of purposes through a variety of intermediaries. (Targeted programs, created to serve particular constituencies, largely by the former Supreme Soviet, include the Russian national programs Support for Private Farmers, Russian Bread, Sugar, Vegetable Oil, Fish, Baby Food, Fertility, and Revival of the Russian Countryside.) All of these funds are budgetary in the sense that they are drawn from state revenues and allocated by the government.

Exhibit II-2: Agricultural Subsidies in Russia

Program	Type	IR Buy-down?	Term	Recipient	Requester	Source	Allocator	Channel Through	Paid Out	Repay Freq.
Production credit	Loan	Yes	< 1 year	Farms	MoA	Central govt	MoA/ AKKOR	Rossel' khozban	When released	Monthly
Procure. credit	Loan	Yes	< 1 year	Procure. agencies	Procure. agencies	Central govt	MoA	Rossel' khozban	When released	Monthly
Capital investmt: productive	Loan/grant	Yes	1-5 years	Farms, etc. ¹	MoA	Central/regional govt	MoA	Rossel' khozban	When released	Monthly
Capital investmt: non-prod.	Loan/grant	Yes	1-5 years	Farms, etc. ¹	Ministries ²	Central/regional govt	MoA	Rossel' khozban	When released	Monthly
Targeted investmt programs	Loan/grant	Yes	> 1 year	Farms, etc. ¹	Govt appropriation	Central/regional govt	MoA	Rossel' khozban	When released	Monthly
Grants-in-aid to local govt	Grant	No	1 year	Regional & local gov't	Regional & local govt	Central/regional govt	Higher-level govt	Gosbank	Monthly	N/A
Farm gate price subsidy	Grant	No	1 year	Farms	Farms & processors	Central/regional govt	MoA	Rossel' khozban	Monthly	N/A
Consumer price subsidy	Grant	No	1 year	Processors	Processors	Central/regional govt	MoA	Rossel' khozban	Monthly	N/A

¹ Farms, agricultural suppliers, and procurement enterprises.

² Ministries of Agriculture, Education, Health, Post, Railroads, et alia.

Many government programs for supporting agriculture provide for concessionary (below-market) interest rates. The interest rate subsidy is to be provided by government repayment to the lending bank in an amount equivalent to the difference between the rate at which the bank purchases its funds from the Central Bank and the concessionary rate charged to the farmer. However, when government funds to cover the subsidy are not paid to the banks on time, lending banks charge the borrower the full market interest rate. Thus no borrower can be sure of the interest rate he or she has to pay for a loan. In addition, the standard penalty for a missed loan payment is a doubling of the interest rate, so no farm can be sure of the real cost of funds it needs to maintain production. In the absence of a predictable (even if very high) interest rate, no farmer can evaluate the risk involved in borrowing money.

In 1993 the government, through the Ministry of Economics (which set economy-wide output targets) and the Ministry of Agriculture (which set them for its farms and enterprises) planned to produce a physical volume of agricultural produce deemed adequate to meet the country's needs. It promised to provide farmers with production credit at the time they signed delivery contracts with state procurement agencies, contracting for a harvest not yet planted. But the government did not have the financial resources to cover the promised volume of credits, and farmers did not receive much of their production credit, or got it very late. By the end of the year, only about 35 percent of the funds appropriated in the various budget drafts had actually been released to agriculture. In other words, the government ordered a volume of production based on an estimate of the physical amount needed from its farmers that was about three times greater than it had the funds to pay for.

In many areas visited by team members, such as the Glinka Raion of Smolensk Oblast, local collective and private farms had a bumper year, producing several times the volume of produce the local procurement agencies had funds to purchase or warehouse space to store. Procurement points either refused to accept farmers produce at all, leaving it rotting on the farms under the open sky, or accepted it for storage, mixing it with other farms' crops and sending it on to be processed, while giving the farmers only IOUs. Even with payments for crops purchased routinely arriving in their bank accounts only two to three months after the crops had been delivered, farmers were unable to pay their debts and were facing punitive interest increases. The inevitable result was a round of debt forgiveness in the form of prolonging the repayment term for another year. (See the Council of Ministers, Russian Federation Government resolution of November 18, 1993, On Measures for the State Support of the Agroindustrial Complex in 1993-1994.)

A2c. The Subsidy Dilemma

The current system of government subsidies for and payments to agriculture is clearly not working. The credit system is a leftover of the old planned economy in which planners' whims, rather than supply and demand, set prices and allocate resources. With the breakdown of that system, agriculture is not receiving the funds it needs, and farmers have little or no information about the real cost of resources to guide their decisions about

production and marketing. Moreover, no government that systematically fails to pay its contractual obligations to its population can expect that population to support it for long.

Simply cutting out all government support of agriculture, however, is impossible. Many state payments go for things that are government expenses in market economies such as the construction of rural infrastructure, schools, and post offices. In addition, as Section VIII discusses further, much of the production credit is really a thinly disguised welfare payment to elderly rural residents. The September 1993, attempt to cut off all concessionary credits to agriculture met general opposition in the countryside, as every farm manager, private farmer, and other working agriculturalist with whom the team spoke agreed. Those people voted against the reform government.

A2d. Political Constraints on Financial Restructuring

At the same time that large, efficiency-reducing transfers to agriculture take place, there is an immense underinvestment in public infrastructure, including roads. Many collective and state farms are ill-served by rural infrastructure. The situation will be far worse for many small farms that will inevitably be located on the periphery of previous state and collective farms. The lack of infrastructure in the short run results in much lower pricing of the land at the periphery. More important, lower pricing reflects much lower net productivity—a productivity that may be gained by massive investment in rural infrastructure.

The needed restructuring of public expenditures on agriculture in the context of attempts to reduce central government budget deficits poses a set of complex policy problems. However, large expenditures on rural areas, productive or not, will surely be forced by a newly legitimized, large elected bloc of votes from the one-quarter of the population in the rural sector.

Rural people are the most conservative in all societies. In Russia, where war, collectivization, and intentional exploitation of the countryside by the cities eliminated the most active and entrepreneurial individuals by exile, assassination, or migration, and where the immense budget subsidies begun in the mid-1960s have brought little increase in production but great power to those who disposed of them (oblast and raion party and state officials and farm managers), fear of change is especially strong. The most intransigent opponents of reform in the recently dissolved Supreme Soviet represented rural areas. Their party in the current election campaign, the Agrarian Party of Russia, is led by a member of the founding committee of the neo-fascist National Salvation Front, Mikhail Lapshin, and includes among its candidates one of the eight men indicted for the August 1991 coup, Vasilii Starodubtsev. (Both men head successful kolkhozes.) The APR won about 8 percent of the vote in the December 12, 1993, Federal Assembly elections, securing 33 seats in the new lower house of parliament, the State Duma.

If privatization, marketization, and democratization cause substantial falls in the countryside's already generally low standard of living, no amount of appeals to patriotism or even promises of land ownership unsupported by other structural changes will break the

increasingly solid front of rural opposition to political change. Russian peasants could become the basis for the same sort of reactionary instability that led to the frequent changes of government in France during the late 19th century, an unhappy prospect in the nuclear age. The high proportion of rural votes for Vladimir Zhirinovskii's neo-fascist Liberal-Democratic Party of Russia in the December 1993 elections chillingly emphasizes this possibility.

A3. Factor Productivity and Efficiency of the Agriculture Sector

Agriculture has been a notoriously low-productivity sector of the Russian economy (see Exhibit II-3 below). The most important reason for its inefficiency arises from the major scale diseconomies innate in the sector's institutional structure. Collective and state farms are simply too large for efficient management. Yet many Russian scholars and policy makers argued that management problems were largely the result of inadequate investment or technical backwardness, rather than institutional failures of incentives to workers and managers. Given this Russian perception, it is not surprising that many in the foreign assistance community also think in terms of change in institutional structure (privatization) to preserve the large-scale operations of cooperatives, joint stock companies, and other means of agglomeration. But economic efficiencies and a truly dynamic market economy can only be attained when the large units have broken down into much smaller ones—an evolution that can only be driven by economic incentives and local actions because centrally mandated decollectivization will have effects almost as bad as the original forced creation of collective farms.

Exhibit II-3: Agricultural and Industrial Output (percent change)

	<u>1990</u>	<u>1991</u>	<u>1992</u>
Agricultural Output	-7.5	-11.7	-9.0
Industrial Output	-3.6	-9.5	-18.8

The stickiness in the move to small-scale operations (defined as a labor force per unit of only a small number of persons, not in terms of capitalization or amount of land) arises from real factors, including fixity of capital forms suitable only to large-scale operations (huge dairy barns and massive tractors) the lack of institutional structures suitable to small-scale operations, and the lack of experience, skills, and confidence in entrepreneurship. All of these constraints must be relaxed to move to more efficient operations.

Productivity of milk cows is less than half that of modern Western herds; labor productivity is probably as low as one-tenth as high; potato yields are half, as are grain yields. These low levels of productivity are also highly inefficient. Thus, factor productivity and efficiency have the room to double in a few years' time with a consequent doubling of real incomes. Increased efficiencies in agricultural production are essential to raise income

for this large segment of the population. However, they probably cannot be achieved without major increases in labor productivity in a situation in which total demand for output may not be greatly higher than at present.

Consequently, there must be rapid labor absorption in the ancillary enterprises in the rural sector. All the more reason to develop the small- and medium-scale sector as rapidly as possible, obviously starting with the small enterprises for machinery repair, machine shops, storage, milling, processing, and transporting, which arise naturally from the current state and collective farm scene.

A4. Decline of the Agriculture Sector

While the initial low productivity and inefficiency of the agriculture sector offers immense opportunity for growth, in fact the sector has been contracting because of the general economic dislocations and uncertainties prevailing in the Russian economy. In the past three years agricultural output has shrunk by 29 percent, similar to the decline of 32 percent in the industrial sector during the same period (Annex B, Table I-2). These trends have been accompanied by a substantial decline in meat and some decline in milk consumption, offset on a caloric basis by increased grain and potato consumption (Annex B, Table I-6).

Price changes and great uncertainty about future price relationships have been a major factor in these declines. When inflation is as rapid as has been the case in Russia, variance in the rates of change of specific prices increases greatly and it is virtually impossible to obtain an accurate picture of real prices and price relationships. Agricultural output prices have risen much less than agricultural input prices.

Moreover, the composition of the decline has been uneven. For example dairy production has fallen nearly 20 percent since 1991, while the number of animals fell more modestly. The number of cows has declined significantly on state and collective farms, while those in private ownership have increased almost commensurately. Production of potatoes and vegetables has been steady, while declines in grain production have been substantial, largely due to the lack of physical inputs (particularly fertilizer) which, dropped by more than half (Annex B, Table I-7). That in turn has been the product of differential pricing between domestic and international markets and scarcity of credit rather than scarcity of fertilizer. Exports of fertilizer have increased greatly during this period.

Given the potential for productivity and efficiency increases, the recent decline offers an opportunity for substantial catch-up growth.

A5. Economic Structure of the Agriculture Sector

While it has been growing at a very rapid rate, individual farming comprises no more than 4 percent of agricultural output, land, and the agricultural labor force (Annex B, Table I-3). Initially about two-thirds of private farmers were people who came directly from urban areas into farming, using land that was not being farmed or was on the periphery of state and

collective farms. The limits of the processes that brought the current level of private farming have probably been largely reached, and future growth in private farming will occur largely through the division of state and collective farms. Private farms in general operate at a lower level of resource productivity (except for labor productivity) than average state or collective farms.

In Russia, half the cropped area lies in the gray-brown podzolic soils and associated climatic region suitable to a mixed farming regime dominated by dairy farming with the cropped area in fodder crops, pasture, small grains, potatoes, and some types of vegetables. Such a farming region lends itself least well to large-scale operation, and hence it is this region in which the most radical changes in organizational and institutional structure will be called for. From the United States' point of view, it is notable that growth in this large region increases demand for U.S. agricultural exports (soybean meal and corn), while the other large region (chernozem soils) competes directly with U.S. production (wheat) and European exports.

B. The Problem

The Russian economy is inefficient and operates at low levels of resource productivity because it is not market-oriented, but rather a product of the dominance of public sector monopolies. The surge towards privatization is an attempt to rectify these problems.

However, the economy is also characterized by excessively large-scale enterprises, excessive capital intensity, location of many activities in the wrong place, a noncompetitive environment, and lack of essential support services to make a private, market-oriented economy efficient and productive. Two examples from agriculture are the location in urban areas of very large-scale, capital-intensive storage and processing activities, which in other countries are located in rural areas and in countries with as low labor costs as Russia are operated largely at a smaller-scale and with less physical capital. Many of these enterprises will not and should not survive in a competitive environment; they should succumb to large numbers of smaller more agile firms. Similarly, farm units are extraordinarily large with respect to size of labor force, with very large capital investments relative to all other inputs. Even breaking them into the several units that now characterize decollectivization will not make them competitive with units of one- or two-person labor forces.

In this context there is a tendency to simply change the name of the structure from state enterprise to joint stock company and leave the other elements the same. Many of these activities, but of course not all, will still be inefficient, low-productivity operations. In the Russian context the pressures to protect them so they can survive will be immense. As budget pressures rise, protection will come increasingly from regulations that shield them from competition. It will be particularly easy to protect the agribusiness behemoths from their natural competitors rising from the privatization of state and collective farm service enterprises. Obviously in this context competition between unwieldy behemoths will not be effective in solving the low productivity problem. In any case, the "privatization" of the behemoths may serve to distract attention from the requisites of a successful small and medium-scale sector that offers opportunity for increased factor productivity, efficiency, and

most of all employment growth. Improvement for any of these behemoths certainly includes a decline in employment.

Of course, privatization of the behemoths should be pursued vigorously, if for no other reason than it is relatively easy and will make it easier to reduce the drain on the public treasury. But it is far more important to develop the small and medium-scale sector. There are three reasons why this tends not to happen. First, it is much more difficult to gain support from Russian policy makers. Privatization of the behemoths is a simple concept, a magic bullet. Creation of something that hardly exists is more conceptually difficult and does not fit the image of what makes the economies of capitalist countries productive. Second, it is more difficult to do since the small and medium-scale sector prospers largely by competition and low capital-intensity processes and needs little direct assistance. The help it does need is indirect and involves provision of a small but critical set of public goods and public interjection to make markets competitive. Third, it offers much less scope for foreign private investment, because it is less capital-intensive, and makes do much more with indigenous resources.

The large state and collective farming sector offers an opportunity for shifting agriculture to a much smaller, less capital-intensive, higher-factor productivity mode of operation, and a particularly great opportunity to launch a very large small and medium-scale rural (but non-production) agriculture sector that would gradually modernize and provide large increases in employment. The preceding discussion has noted the inefficiencies inherent in much of the behemoth sector. Russia has a long tradition of comparably inefficient, very small-scale production. Private agriculture plots are the prime example. One should avoid jumping out of the frying pan of behemoths into the fire of tiny operations that are equally inefficient and offer little opportunity to transform the economy. Just as the behemoths should be privatized, so the private plots should be encouraged. But neither is a substitute for the middle. The real task is to help this middle develop.

SECTION III ADDRESSING THE PROBLEM

A. Introduction

The set of activities recommended in the following sections of this report are intended to be a new component of the existing Food Systems Restructuring project (FSRP). It is recommended that this assistance, designed as an integrated package composed of five technical and one structural/managerial subcomponents, be given a life span of five years.

B. Goal, Purpose, and Objectives

The overall goal of this set of activities is to increase sustainable rural employment and income. The general purpose is to strengthen the rural economy and stabilize social infrastructure.

The objectives of this FSRP component are:

- **Policy.** Raise the quantity and quality of policy analyses undertaken, increase the capacity of selected institutions to diagnose and analyze policy issues, create a wider awareness of policy issues and options, and add ration-level information to the policy formulation process.
- **Credit.** Streamline the agricultural credit system to more adequately serve the new and expanded demands of a privatized agriculture sector.
- **Farm management.** Provide farm management training and information necessary for farmers to operate efficiently and profitably in a market economy. A facilitating objective is to support institutions that develop, provide, and deliver information used in making farm management decisions.
- **Agribusiness.** Facilitate the establishment and development of rural-based agribusinesses, including input supply, transportation, wholesale and retail sales and distribution, technical services, processing and manufacturing.
- **Social infrastructure.** Shift responsibility for governmental and nongovernmental tasks, that are properly the public concern—such as schools, housing, etc.—from the former state and collective farms to government and other nongovernmental organizations. Assist grassroots democratization and emergence of entrepreneurship.

C. Targeting the Client Group

The farms and businesses targeted for assistance should not be limited to individual independent farmers and business entrepreneurs. Care should be taken, however, to avoid providing assistance that would tend to inhibit or slow the process of restructuring and conversion of government-owned or controlled farms and businesses to structures and sizes that are market led and economically viable.

D. Rationale for Choice of Interventions

The five thematic interventions and the integrated pilot activities are carefully chosen to address specific bottlenecks in a Russian system that already has the bulk of the capacity to achieve the objectives. All the interventions use existing Russian institutional capacity; there is no need to develop new institutions. Each of the interventions has a synergistic relation to the others, thus they should be pursued in close relation to each other. Their management should not be scattered about among donor agencies, even though disparate elements from other interventions can be readily and usefully coordinated with them.

The interventions strengthen the operation of private markets and increase the efficiency of providing public goods that are essential complements to small and medium-scale private activities. The first provides public support to increase the efficiency and competitiveness of private markets and institutions through improved public policy. The second provides support for credit programs to increase the investment capability and management efficiency of private small and medium-scale, farm and agroenterprises. The third assists the evolution of State and Collective farms from their initial large-scale, command economy state to generally smaller-scale operations of optimal size for specific agro-ecological and market circumstances. The fourth assists the establishment and growth of efficient, market-responsive input supply, marketing, distribution, and value adding agroenterprises. The fifth helps build efficient, democratically responsive local governmental bodies, in part fulfilling functions previously filled by state and collective farms, to support public services essential to a rapidly growing small and medium-scale private sector. The integrated pilots are the on-the-ground laboratory where the separate interventions come together in a synergistic fashion. Along the way the interventions will contribute to solution of the food security problem. However, they are in no way agricultural interventions in the traditional sense. They go far beyond that with much broader objectives.

E. Changing the Subsidy System

The subsidy system obviously has to be changed. A practical and results-oriented approach is to start from the bottom by helping create market islands in which agricultural production is relatively independent of government financing. President Yeltsin's October 27, 1993, decree lays the basis for the use of land as collateral for agricultural credit. If free local and regional markets can be sufficiently developed, then farms can restructure under the influence of market forces and be weaned from the existing subsidy system. Careful redirection of existing funds, for instance to explicitly provide a safety net for workers whose farms cannot survive in a market environment, can also aid in this process. In the short

term, the total amount of financing needed by agriculture may decline little, but such redirection will at least make clear that financing is needed to support a restructuring during a transition period, not eternally. The integrated pilot activity this report outlines is intended to develop and demonstrate this general approach. The proposed package of assistance seeks to address this issue at three levels: policy, credit, and integrated pilot.

At the policy level, the general premise is that good information and analysis on subsidies, communicated to key policy makers at the right time, will convince them that the benefits of change outweigh the costs. Because policy making is always based on more than purely economic consideration this will not be an easy task. This leads to a second premise that the more people who recommend change, the more likely they are to be acted on. The policy intervention package seeks to build on both of these premises in reducing agricultural subsidies. First, it provides for an expansion in the quantity of policy analysis available particularly of the costs and benefits of alternatives to existing policies. Through a strategically placed policy advisor, short-term technical assistance, and small grants for policy research, the supply of relevant analysis will increase. The resident advisor and short-term experts should permit the timely preparation of needed analyses and the implications and recommendations for policy adjustments. Initial emphasis should be placed on the subsidy system and how it might be reformed. Second, the proposed interventions will increase the number of Russian institutions and analysts with the capacity to work on policy issues, including subsidies. The short-term training, technical assistance to selected institutions, and policy seminars will expand the number of individuals exposed to the advantages of a new subsidy system. A ripple effect should occur over time.

As noted, a large proportion of agricultural subsidies are via credits or loans to the sector that are not repaid. An important requirement is to turn these credits into productive investments that create benefits in excess of costs, are repaid, and cease being subsidies. There are two aspects to the needed transformation. First, it is necessary to free the system from administrative regulation so credit can be directed to productive uses that provide real rates of return. Second, the system must be based on market rates of interest (and take into account inflation levels) so hidden subsidies are eliminated. The proposed credit interventions seek to accomplish these objectives through policy reform advice and pilot programs that demonstrate viable alternatives to the present system that produce needed and expanded production levels at a lower real cost to the economy. The integrated pilot activities at the raion level provide ground-level data on the effects of current subsidization and other policies, as a model, on expansion and replication across the country. Certainly some policy issues and changes must occur at a higher level. Raion-level data should be very valuable in formulating the changes. In addition, a tactic of introducing policy change at a local level when possible is recommended in the diverse Russian environment. Such strategy recognizes that dramatic changes may not be politically acceptable at a national level and that regional and local governments have considerable flexibility in making changes. Also it is very likely that the learning involved in implementing change at the raion level will point to modifications to improve the process. The information gathered will also provide additional data on what and how national policy changes need to be introduced to reduce the subsidy burden and improve the general policy environment.

Finally, it should be noted that a single policy change generally does not have maximum impact, and in some cases may have little or no impact if other complementary changes are not pursued simultaneously. For example, changing interest policy while leaving product prices low or failing to make timely payments for government crop purchases will have little effect on farmers' willingness to borrow and make investments in agriculture. The raion pilot projects attempt to change a number of inhibiting policies simultaneously—credit, prices, markets, infrastructure—to allow maximum returns to all policy changes and speed the post-privatization process.

There is no developed market economy in which agriculture functions without some form of state regulation and subsidy. The precise forms of regulation and subsidy are the result of historical accident and the varying political influence of different social groups. However, in all cases regulations and subsidies exist in a dynamic environment, constantly challenged and changing.

Given the Russians' acute shortage of agricultural and other economists familiar with market systems, and the intense involvement of those few people in current policy making political struggles, foreign advisors who are familiar with the Russian situation can make a great contribution by helping keep issues in perspective and beginning to put the day-to-day interactions of politics and economics (which are the stuff of political life in the market democracies) on the Russian political agenda. At a time when the question of whether there will be a market economy at all occupies the entire attention of Russian politicians and scholars, beginning to think about the time when the market is established and functioning and what issues will be relevant then is a necessary job, and one highly appropriate to the skills of foreign advisors.

SECTION IV POLICY INTERVENTIONS

A. Introduction

Due to past and current policies, Russian agriculture fails to use resources effectively and efficiently and require substantial subsidies. Myriad constantly changing policy problems inhibit the development of a vibrant private sector. Small and medium-scale enterprises, so vital to employment and the competitiveness and prosperity of agriculture, are particularly vulnerable in such an environment. This is doubly so in an economy used to command and monopoly. Far-reaching changes are underway but policy formulation is hampered by a lack of relevant experience with market-based solutions.

B. Constraints

B1. Dispersion of Policy Making Authority and Policy Gaps

There are a large number of agencies in Russia involved in establishing agricultural policy and these interested agencies draft legislation as they see fit. This makes reaching agreement on policy a long process of interagency negotiation. For example, a law on cooperatives, that would provide a legal basis for production and service units between family farms and large joint-stock or collective state farms has been in negotiation since at least October 1992. Equally important, there are policy areas that have been ignored or overlooked or that cannot be effectively addressed because of this concentration on each agency's own interests in the drafting of legislation.

B2. Concentration on Transitional Policies

Because the job of dismantling the old system and setting up a new one (or adapting the old system to a new one) is so immense, and because Russians have no experience with routine policy making in a democratic, market-oriented political system, little attention is being paid to thinking beyond setting up the rules of the game and immediate issues. Consequently, temporary policy solutions are enacted for problems that later become substantial impediments to further democratization and economic growth. AKKOR, set up to give private farmers a voice, is seemingly now more concerned with government subsidies than further reform. Restrictions on consolidation of small privatized farms may prevent creation of appropriately sized production units.

B3. Lack of Feedback on Results of Policy

The old command and control system assumed that giving an order from the top was equivalent to it being carried out. Reporting reinforced this assumption. Now, as the old system collapses and new democratic procedures are being learned, there is a great need for reliable information about what is actually going on in the countryside. But Russian policy makers often are unaware of what they don't or need to know. Nor is there experience with

the kind of statistic-gathering needed for a market-based system, or with social science survey research techniques useful in analysis and policy formulation.

B4. Limited Capacity to Diagnose, Analyze, Recommend and Implement Change

Russian analysts have a deep understanding and an historical perspective on the current system. The number, with experience in how a market system works, identification and use of critical data in policy analyses, and development of alternatives for dealing with policy problems is small, however, when compared to the importance of agriculture in the economy and the structural transformation underway. A further complication is that while policy making goes on at many levels and involves numerous organizations, there are only a limited number of Russian institutions with a critical mass of capacity.

C. Objectives

The general objective of the interventions outlined below is to improve the policy environment facing agricultural producers, processors, and suppliers and to increase productivity of land, labor, and capital. More specific objectives are to raise the quantity and quality of policy analyses undertaken, increase the capacity of selected institutions to diagnose and analyze policy issues, create a wider awareness of policy issues and options, and add raion-level information to the policy formulation process.

D. Interventions

D1. Agricultural Policy Advice

One long-term Russian-speaking agricultural policy advisor should be provided. This advisor would help identify key policy issues, develop plans for information collection and analysis, and work with Russian policy analysts to prepare analytic papers. The advisor would also comment on policy proposals and alternatives, review draft legislation, and interact daily with Russian decision makers.

Alternatives for the location of this advisor, in order of priority, are to the first deputy prime minister in charge of economic strategy, to the APK Department in the Office of the President, to the Presidential Council, to the Ministry of Finance, to the Council on Agrarian Policy, and to the Ministry of Agriculture. It is recognized that the placement of a long-term advisor is a sensitive political issue. USAID should continue to explore the alternative locations identified above with appropriate Russian officials. However, fielding a senior advisor should not be contingent on a final decision on location. There is an immediate need for analysis and advice that could be provided even if the expert operated initially out of the overall project management office. This advisor should be provided for five years and should be supplemented by 12 person-months annually of short-term technical assistance focused on specific issues requiring in-depth analysis. These short-term advisors should be available to work with the range of organizations in the policy making structure.

This intervention would complement current policy advisors in the Ministry of Finance, the USDA agricultural policy advisor in the Ministry of Agriculture, and the possible policy work to be supported under the CNAA Grant. It would also complement the work of the agricultural credit policy advisor described below. Close coordination with the Project Preparation and Policy Unit being established under the World Bank-designed Agricultural Reform Implementation Support Program is also suggested.

D2. Assistance to Diagnose and Analyze Policy Issues

The principal tasks of this technical assistance to three Russian institutions is to work with permanent staff to increase their capacity to define relevant policy issues and collect and analyze data to shed light on these issues. It is proposed to station one American (fluent in Russian) in Moscow to coordinate activities. However, the bulk of the technical assistance would comprise short-term assignments, normally with a small group of advisors making repeated visits. The appropriate size would be two expatriates visiting twice per year to each of the three institutions, spending one month per visit (total of 60 person-months over the life of the project). An equal number of Russians would spend comparable lengths of time in the U.S. pursuing intensive analyses of approaches to address similar problems. Thirty person-months of short-term Russian professional staff time will also be provided to assist program implementation.

The Russian institutions proposed for assistance are the Agrarian Institute, the Moscow Timiryazev Institute, and an agricultural institute at the oblast level. The Agrarian Institute would receive assistance to strengthen its capacity in diagnosis, analysis, and recommendation formulation for agricultural policy. It is a national-level institution with a substantial proportion of the most thoughtful Russians in agricultural policy. The Moscow Timiryazev Agricultural Institute would receive assistance to expand its capacity to train students in policy analysis. Involving a premier, national-level teaching institution in the process offers a means of multiplying skill development on a large scale. The third institution would be an agricultural institute in one of the oblasts targeted by the integrated package of assistance described below. An agricultural institute is chosen despite a probable weakness on the policy analysis side because agricultural policy must be welded to in-depth knowledge of the technical constraints in agriculture. Many policy decisions are being made at the oblast level and this assistance will support raion-level data collection and analysis.

At the national level the Russian Academy of Agricultural Sciences might be an alternative to the Agrarian Institute, but Confirmation of Academy interest would be necessary. No alternative to Moscow Timiryazev Institute has been identified. An alternative at the oblast level would be the agricultural administration. These offices have trained staff and would be more involved in the integrated assistance provided. A final decision will necessarily depend on the oblasts selected, the institutes in each, and their interests and capabilities.

D3. Training and Policy Research Support

Training and policy research support would expand the pool of analysts and increase the amount of research taking place. Training and research funding would support and complement the long- and short-term assistance being provided. A limited amount of training should be provided in the United States but the bulk should occur in-country. Ten short courses and seminars should be offered annually in a number of policy areas with an attempt made to introduce competitive selection. The estimated cost, including U.S. short-term instructors, would be \$50,000 each. The intervention should also include a series of conferences organized in cooperation with the Council for Agrarian Policy (two annually at an estimated cost of \$40,000 each). While the organizations identified above are expected to be primary beneficiaries of the training, it should not be restricted to only that group. If possible a portion of the training should be provided through the Academy for National Economy.

To reinforce short-term training and institutional support interventions and to expand the agricultural policy research conducted, a small research grants program should be initiated. This program would provide funding for Russian staff members from the institutions being assisted under D2. above, as well as other Russian analysts, to conduct independent research on agricultural policy. The short-term grants would be competitively awarded based on proposals submitted in response to an annual solicitation. Practical policy research activities that can be completed in 12 months or less would be emphasized. Consultation and cooperation with American short-term personnel in formulating proposals would be encouraged, but not required. International travel would not be eligible for funding under the program.

To focus the research and ensure consistency with overall USAID objectives, topics and interest and selection criteria should be developed with USAID participation before each solicitation. To reduce USAID administrative responsibilities, actual grant awards (which should not exceed \$20,000), disbursement of funds, and research monitoring should be the responsibility of the contractor arranging the long- and short-term technical assistance. Within Russia responsibility would rest with the Russian-speaking American coordinator identified in D2. above. All research grants would require submission of a final report, a copy of which would be provided to USAID. A prohibition of repeat awards to the same individual or individuals might be considered to ensure the involvement of a greater number of Russian analysts.

For this training and policy research support intervention, a total of 48 person-months of short-term expatriate assistance and one-half (30 person-months) of the long-term American coordinator's time is projected. One long-term Russian staff member and 30 person-months of short-term Russian consultancies would also be needed to implement these activities.

Exhibit IV-1: Level of Effort Summary: Policy (person-months)

<u>Year and Effort Source</u>	Intervention			Total Level of Effort
	Policy Advisor	Institutional Developm't Specialist	Training & Grants Specialist	
Yr 1 - Expat - Short-term	6	12	6	24
Expat - Long-term	9	6	6	21
Russian - ST		6	6	12
Russian - LT			9	9
Yr 2 - Expat - ST	12	12	12	36
Expat - LT	12	6	6	24
Russian - ST		6	6	12
Russian - LT			12	12
Yr 3 - Expat - ST	12	12	12	36
Expat - LT	12	6	6	24
Russian - ST		6	6	12
Russian - LT			12	12
Yr 4 - Expat - ST	12	12	12	36
Expat - LT	12	6	6	24
Russian - ST		6	6	12
Russian - LT			12	12
Yr 5 - Expat - ST	12	12	6	30
Expat - LT L.Term	12	6	6	24
Russian - ST		6	6	12
Russian - LT			12	12
Total - Expat - ST	54	60	48	162
Expat - LT	57	30	30	117
Russian - ST		30	30	60
Russian - LT			57	57

E. Alternative Intervention Formulation

E1. Joint Russian/U.S. Committee on Agricultural Policy

The objective of the Russian/American Agricultural Policy Committee is to bring together the best minds on agricultural policy in Russia and the United States, to assess priority objectives, policy bottlenecks, and means of breaking those bottlenecks. Russians obviously have a deep understanding and historical perspective on their policy objectives, problems, and the means of dealing with them. Americans bring deeper experience and broader perspective on how the market system works, particularly with respect to small and medium-scale farms and firms, inhibitions to competition and efficiency erected by policy, and a wide range of means for dealing with them. The objective is to tap the best minds available for intensive interaction. The Committee would meet twice per year for the better part of a week, the meetings based on careful, intense preparation. Three Russians and three Americans would be an appropriate size for the Committee. With such a small Committee choice of members would require great care to obtain the necessary diversity of experience. One of the two annual meetings would be held in Russia and one in the U.S. In each case members would have an intensive program of meetings to learn about specific issues when visiting the other nation. In this manner the Americans would expand their capacity to understand the Russian perspective and vice-versa. The Agrarian Institute would be the home of the Joint Committee.

E2. Assistance to Diagnose and Analyze Policy Issues

As described in subsection D2. above.

E3. Technical Assistance to Advise on Implementation

The objective of the policy intervention element is to bring U.S assistance to practical policy intervention. One expatriate each year visiting each of the three Russian institutions for one month and working closely with the Committee would be adequate for this function. Again, a Russian from each institution would also spend one month in the U.S. analyzing approaches used. Russian institutions would receive grants to allow expansion of mutually agreed-upon policy research projects to support the practical policy advice.

E4. U.S. Organizations to Provide the Technical Assistance

It is critical to the success of the proposed interventions that the pluralism of the U.S. approach be conveyed as an integral part of the project. Thus a single part of the U.S. system should not be in charge. At the same time the highest level of reputation and competence in agricultural policy is needed to develop and guide the intervention. Within the chosen lead institutions, a wide range of U.S. entities should be involved, with due attention to reflecting pluralism and diversity. These institutions would include the USDA, land grant universities, private universities, and national and international institutes. Conveying the pluralism of our approach would be an important part of the exercise, something that is commonly lost because of the administrative structure of interventions.

SECTION V AGRICULTURAL AND AGRIBUSINESS CREDIT

A. Introduction

A1. Need for Improved Post-Privatization Credit Services

The breakup of state farms and state agribusiness monopolies is resulting in a proliferation of smaller individual private firms. Many services formerly performed internally within large state organizations are now being assumed by private firms that sell their services to other private firms. Credit services are essential to the efficient functioning of this new market system.

Further, the creation of new farms or firms may include only the transfer of the land resource. When capital structures are transferred they are often old, outdated, and of inappropriate size. Capital items such as structures, machinery, and livestock often must be acquired and financed over several years. And annual production, inventory, and sales credit are necessary to finance inputs and other costs prior to product sale. The current structure of the credit supply and delivery system does not perform these functions in a timely or efficient manner. These limitations and suggested interventions are detailed below.

A2. Agricultural Banking Network

The credit system serving agriculture is dominated by the Rosselkhozbank (Russian Agricultural bank). It has about 1,600 branches throughout the country, and in many localities it is the only bank (typically one Rosselkhozbank per raion) and thus serves non-agricultural needs as well when other bank branches are not present. The Sherbank (savings bank) is also found in most raions, but typically only accepts deposits (mostly from pensioners) and has not provided production or investment credit services to farmers. The Sherbanks generally do not have trained staff or sufficient resources to provide credit to legal entities. New Peasant Banks are being established that will provide an alternative to the Rosselkhozbank in many localities. Currently there are about 20 oblast-level peasant banks and more than 50 local branches. There are also a limited but growing number of commercial banks that provide a minimal amount of agricultural credit in some regions.

A3. Non-credit Banking Functions

The Rosselkhozbank has also been the conduit for agricultural subsidies passed through the credit system, including direct subsidies and subsidized credit. Further, it acts as the local clearing house for most monetary transactions in its area of operation. In this capacity, it debits and credits all accounts including government, local firms, employees of local firms, and farmers. Loans to farmers are typically debited to their account and credited to the supplier of services for which the loan was taken out. Government (or local

processing firm) purchase of farmer produce are credited to the farmer account (often after deducting credit payments due) and debited to the government (or local firm) account. These functions result in each party to the credit or marketing transaction being unsure of the existence or date of the specific transaction. This situation has resulted in inadvertent penalties accruing to some accounts, e.g., farmer accounts not credited due to lack of funds in purchasing accounts and therefore overdue loans not paid. As privatization proceeds and a market economy becomes established, the need for these non-credit banking functions will be reduced, allowing local branches to concentrate more on providing agricultural-related credit services.

A4. Credit Supply

The supply of agricultural credit comes from four general sources: special funds from the Central Bank, supplied at the Central Bank rediscount rate (currently 210 percent and which typically must be reloaned with a 3 percent margin at 213 percent); funds from the local bank's capital base; deposits; and purchase of deposits from other banks such as the savings banks. Central Bank funds typically account for 50-90 percent of local branch loanable funds. Rosselkhozbank branches are typically at the upper level of this range. Non-Central Bank funds do not have an interest rate cap and are usually loaned at slightly higher interest rates (220-240 percent). Usually there is a 30-40 percent interest margin (above the savings interest rate) for loans from the local banks' own funds.

A5. Credit Allocation and Loan Procedures

The provision of Central Bank funds to agriculture begins at the top with the Central Bank allocating lines of credit to specific bank groups; for various client groups; for specific purposes; and at defined terms, amounts, and interest rates for a specific time period. For example, a local raion branch of Rosselkhozbank may receive a 10 million ruble line of credit for financing crop production for individual farmers only, at a cost to the local branch of 210 percent interest, payable monthly to the Central Bank, with the principal due to be repaid to the Central Bank in eight months. This line of credit can not be commingled with other lines of credit. One raion branch bank had 24 separate lines of credit from the Central Bank (fur farms, bread products, poultry breeding, agribusiness, land preparations, fertilizer, harvesting, processing raw materials, etc.).

The decisions on lines of credit—when credit is made available, how much, for what time period, to which bank (branch), and for what purpose involves several stages and institutions. The process is similar for each borrower group. The first decision on general allocation is made by the Council of Ministers and passed along to the Central Bank. For individual farmer credit AKKOR allocates to the oblast level and within the oblast to the raion level. For state and communal farms the associated institution at the raion level is the agricultural production administration. For agribusiness it's the central administration.

The procedure at the local level includes both the local bank branch and, for independent farmers, AKKOR. The farmer must apply simultaneously to both. When the Central Bank releases a line of credit, AKKOR sits with bank personnel and together they

allocate the available credit. AKKOR typically makes a recommendation based on technical understanding of the farm operation and the bank on the basis of ability to repay. The bank has the right of final refusal. The degree of cooperation between the local bank and AKKOR varies and is currently considerably less than previous years when subsidized credit was available. With subsidized credit, demand exceeded the limited supply of credit, and AKKOR and other associated institutions helped serve a non-market rationing function. Currently, farm and firm demand is lower at commercial interest rates.

A6. Additional Credit Use Impediments

Marketing and security of expectations are two additional factors that make credit use under the above conditions a problematic situation for farmers. For many products the state is the primary market. This year, the state purchased products from farmers at harvest (and processed goods from processing firms) but has not paid for the crops (or only made partial payment) after several months. Meanwhile, credit costs continue to mount on unpaid loans, penalties are assessed, and when payment is finally made it is at the prevailing price at harvest—a considerable discount in the face of inflation rates of 20 percent or more per month (see Exhibit V-1 below).

Exhibit V-1: Russian Monthly Inflation Rates, 1993

January	26%	July	19%
February	29	August	28
March	17	September	32
April	16	October	21
May	19	November	17
June	17		

Management skills at newly privatized firms are often lacking for both financial and production decisions. Many of these new managers have occupied very narrow and specialized functions in previous state organizations. This experience is poor preparation for the broad marketing, financial, and production management functions of an individual private firm operator.

Finally, input prices are achieving international levels sooner than product prices, causing a cost-price squeeze in addition to the loan penalties and discounted product prices. This combination of factors makes it exceedingly difficult for newly privatized individual farmers to make the successful transition to a market economy.

A7. No Need for a New Independent Agricultural Credit System

The need to create an entirely new agricultural credit system made up of a bank or banks suggested to the team by several contacts made during the interview process. The same recommendation has been put forward in several documents prepared by previous

review teams. However, based on visits to 12 oblast- and raion-level banks in four regions, we can find no compelling reason to make a similar recommendation at this time. The above description of the current credit situation depicts a system still burdened by the top-down control mechanisms of a command economy and the non-credit functions of market transaction accounting among individuals, firms, and government. This system is currently in flux and will be abandoning many of these transaction and control functions as the market system develops. Further, we find local branch loan officers to be reasonably aware of and minimally practicing many credit review processes expected of loan officers in market economy banks.

Also, the current capital requirements to create new commercial banks are minimal, and a number of new banks are being established. These new banks should provide the needed competition in those localities that can support additional banking branches—a situation that should become more common as new individual farms and firms proliferate as privatization proceeds. Thus, in our view, the consideration of creating a new agricultural bank should be delayed for the present and perhaps revisited in 18 months or 2 years. It is not prudent at this time to assume that an entirely new system will be cost effective and that the current system cannot make adequate adjustments when unburdened from the present transaction requirements of the command system.

The constraints and interventions detailed below address each of these issues.

B. Constraints

B1. Restricted Use of Loanable Funds

Tightly constrained funds from the Central Bank give the local branch little flexibility in meeting individual farmer and firm needs in terms of amounts and timing of credit, credit use purpose, and repayment schedule to fit the particular cash flow conditions of each farm or firm.

B2. Lack of Raion-level Bank Competition

Typically there is only one main branch in each raion (the Rosselkhozbank), a savings bank, and occasionally a commercial bank that is initiating service to agriculture. This has been sufficient to handle the banking needs and government transfers of large farms and large agribusiness firms in a command economy. As both individual farms and firms proliferate in a market economy, however, there will be a need for additional banking services and for competition in the provision of these services to guarantee the most efficient banking service delivery.

B3. Low Loan Officer Familiarity With Production Processes

Loan officers have had only minimal training and need to critically review production plans for cash flow and creditworthiness. As a result, they lack technical and financial coefficient benchmarks to judge the management capabilities of potential borrowers. In

addition, forms and instructional manuals to facilitate application review and appraisal are not developed and available.

B4. Lack of Facilitating Services

Currently banks do not provide checking account services and it is difficult to coordinate payments on accounts across banks and distances. Many bank transfers are reported to take 10-12 days within the same oblast and as long as 30 days between oblasts, resulting in a substantial loss of value to buyers and sellers in a highly inflationary economy.

B5. Excessive Time and Cost to Process Loan Requests

The need to coordinate the evaluation of loan requests with AKKOR or other cooperating institutions results in potential borrowers making dual applications to two organizations, each with different evaluation criteria. This is an added burden for both the borrower and the bank that provides little additional value to the provision of credit services.

C. Objectives

The general objective of the interventions outlined below is to streamline the agricultural credit system to more adequately serve the new and expanded demands of a privatized sector. This will be achieved through the establishment of policies and institutions that allow individual farms and firms to control their own financial management decisions in line with the unique needs of their individual operations. Provision of sufficient credit resources under free market conditions of cost, term, and repayment schedules are central to achieving this objective. Recommended changes in the marketing system (see Section VII), including recommendations to create a more secure and open market structure that will result in greater security of expectations concerning price, supply, and market outlets, are supportive of this objective. Successful completion of these objectives will allow managers to use credit to optimize resources use and the profitability of their operations, and enhance the probability of success in the transition to privatization and a market economy.

D. Interventions

D1. Provide Agricultural Credit Advice

D1a. Principal Tasks

Guide the implementation of credit-related activities in selected pilot oblasts and raions.

- Design and assist training of loan officers.
- Determine need and potential sources for supplementary credit resources.
- Determine special enterprise credit needs.

- Determine and implement complementary banking services such as checking services.
- Determine need and activities for short-term technical assistance such as computerization of bank functions, collateral appraisal, loan evaluation, development of forms and procedures, etc.

Provide feedback on pilot credit initiatives to the Ministries of Finance and Agriculture and other institutions concerned with agricultural credit issues.

- Evaluate and report on implementation and results of credit interventions at the raion and oblast levels.

Advise the Ministry of Finance on general agricultural credit policy.

- Advise on the need and form of changes in national-level agricultural credit policy, including amount of credit and conditions for providing credit to sectors and individuals.

D1b. Personnel and Level of Effort (Exhibit V-2)

- Long-term (five years) advisor based at the Ministry of Finance.
- Two long-term (five years each) pilot project credit coordinators located at the oblast level.
- Fifteen person-months annually of short-term technical assistance in banking procedures, loan evaluation procedures, etc.
- Four long-term (five years each) Russian specialists located at the oblast level.
- Six person-months annually of Russian short-term credit specialists.

D2. Credit Personnel Training

D2a. Principal Tasks

Loan officer and other bank personnel training at the pilot project, non-pilot project, regional, and national levels.

- Provide training support to institutions and individuals involved in upgrading of banking personnel skills.

D2b. Personnel and Level of Effort

- Long-term expatriate, included in D1. above
- Twelve person-months annually of short-term technical assistance

D3. Establishment of Special Credit Fund for Pilot Areas

This fund will supplement existing credit sources, but will be free of normal line of credit restrictions. Interest will be at market rates and indexed to inflation. Individual loan terms will be established by the local banks to fit the unique needs of each client. Use will be open to all raion needs. Evaluation and disposition of loan requests will be handled by bank personnel using market-based criteria of creditworthiness and cash flow analysis of client's financial plan.

The most direct and effective way to implement this special fund is for the Ministry of Finance to create the fund for the pilot raions directly from Ministry of Finance resources in lieu of the traditional lines of credit. This could be a single fund at the national level with special drawing rights for the pilot raions. In this manner, the Ministry of Finance will have a stake in the pilot program, and locating the fund here would facilitate continuity and eventual expansion of the concept of non-directed market credit to other regions. (Russian officials at the Council of Ministers level were initially receptive to the special fund concept.)

The amount of Finance Ministry funds needed in each pilot raion will increase somewhat over current levels as more firms, individuals, and needs are served and some longer-term loans are provided. However, in terms of the ministry's total countrywide portfolio, the additional funds will be minuscule. The oversight responsibility of USAID in this case would be to ensure that the integrity of the fund is consistent with client demand in the pilot raions, and that local bank officials are given the freedom to determine and apply appropriate loan and borrower criteria.

An alternative special fund source is the oblast government. In this case oversight would be somewhat more involved since more than one government entity (oblast) would be providing funds. However, interest in the success of the program might be greater since the pilot raions would be located within the oblasts. Also, the normal Finance Ministry lines of credit would presumably still be available from the national level, and to the extent their conditions were compatible with local (raion) needs they would provide additional loanable funds for local use.

A last resort (or supplementary source) should be U.S.-generated funds either through monetized import commodity funds or direct USAID budget funds. These funds could be used as a single fund at the national, oblast, or raion level depending on the contributions from the above priority sources. USAID would have direct oversight on the management and use of these funds consistent with the above needs of the project and with established U.S. policy for use of this type of fund. Again, since interest rates will be set at positive real market rates, this will be a revolving fund that will need additional infusions only for unexpected losses or increases in level of demand within the pilot raions or through the addition of more pilot raions.

This special fund will be available to all segments of the raion including farms, agribusinesses, other entrepreneurs, and local infrastructure developers. Thus loan size will vary from small to quite large. The loan criteria will be local use only (within the raion),

creditworthiness, cash flow analysis to establish ability to pay, and appropriate collateral—all conditions to be determined by the local bank officials.

The needed size of the special fund cannot be determined precisely. It will vary depending on the region's size, farm enterprise mix, level of market infrastructure, and urbanization of chosen raions. Current raion levels of outstanding loans range from an average of 2 billion rubles per raion in northern oblasts to 12 billion rubles in one raion near Krasnodar in the south. These existing levels are based on subsidized credit offered early in the 1993 crop year, not on the current 213 percent interest rate that has resulted in reduced demand for new loans in the latter part of 1993.

For initial planning purposes, a composite fund size of \$15 million in the first year, rising to \$30 million by year 3 for the total project (four raions), is suggested. This fund can be composed of any combination of the above sources, and its level should be modified after initial raion selection has been determined and before project initiation. The amount of the fund should be reviewed annually to make adjustments based on use and need levels.

D3a. Principal Tasks

Determine amount and sources of special fund. As noted above, sources may include a special fund to be created by the Ministry of Finance, special funds created at the oblast level, monetized import commodity funds, direct USAID budget funds, or combinations of the above. Fund amount will be dictated by needs, other credit sources, and number of raions selected for pilot projects. Needs will also change through time depending on fund turnover, which in turn will depend on mix of short- and long-term loans.

Determine interest rate levels, rate adjustment procedures to maintain integrity of the fund balance, and loan evaluation and disposition procedures to be followed in fund use.

D3b. Personnel and Level of Effort

Tasks to be performed by credit advisors.

E. Russian Institutions and Other Supporting Activities

E1. Russian Institutions

- Ministries of Finance, Agriculture, and Economics
- Central Bank
- National, oblast, raion branches of Rosselkhozbank and others serving agriculture
- Russian institutions for training credit personnel to be identified by credit advisors
- Russian Farmer Fund

E2. Supporting Activities

- World Bank, ACDI, and USDA

Exhibit V-2: Level of Effort Summary: Credit (person-months)

<u>Year and Effort</u> Source	Intervention			Total Level of Effort
	Credit Advisor	Credit Training	Fund Specialist	
Yr 1 - Expat - Short-term	9	18	6	27
Expat - Long-term	18	12		36
Russian - ST	2	4		6
Russian - LT	18	30		48
Yr 2 - Expat - ST	9	18	6	27
Expat - LT	18	12		36
Russian - ST	2	4		6
Russian - LT	18	30		48
Yr 3 - Expat - ST	9	18	6	27
Expat - LT	18	12		36
Russian - ST	2	4		6
Russian - LT	18	30		48
Yr 4 - Expat - ST	9	18	6	27
Expat - LT	18	12		36
Russian - ST	2	4		6
Russian - LT	18	30		48
Yr 5 - Expat - ST	9	18	6	27
Expat - LT	18	12		36
Russian - ST	2	4		6
Russian - LT	18	30		48
Total - Expat - ST	45	90	30	135
Expat - LT	90	60		180
Russian - ST	10	20		30
Russian - LT	90	150		240

SECTION VI FARM MANAGEMENT

A. Introduction

A1. Need for Improved Management Skills

Both existing and newly formed farm units need improved and expanded management skills to operate efficiently in a market economy. In the past command economy, most general organizational decisions concerning enterprise choice and level of production were in large part dictated by the state. Off-farm management decisions such as input purchase, marketing, and credit use involved few if any alternatives as farms purchased from and sold to state enterprises at government-set prices. Also, the provision of agricultural credit has often involved allocated and passed-through government subsidies where repayment was not a condition to receive additional credit and subsidies. Management in a market economy, however, requires considerably more disciplined choices in production, marketing, and finance.

A2. Ability Train Farm Managers and Develop and Deliver Information

In most developed market economies there exists a well-developed interrelated network of research, training, and delivery institutions. Typically, this includes departments of agriculture, universities, research institutes, extension services, and private sector commodity or input-specific organizations. These institutions and delivery services do not exist to any degree in Russian agriculture, nor are they integrated to ensure that information developed is made available to the public and farmers.

A3. Respective Roles of Government and Private Sector

Government currently dominates farming and agribusiness. Privatization means that government gives up much of its direct role and allows the private sector and the market to direct resources allocation and production and marketing activities. But government still has a number of crucial supportive roles to play to ensure that markets function smoothly and efficiently. These functions include regulation, inspection, research, education, transfer of technology, provision of market and safety information, tax collection, etc. The private sector influences government through professional societies, trade associations, and crop and breed associations to promote markets, promote industry- or commodity-related causes, educate members, increase income, etc. Some level of subsidy is often common in the form of protecting farmers and industry against big market shocks or when powerful special interests influence legislation.

A4. Comments on a Russian Extension Service

There is a general need for government to support transfer of agricultural production and other information through coordination with applied and adaptive research institutions, market and other information dissemination, and communications between farmers and appropriate sources of technology, inputs, services, and markets. An extension service is typically a major source of these activities. This is not true in Russia, but the possibility of a Russian Extension Service is being discussed (World Bank), and elements of an information delivery service are being introduced in terms of nascent market information services. These services, supported separately by the World Bank and USDA, will collect and package information for farmers and deliver this package through various media outlets. Other partial initiatives are also being made.

The need for an information collection and transfer capability is great. However, given current budget limitations and cost and personnel requirements, it is unrealistic to propose support for mounting a full-fledged extension service at this time. The regional market and other information collection and delivery services being initiated and the extension, research, and higher education project being investigated by the World Bank are important first steps. These services will assist information collection and delivery for the pilot projects at the raion level but will need to be supplemented with timely and appropriate local information and delivery services. Therefore, for the current project we recommend support for institutions that generate, collect, and deliver information in the targeted oblasts and raions, but not for the establishment of a formal extension service.

A5. Major Farm Organizations

Two major farm organizations, the Agrarian Union of Russia and the Association of Individual Farms and Agricultural Cooperatives (AKKOR) now unite agricultural producers of all types in the Russian countryside. Although formally private voluntary organizations, they in fact carry out governmental functions and frequently claim exclusive rights to speak for their respective self-defined constituencies in negotiations with the government.

The Agrarian Union (Agrarnyi soiuz Rossii) claims to unite and speak for all farms and farmers, whether large former state or collective farms, newly organized smaller group or cooperative units, or individual farmers. As with many such inclusive organizations, its leadership is dominated by conservative elements, and the Agrarian Union's chairman, Vasilii Starodubtsev, remains under indictment as a member of the ill-fated August 1991 junta that attempted to overthrow Mikhail Gorbachev and succeeded in breaking apart the USSR. The Agrarian Union was closely related to the reactionary parliamentary group of the same name in the old Congress of People's Deputies, and the Agrarian Party of Russia is its creation. The second part of the Union's second congress, which met during the presidential-parliamentary confrontation in October 1993, voted, apparently with only one dissenter, to support Rutskoi and Khasbulatov, the parliamentary leaders. The Union's platform explicitly opposes open purchase and sale of agricultural land, privatization of collective and state farm assets in any way, and any change in the current system of state protection of agriculture (i.e., state cost-plus financing of all agricultural costs).

AKKOR (Assotsiatsiia krest'ianskikh (fermerskikh) khoziaistv Rossii), is quite different in its orientation and explicitly seeks to pattern itself on the American Farm Bureau Federation as it existed in the 1940s and 1950s. AKKOR's leadership played a major part in designing and winning parliamentary approval in 1990 of the basic legislation that permitted families to leave the collective and state farms with a share of land and capital assets for the first time since the big farms were created in the 1930s, and it has continued to be an important lobby for economic reform. AKKOR's current president, Vladimir Bashmachnikov, participated in the Constitutional Conference at the request of the Yeltsin government and was a candidate for the new parliament on the Russia's Choice (Gaidar bloc) party list.

AKKOR, which describes itself as the individual farmers' interest group (and which is therefore willing to work with people of any political stripe so long as they listen to the new farmers' demands) had been a collective member of the Agrarian Union since its founding, although it resigned its membership on the day the August 1991 putsch began because the Agrarian Union supported the putsch leaders.

Because of government control of all financial resources for the countryside, both the Agrarian Union and AKKOR have in practice mainly been lobbies for more money for their respective constituencies. Each organization distributes state subsidies to its membership. The heads of oblast and raion agricultural administrations are generally also chairmen of the local Agrarian Union branch. AKKOR has majority control of the "Russian Farmer" fund, which serves as the conduit for the government's line of credit targeted to individual farmers.

The Agrarian Union and AKKOR negotiated with the government about state purchase prices in 1992 and 1993. In each year a formal three-way treaty was signed by the government, Agrarian Union, and AKKOR, specifying what prices would be paid and what benefits (such as reduced prices for fuel and equipment) former state and collective farms and individual farmers would receive in return for their pledges to sell produce to the state.

B. Constraints

B1. Individual Farmers Lack Management Skills

Newly privatized individual farmers generally bring only specialized training and experience to their new farm units. In most cases they were workers on former state or collective farms, occupying occupational categories like tractor driver, accountant, agronomist, field worker, herdsman, mechanic, etc. These experiences do not prepare them adequately for the broad range of initial organizational and capital acquisition decisions, nor for the follow-on production and marketing management functions.

B2. State and Collective Farms Need Management Training

Managers of large state and collective farms have used a variety of management skills under the command system. However, many of the management functions previously concerned non-agricultural questions of social infrastructure such as schools, health, roads,

etc. Farms were not required to be profitable in the sense of covering all costs, and marketing and finance decisions were largely dictated by the state.

B3. Management Training Entities Are Inadequate

The number of farmers is large, growing, and regionally dispersed (see Exhibits VI-1 and VI-2). To provide broad based management training will require a number of regional institutions staffed with personnel qualified to train the many specialist necessary to help up grade farm management skills.

Exhibit VI-1a: Collective and State Farms in the Russian Federation (October 1993)

Total number of state and collective farms	25,589
Number of reregistered (reorganized) collective and state farms	23,798
Reorganized farms as percent of total	93

Exhibit VI-1b: Reorganized Collective and State Farms (October 1993)

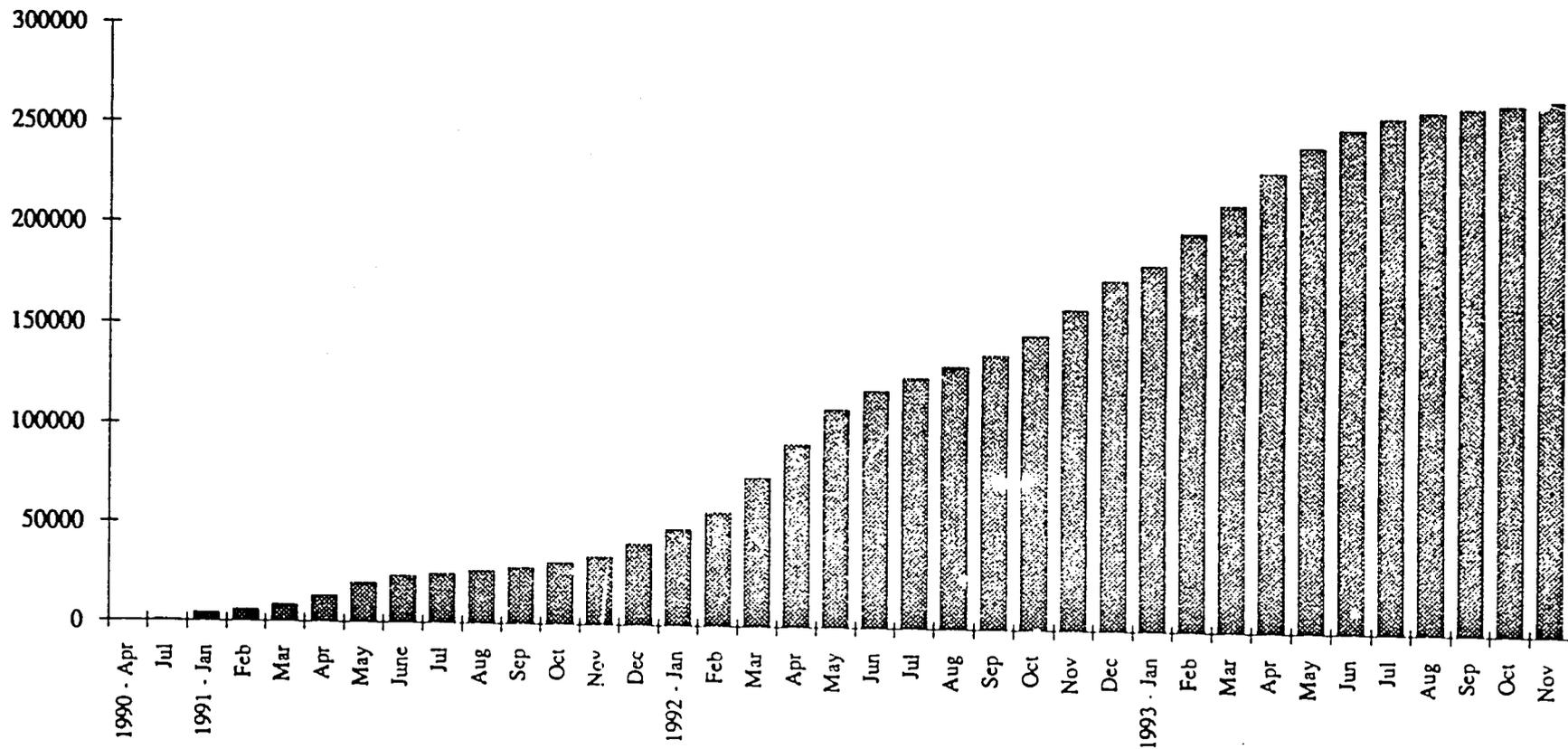
Retained previous status	8,080
Joint-stock companies	311
Limited partnerships	11,338
Associations of individual peasant farms	972
Agricultural cooperatives	1953
Subsidiary farms of industrial enterprises	412
Other	2,171
State farms reregistered as collective farms	227

Source: ROSKOMSTAT, 1993 (unpublished)

B4. Farmers Lack Information to Make Informed Decisions

Former state and collective farms have a number of specialized individuals to fill some management functions, e.g. agronomist, accountant, etc. Newly privatized individual farmers will need to acquire this information from other sources. Both types of farmers will need to acquire timely market, investment, credit, and other information critical to making management decisions.

Exhibit VI-2: Number of Individual Farms in the Russian Federation



B5. Institutions and Organizations to Develop and Deliver Technical and Marketing Information Need to Be Strengthened

Timely information such as market prices, technical and financial coefficients, special government programs, and current crop and livestock supply/demand conditions, needs to be collected and developed by designated institutions and made available to farm managers through an established delivery system. These institutions and delivery systems do not currently exist for Russian agriculture. AKKOR and the Agrarian Union are possible candidates for some of these activities at the oblast and raion levels but should be looked at on a case-by-case basis.

C. Objectives

The principal objective is to provide management training and information necessary for farmers to operate efficiently and profitably in a market economy. A facilitating objective is to support institutions that develop, provide, and deliver information used in making management decisions.

D. Interventions

A central theme in the interventions suggested for meeting shortcomings in farm management training and information development and delivery is that Russians will do most of the information preparation and delivery. There are a large number of farmers and others in the agricultural system that will receive assistance, and they are geographically dispersed. Thus, it is essential that Russians be the final contact individuals. Expatriate assistance will help identify the needs, locate and provide sources of information (international and national), and assist in training Russians at the institute (oblast and national level) and raion levels.

D1. Regional Information Generation and Demonstration Activities

As noted earlier, both the gathering and packaging of management information and an appropriate delivery system are needed. The purpose of this intervention is to strengthen the institutions and individuals that will prepare and adapt the needed management information. These institutions will likely be located at the central or regional oblast level, though some may be national. For example, preparation of an agricultural price series may be performed at the national level with primary data collection at the oblast and major region levels. The activities will therefore have implications and spinoff for a broader area than the selected raions.

D1a. Principal Tasks

Determine and guide information development activities. A number of information source documents will need to be adapted and packaged for use by instructing managers. These documents will fall into three major categories. The first is management tools such as account books, accounting and management principles, and basic reference documents on

management productivity measures. These sources will likely be adapted from U.S. experience and supplemented by available Russian information. Second will be basic technical information for operating and managing a number of different types of farm operations. These will range from production decisions such as land use, crop selection and combination, input use and level, equipment management, and livestock management through marketing strategies and credit use. Some institutes in Russia are already doing basic research work in crop fertility practices, animal feeding, etc. This information must be adapted and packaged for use by outreach personnel. The third level involves time sensitive information such as marketing opportunities and pricing information that must be provided weekly or monthly to allow farmers to make marketing and other short-run decisions. In some areas (Krasnodar) these types of data are being collected for other uses and should be gathered, packaged, and disseminated for managers.

Identify institutions and individuals for support and training. Within each oblast (and perhaps at the national level), one or more institutes will be identified to carry out the above activities. Where feasible, these will be institutes that already have staff engaged in some level of management activity. Within the institute one or more staff will be identified to receive short- and long-term training. These individuals will also participate in the training of local (oblast and raion level) people that will serve as teachers to farmers and other managers at the raion level. (See Section D2. below.)

Develop and conduct training programs. Training will be conducted at three levels. Long-term training in the U.S. for selected institute management professionals; short-term training for these and other nationals by expatriate professionals; and short-term training by institute management professionals for Russians who will in turn deliver information and training to farmers and other managers at the raion level.

Administer small grants.information development. The purpose of these grants is to provide resources to individuals and institutes to enable them to prepare one or more of the above identified information sources. The recipients of these grants may be associated with the institutes identified above, but may also be located elsewhere. This will allow a broader level of professional input to the many and varied needs for management information.

The expatriate advisors, with assistance from long-term Russian farm management specialists, will solicit, identify, and evaluate grant applications. A volume of \$100,000 per year (\$50,000 per oblast) is suggested for this activity. Individual grant size will vary depending on level of effort, but expected range is \$5,000 to \$20,000 per grant.

D1b. Personnel and Level of Effort

This is included in section D2b. below.

D2. Develop and Maintaining Information Delivery Systems

This intervention will temporally address the function served by several institutions in market economies, including the extension service, commodity groups, and farm organizations, as these institutions are encouraged to develop. The intent is not to create a formal extension service, but to provide several Russian farm management specialists that will operate from the oblast level to assist farmers and agricultural industries in selected raions.

These activities will include direct one-on-one assistance to farmers, resourcing of meetings with farm clientele, provision of information developed under D1. above, and incentives and back-up support for raion-level agricultural organization efforts to assist farm managers. In addition they will coordinate any information gathering activities at the raion level such as seasonal price, market, and production information. They will also attempt to use media outlets to provide management information such as market news (daily, weekly) on local radio and television, as well as feature stories and announcements in local print media.

The farm management specialist will be the link to the information generating activities at the oblast level, serving both as the conduit for making reports and other documents available to the local farmers and in providing input into the determination of the information development activities at the oblast level.

D2a. Principal Tasks

Identify institutions and individuals for support and training. The institutions are principally raion-level entities that serve agricultural interests. However, farmer organizations may serve multiple raions, and radio, television, and local newsprint will also reach beyond individual raion limits. In these cases, the benefits of the intervention will accrue to a much larger audience beyond the pilot raion. Support would involve information and presentation assistance including volunteer presentations at organization meetings and media broadcasts and publications.

Develop and conduct training programs. Typically, this will include local farmer meetings held periodically on a variety of topics crucial to effective farm management—topics such as how to set up, keep, and analytically use record systems; how to evaluate enterprise alternatives; how to effectively use credit resources; how to develop marketing strategies for purchasing inputs and selling outputs; and how to plan machinery and other resource acquisitions. The meetings will include allied agricultural interests such as credit officials, farm organization personnel, and media representatives. Special meetings for credit personnel on cash flow and creditworthiness topics may be conducted at the multiple raion level in coordination with the credit component of the overall project. (See Section IV.)

Coordinate efforts with other donors. A number of partial efforts are underway to help farm managers and others operate effectively in a market economy. Market price

reporting, farmer-to-farmer programs, credit institution development, etc., are all programs that may provide information and specialist expertise to local clientele.

D2b. Personnel and Level of Effort

See Exhibit VI-3 for a detailed breakdown of LOE.

- Two long-term (5 years each) expatriate advisors, once located at each pilot oblast.
- Twelve person-months per year of expatriate short-term technical assistance for collaborative information development and delivery assistance.
- Four long-term (5 years each) Russian farm management specialists.
- Twelve person-months per year of Russian short-term farm management specialists.

E. Russian Institutions and Supporting Activities

E1. Russian Institutions

Research, training, and information delivery institutions will be identified by long-term advisors. Local institutions at pilot project level will include identified farmer organizations currently operating in the target raion and could include AKKOR and the Agrarian Union as well as new farm organizations.

E2. Supporting Activities

- World Bank-supported efforts on agricultural information collection and delivery at the Ministry of Agriculture; and a research, extension, and higher education project in early stages of development.
- USDA pilot market information service project
- USAID project to develop and assist private voluntary organizations
- PVO's farmer-to-farmer programs
- European Community activities

Exhibit VI-3: Level of Effort Summary: Farm Management (person-months)

Year and Effort Source	Intervention		Total Level of Effort
	Packaging	Delivery	
Yr 1 - Expat - Short-term	8	16	24
Expat - Long-term	12	12	24
Russian - ST	4	8	12
Russian - LT	20	28	48
Yr 2 - Expat - ST	8	16	24
Expat - LT	12	12	24
Russian - ST	4	8	12
Russian - LT	20	28	48
Yr 3 - Expat - ST	8	16	24
Expat - LT	12	12	24
Russian - ST	4	8	12
Russian - LT	20	28	48
Yr 4 - Expat - ST	8	16	24
Expat - LT	12	12	24
Russian - ST	4	8	12
Russian - LT	20	28	48
Yr 5 - Expat - ST	8	16	24
Expat - LT	12	12	24
Russian - ST	4	8	12
Russian - LT	20	28	48
Total - Expat - ST	40	80	120
Expat - LT	60	60	120
Russian - ST	20	40	60
Russian - LT	100	140	240

SECTION VII AGRIBUSINESS

A. Introduction

A1. Overview

The background, constraints, and interventions described in this agribusiness section should be viewed within the framework of the other technical areas described in this report. There is considerable dovetailing between these constraints and interventions and those described in the policy, credit, farm management, social infrastructure, and integrated pilot sections of this report. This is particularly the case with regard to the farm management section.

A2. Government as a Major Player in the Market

The Government of the Russian Federation remains the major, often monopolistic input supplier and market for agriculture. It is critical that the government get out of the farming, marketing, and supply business to allow market-driven competition and efficiencies to develop and operate, as discussed in the preceding farm management section (Section VI).

Although a heated internal debate between reformers and conservatives is ongoing, the Russian Federation government, at the local, regional, and national levels, continues to be engaged in input supply, production decision making, and directed credit to support rural labor forces and influence supply and trade. It is also heavily involved in marketing, processing, storage, distribution, and retail sales—all often in a monopolistic position.

Input supply businesses that appear to be dominated by government organizations include seed, breeding stock, fertilizer, pesticides, new agricultural machinery. Other input supply goods and services that are reportedly breaking away first include veterinary, agronomic, custom farming, and other technical services, and machinery repair and spare parts businesses.

Storage and marketing functions are also tightly controlled by the government. Some relief from this condition was observed as a result of the privatization pilot activity being conducted in Perm Oblast with the assistance of the Boston Consulting Group. BCG is helping the regional administration privatize four storage (primarily potato) facilities and has plans to expand the program. Whether the privatized warehouses will be successful as private storage enterprises remains to be seen, but at the very least, these assets will be used by the private sector to develop its own capacity to do business.

Large- and medium-scale food processing facilities are largely government-owned, often with the government as a majority partner in newly reorganized joint stock companies.

One large-scale processor visited by the team complained of low demand for its products that were offered at high prices set by the government. In spite of the sometimes subsidized competition by government-owned or controlled enterprises, many farmers, seeing the relatively wide margin between raw product and processed prices, expressed the desire to enter into small-scale processing of their own production. These very small- and undercapitalized operations may not be able to compete well with the large government operations without suitably structured credit, training, and improvements in the policy environment.

A3. Policy and Regulatory Environment Restricts Agribusiness Development

The setting and interpretation and implementation of policies and regulations at regional and local levels is often restrictive to development of rural-based agribusiness. For example, at the oblast or krai levels, government authorities control interregional flow of goods impeding the demand- and supply-based pricing of commodities. This is done through management of the issuance of licenses for interregional export of product. Rationale for licensing is generally based on the regional surplus or deficiency of a given commodity at the time of application and without regard to interregional business opportunities. Please also see Section IV for a discussion of agrarian policy.

B. Constraints

Many of the following constraints apply to farm management as well as agribusiness. Additional constraints to agribusiness are discussed in other sections of this report when they are more central to other topics. An example of this is lack of long-term fixed or indexed rate credit, which is covered in the credit section (Section V) of this report. Some of the most important constraints to development of agribusiness include those listed below.

B1. Disadvantageous and Unpredictable Competition

The state dominates and monopolizes, sometimes pays late, and sometimes subsidizes or forgives loans. This results in uncertainties and a lack of market alternatives for farmers and agribusinesses who operate outside the state system.

Many former state and collective farms have spun off associations made up of former management, i.e., agronomists, economists, engineers, and other professionals who appear to have maintained privileged relationships with the agroindustrial complex and banking system. This allows them to secure supply, market, and subsidized credit advantages and to move more easily than independent farmers and citizens into new agribusinesses. This situation tends to perpetuate the central command and subsidy system.

Alternative markets to the government-owned and-controlled ones are only now emerging.

B2. Lack of Business Management and Technical Skills

Former state and collective farm managers who intend to initiate new businesses have not had experience identifying and responding to market opportunities. Managers expressed to the team the need for training, especially in marketing, business planning, financial management, and management information systems.

B3. Lack of Market Information

Lack of information about market alternatives, prices, and market trends was noted as a problem, especially regarding potential extraregional opportunities. Emerging commodity exchanges may become leaders in the provision and use of market information.

B4. Lack of Private Sector Advocacy and Business Development Organizations

Private sector agribusinesses lack an efficient and strong voice in government decision making, and there are few effective professional and trade groups to develop business skills and linkages. Private trade and professional associations have only begun to emerge.

AKKOR and the Agrarian Union are the two well-known organizations that now link to agricultural producers of all types. Although neither is presently a very suitable candidate to assume this role, and other organizations should be encouraged to develop, they should be considered on a local case-by-case basis as organizations to link with to provide services and information to farmers and agribusinesses. Please refer to Section VI, under Farm Management, for a description of AKKOR and the Agrarian Union.

B5. Inadequate Policy and Regulatory Environment

The policy and regulatory environment is generally not supportive to developing private businesses. This problem is discussed in Section IV, under the Agrarian Policy component.

C. Purpose and Objective

The general purpose of this project subcomponent is to develop rural-based goods and services businesses that support agricultural production and employment. The principal objective is to accelerate the establishment and development of rural-based, privately controlled agribusinesses including input supply, transportation, wholesale and retail sales and distribution, technical services, processing, and manufacturing. The means of contributing to the accomplishment of this objective are outlined below.

D. Interventions

D1. Technical Assistance and Training to Business Managers

This program will provide a continuous flow of targeted short-term technical assistance and training focused in selected oblasts and raions. The specific subject matter of the assistance to be rendered, and the Russian institutional affiliation, will be determined through diagnosis in each area selected. Selection of pilot areas is discussed under the Integrated Pilot Activities section (Section IX). It is likely, however, that technical assistance and training in marketing, business planning, financial management, and management information systems will be necessary. From an overview perspective, the program needs to help managers acquire skills to develop and implement strategies to measure, achieve, and maintain profitability in their enterprises.

Only a limited amount of general management and business skills training will be useful in the form of general, "one size fits all" training. This very general training, for example in basic accounting, if not already offered in local universities and training institutes, should be provided by training local staff of these institutions. This can be accomplished mostly through development and provision of "training of trainers" modules and selecting individual consultants who can work with local professors to develop appropriate short courses. Alternatively, in some cases a handful of well-selected teachers could receive short-term international training to teach these basic courses. Local organizations currently offering courses will be provided assistance to strengthen their offerings when appropriate and local business people will be referred to these courses.

As indicated, many of the skills needed will not be of a broad, generic nature and therefore will require a combination of specialized training for small groups or firms with similar problems and at least some specialized one-on-one technical assistance. This assistance will include, for example, working with firms to identify and apply methods to compete against large-scale government-owned businesses. This example might require assisting or teaching how to develop more efficient production (better management of purchasing and inventories, higher worker productivity, etc.), higher-quality products, greater reliability of supply, and better customer service through analyses and discussions of case studies and solving actual ongoing problems of firms.

Many former state-owned enterprise and farm managers are starting small businesses. For example, a popular ambition related in interviews by the design team was that a significant number of individuals and newly privatized firms indicated that they plan to form a food processing business. Other commonly mentioned businesses include flour mills and bakeries. These firms, if formed, will for the most part be small and undercapitalized new ventures. If they have basic knowledge of production technology, to be successful they will also generally require training and technical assistance in procurement of raw materials, marketing, accounting, and financial analysis, in addition to suitably structured credit and improvements in the policy and regulatory environment. Because of the cumulative effect of these deficiencies and in spite of assistance, many of these firms will fail. For these small-scale emerging firms, emphasis should therefore be placed on basic skills development and

leveraging the use of the skilled project personnel. In turn, local hire project personnel should receive on-the-job training to provide training of trainers.

There are several methodologies recommended for identifying and contacting agribusinesses that could benefit from technical assistance and training. Professional and business development organizations that have among their membership managers of input supply, transportation, wholesale and retail sales and distribution, technical services, processing, and manufacturing firms, should be targeted as candidate organizations through which assistance and training can be offered. These organizations can promote the possibility of assistance among their members. One means to identify newly emerging small firms is to advertise assistance and training opportunities specifically for them in local publications and on local television stations. It is assumed that the bulk of clients will come from project staff plugging into the raion and oblast agribusiness network. This networking will begin with the initial diagnostic phase discussed in the Integrated Pilot Activities section (Section IX) and continue, importantly, during the preparation of a detailed agribusiness development work plan during the start-up phase of the project.

The long-term personnel required to perform these activities include one U.S. agribusiness development specialist to anchor the entire agribusiness component and provide approximately 50 percent of his/her time to this intervention. The program will include selection and on-the-job training of Russian trainers. Six Russian agribusiness specialists will be identified, hired, and trained on the job during the first year. The hiring and training process should be repeated as often as yearly depending on the success of the intervention and the ability to graduate the trained Russian specialists into independently financed employment or new pilot activities. As is the case for the U.S. agribusiness specialist, they will also dedicate one-half of their time, on average, to this very important intervention. Exhibit VII-1 provides a summary of the LOE requirements for this component.

Short-term personnel requirements for this intervention are for 24 person-months per year of various specializations, with 3/4ths of the LOE being provided by expatriate personnel. Short term technical assistance, though dependent on the needs identified in each pilot area, will likely include technical areas corresponding to each of the thematic components such as designing loan officer training for the credit component and analyzing existing farm wage and benefits structures for determining how to monetize them under the social infrastructure component.

The initial group of pilot areas to receive this assistance will include two raions in each of two oblasts or krajs. Please see Section IX, Integrated Pilot Activities, for a description of the integrated pilot activity structure.

Russian institutions and organizations likely to be affiliated with this assistance include government administrations, agribusiness centers, and agribusiness and training institutes at the local and oblast levels. Some of these organizations now receive assistance from international donors, as mentioned below.

USAID and other donor activities that should be expected to complement and coordinate with these activities include U.S. Peace Corps and Department of Commerce agribusiness centers, USAID's farmer-to-farmer program, the IESC, and the World Bank's agricultural information program.

D2. Assist Development of a Specialized Private Sector

This development assistance will target the selected pilot oblasts and raions, focusing on services such as policy advocacy, market information, and technical and business training. The initial diagnostic phase, described in the Integrated Pilot Activities section (Section IX), will provide preliminary information about organizations that should be candidates for strengthening, as part of the overall pilot area selection process. As is also stated in Section IX, specific institutions to receive assistance should be selected on a case-by-case basis in each pilot raion during the subsequent preparation of the detailed program of work for each proposed intervention. Exhibit X-3 provides a list of institutions that may participate in the intervention activities. AKKOR, the Agrarian Union are the most obvious candidates for institutional strengthening, but other professional and business development organizations that have among their membership managers of input supply, transportation, wholesale and retail sales and distribution, technical services, processing, and manufacturing firms, should also be considered.

The emerging commodity exchanges may, in some locations, be good candidates to support for expansion of market information services. They could be encouraged and assisted to collect, analyze, and provide information to the agribusiness community on market prices and trends, sources of supply, and buyers.

The agribusiness development specialist will provide 20 percent of his/her time to this intervention, as will the six long-term Russian personnel. Six months per year of short-term expatriate technical assistance will be required.

This intervention will seek ways to work with the new USAID project designed to develop PVOs and will coordinate with the planned World Bank agricultural information project.

D3. Promote Transformation of Policies and Regulations

Through the technical assistance and training program described in subsection D1. above, a series of excellent examples of how private sector firms can function and successfully supply market needs at competitive prices should quickly develop. These examples should be effectively employed as demonstrations to officials concerned with policy making and the regulatory environment.

The agribusiness development specialist will devote 20 percent of his/her time to this intervention, as will the six Russian long-term specialists. Short-term expertise to the oblast and raion administrations will be provided through the agrarian policy component.

At least one oblast-level agricultural institute (to be identified in each oblast) will be selected to receive technical assistance to increase its capacity to diagnose and analyze policy issues. This is described in Section IV, subsection D2.

D4. Support U.S. Agribusiness Partnership and Cooperative Development

This intervention is intended to facilitate access to capital and assistance available through USAID and other donor organizations, as well as to minimize duplication of effort. These activities will encourage rural-based investment of capital, transfer of technology, licensed manufacturing, and use of U.S. goods and services. New partnerships can help to achieve new foreign markets, sources of credit and investment, and technologies.

The agribusiness development specialist and the six Russian specialists will devote 10 percent of their time to this intervention. No short-term LOE is required for this intervention.

Exhibit VII-1: Level of Effort Summary: Agribusiness (person-months)

Year and Effort Source	Intervention				Total Level of Effort
	Technical Assistance & Training	Agribus. Organiz'n Developm't	Policy Improvem't	Access Assistance	
Yr1-Expat- Short-term	18	6			24
Expat - Long-term	6	2.5	2.5	1	12
Russian - ST	6				6
Russian - LT	36	14.5	14.5	7	72
Yr 2 - Expat - ST	18	6			24
Expat - LT	6	2.5	2.5	1	12
Russian - ST	6				6
Russian - LT	36	14.5	14.5	7	72
Yr 3 - Expat - ST	18	6			24
Expat - LT	6	2.5	2.5	1	12
Russian - ST	6				6
Russian - LT	36	14.5	14.5	7	72
Yr 4 - Expat - ST	18	6			24
Expat - LT	6	2.5	2.5	1	12
Russian - ST	6				6
Russian - LT	36	14.5	14.5	7	72
Yr 5 - Expat - ST	18	6			24
Expat - LT	6	2.5	2.5	1	12
Russian - ST	6				6
Russian - LT	36	14.5	14.5	7	72
Total - Expat - ST	90	30			120
Expat - LT	30	12.5	12.5	5	60
Russian - ST	30				30
Russian - LT	180	72.5	72.5	35	360

SECTION VIII
SOCIAL INFRASTRUCTURE AND LOCAL GOVERNMENT

A. Introduction

Collective and state farms have performed many functions in addition to producing agricultural products. Housing, shopping, recreational, and social services facilities have been largely paid for and kept up by the farms. Farmers' direct monetary earnings, always low in relation to those of industrial workers and relatively falling further in the past few years (Exhibit VIII-1), have made up only part of their compensation, perhaps as little as half. Because of incomplete mechanization and their multiple purposes, the collective and state farms often had too many workers, so that underemployment was masked by "make-work" paid for by state budget appropriations to agriculture. The farms essentially functioned as local government, since the village soviets had little or no budget or staffing and were dominated by the farm managers. The farms, in turn, were dominated by orders sent down from the raion and oblast, with the whole structure cemented by Communist Party discipline.

Exhibit VIII-1: Monthly Agricultural and Industrial Wages, 1985-1992 (rubles)

	January 1985	January 1990	January 1991	January 1992	December 1992
Industry	218	311	604	7,022	18,372
Construction	247	376	695	8,261	20,428
State Farms	202	313	486	4,427	14,145
Collective Farms	166	265	425	3,445	11,432
Average	201	297	552	6,127	16,071

As the large farms privatize and transform themselves into new, market-oriented production units, they must shed those non-economic functions. Other agencies must be found or recreated to assume the social and governmental tasks essential to any functioning market democracy, and the vast number of payments in kind will have to become either monetary compensation included in wages or social transfer payments or be taken over by

community or other nongovernmental organizations. As private enterprise develops, the functions of governmental and other public organizations must also change.

The Russian designers of the agrarian reform begun in 1990 understood this need to free the reorganizing farms of their non-economic functions. So far, however, reorganized farms have largely continued the many in-kind benefits the collective and state farms provided to their workers with little consideration of their cost. Similarly, the reorganized farms have only dumped the various burdens of the social services onto local government. The local government remains dependent on budget subsidies from the central government to keep the various services and facilities operating.

A1. What The State and Collective Farms Have Provided

The collective and state farms have been responsible for most housing, public utility, and social facilities construction and maintenance. Although the state has provided investment capital to subsidize housing construction in rural areas, most housing has been built by the farms themselves, either directly or by providing grants or loans to farm families to construct their own dwellings. Farms have also built all public utilities, telephone and telegraph, and even, in the Glinka Raion of Smolensk Oblast, local train platforms out of their own resources. Buildings for schools, hospitals, pre-schools, cafeterias, and similar facilities are all provided through the farms. Those utilities and facilities, although they often pass automatically to the books of the local enterprise responsible for that service when they are completed (e.g., the local branch of the state natural gas monopoly or the railroad), are still maintained by the farms.

Farms are responsible for constructing all local roads on their territory. They must make a cash or in-kind contribution to the upkeep of all national-level highways on their territory.

Farms provide most social services for their members and workers, as well as other residents on the farm's territory. In Krasnodar Krai, rural facilities such as old people's homes, orphanages, and psychiatric hospitals have been organized as interfarm enterprises, jointly supported by a group of state and collective farms. According to the krai government's deputy head for social services, many farms are now renouncing their obligations to these institutions, leaving the farms on whose territory they are located to bear the entire burden of their upkeep.

Farms make a large number of non-cash payments to their workers, retired workers, and other persons working in institutions associated with the farm. Exhibit VIII-2 lists some of these non-cash payments.

Exhibit VIII-2: Representative Services and In-kind Benefits Provided by Farms

- Apartment or building lot and assistance with construction (0.5-1.0 hectare "private" plot). Assistance with plowing, harvesting, and production inputs, including seed, fertilizer, young animals, and feed.
- Wood for home heating. Steam and electricity where the farm has a central power plant.
- Medical care, hospital care, sick leave, and work clothes.
- Recreational and library facilities, sports facilities with farm-paid trainer hobby facilities, and groups with professional leadership.
- Annual vacation (free or discounted), annual summer camp for children.
- Free or reduced-price lunches, occasional holiday celebrations and meals.
- For machinery operators and car and truck drivers, assigned vehicle that can be freely used for personal business with farm-provided fuel free or discounted. Help with transportation as needed.
- Addition to the state pension (or an entirely farm-funded pension for people who retired before the state assumed pension responsibilities).

Note: The exact mix of benefits provided by any farm depends on the farm's financial situation and the will of the farm manager.

Although schoolteachers, doctors, postmasters, and similar service workers are paid by the appropriate ministry, rich farms frequently increase the pay of good rural service workers, and all or almost all local residents share in the non-cash benefits the farm provides to its own people. For instance, a history teacher in the 11-year school in Krasnoarmeiskii Raion, Saratov Oblast, who had received a land share during the farm's reorganization, as she should have, could neither say where "her" land was nor had any lease arrangement. But in return for using her land the reorganized farm continued to provide her with a ton of grain a year for use as animal feed.

A1a. Collective and State Farmers' "Private" Plots

The most important non-cash benefit for farm workers and others is the right to a "private" or "household" plot of land and some help from the farm in working it. Throughout much of Soviet history a half-hectare granted to all farm families whose

members worked a specified amount of time on the collective or state farm was the only means of survival since the collective farms paid almost nothing for work on the communal fields. Although higher wages and other benefits have reduced the direct importance of the private plots, many farm households still largely support themselves by selling their private plot produce at misnamed "collective farm markets" located in all major cities.

Until 1990, the plots were private only in the sense that they were not part of the collective or state farm fields. As part of the 1990 Russian land reform legislation, collective and state farm workers were allowed to assume full property rights in their houses and plots, and about 60 percent have now done so.

The private plots still produce almost half of the potatoes, milk, and vegetables available to the Russian population. Their very high productivity, in contrast to the low productivity of the communal fields, is often cited as proof that private agriculture is inherently superior. Peasant plots still occupy more land, and produce more accounted output, than all of the more than quarter-million new individual farms.

However, the private plots' apparently high productivity is deceptive. Many, probably most, production inputs for the private plots come, legally or illegally, from the large farms. Without the large farms' resources, the private plots would be much less fruitful. The Russian countryside, in fact, is presently cut up into an inefficient network of too-large and too-small farms that exist symbiotically. Marketization will inevitably lead to a redivision of the land into more economic units and the decline of the private plot as a source of marketed foodstuffs.

A2. Hidden Unemployment in the Countryside

Farms have very large labor forces, in part because of the number of farmers counted as working who are employed in rural services and infrastructure and the many more, especially retirees, who are still counting as working because they provide additional labor at planting and harvest time. In addition, one-fifth to one-quarter of all collective and state farm workers, usually the best educated, are employed in administrative and management jobs, organizing and accounting other people's work. In a market system, most of these people would not be employed, and so they are really hidden unemployed workers. As marketization proceeds, these nominal workers will lose their jobs, becoming truly unemployed.

In addition to the hidden unemployment on every farm, perhaps as many as one-fifth of all the large collective and state farms produce very little more than they consume in production inputs. Farms with grain yields of 2-3 centners/ha clearly should not be operating. Production credit to such farms is really nothing more than a hidden, and extremely wasteful, form of welfare payment to unemployed people. Such farms will be unable to survive in a market economy, and as they collapse their workers will become openly unemployed.

Such hidden unemployment is characteristic of the whole Russian economy, and as the state industrial sector shakes out unemployment in urban areas will also grow. But unlike urban workers, many of whom are already working two jobs, one for a state enterprise and one for a new private entrepreneur, rural people have far fewer employment opportunities because they live in the countryside.

Because much of the rural population is elderly, some farms also effectively function as old-age homes. In some areas, the age imbalance is so great that it is difficult to imagine that agriculture can be revived. (For instance, some three-fourths of the 7,000 residents of the rural Glinka Raion in Smolensk Oblast which some members of the team visited are retired.)

A3. Unloading the Farm's Social Functions

The circumstances described above clearly call for two general kinds of responses to relieve the farms of their welfare functions.

- Development of nongovernmental (private voluntary) social services and assistance.
- Development of governmental services (municipal services, welfare, unemployment compensation) to take over what are properly governmental tasks in any developed market economy.

As Section VI above mentioned, the most important rural nongovernmental organizations, the Agrarian Union and AKKOR, are in fact closely tied to the government as a result of their responsibilities for allocating credit and apportioning state delivery quotas. Although they should be worked with, they are far from being organizations Westerners would recognize as true private voluntary organizations or democratic interest groups.

Since the Soviet government forbade and eliminated any private voluntary organizations by subordinating them to the state, a sphere of public activities that are not purely economic and also not initiated and controlled by the government will have to develop. The first shoots of such organizations, the "people's fronts" that developed during the perestroika era, and single-issue advocacy groups such as the various movements demanding environmental clean-up, have appeared. But such organizations cannot be created by the stroke of a pen, and they will probably be especially hard to create in the countryside, where distance, an elderly population, and the psychological after-effects of governmental domination of all of life are particularly felt.

A4. Condition of Local Government

Existing local government is too weak to effectively govern. At the lowest level of the administrative hierarchy, villages soviets, now transformed into village administrations (sel'skie administratsii), have little budget or staff. (See Annex C for a chart of Russian territorial administrative divisions.) For instance, the village soviet encompassing the former

"Pravdinskii" sovkhos, the first farm in Nizhny Novgorod Oblast where the International Finance Corporation held a privatization auction, currently has five people on staff:

- chairman
- deputy chairman
- secretary (typist)
- accountant
- draft board head

It shares additional bookkeepers with the three local schools. The soviet also has on its territory three small medical clinics, three libraries, and two clubs, as well as the local telephone exchange. Its only revenue comes from the land tax, locally 200 rubles per ha. Individual farmers are exempt from the land tax for five years after they set up their farms, so every successfully reorganized farm reduces the local government's income. The chairman is a former farm agronomist with no particular administrative training and no facilities for accounting beyond paper ledgers.

The current local administrators are used to satisfying bureaucratic superiors rather than responding to local demands. Most current local government officials are former Communist Party functionaries who shifted into local government as the party declined in importance. Whatever their politics—and they are likely to be conservative—their mind-set is like that of most collective and state farm managers, focused on satisfying requirements laid down from above and pleasing the boss rather than acting as political or economic entrepreneurs who can take initiative and become local leaders.

Raion-level government includes a great many more functionaries. As Exhibit VIII-3 shows, national governmental institutions have their lowest-level branches at that level. But the raion administrations are not very effective at governing the countryside because of their employees' urban bias and because of the poor state of communications in the countryside. Moreover, they are structured to pass orders down and reports up, not to administer in the usual, market-economy sense.

A5. The Present Tax System

Without revenue, no local government will be able to deal with the myriad problems posed by the farms' reorganization and the marketization of agriculture. But the current financial and taxation system artificially limits the possible tax revenues. Most local tax revenues are passed on to higher authorities that redistribute them among raions, confiscating surpluses and making up deficits. In any case, taxation possibilities are limited because only organizations with bank accounts (performing bank transfers) are subject to taxes. In the Krymsk district of Krasnodar Krai, at least, large state-financed organizations pay no district taxes because that would, according to a deputy head of the district government, simply take money out of one of the state's pockets and put it into another. Thus only legally recognized private enterprises with bank accounts are taxed. Cash transactions are entirely outside the tax system.

Exhibit VIII-3: Departments of Krymsk Raion (Krasnodar Krai) Government

Head of Administration

- Deputy Head of Administration for Social Issues
- Deputy Head of Administration for Industry, Transportation, and Communications
- Deputy Head of Administration for Construction
- Deputy Head of Administration for Public Relations, Ethnic Issues, Cossacks, and Military Affairs
- General Manager and General Department

Civil Defense Headquarters

Department of Pricing

Department of Prognoses and Economic Reforms

Department of Finance

Archives

Department of Law

Architectural and Construction Inspection

Sports Committee

Tax Inspection

Personnel Records

Department of Social Security

- Pension Division
- Family and Youth Affairs Division
- Labor and Social Issues Division
- Supervising Secretary for Juvenile Crime

Department of Culture

- Accounting Division

Department of Agriculture

- State Inspection of Procurement and Quality of Agricultural Products

State Property Management Committee

- Municipal Property Fund

Land Resources and Land Use Committee

Taxes are as narrowly targeted as state budget appropriations for credit lines. The Krymsk Raion collects taxes for the following purposes:

- support housing and social services (1.5 percent of income or value of services rendered)
- support education (1 percent)
- road maintenance and construction (1 percent)
- support the local police (1 percent)
- support local public transit (1 percent)
- on advertising (5 percent of value of service)
- on resale of automobiles and computers (10 percent of sale price)
- social defense of the population (welfare) (0.5 percent)
- on land (770 rubles/ha)
- value-added tax (25 percent of value of good)
- on profit (19 percent)

It also has a variety of license fees:

- to trade alcoholic beverages (25 times the annual legal minimum wage for individuals; 50 times for businesses)
- for an auction or lottery (amount unreported)
- for issuing a publicly owned apartment to a citizen (amount unreported)

Except for the VAT, all revenues reportedly are available to the raion, up to the limit of its budget as approved by oblast authorities. Any surplus goes to the oblast.

A6. Possibilities for Developing Local Government

The residue of traditional institutions in the countryside offers one basis on which a new rural social fabric may be constructed. Despite enserfment to absentee landlords, most Russian peasant villages enjoyed considerable internal autonomy. Pre-1917 government institutions extended down from the capital only to the district (uezd) level. The creation of collective farms in the early 1930s sought to bring the vast countryside under direct central control. But Soviet (and now Russian Federation) administration continued the pre-revolutionary pattern, effectively ceasing at the district (raion) level. In some areas, such as the Cossack regions of Krasnodar Krai, the tradition of local self-government was much stronger (since the Cossacks began as peasants fleeing the expanding Russian state's attempt to bind them to the soil). Opponents of rural change have argued that these peasant traditions make them unreceptive to marketization. But they can equally well serve as a basis for participatory democracy. As an example, interviews conducted during the team's field work indicated that villages in Nizhny Novgorod Oblast and Krasnodar continued to hold village meetings which discussed local problems and assessed households small amounts for local public works.

As a result of the macroeconomic disequilibrium in the country, private sector capital is now overwhelmingly attracted into quick turnover urban sales—the ubiquitous kiosks with

liquor and Snickers bars. But the relatively few successful collective farms have always prided themselves on their contributions to their communities, and the new individual farmers are also motivated to build up their localities since they expect to live their lives out on the land. Careful, small-scale initiatives that rely on community resources, therefore, are likely to be increasingly successful in transforming the countryside as privatization and marketization proceeds.

Finally, the problems of organizing local government are relatively familiar ones. Distance, lower incomes, and low population density make creating functional local governments more difficult in rural than urban areas, but the resources and study already expended on improving Russian urban government can be drawn into reshaping the countryside.

B. Constraints

The preceding discussion suggests that the collective and state farms' non-economic functions pose the following constraints to agricultural marketization and rural development:

- Need to monetize in-kind payments.
- Need to cope with hidden unemployment and underemployment on farms that will increase as market reform and structural transformation proceeds.
- Need to shift responsibility for non-production tasks that are properly the public concern to appropriate government and nongovernmental organizations.
- Need to assist in the formation and growth of private voluntary organizations able to perform the functions such groups usually do in developed market democracies.
- Need to transform local government agencies from conduits for directives from higher authorities and reports to them into agencies responsive to their constituents' needs.
- Need to improve the system of local tax assessment, collection, and allocation to provide resources for local government.

C. Objectives

The interventions proposed in this section are designed to achieve a set of interrelated objectives, in particular:

- Maintenance of rural standards of living at approximately the present level.
- Assisting grassroots democratization and the emergence of new entrepreneurs.
- Creating favorable conditions for rural economic development.

D. Interventions

D1. Monetizing Farm In-kind Benefits

D1a. Principal Tasks

- Determination of what benefits are now given through farms.
- Helping develop farm capacity to account for in-kind benefits so that appropriate monetization can occur.
- Developing alternative providers of benefits and services where appropriate.

D1b. Personnel and Level of Effort

- Research team to analyze existing farm wage and benefits structure (already provided for under diagnostic rubric in integrated pilot proposal).
- Short-term technical assistance to solve specific problems as encountered.

D1c. Russian Institutions

Appropriate partners for this work include the affected farm(s), local agricultural administration, and local PVOs. Russian research institutions, such as the Agrarian Institute and the All-Russian Center for the Study of Public Opinion (VTsIOM), can appropriately be used to carry out much of the diagnostic work. In the case of social services such as education that need to be taken on by local government, the local agencies of the affected Russian Federation ministries e.g., Ministry of Education or Ministry of Health, should be involved.

D2. Cushioning Unemployment as Farms Shed Labor

D2a. Principal Tasks

- Creating new employment for those able to work in new agribusiness and service enterprises.
- Providing direct pension or welfare benefits for those who should be retired or are otherwise unable to work.
- Providing some form of unemployment benefit to enable people displaced by economic change to survive.

These are clearly tasks affecting the entire Russian economy as it transforms. But rural unemployment will be a special problem because of distance from other job opportunities, the age of those displaced, and their relatively low level of education.

D2b. Personnel and Level of Effort

Because this is a general problem affecting the entire economy, only short-term staff familiar with these issues are proposed.

D2c. Russian Institutions

Russian agencies to be involved in this work should include the Ministry of Labor and the office of the Deputy Prime Minister for Social Welfare.

D2d. Supporting Activities

A variety of efforts to cushion urban unemployment are underway by a variety of international donors. Extending them to the countryside should be considered.

D3. Strengthening Local PVOs

D3a. Principal Tasks

- Assisting the creation of non-state voluntary organizations able to carry out much of the everyday business of society.

D3b. Personnel and Level of Effort

- Long-term institution-building specialist to "circuit ride" among raions and assist in strengthening voluntary and governmental organizations (shared with intervention below).
- Short-term technical assistance as appropriate depending on the sites chosen.

D3c. Russian Institutions

Any existing PVOs, especially agricultural-related ones like AKKOR, are appropriate targets.

D3d. Supporting Activities

USAID is reportedly beginning a major effort to strengthen Russian PVOs.

D4. Mobilizing Local Resources

D4a. Principal Tasks

- Creating conditions for cooperative and other community-based services.
- Creating local markets for municipal finance.
- Creating conditions for local entrepreneurs to take over infrastructure burden.
- Personnel and level of effort.

- One long-term municipal finance specialist to "circuit ride" among raions to assist with these initiatives and tax-system reform (D6. below).
- Short-term technical assistance as needed depending on site.

D5. Local Government Strengthening

D5a. Principal Tasks

- Improving administrative capacity.
- Increasing capacity to perform infrastructure functions.

D5b. Personnel and Level of Effort

- One long-term expatriate to assist with governmental development and PVO development.

D5c. Supporting Activities

USAID's Democratic Institutions Strengthening Initiative has a local government component THAT should be drawn on for this intervention.

D6. Improving the Local Tax System

D6a. Principal Tasks

- Broadening the tax base.
- Improving efficiency and equity of tax assessment.
- Improving efficiency and equity of tax collection.
- Improving efficiency of tax allocation and budgeting.
- Improving accounting and accountability of local government for expenditure decisions.

D6b. Personnel and Level of Effort

- Municipal finance specialist as described above.
- Short-term technical assistance as appropriate.

D6c. Russian Institutions

Local agencies of the Ministry of Finance and the Russian Federation Tax Inspection should be involved in these efforts, as well as oblast-level authorities in the case of work at the raion level.

D6d. Supporting Activities

Work under other USAID contracts involving tax and fiscal reform should be coordinated with this effort.

It is anticipated that one Russian long-term specialist would be resident in each raion affected by the proposed intervention.

Exhibit VIII-4: Level of Effort Summary: Infrastructure (person-months)

Year and Effort Source	Intervention						Total Level of Effort
	Monetize Benefits	Unemployment	PVOs	Resources Mobiliz'n	Local Gov't	Taxes	
Yr1 - Expat - Short-term	6	6	6	6	6	6	36
Expat - Long-term			6	6	6	6	24
Russian - ST	12	6	4	4	4	4	32
Russian - LT			12	12	12	12	48
Yr2 - Expat - ST	1	6	6	6	6	6	31
Expat - LT			6	6	6	6	24
Russian - ST	4	6	4	4	4	4	26
Russian - LT			12	12	12	12	48
Yr3 - Expat - ST	1	6	6	6	6	6	31
Expat - LT			6	6	6	6	24
Russian - ST	4	6	4	4	4	4	26
Russian - LT			12	12	12	12	48
Yr4 - Expat - ST			6	6	6	6	24
Expat - LT			6	6	6	6	24
Russian - ST		6	6	6	6	4	28
Russian - LT			12	12	12	12	48
Yr5 - Expat - ST			6	6	6	6	24
Expat - LT			6	6	6	6	24
Russian - ST		6	6	6	6	6	30
Russian - LT			12	12	12	12	48
Tot - Expat - ST	8	18	30	30	30	30	146
Expat - LT			30	30	30	30	120
Russian - ST	20	30	24	24	24	22	144
Russian - LT			60	60	60	60	240

SECTION IX INTEGRATED PILOT ACTIVITIES

A. Introduction

We are proposing a holistic, integrated approach to post-privatization assistance that confirms and addresses the major constraints. The five thematic areas—policy, credit, farm management, agribusiness, and social infrastructure—are mutually supportive. A synergistic effect should result if activities to address constraints in these areas are implemented simultaneously in a well-coordinated manner in the same location.

B. Objectives

- To enhance the effectiveness of interventions recommended under the five thematic areas of this Food Systems Restructuring project component and of the overall project by focusing on coordinated implementation activities at regional and local levels.
- To maximize management and administrative efficiencies of both USAID and contractor personnel by establishing general and regional manager roles for all project subcomponents at the national and oblast levels.

C. Principal Tasks

Using a short-list of oblasts and raions provided by USAID/Moscow, contract personnel will undertake a diagnostic phase. Over roughly one month, this phase will confirm the suitability of the oblasts and raions identified for implementation of the interventions called for in the previous sections, and will establish the baseline information necessary for ongoing monitoring of project activities. The selection criteria detailed in Annex D will be a primary tool in this process.

Two to four raions will be selected in each of two or three oblasts. Focusing on a few pilot areas will increase management and administrative efficiencies if project management is located at the regional (oblast) and national levels.

In some instances, however, it may be advisable to disregard raion or even oblast boundaries in carrying out pilot activities. For example, when helping develop the market, raw material supply, or production capability of an agribusiness or category of agribusinesses, their core activities may be found to be advantageously spread outside the pilot area boundaries. This spillover into non-pilot areas should not become a restriction to providing assistance.

Following final selection of pilot areas, a detailed program of work for each intervention of each component will be prepared. See Sections IV through VIII for details on the projected contents of these plans. It is estimated that the five component work plans should be completed by the end of week six. Actual implementation of the various interventions will begin at that point. Timing of the interventions is shown in Exhibit X-4 in Section X.

Key to integration of the five thematic components is the assignment of a single regional manager responsible for coordinating all activities carried out within each pilot oblasts selected. Each of these managers (number of regional managers depends on whether two or three oblasts are selected at start-up) will coordinate all of the policy, credit, farm management, agribusiness, social infrastructure, and general management activities carried out in the two to four pilot raions within his/her assigned oblast.

Primary activities of each regional manager will include working with the various long- and short-term specialists representing all of the thematic areas to:

- Identify, network, and coordinate with relevant Russian public and private sector institutions and with the emerging private farming and agribusiness communities.
- Arrange and provide regional logistic, administrative, and technical support for all project activities.
- Ensure efficient use of regional resources.
- Monitor, evaluate and report on regional project activities.
- Help accomplish integrated planning among project components.
- Help combine and coordinate implementation of component activities when appropriate.
- Ensure integration of activities in five thematic areas.

The general manager, based in Moscow, will have responsibility for coordinating pilot activities, monitoring and supervising the overall project effort, and liaising with USAID/Moscow.

Each thematic component proposed for the project could be implemented successfully as an independent activity, however the combination of the various component efforts should provide a synergistic effect and add considerably to the probability of success for each. For example, the Perm food warehouse privatization effort can only address a limited array of agribusiness development constraints, but if it were to fall under the proposed integrated pilot project, then experienced level of effort could be simultaneously applied to:

- Strengthen farm management (including production).
- Provide other aspects of agribusiness development, including knowledge of new markets and alternative business (grading, packing, processing) opportunities to the new firms.
- Facilitate access to credit.

- Alleviate problems associated with reduction of work force and other important social infrastructure disruptions.
- Demonstrate what works and what needs to change to policy makers.
- Coordinate, monitor, assess, and report on results of the combination of efforts and make timely adjustments to approaches, levels of effort, and personnel as appropriate.

D. Personnel and Level of Effort

Section X contains Exhibits X-1 and X-2, which summarize long-term personnel and level of effort for all proposed interventions.

E. Russian Institutions

Final decisions on the Russian institutions that will participate in the intervention activities at the oblast/raion level will be site-specific and determined during the diagnostic phase. A list of possible institutions is included as Exhibit X-3 in Section X.

F. Supporting Activities

Brief discussions of other USAID and other donor activities that support the integrated pilot activities are contained in the discussions of each intervention, Sections IV-VIII. Close coordination with these activities is an absolute requirement.

SECTION X PROJECT MANAGEMENT

A. Introduction

The effectiveness of this project will be strongly influenced by the quality of the management provided by both USAID/Moscow and the implementing organizations. Operating in the constantly changing Russian environment adds further complexity to this already complex project. In terms of management and implementation these factors indicate a need for flexibility as well as greater than normal attention to the quality of personnel.

B. Administration

B1. Mission Level

A U.S. direct hire, U.S. personal services contractor, or an FSN with extensive project implementation experience should be assigned management of this project. The project manager should have a background in agricultural policy, agricultural management, or agribusiness to enable effective, substantive interaction with the implementing U.S. and collaborating organizations. Lack of this background will restrict mission involvement largely to administrative issues.

B2. Project Level

The multiple interventions and location of personnel in several areas of the country, plus the need to coordinate with other activities, programs, and donors, strongly suggest the use of a single overall contractor to implement the program. The alternative of breaking up the program into component pieces independently handled by different groups would jeopardize the synergy among activities while also increasing the burden on the USAID project manager. A second-best alternative to a single contractor would be the use of a contractor for management and coordination with actual intervention implementation handled by a number of groups.

B2a. Contracting Options

To provide a single team, several options are available, each with advantages and disadvantages. The following identifies and assesses the pros and cons of these alternatives. No matter which alternative is selected, competition should be obtained via either informal proposal solicitation or more through a more formal process. The listing does not reflect a ranking in order of preference.

Existing grantees under Food Systems Restructuring. This alternative has several advantages. The grantees are on the ground in Russia and have valuable Russian experience.

They could presumably mobilize a team quickly. A process of informal solicitation could be used. As a group they are already involved in some way in most of the identified intervention areas. The disadvantages are: no one of the grantees is handling such a complex program, few of them are involved in the policy area, the program would represent a very different type of activity for many of them, and they may not have the skills or backup services needed to handle the program of interventions.

New contractor selected under full and open competition. The advantages of using full and open competition procedures are the opportunity given to all interested firms to express an interest and the increased quality that could come from such a competition at a lower cost. The primary disadvantages are the additional time and effort involved to select a contractor.

An 8-A set-aside. Time saved is the primary advantage of this alternative, but any appearance of favoritism to current contractors would also be avoided. The disadvantages include: questions about the ability of these "small" firms to identify appropriate staff and manage a complex project, a possible lack of experience in the difficult Russian environment, and the additional management burden on the mission that these contracts often involve.

Use of existing Omnibus contractors. Advantages of this contracting alternative are: the contractors could be mobilized quickly and have experience working in Russia, several have experience fielding and managing multidisciplinary teams such as is being proposed under this program, and an informal proposal solicitation process could be used. The primary "con" for this group is a possible conflict of interest given their current and previous involvement in providing assistance under USAID funding. A possible question is whether the original request for proposals under which the current contracts were awarded would allow this type of award.

Personnel services contracts. Hiring a number of PSCs to implement these activities may be an option if existing contractors or grantees are being used to handle selected components. This option provides maximum management control for USAID/Moscow. However, the management complexity for USAID/Moscow under this option would be a strong disadvantage.

C. Monitoring

A comprehensive monitoring system needs to be set up to track this activity. Building on baseline data that will be collected as part of the diagnosis phase, the contractor will be required to establish a system that provides impact and quantitative and qualitative data. A recitation of inputs provided will not be enough. The Project Management Office in Moscow will be responsible for collecting and transmitting this data to USAID/Moscow on a quarterly basis. A formal quarterly review involving officials from USAID/Moscow, involved Russian organizations, and the contractor is recommended. To supplement this system and provide comprehensive information on local-level changes, serious consideration should be given to awarding a small contract to a Russian institution (Center for Humanitarian Studies is one option) to develop and maintain a time-series data set on one or two small farmer areas.

D. Evaluation

To provide a basis for the expected expansion of activities to new raions and oblasts starting in year 2, and for adjustments in implementation reflecting experience, a formative evaluation should be conducted at the end of year 1. Involvement of Russian officials in this evaluation, along with outside U.S. evaluators, is recommended as both a training exercise and to provide a validity check on observations. Ample time in the field should be planned to allow evaluators to meet with farmers, new businessmen, and government and project officials. A regular midterm evaluation should be conducted in year 3.

E. Personnel and Level of Effort

Exhibits X-1 and X-2 illustrate the long-term personnel and overall level of effort requirements for this program.

F. Russian and Donor Supporting Institutions

Exhibit X-3 provides a list of Russian and donor institutions that are candidates to support the proposed interventions.

G. Timing of Interventions

Exhibit X-4 displays the proposed timing of interventions corresponding to each component.

H. Training

Short-term training plans have been discussed in the individual component sections of this report and should be budgeted as part of this component of the FSRP. Some long-term training will be recommended during project implementation and should be funded and administered under USAID/Moscow's ongoing training program.

I. Quality of Personnel

Oblast-based personnel will require an extra measure of flexibility and stamina. Emphasis should be placed on the high value of Russian-speaking capability for all expatriate personnel.

Exhibit X-1: Long-term Personnel

Number of Persons	Component and Position	Expatriate or Local	Person-months
	<u>Policy</u>		
1	Senior Policy Advisor	Expat	57
1	Institutional Development Specialist	Expat	60
1	Training Advisor	Local	57
	<u>Credit</u>		
1	Agric. Credit Policy Advisor	Expat	60
2	Credit Specialists	Expat	120
4	Credit Specialists	Local	240
	<u>Farm Management</u>		
2	Farm Management Specialists	Expat	120
4	Farm Management Specialists	Local	240
	<u>Agribusiness</u>		
1	Agribusiness Developm't Specialist	Expat	60
6	Agribusiness Specialists	Local	360
	<u>Social Infrastructure</u>		
1	Senior Municipal Finance Specialist	Expat	60
1	Senior Organization Specialist	Expat	60
4	Social Infrastructure Specialists	Local	240
	<u>Project Management</u>		
1	General Manager	Expat	60
1	Administrative Manager	Expat	120
2	Regional Managers	Expat	
33			1,974

Exhibit X-2: Level of Effort Summary: All Interventions (person-months)

Year and Effort Source	Intervention							Total LOE
	Policy	Credit	Finan'l Mgmt.	Agri-business	Infra-struct.	Management Moscow Oblast		
Yr 1 - Expat - Short-term	24	27	24	18	36			129
Expat - Long-term	21	36	24	12	24	24	24	165
Russian - ST	12	6	12	6	32			68
Russian - LT	9	48	48	72	48			225
Yr 2 - Expat - ST	36	27	24	24	34			121
Expat - LT	24	36	24	12	24	24	24	178
Russian - ST	12	6	12	6	26			62
Russian - LT	12	48	48	72	48			228
Yr 3 - Expat - ST	36	27	24	24	34			145
Expat - LT	24	36	24	12	24	24	24	168
Russian - ST	12	6	12	6	26			62
Russian - LT	12	48	48	72	48			228
Yr 4 - Expat - ST	36	27	24	24	28			139
Expat - LT	24	36	24	12	24	24	24	168
Russian - ST	12	6	12	6	28			64
Russian - LT	12	48	48	72	48			228
Yr 5 - Expat - ST	30	27	24	24	28			139
Expat - LT	24	36	24	12	24	24	24	168
Russian - ST	12	6	12	6	30			66
Russian - LT	12	48	48	72	48			228
Total - Expat - ST	162	135	120	120	160			697
Expat - LT	117	180	120	60	120	120	120	837
Russian - ST	60	30	60	30	142			322
Russian - LT	57	240	240	360	240			1137

Exhibit X-3: Russian and Donor Supporting Institutions

Intervention	Institutions	
	Russian	Donor
Policy	Deputy Prime Minister - Economic Strategy; Agrarian Institute, Moscow Timiryazev Institute, Oblast level Agricultural Institutes Alternatives: APK Department, Presidential Council, Ministry of Finance, Council on Agrarian Policy, Ministry of Agriculture, Russian Academy of Agricultural Sciences, Oblast Agricultural Administration	USDA World Bank US Treasury HIID CNAA
Credit	Ministry of Finance, Ministry of Agriculture, Ministry of Economics, Rosselkhozbank, other banks, Central Bank	World Bank USDA ACDI US Treasury
Farm Management	AKKOR, Agrarian Union, Research Institutes, Ministry of Agriculture	World Bank USDA, USAID Farmer-Farmer Program
Agribusiness	Local Training Institutes, Local and Regional Administrations, AKKOR, Agrarian Union	Peace Corps IESC, USDOC World Bank USDA, CNAA VOCA, FSRP grantees Farmer-Farmer USAID, PVO
Social Infrastructure	Rural and Raion Administration Local Commodity Stock Exchanges, Local PVOs, VTsIOM, Agrarian Institute, Ministry of Labour, Ministry of Health, Ministry of Education, Ministry of Finance, Tax Inspection	USAID DPI Project Municipal Financial Management Component USAID PVO Project
Management		USAID/ Moscow NIS Task Force

TIMING OF INTERVENTIONS

Intervention Component and Activity	YEAR ONE												YR TWO	YR THREE	YR FOUR	YR FIVE
	Mo.1	Mo.2	Mo.3	Mo.4	Mo.5	Mo.6	Mo.7	Mo.8	Mo.9	Mo.10	Mo.11	Mo.12	Qtr.1	Qtr.4	Qtr.4	Qtr.1
POLICY																
<i>Provision of agricultural policy advice to government</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Provision of technical assistance to three Russian Institutions</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Provision of short term training policy research support</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
CREDIT																
<i>Provide agricultural credit advice</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Credit personnel training</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Establishment of special credit fund</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
FARM MANAGEMENT																
<i>Support research and demonstration activities</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Support information delivery systems</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
AGRIBUSINESS																
<i>Technical assistance and training to business managers</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Assist development of private sector agriculture/agribusiness organizations</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Promote transformation of policies and regulations to improve the environment for ag-business and rural based business development</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Support US ag-business partnership and cooperative development activities to encourage rural based investment</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
SOCIAL INFRASTRUCTURE																
<i>Monetize farm in-kind benefits</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Cushion unemployment as farms shed labor</i>				==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Strengthen local FVOs</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Mobilize local resources</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Local government strengthening</i>	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==	==
<i>Improve local tax system</i>				==	==	==	==	==	==	==	==	==	==	==	==	==

X-7

BEST AVAILABLE DOCUMENT

ANNEX A

READER'S GUIDE TO CHANGES FROM ORIGINAL DRAFT

ANNEX A
READER'S GUIDE TO CHANGES FROM ORIGINAL DRAFT

This annex indicates where in the text of this final report we have addressed specific comments and questions raised by USAID in response to the earlier draft version. The full text of the missions's comments are also included in this annex.

Comment 1: Integrated pilot approach. The draft report recommends "an integrated pilot approach" to post-privatization reform. Although the five areas of intervention are clearly outlined, it is unclear how these five will be integrated at the oblast level. How will the management structure/project implementation strategy ensure "integration"? Also, what if, for example, technical assistance in farm management and agribusiness development goes well but policy advice is not heeded? Will the lack of one of the five "integrated" components minimize the impact of the other interventions?

Response: Section IX, Part C: Principal Tasks, Page IX-1.

Comment 2: Agriculture subsidies. The report mentions (p.II-2) that "about one quarter of public expenditure goes to various types of subsidies and income transfers to the agricultural sector". It is unclear how, beyond providing technical assistance in agriculture policy development, the proposed activity will address this issue, which is surely of central importance. Until the subsidies stop -- or are redirected -- post privatization reform cannot begin. How will policy "analysis" lead to policy reform?

Responses: Section II, Part A2: Agriculture and Public Finance, Page II-2.
Section III, Part E: Changing the Subsidy System, Page III-2.

Comment 3: Policy research grant program -. What exactly is meant by the "small [policy] research grant program" (IV-4)? Is this pure research, or practical research? Who will administer these subgrants? Is this a training activity?

Response: Section IV, Part D3: Training and Policy Research Support, Page IV-4.

Comment 4: Credit fund. Regarding the proposed credit fund (V-8), how will these funds be managed? What level of USAID oversight would be necessary? Would each pilot oblast require such a fund? How big would such a fund have to be? What size loans would be most effective? Who are the target groups for this credit, entrepreneurs, large family farms, input suppliers?

Response: Section V, Part D3: Establishment of Special Credit Fund for Pilot Areas, Page V-8.

Comment 5: Agribusiness development and farm management. The sections on agribusiness development and farm management are weak on specifics. The interventions for strengthening farm management are especially sketchy and need to be developed much more extensively. The first intervention (p.VI-5) emphasizes research activities. It is not clear what type of research is required and we question whether research should be mentioned at all. With respect to agribusiness development, which institutions should be strengthened, how will management skills be imparted, and how will this project identify and assist emerging small business?

Responses: Section VII, Part D: Interventions, Page VII-4.
Section VI, Part D: Interventions, Page VI-6.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

January 12, 1993

Mr. Gordon Bremer
Chemonics Corporation
International Consulting Division
2000 M Street, N.W., Suite 200
Washington, D.C. 20036

Contract No. CCN-0005-C-00-3116-01
Task Order No. I-0030-CHEMON

Dear Mr. Bremer:

The Mission has reviewed Chemonics' draft report on Agriculture Post-Privatization in Russia and is on the whole pleased with its thoughtful and reasonable analysis of the constraints and opportunities now facing the agriculture sector. Following are Mission comments which we would like you to address in the final report.

1. The draft report recommends "an integrated pilot approach" to post privatization reform. Although the five areas of intervention are clearly outlined, it is unclear how these five will be integrated at the oblast level. How will the management structure/project implementation strategy ensure "integration"? Also, what if, for example, technical assistance in farm management and agribusiness development goes well but policy advice is not heeded? Will the lack of one of the five "integrated" components minimize the impact of the other interventions?
2. The report mentions (p. 11-2) that "about one quarter of public expenditure goes to various types of subsidies and income transfers to the agricultural sector." It is unclear how, beyond providing technical assistance in agriculture policy development, the proposed activity will address this issue, which is surely of central importance. Until the subsidies stop--or are redirected--post privatization reform cannot begin. How will policy "analysis" lead to policy reform?
3. What exactly is meant by the "small [policy] research grant program" (IV-4)? Is this pure research, or practical research? Who will administer these subgrants? Is this a training activity?

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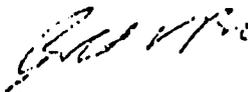
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4. Regarding the proposed credit fund (V-8), how will these funds be managed? What level of A.I.D. oversight would be necessary? Would each pilot oblast require such a fund? How big would such a fund have to be? What size loans would be most effective? Who are the target groups for this credit, entrepreneurs, large family farms, input suppliers?

5. The sections on agribusiness development and farm management are weak on specifics. The interventions for strengthening farm management are especially sketchy and need to be developed much more extensively. The first intervention (p. VI-5) emphasizes research activities. It is not clear what type of research is required and we question whether research should be mentioned at all. With respect to agribusiness development, which institutions should be strengthened, how will management skills be imparted, and how will this project identify and assist emerging small businesses?

We look forward to receiving Chemonics' final report on January 28, as agreed upon. It was a pleasure working with you and the rest of the team. Best regards.

Sincerely,



Robert Burke
Deputy Director

BACKGROUND TABLES

BACKGROUND TABLES

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Table I-1. Relative Size of Agriculture and Other Sectors of the Economy, Recent Years

Sector	Relative Size of Agriculture, 1989		
	Percent GDP	Percent Employment	GDP per Worker, Percent of Average
Agriculture	15	15*	100
Industry	48	40	118
Services	37	45	84
Total	100	100	100

*Percent of Total Population on State and Collective Farms

26 percent

Relative Size of Government, 1991

Percent of GDP

Total Revenue

28

Total Expenditure

60

Deficit

32

Number of State-Owned Industrial Enterprises, 1987

29,000

Number of State and Collective Farms, 1987

27,000

Source: Compiled from World Bank (1992), "Russian Economic Reform - Crossing the Threshold of Structural Change." A World Bank Country Study, Washington, D.C.

Table I-2. Percentage Change in Output, by Sector, 1990-92

Sector	Percentage from Previous Year		
	1990	1991	1992
Agriculture	-8	-12	-9
Industry	-4	-10	-18
Net Material Product	-5	-11	-20

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-3. Characteristics of Russian Collective and Private Farms, 1992-1993

Farm Size, end of 1992

<u>Type of farm</u>	<u>Average hectares</u>	<u>Percent output/livestock</u>
<u>Collectives</u>		40
Total crop and pasture	8,000	
Household plots	0.25	75
Land per farm worker	26	
Land share/person receiving share	11-12	
<u>Private Farms</u>		20
Single Family	50	
Multi Family	100	

Form of Registration, early 1993

<u>Type of Collective</u>	<u>Percent of Farms</u>
Collective	27
State	22
Limited Liability Partnership	31
Other Collective	20
Total	<u>100</u>

<u>Type of Operation</u>	<u>Percent of Land</u>
Collectives	90
Private	10
Family farm	(3.9)
Household plots	(6.1)
Total	<u>100</u>

Table I-3. (Cont.)

Characteristics of Private Farmers

Total number, end 1992	184,000
Number per collective, end 1992	7
Number per collective, end 1991	2
Origin from collective farm, end 1992	2/3
Origin from urban area, end 1992	1/5
Origin from urban area, end 1990	2/3
Origin of land directly from collectives	30 percent
No hired labor, end 1992	90 percent
Percent of Income from farming, end 1992	80-90 percent
Percent spouse in off farm job, end 1992	Negligible
Cooperate with other farmers	30-40 percent

Characteristics and Attitudes on "Collective" Farms

Percent of total cost to social services	10 percent
"Collective" meeting held to consider new changes in land	90 percent
Percent managers expect reorganization to have <u>little</u> effect on organization and performance of the farm	58 percent
Percent of farm workers (of all types) expressing interest in private farming	6 percent
Percent interest in expanding subsidiary enterprise	6 percent

Source: Compiled from Brooks, Karen and Zvi Lerman (1993), "Land Reform and Farm Restructuring in Russia: 1992 Status." Supported by grants from The National Council for Soviet and East European Research and University of Minnesota and the World Bank.

Table I-4. Relative Wages by Sectors, 1990 and 1992/Feb.

Sector	1990	1992/Feb.
Industry	1.05	1.28
Agriculture	1.04	0.52
State Administration	1.23	1.17

Source: Compiled from World Bank (1992), "Russian Economic Reform - Crossing the Threshold of Structural Change." A World Bank Country Study, Washington, D.C.

Table I-5. State Procurement as Percentage of Total Production, by Commodity, 1981-85 and 1992

Commodity	1981-85	1992
Grain	38	24
Potatoes	23	8
Meat	67	55
Milk	37	55

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-6. Productivity Comparisons, Russian Agriculture, Recent Years

A. Million Tons of Pork per Million Pigs, 1991

United States	0.16
Russia	0.08
Decline in Per Capita Meat and Dairy Consumption, 1991 to 1992	15 percent
Rise in Per Capita Bread and Potatoes Consumption, 1991 to 1992	5 percent

Source: United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

B. Milk Production Per Cow

	<u>kg/cow</u>
Average, Brorovsk District	3,442
Average for State Breeding Farm, Brorovsk District	5,400
Average, mothers of bulls, State Breeding Farm, Brorovsk District	11,000
Average, Large dairy farms, Los Angeles County, U.S.	11,000

Source: John Mellor Associates, Inc., and International Commission on Peace and Food (1992), "Rural Development at the District Level in the Russian Federation: Context, Policy, and Projects." Supported by a grant from the Ford Foundation. March

C. Kilogram Feed per Kilogram of Livestock Product

Pigs, FSU	8.0
Germany	4.2
Poultry, FSU	4.2
Germany	2.5
Milk, FSU	1.4
Germany	0.8

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-7. Application Rate of Nitrogen Fertilizer

Year	Kg/ha
1986	43
1991	32
1992	17

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-8. Consumption Per Capita, Specific Agricultural Commodities, 1988-90

Commodity	Kg	Percent Imported	Percent change to 1992
Grain	117	20	+5
Meat & Products	72	10	-15
Milk & Products	389	4	-6

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series, May; and Personal Assessment.

Table I-9. Data on a "First Round" Agro-Service Enterprise, Nizny Novgorad, 1993

76	Shareholders in firm
Plus 20	Sold shares to firm
30	Employees (all shareholders)
46	Pensioners (all shareholders)
76	
13	Pensioners (of 46) hold a 53 percent controlling interest (unlike land, which is distributed equally; property is according to position and years employed)
0.5	Percent of shares held by manager who is young and had little service. He expects to buy 10% interest from own funds in 1994 and at least a controlling interest later (hopefully with a subsidized loan from the Oblast government!)

Enterprises Include: 2 grain warehouse of 750 tons each; dairy (Butter); materials warehouse; 3 self unloading trucks; 2 regular trucks; 3 milk tankers; 1 gasoline tanker; 1 jeep; 2 non working tractors; fuel tanks and pumps; grain cleaner and dryer complex; 100 cows (to be converted to working capital); considerable grain, fuel and other stock; no cash.

- Manager hires, fires, sets pay scales subject to Board overruling
- Board sets manager's salary
- Unlike farm production, no excess labor, expects to increase employment
- Will expand dairy -- more butter, add ice cream and cheese; move to retailing
- Cash is a huge problem; if had cash can buy anything, including imported dairy processing equipment
- Specifically expressed need for management and financial analysis short courses.

Source: Personal interviews.

The Organization of Russian Governmental/Agricultural-Policy Institutions

Don Van Atta

November 10, 1993

The Soviet/Russian administrative system as it existed until the Soviet Union fell apart in August 1991, was strictly hierarchical. At each level of territorial administration, the same set of agencies repeated (Chart 1 describes the territorial divisions). Ministries or State Committees that were part of the Council of Ministers at the All-Union, union republican, and (within the RSFSR), Autonomous Republic levels had subordinate "main administrations" or "administrations" at lower levels. The system was also double. The hierarchy of government structures, formally accountable to elected soviets, was paralleled and in fact controlled by a hierarchy of Communist Party agencies that, while technically private, in fact exercised ultimate decision-making power.

At each level, all administrative agencies reported "vertically" to the version of the agency next above them in the hierarchy. Depending on the power of the ministry or other agency to which they were subordinated, they might also be formally part of the territorial executive committee at that level, responsible to it and the territorial Soviet as well as the territorial party committee. But subunits of more power agencies reported only to their superiors. All agencies were caught in a constant tension between regional needs and demands coming "down" from Moscow.

Although constitutionally a federal system, the Soviet state was in fact unitary. All important decisions came from the central authorities, leaving the

local agencies the authority only to carry out orders. Similarly, although the Communist Party was theoretically a private voluntary organization, in fact local government officials at all levels answered to the party.¹ (Chart two shows this for the management of agricultural production.)

Communist party dominance had at least four sources. First was the party's nomenklatura power of appointment and removal of personnel throughout the party and state.² Second was the finely calibrated system of access to privileges and scarce goods associated with one's precise position on the nomenklatura. Privilege depended on one's job.³ The job depended on the party. So the party's manipulation of its personnel powers governed who had what privileges, a powerful lever in a society where all social benefits and all paths of upward mobility were controlled by the party apparatus. Third was party discipline, effected in the party committees' ability to give party punishments. Such party administrative punishments were often more severe,

¹ The video documentary "Pacific Outpost," one of a series made for the Public Broadcasting Service in the early 1980s, shows this particularly well. The chairperson of the Nakhodka (Maritime krai) city soviet explains to the interviewer that her job, as "mayor" of the city, is simply to execute orders from the city and higher party committees.

² A "nomenklatura" is, literally, a list—in this case, a list of jobs. Each party committee controlled appointments to certain posts in its territory, and such posts were said to be "on the nomenklatura" of that particular party organ. Holding a nomenklatura post gave one access to special food, housing, and other services. Appointment to a nomenklatura job represented success. For instance, the director-general of the Kyrgyz national land fund could think of no better way to emphasize his own previous success in a conversation with me than to mention that, as the chairman of the Issyk-Kul' oblast' executive committee (oblispolkom), he had been "on the nomenklatura of the CPSU Central Committee." (Interview in Bishkek, June 1992).

³ By Western standards, the privileges could be very minor—the right to a better food ration from special stores or a pass to a ramshackle sanitorium (the Central Committee sanitorium at Barvikha, near Moscow, impressed me in 1988 as an imitation 1950s Florida motel that had been nicely refurbished. But by comparison with living, and leisure, conditions, for most people in Moscow it was truly a place of great privilege).

and feared, than legal prosecution. Too many reprimands would certainly stop career advancement, and could cost one's present job. Fourth was the party member's immunity from state prosecution. Party members had to be thrown out of the party before they could be prosecuted, so such crimes as the petty bribery and corruption needed to make any enterprise successfully fulfill its plan, could not be punished unless the manager had his party card taken away. But it was taken for granted that any successful farm manager must be systematically violating the law. As a member of the special Department for Combating Speculation and Theft of State Property (OBKhSS) explained to Gor'kii oblast' farm chairman Mikhail Vagin in 1988, since Vagin's farm was prosperous, they knew he was guilty of many crimes—the only issue was finding out which ones and bringing the charges.⁴ So truly stubborn refusal to do what higher authorities desired could lead to a jail term on trumped-up charges, as for instance happened to farm manager Dmitrii Starodubtsev (brother of Russian Agrarian Union chairman and 1991 putsch committee member Vasilii Starodubtsev) in the 1970s.

The party's powers came from its control over personnel. Party management of the economy was, therefore, personal. Party management of agriculture aimed basically to find the right person for the job of farm manager, rather than providing policy guidance in a more general and continuous form. Local party committees expressed their displeasure with a farm's performance by replacing the manager.

The extreme subordination of "government" bodies to the party and the personalistic nature of party control largely explain the extreme fluidity of political and administrative institutions in the USSR and post-Soviet Russia.

⁴ A. Platoshkin, "Sovetskii fermer—pochemu by net?" Pravda (July 4, 1988).

Administrative positions outside the party used to be, in principle, simply executors of party orders. So precise lines of authority mattered little. Indeed, from the point of view of the country's leadership, confused, overlapping, and duplicative organization secured their own position since it made it harder for interests to coalesce around "their" government ministries or other agencies and organize opposition to the leaders.

The banning of the Communist Party after the abortive coup of August 1991 decapitated this administrative system. As the Soviet Union fell apart, neither the territorial nor the administrative limits of government agencies' competence was clear. Boris Yeltsin's mass closure of production ministries in September-October 1991 increased the confusion, as the top level of state organs was folded into Russian ones which had, until mid-1990, been little more than conduits for decisions from all-union ministries. Because Russians were dominant and the RSFSR encompassed so much of the USSR's territory, population, and productive resources, RSFSR institutions had probably been less important than comparable republican institutions outside Russia. The lack of a Russian Communist Party until 1990—when its foundation allowed opponents of Gorbachev to attempt the creation of an alternative party within the one-party Soviet model as the all-union party crumbled—demonstrates this weakness.

Because everything had been done through the CPSU, little legislation or, apparently, even departmental regulations, regulated relations between administrative agencies.⁵ At least, the head of a raion agricultural

⁵ Russian legislation generally consists only of a statement of basic principles. Instructions on how to implement legislation are normally prepared by the relevant ministries or other agencies as "departmental acts" (bedomstvennye or podzakonnye akty). Until recently, all such acts were secret ("dlia sluzebnogo polzovaniia," roughly "official use only"). Not only Western, but even Soviet or

administration in Volgograd claimed to this author in a February 1993 interview that he had no legal obligation to carry out orders from, or report to, the oblast' agricultural administration (although he did). Administrators at all levels continued to act as though they retained absolute power over their subordinates, however. Higher authorities attempted to use central control over resources to enforce their dominance. But the January 1992 liberalization of prices, and the general disintegration of command-economy ties that followed, progressively weakened central control over production inputs and the distribution of products. At all levels, then, the state bureaucracy found itself issuing reams of orders to which no one bothered to respond.

The removal of the party instantly transformed what had been a unitary political system into a federal one, in which the constituent territorial units sought to use their newfound independence to control their own territory while breaking away from the center's control. This division of powers became, and remains, one of the key issues in the debate over a new Russian constitution.

To hold the system together, Yeltsin instituted a system of "presidential representatives" in each major unit of the Russian Federation. Unlike their predecessors, the CPSU party committee first secretaries, however, the presidential representatives had no power to discipline recalcitrant local officials. So they could not serve the same function of authoritatively coordinating policy in their regions, and representing it in Moscow, that the first secretaries had. (Chart 3 outlines the administrative structure as it existed from

Russian scholars could not normally see them. Only in 1993 did Yeltsin decree that a calendar of all such acts registered with the Ministry of Justice should be regularly published and a central registry of departmental regulations, as well as laws and presidential decrees, should be established.

early 1992 until September 1993.) The "presidential representative" system was not immediately instituted in all oblasts and krajs, as appointments were gradually made over about six months. Presidential representatives were first appointed to the ethnic republics (Tatarstan, Bashkortostan, etc.) only after the parliament was disbanded in the fall of 1993.

Uncertainty about "vertical" lines of authority was worsened by conflicts about the division of power and responsibilities between President and Parliament.⁶ Soviet-era political science formally asserted that the Soviet system had no separation of powers between branches of government. All powers—legislative, executive, and judicial—derived from the people through election of the Soviets. Executive agencies and courts were created by the various soviets and could be undone by them. (Although the Soviet system differed because it never worked out a system of ministerial responsibility to the parliament, this claim is not intrinsically weird. It is the same one made in any British-style parliamentary system or in the original American government under the Articles of Confederation.) Until 1988, of course, this theory remained just

⁶ Until 1989, the Russian parliament had two houses, the Soviet of the Republic and the Soviet of the Federation. Both were directly elected from variously-defined single-member districts, but the elections were single-candidate ones rigged by the Party. Under the Russian constitution adopted following Gorbachev's 1988 changes in the USSR basic law, a new, two-stage parliament was created. 1071 Members of the new Russian Congress of People's Deputies were elected from single-member districts throughout Russia. In turn, the new Congress elected the two-chamber Supreme Soviet with less than 300 members. The Congress was expected to meet relatively rarely, while the Supreme Soviet was expected to (and did) become a permanent, standing body. Supreme Soviet decisions were subject to confirmation by the full Congress. For example, the Congress added the ten-year moratorium on sales of agricultural land received as shares from state and collective farms to the version of the Law on the Peasant Farm passed by the Supreme Soviet in December 1990.

The Congress and the Supreme Soviet are generally referred to together as "Parliament."

that, since all power actually belonged to the Communist party, which derived its authority from a combination of ideology (the charismatic claim to particular inspiration and knowledge of history) and force, exercised through party control of the armed forces, police, and secret police.

Gorbachev's 1988 decision to create a new, two-tier legislative system, the USSR Congress of People's Deputies and the Supreme Soviet, actually attempted to realize the undivided power of the Soviets in practice. Prime Minister and ministers were now to be confirmed by parliament, creating the beginnings of real British-style cabinet government and giving the state authorities a power base independent of the party hierarchy for the first time since the Bolshevik Revolution. The new system led to increasingly severe clashes of authority between the party and the newly-invigorated Soviets, and many party leaders emulated Gorbachev by becoming jointly heads of the regional party organization and chairmen of the corresponding Soviet.

In 1990, Gorbachev decided to alter the system further by instituting an "executive presidency." Frustrated in his attempts to reform the Soviet Union through the Congress, and increasingly aware that the elections to it and the deputies' activities since the elections had become foci of centripetal activity (most notably, deputies from Latvia, Lithuania and Estonia used their new status to organize to represent their nations in an increasingly effective drive for independence), Gorbachev sought to secure more power for himself.

This change led to the creation of a hybrid presidential-parliamentary system similar to the French constitution dictated by Charles De Gaulle. Under its terms, Ministers were to be appointed by the President without parliamentary confirmation. The president acquired wide powers of rule by decree. Decrees were supposed to be confirmed at the next session of parliament, but the actual relationship between legislative acts and decrees was unclear.

The blurring of legal rights and powers created by the governmental changes had the opposite effect to the one Gorbachev intended. The executive presidency accelerated the breakdown of national political authority and the collapse of the Soviet Union. Fearful that he might use his new powers to declare martial law ("presidential rule") in their territory, the Lithuanian SSR Supreme Soviet hastily declared its full independence and sovereignty just before the meeting of the USSR Supreme Soviet adopted the executive presidency arrangement in March 1990. Other territories also began adopting sovereignty declarations, claiming that local laws took precedence over USSR ones. Conflicts between existing Soviet law, much of it unrevised since the 1930s, the new USSR parliament's enactments, Gorbachev's decrees, and republican legislation led to a situation where local officials, in any case untrained in legal interpretation, could pick whatever legal act suited their wishes—or, equally often, simply declared that the law in their territory was what they declared it to be.

Despite the counsel of his advisors, Gorbachev was elected USSR President only indirectly, by the Congress of People's Deputies. Since he had no popular mandate, his authority was only as good as that of the Congress. The Russian congress of People's Deputies, elected in early 1990 following constitutional changes to bring the Russian constitution into line with the new all-union system, however, voted at its Third Congress, in early 1991, to institute a Russian "executive presidency" that would be popularly elected. Boris Yeltsin, already the chairman of the Russian Supreme Soviet ("president" of Russia under the old, undivided-powers system) won that election in June 1991, becoming popularly-elected "executive president" of Russia. That popular mandate legitimized his action against the attempted coup of August 1991,

when the old all-union party structures sought to stop the Soviet Union's disintegration and the shift of power away from the party by force.

Russia thus emerged from the ruins of the old Soviet Union with an administrative and political system designed to be run by a monopoly political "party," the Communist Party of the Soviet Union, which no longer existed. Moreover, the same constitutional uncertainties that had plagued Gorbachev—was the parliament the source of all government power, as the very word suggested, or was there a split between an independent, popularly-elected presidency and a legislature with wide but limited powers—were built into the new Russian state from the start. At first, in the wake of the coup's defeat, the structural conflict was hidden, as the Russian Congress voted Yeltsin the power to rule by decree for one year. President Yeltsin used that power to: ban the Communist party and eliminate the old all-union ministries—thereby effectively freeing the union republics, which hastened to complete the break; liberalize prices, the necessary first step to destatizing the economy; and declare that collective and state farms had to reorganize as private institutions and allow any member/worker who wished to leave with a share of their land and assets, thereby formally undoing Stalin's forced collectivization of 1930.

None of these measures went unchallenged, however. The Congress, whose members had been chosen in free elections but often represented local elites with great interest in increasing their own power but none at all in sharing it with other people, quickly became the focus of resistance to Yeltsin's revolution. As the president, desperate for trustworthy personnel, appointed "democratic" deputies to represent him in their home regions and to key slots in his own burgeoning staff and governmental agencies, the Congress became increasingly conservative, even reactionary.

The policy disagreement and structural conflict between President and parliament was settled by tank guns in early October 1993. Yeltsin used the opportunity to demand that provincial (oblast' and krai) soviets dissolve themselves. (Chart 4 schematically illustrates the current situation.) But at least for the moment the rest of the national government, and apparently local soviets as well, continue to function as they have been.

Notes on the Charts

Organization charts of Russian institutions, like their phone numbers, are not normally publicly available. (An American agricultural attache was investigated for espionage by Soviet authorities in 1988 for too-persistently asking for an organization chart of Gosagroprom, the then-current incarnation of the Ministry of Agriculture, and USDA advisor to the Minister of Agriculture Craig L. Infanger had to wait a month before anyone would explain the Ministry's structure to him in October 1992.) Therefore, the charts are based on a mix of sources, including the June 1992 MoA phone book and educated guesswork. Given the fluidity of specific organizational arrangements, the general outlines are correct, but precise subunit names and incumbent identifications are subject to change.

Notes to chart 2

All Soviets were directly elected by popular vote, so there is no bureaucratic subordination of one Soviet to another.

* Mikhail Gorbachev was chairman of the USSR Supreme Soviet Presidium until March 1990. This post was popularly called "USSR President," and Gorbachev's predecessors in that position (Nikolai Podgorny, Leonid Brezhnev, and Andrei Gromyko) were given the honors of chief of state even when they were in fact clearly subordinate to someone else who held the job of CPSU General Secretary.

In March 1990, the USSR Supreme Soviet instituted a new post of "executive president" with greatly expanded powers. At that time, Gorbachev was elected to the new post by the Supreme Soviet. His protege and eventual August 1991 coup participant Anatolii Luk'ianov was then elected chairman of the USSR Supreme Soviet ("speaker of parliament"). So Gorbachev became USSR president only by indirect vote.

** Boris Yeltsin was elected chairman of the RSFSR Supreme Soviet ("President" of the RSFSR) in June 1990. A law creating a Russian executive president was subsequently passed, providing for direct popular election of the new post. Yeltsin ran and won that position in June 1991. Most other republics have adopted an "executive presidency," but most have also retained the system of indirect elections for the job.

Notes to charts 3 and 4

These charts show the current structure in ethnically-Russian parts of the Russian Federation.

The breakup of the Soviet Union essentially removed a layer of administration. However, the various autonomous republics and autonomous okrugs formerly subordinated to krajs and oblasts within the Russian Federation

declared themselves "union republics," and often just "republics," so that in those areas there is still an extra layer of organizations (not shown) between the Russian Federation and the oblast' level.

Oblast' and krai administrations have in some cases been renamed "Ministries" (e.g., there is now a "Minister of Agriculture" for Moscow oblast'). It is not clear whether this is a formal change or one done by courtesy, and it seems to vary from region to region. Therefore the older "administration" terminology has been retained in these charts.

"Roskhléboprodukt" is the "privatized" incarnation of the Ministry of [Grain] Procurements. It owns all grain storage, feed and flour mills, as well as controlling grain shipping and handling. Although it is technically a joint-stock company, it acts as a private body when it is in its advantage and as a public one when that is best for itself.

Notes to Chart 5

"APK" stands for "Agroindustrial Complex," the Russian designation for the agricultural sector broadly defined, including activities "upstream" and "downstream" from farming and animal husbandry themselves.

The GPU is in charge of making sure that the laws and decrees are consistent internally and with one another. Any draft decree must get its approval before it can land on the President's desk for signature.

The Presidential Council is an advisory body composed of many well-known perestroika academics. It advises the President on political and economic strategy. An unusually large and well publicized PC meeting

immediately preceded Yeltsin's announcement of the dispersal of the parliament. Tikhonov and Emel'ianov are both professional agricultural economists and full members of the Academy of Agricultural Sciences.

The Ministry of Economics, the current incarnation of the former State Planning Committee (Gosplan), deals with economic strategy. The Ministry of Finance acts as the budget office, allocating resources rather than raising them. Funds are controlled by the Central Bank.

The State Committee on Property is properly called in Russian "Goskomimushchestva." "Imushchestva" in Russian means specifically non-land moveable property, what I believe in English are called "chattels." So it is concerned with privatizing processing, transport, and similar things, but by definition not with agricultural land privatization. Now that land has been commoditized by Yeltsin's October 27 decree that distinction could change, of course.

"Avtosel'masholding" is the former Ministry of Agricultural Equipment Manufacture, the farm equipment people.

The Russian AgroChemical Company used to be the State Committee on Agricultural Chemicals. They handle fertilizer, pesticides, etc. It is not clear to me whether they also handle fuel, or if Bel'chenko's Glavsnab in the Ministry of Agriculture does so, or if there are special rural divisions of the former Ministry of Petroleum Products (which has also been "privatized") that do so.

The State Committee on Land Use (Roskomzem) handles all land titling, inventorying, and conservation/quality monitoring.

Rossel'khozbank is, literally, the "Russian Agricultural Bank." Now privatized, it is a monopoly structure for distributing budget funds to farms and

collecting their payments which is used to moving monopoly money around, not market-economy banking operations.

The "Eksportkhléb" (Grain Exports) division of "Roskhléboprodukt" handles all grain imports for Russia.

Chart 6

Every Russian Ministry has a collegium, a formal body of its leading staff and representatives of appropriate outside interests. It meets regularly and apparently is expected to take some decisions as a body. (This may explain why first deputy and deputy ministers are appointed by the entire Russian Council of Ministers, not by the Minister.)

Some of what are now separate organizations (the agriculture-equipment manufacturers, the agricultural chemicals service, and "Rossel'khozbank," for certain) were at one time divisions of the Ministry of Agriculture, with their heads serving as Deputy or First Deputy Ministers of Agriculture and members of the Ministry Collegium. The current Ministry of Agriculture's Main Administration of Water Resources used to be the Ministry of Land Reclamation and Water Resources, one of the most powerful bureaucracies in the country. Its downgrading was a policy choice made by Gorbachev when he decided to cancel plans to divert Siberian rivers to Central Asia. So to a certain extent what is inside or outside the box surrounding the Agriculture Ministry results from historical accident, not a decision about priorities and what agencies should be independent of, or subordinated to, the Ministry of Agriculture.

Chart 1: Administrative-Territorial Units, USSR/Russian Federation

Chart 2: General Structure of Agricultural Administration before Breakup of USSR and Banning of CPSU in August 1991

Chart 3: General Structure of Agricultural Administration in the Russian Federation, 1992-September 1993

Chart 4: General Structure of Agricultural Administration in the Russian Federation after September 1993

Chart 5: Russian Federation Organizations Concerned with Agrarian Policy at the National Level

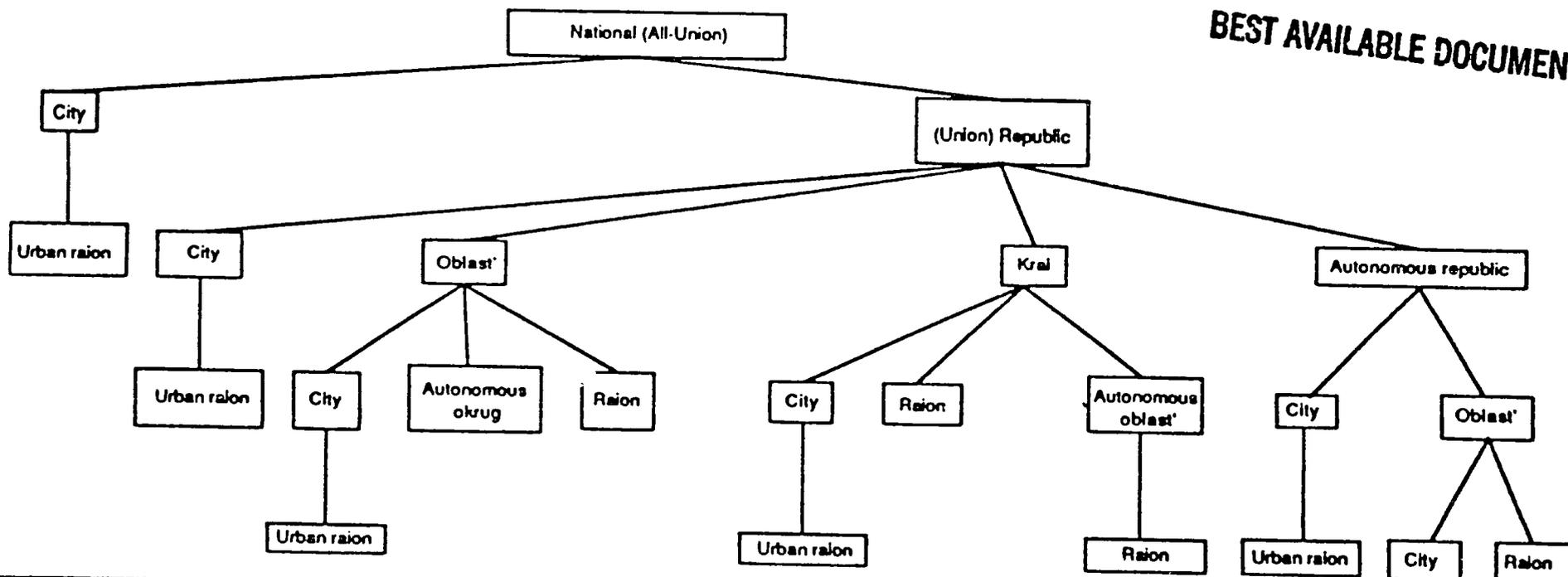
Chart 6: Russian Federation Ministry of Agriculture Collegium

Chart 7: Russian Federation Ministry of Agriculture Organization

Chart 1

Relationship of Territorial Units In Former USSR/Russian Federation

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When the USSR broke up, the "national" level on this chart disappeared, and each union republic went its own way. The single city "of all-union significance," Moscow, passed to the Russian Federation simply because of its location. The former autonomous republics within Russia quickly promoted themselves to "union republic" status, however.

The relative importance of any administrative unit changes depending on its position in the hierarchy. Before the CPSU was banned, real importance was measured by the status of the corresponding party committee. For example, the Moscow city party organization had the status of a union-republic party committee, while autonomous republic (ASSR) party organizations had the status of (and were called) "oblast" committees.

Cities at any level which are large enough may be broken into urban raions, although in practice no city small enough to be subordinate to a raion would be split into urban raions.

Urban raions are not formally divided into any smaller administrative units.

All territory within a raion, including agricultural land, comes under the jurisdiction of a soviet corresponding to one of the settlement types shown at the right. (Since the adjective "sel'skii" means both "village" and "rural," the English translation "rural soviet" is often used. But the soviet is always located in an administrative unit called a "village.")

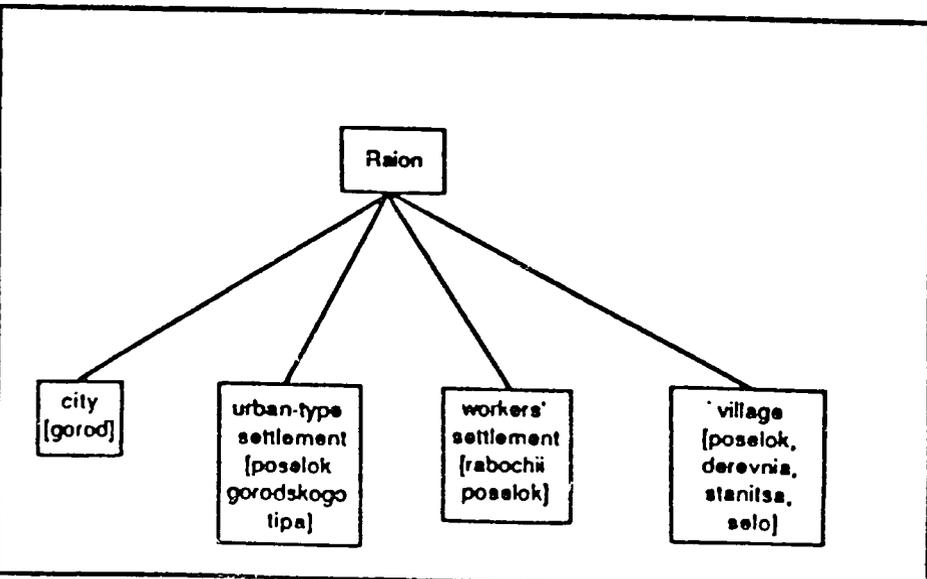
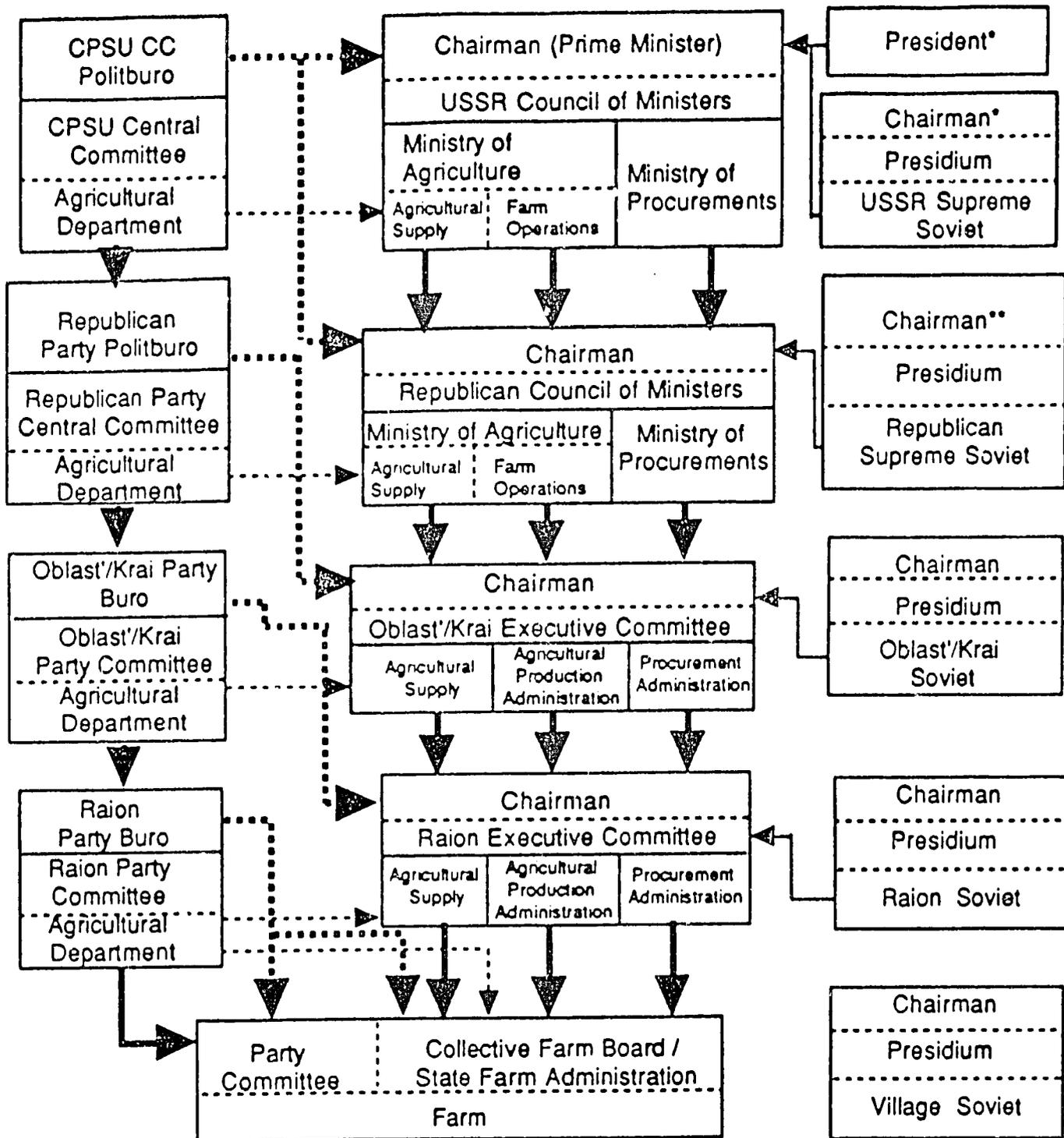


Chart 2

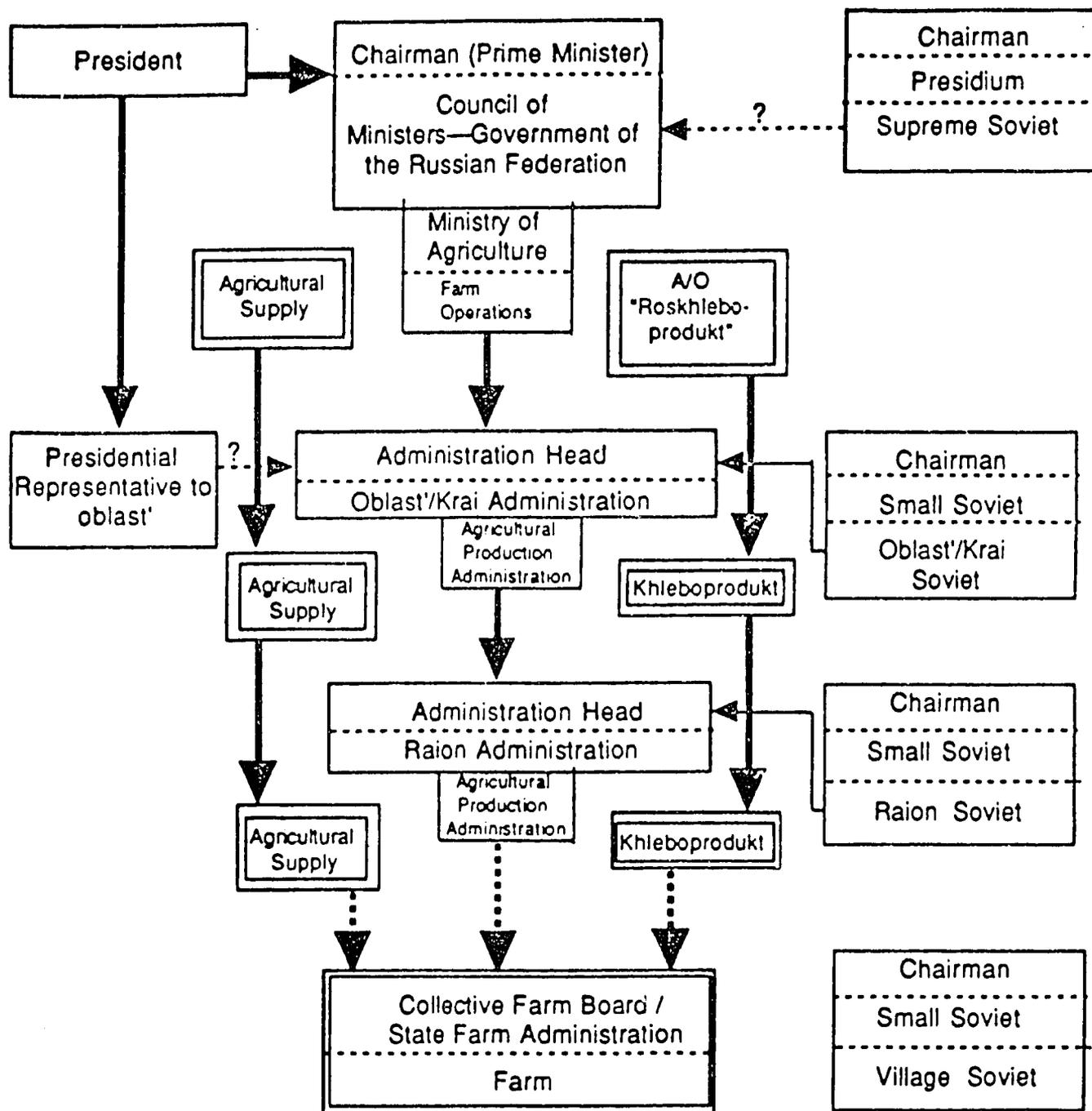
GENERAL STRUCTURE OF AGRICULTURAL ADMINISTRATION BEFORE BREAKUP OF USSR AND BANNING OF CPSU IN AUGUST 1991



Appointment / "Ministerial Responsibility" — Bureaucratic Subordination - - - - Nomenklatura Confirmation/ Party Discipline Party "advice" (orders) - . - . -

Chart 3

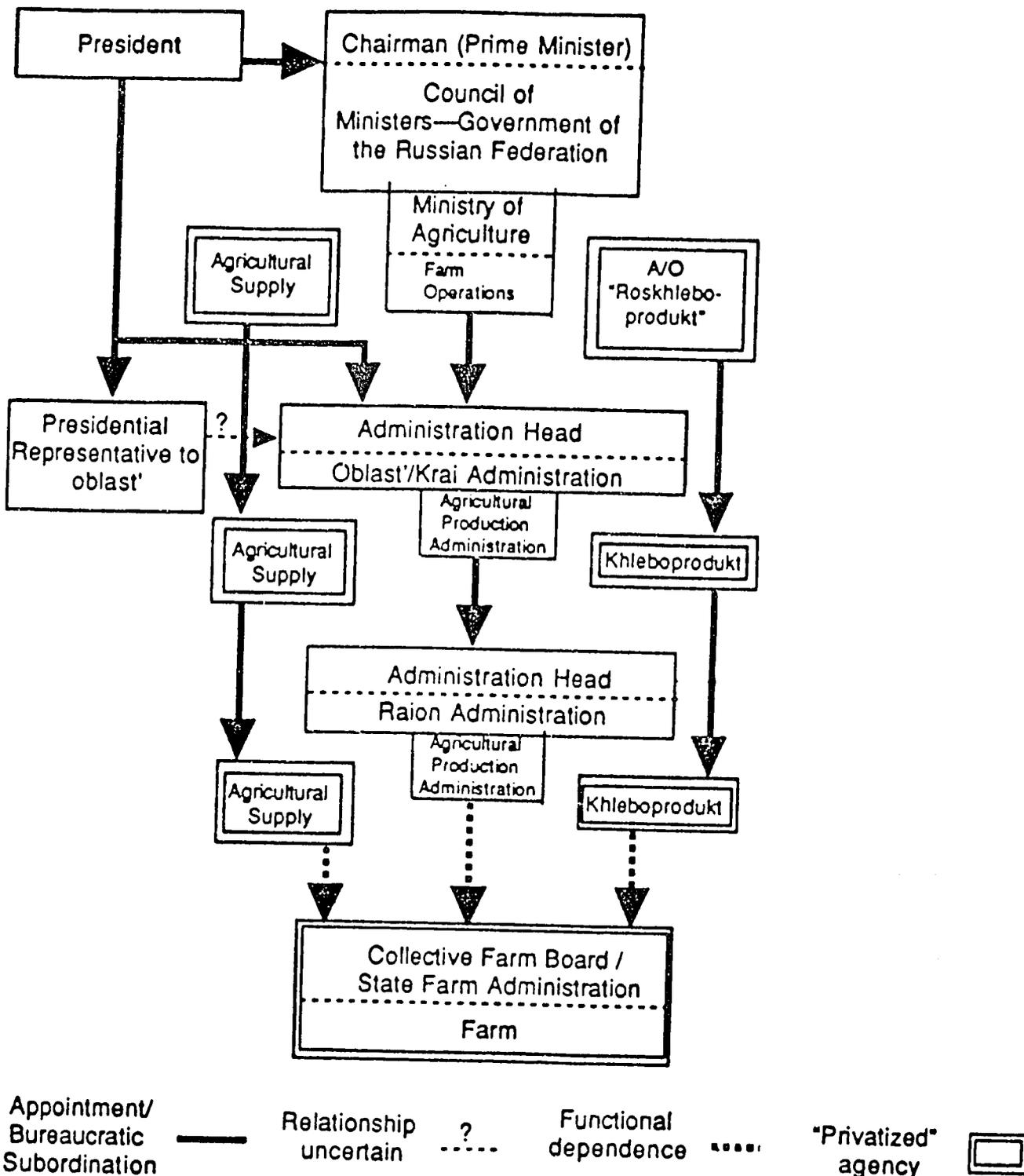
GENERAL STRUCTURE OF AGRICULTURAL ADMINISTRATION IN THE RUSSIAN FEDERATION, 1992-SEPTEMBER 1993



Election/ Ministerial responsibility — Appointment/ Bureaucratic Subordination — Relationship uncertain ? — Functional dependence "Privatized" agency □

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GENERAL STRUCTURE OF AGRICULTURAL ADMINISTRATION IN THE RUSSIAN FEDERATION AFTER SEPTEMBER 1993



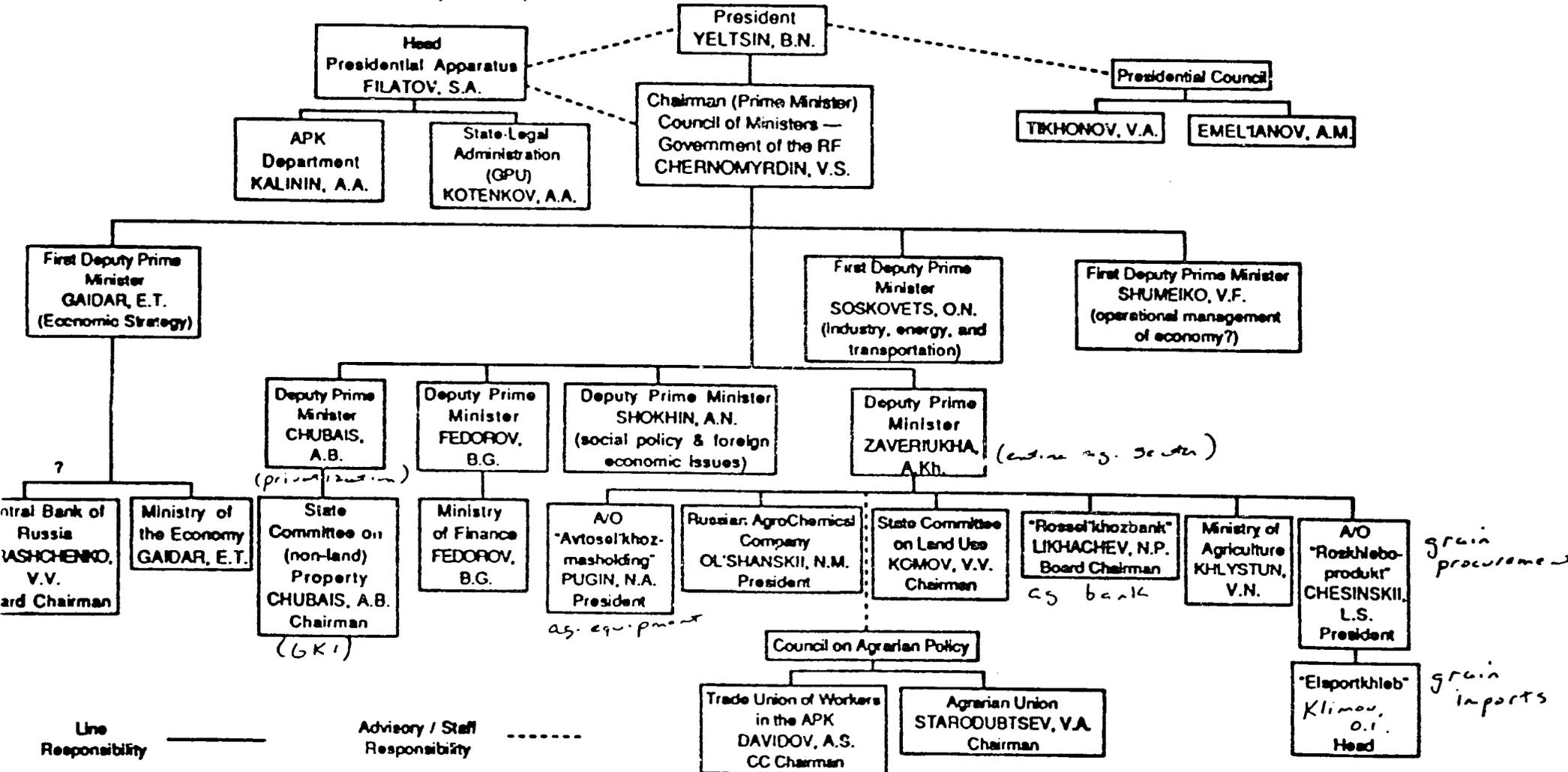
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Chart 5

Russian Federation Organizations Concerned with Agrarian Policy at the National Level

(Does NOT include All First Deputy or Deputy Prime Ministers, all of Presidential Apparatus, all of Presidential Council, or all of Agrarian Policy Council)

(As of December 1, 1993)



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Chart 6

Russian Federation Ministry of Agriculture
Collegium

KHLYSTUN, V.N.
Minister
Collegium Chairman

SHCHERBAK,
V.N.,
First Deputy
Minister

CHERNYSHEV,
A.A.
First Deputy
Minister

ABDULBASIROV,
M.M.
Chairman, Committee
on the Food and
Processing Industry
Deputy Minister

LOGINOV, V.P.
Head, Main
Administration of
Water Resources
Deputy Minister

BEL'CHENKO, V.M.
Head, Main
Administration of
Inputs (Glavsnab)
Deputy Minister

KOREL'SKII, V.F.
Chairman,
Committee on
Fisheries
Deputy Minister

OGARKOV, A.P.
Deputy Minister

EFREMOV, A.G.
Deputy Minister

KOPYLOV, A.S.
Deputy Minister
(Farm Organization /
Structure)

PUPONIN, A.S.
Deputy Minister
Rector, Timiriazev
Agricultural Academy

KUKHARENKO, V.S.
Head, Main
Administration of
Investments and
Construction

NAUMOV, V.I.
Head, Main
Administration for
Monitoring
Implementation of
Government Programs
(Glavterupravlenie)

АВЕЕВ, Н.
ОБЕРЯНОВ
Head, Main
Economics
Administration

LIAKIN, B.V.
Administrator of Affairs
Head, Administrative-Auditing
Administration

MEDVEDEV, A.V.
Head, Administration of
Personnel

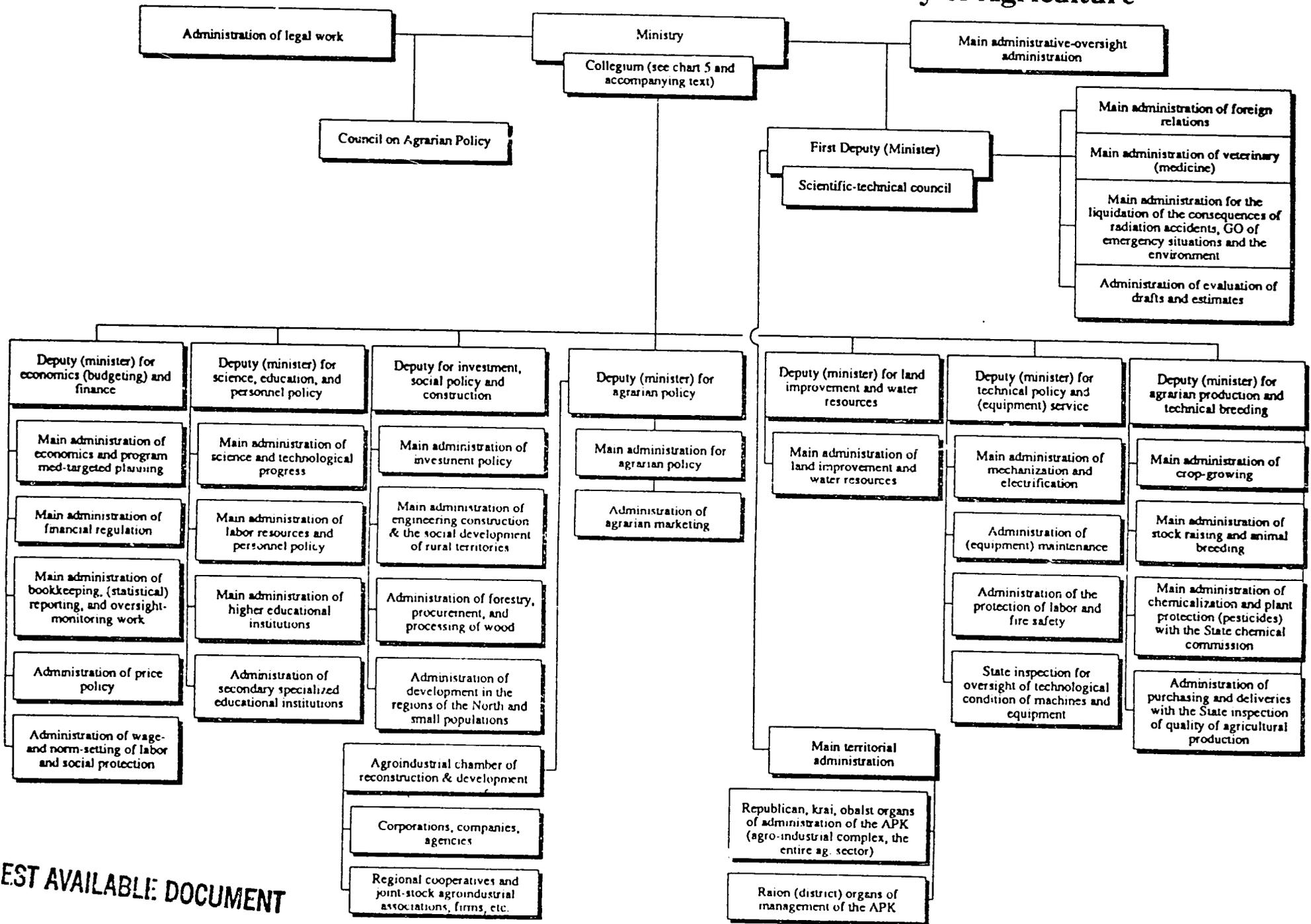
VORONTSOV, A.E.
Chairman,
Kolkhoz Council

BASHMACHNIKOV, V.F.
President, AKKOR

ROMANENKO, G.A.
President, Russian
Academy of Agricultural
Sciences

BEST AVAILABLE DOCUMENT

Chart 7: Organization of the Russian Federation Ministry of Agriculture



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ANNEX D

PILOT SITE SELECTION CRITERIA

ANNEX D

PILOT SITE SELECTION CRITERIA

The accompanying Pilot Site Selection Form contains selection criteria to be used in the ranking of potential sites for pilot activities. Prioritization of sites based on these criteria is not essential for success of the pilot program. However, sites that score high on most criteria should stand a better possibility of having a successful pilot program.

The criteria list is not exclusive and may be modified as experience and needs dictate. It is intended to be used as a diagnostic tool by individuals involved in implementing the set of interventions outlined in this report. It can be used for both oblast- and raion-level site selection.

We suggest a scoring system of 0-5 for each criterion, with 0 indicating a lack of this attribute that would suggest a situation with low probability of intervention success. A score of 5 would indicate a very high degree of this characteristic providing a positive impetus for intervention success. Considerable judgement will have to be exercised in scoring each criterion, and in applying weights to the importance of each. As a general rule, a region scoring moderately well on all criteria would be preferable to a region that scored high in several areas and low in others, even though average scores were similar.

For illustrative purposes, we have provided a sample scoring of several of the oblast and raion sites visited by the study team. Since all team members did not visit each site, and the purpose for each visit was to gather information concerning potential interventions in selected areas of team expertise, our understanding of each site is incomplete. Thus, the sample scoring shown on the accompanying site selection form should not be considered as definitive and should be used only as an illustration of how the form might be used.

Eleven criteria are listed covering a broad range of issues. The letters accompanying each criterion indicate that the criterion is considered important to success in one or more of the general areas of intervention. The code for these letters is as follows.

- P Policy
- C Credit
- F Farm Management
- A Agribusiness
- I Infrastructure

Additional criteria may also be added to the form and process. Experience will dictate whether such criteria are needed or whether existing ones should be modified or eliminated.

Pilot Site Selection Form

Selection Criteria	Location						
	NNO	GRSmO	PO	KRSrO	KRKK	Total	Ave.
Multiple input and output market opportunities (F,A,P)							
Farm size, ownership & management, enterprise diversity (P,F)							
Interest in development of privately owned agribusinesses (F,A)							
Demand for diverse services & products (C,A)							
Progressive (reform-minded) leadership (P,I)							
Diverse raw material & human resources availability (A,P)							
Alternative credit sources (P,C,F,A)							
Age distribution (I)							
Democratic self-government tradition/ existence of local PVOs (I)							
Intra- and inter-area communications (F,A,I)							
Supportive or competitive donor activity							
Design Team Average Total Scores	29	21	35	29	38		

Abbreviations: NNO - Nizhny Novgorod oblast; GRSmO - Glinka raion, Smolensk oblast; PO - Perm oblast; KRSrO - Krasnoarmeisk raion, Saratov oblast; KRKK - Krymsk raion, Krasnodar krai. P - Policy; C - Credit; F - Farm Management; A - Agribusinesses; I - Infrastructure

ANNEX E

REVIEW OF MOSCOW MISSION PAPER

It would be well in stating the importance of agriculture, to emphasize its role in employment growth through creation of a vibrant small and medium scale rural non-agricultural sector, even while employment directly in agriculture declines at a rapid pace.

In general, the 13 percent of GNP subsidy to agriculture probably overstates since it appears to include substantial social expenditure, from pensions to physical infrastructure. Nevertheless the current quantity of resources going into agriculture and the vast quantity of capital poured in in the past suggest that the resource problem is more one of reallocating resources than adding to them.

The paper rightly points out the large size of Russian agricultural imports. That is important with respect to incentives for increasing grain production, the efficiency of grain use (through import of relatively more protein feed relative to carbohydrate feed), the size of the market for dairy and livestock products (about 20 percent were traditionally imported, roughly the amount by which domestic consumption exceeds the level expected with traditional levels of income.)

In the discussion of the obstacles faced by the new forms of enterprises, a myriad of discouraging public policies should be added. Rightfully the focus so far has been on a few big policy issues related to land rights on the one hand and broad macro policy such as inflation, on the other. However as small enterprises attempt to increase efficiency many small public policy issues will come to the fore. An example is the trade policies which inhibit the import of high protein meal as cattle feed. Government will, like all countries, interfere in agricultural prices creating distorted price relationships which have major inefficiency creating side effects. These and many other such problems require an analytical capacity which is still very weak. Two major organizations now unite agricultural producers of all types in the Russian countryside. Although formally private voluntary organizations, they in fact carry out governmental functions and frequently claim exclusive rights to speak for their respective self-defined constituencies in negotiations with the government.

The Agrarian Union of Russia (Agrarnyi soiuz Rossii) claims to unite and speak for all farms and farmers, whether large former state or collective farms, newly-organized smaller group or cooperative units, or individual farmers. As with many such

inclusive organizations, its leadership is dominated by conservative elements, and the Agrarian Union's chairman, Vasilii Starodubtsev, remains under indictment as a member of the ill-fated August 1991 junta that attempted to overthrow Mikhail Gorbachev and succeeded in breaking apart the USSR. The Agrarian Union was closely related to the reactionary parliamentary group of the same name in the old Congress of People's Deputies, and the Agrarian Party of Russia is its creation. The second part of the Union's second congress, which met during the presidential-parliamentary confrontation in October 1993, voted, apparently with only one dissenting vote, to support Rutskoi and Khasbulatov, the parliamentary leaders. The Union's platform explicitly opposes open purchase and sale of agricultural land, privatization of collective and state farm assets in any way, and any change in the current system of state "protection" of agriculture (i.e., state cost-plus financing of all agricultural costs).

The Association of Individual Farms and Agricultural Cooperatives of Russia (Assotsiatsiia krest'ianskikh (fermerskikh) khoziaistv Rossii), AKKOR, explicitly seeks to pattern itself on the American Farm Bureau Federation as it existed in the 1940s and 1950s. AKKOR's leadership played a major part in designing and winning parliamentary approval of the basic legislation which permitted families to leave the collective and state farms with a share of land and capital assets for the first time since the big farms were created in the 1930s, and it has continued to be an important lobby for economic reform. AKKOR's current president, Vladimir Bashmachnikov, participated in the Constitutional Conference at the request of the Yeltsin government and is a candidate for the new parliament on the Russia's Choice (Gaidar bloc) party list.

AKKOR, which describes itself as the individual farmers' interest group (and therefore willing to work with people of any political stripe so long as they listen to the new farmers' demands) has been a collective member of the Agrarian Union since its founding, although it resigned its membership on the day the August 1991 putsch began because the Agrarian Union supported the putsch leaders.

Because of government control of all financial resources for the countryside, both the Agrarian Union and AKKOR have in practice mainly been lobbies for more money for their respective constituencies. Each organization distributes state subsidies to their respective memberships. The heads of oblast and raion

agricultural administrations are generally also chairmen of the local Agrarian Union branch. AKKOR has majority control of the "Russian Farmer" fund, which serves as the conduit for the government's line of credit targeted to individual farmers.

The Agrarian Union and AKKOR negotiated with the government about state purchase prices in 1992 and 1993. In each year a formal three-way treaty was signed by government, the Agrarian Union, and AKKOR, specifying what prices would be paid and what benefits (such as reduced prices for fuel and equipment) former state and collective farms as well as individual farmers would receive in return for their pledges to sell produce to the state.

ANNEX F

**DRAFT: STATE AND COLLECTIVE FARM SECTOR
POST-PRIVATIZATION PROJECT DESIGN**

DRAFT

**STATE AND COLLECTIVE
FARM SECTOR POST
PRIVATIZATION PROJECT
DESIGN**

Prepared for

*United States Agency
for International Development*

by

John W. Mellor

*(in cooperation with Chemonics
International Consulting Division)*

November 1993

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SECTION I

John W. Mellor
11/30/93
Draft

STATE AND COLLECTIVE FARM SECTOR POST PRIVATIZATION PROJECT DESIGN

SECTION I THE PROBLEM, THE CONTEXT AND THE VISION

A. THE PROBLEM

The Russian economy is inefficient and operates at low levels of resource productivity because it is not market operated, which in turn is a product of the dominance of public-sector monopolies. The surge towards privatization is an attempt to rectify those problems.

However, the economy is also characterized by excessively large-scale enterprises, excessive capital intensity, location of many activities in the wrong place, a noncompetitive environment, and lack of essential support services to make a private, market-oriented economy efficient and productive. Two examples from agriculture are the location in urban areas of very large scale, capital intensive storage and processing activities, which in other countries are located in rural areas, and in countries with as low labor costs as Russia, are operated largely on a smaller scale and with less physical capital. Many of these enterprises will not, and should not, survive in a competitive environment. They should succumb to large numbers of smaller more agile firms. Similarly, farm units are extraordinarily large in size of labor force, with very large capital investments relative to all other inputs. Even breaking them into the several units which now characterize decollectivization with units of one or two person labor forces will not make them competitive.

In this context, there is a tendency to simply change the name of the structure from state enterprise to joint stock company and leave the other elements the same. Many of these activities, but not all, will still be inefficient, low-productivity operations. In the Russian context, the pressures to protect them so they can survive will be immense. As budget pressures rise, protection will come increasingly from regulations which protect them from competition. It will be particularly easy to protect the agri-business behemoths from their natural competitors rising from the privatization of the state and collective farm service enterprises. Obviously, in this context competition between unwieldy behemoths will not be effective in solving the low productivity problem. In any case, the "privatization" of the behemoths may serve to distract attention from the requisites of a successful small- and medium-scale sector which offers opportunity for increased factor

productivity, efficiency, and most of all employment growth. Improvement for any of the behemoths certainly includes decline in employment.

Of course, privatization of the behemoths should be pursued vigorously, if for no other reason than that it is relatively easy, and in any case will at the least make it easier to reduce the drain on the public treasury. But, it is far more important to develop the small- and medium-scale sector. There are three reasons why this tends not to happen. First, it is much more difficult to gain support from Russian policy makers. Privatization of the behemoths that are there is a simple concept, a magic bullet. Creation of something that hardly exists is more conceptually difficult, and in any case, does not fit in the image of what makes the economies of the capitalist countries productive. Second, it is more difficult to do, since the small- and medium-scale sector prospers largely by competition, low capital intensity processes, and needs little direct help. The help it needs is indirect and involves provision of a small but critical set of public goods and public interjection to make markets competitive. Third, it offers much less scope for foreign private investment, because it is less capital intensive, and makes do much more with indigenous resources.

This report is about the large (26 percent of the population) state and collective farming sector which offers opportunity for shifting agriculture to a much smaller, less capital-intensive, higher factor productivity mode of operation and a particularly great opportunity to launch a very large small- and medium-scale rural, but non-production agriculture sector, which would gradually modernize, expand into non-agricultural lines of work, and provide large increases in employment.

One final point, the preceding discussion has noted the inefficiencies inherent in much of the behemoth sector. Russia has a long tradition of comparably inefficient very small scale production also. Private agriculture plots are the prime example. One should avoid jumping out of the frying pan of behemoths into the fire of tiny operations which are also inefficient and offer little opportunity of transforming the economy. Just as the behemoths should be privatized, so the private plots should be encouraged. And, some will develop into respectable, land intensive types of production. But, neither is a substitute for the middle.

B. OBJECTIVES IMBEDDED IN THE PROJECT DESIGN

Privatization of the bulk of Russia's state and collective farm sector offers opportunity to achieve three interrelated objectives: (1) create a large, rapidly growing, high-employment content, a small- and medium-scale business sector, which, while initially servicing agriculture will quickly move into a wide range of other service and manufacturing activities; (2) create an even larger population committed to an economically stable, open economy; (3) increase resource productivity and economic efficiency in a sector that absorbs 10 to 20 percent of the economy's resources and is,

compared to developed market economies, using its resources less productively than any other sector; (4) in the name of efficiency increasing provision of public goods, develop democratic institutions at the local government level where democracy has the most meaning to ordinary people.

C. THE INSTRUMENTS

The state and collective farms now include all but 2 percent of the agricultural labor force and much of the resources necessary to a small- and medium-scale business sector. Thus, the vital issue is how the institutional structure for mobilizing those resources will be transformed so as to achieve the objectives. The small- and medium-scale sector in all countries requires a balance between operation of free markets and provision of public goods. In Russia, small businesses suffer from glaring deficiencies in both. The project design addresses both of these issues.

D. THE VISION

The common Russian view that a long period of state and collective farms has removed entrepreneurship has an element of truth to it. That element of truth is reinforced by concern about whether a serious plan for privatization exists, whether output and input markets will be open and who will manipulate price relationships in what manner (they don't look very attractive now); and, perhaps more important, there is no basis of a vision of technical changes which can increase productivity. In any case, even the full complement of the entrepreneurial oriented would be grossly outvoted, even intimidated, by those who are fearful of change. Western visitors who misconceive American agriculture as characterized by labor forces of ten persons or more (when even the top 25 percent of American Agriculture is still characterized by a two-person labor force) don't help. Whatever the reason, the experience so far is a dearth of entrepreneurs on the state and collective farms. Thus the vision can only come slowly.

There is an important caution in the above. Whatever the first step, the process must be kept fluid so that later steps can flow from the beginning. The first step in decollectivization will bring fewer units, larger scale and more horizontal integration than is justified by the long-term economics. Competitive forces in a fluid economic environment will allow the desirable evolution.

Thus, the first step in decollectivization, consistent with Nizny Novgorad, is for over 85 percent of the land to fall into two to six units with 25 to close to 100 active workers per unit. Similarly, essentially all the service activities, except for a small unit or two falls, into two units or so. In this first step, this is probably what must be expected.

Experience in the rest of the world would lead one to expect the service units, which each include a wide range of largely unrelated activities, to divide into more homogenous units that is to become less horizontally integrated and perhaps more vertically integrated (Table I-9). Eventual evolution is likely to be towards 20 to 40 nonfarm production enterprises, each expanding to provide more farm services, and competing with the urban based behemoths, but more important, rapidly moving into a wide range of non-agriculture related activities, including urban machinery repair and eventually some moving into various metal working manufacturing. For this to happen there must be no bars to entry and expansion, whether in the name of favoring cooperatives or large-scale city based enterprises, and improvement of rural physical infrastructure and financial markets. The initial environment for these firms is probably quite favorable, including lots of opportunity and an ability to make do surprisingly well. But many sophisticated obstructions are on the horizon.

Similarly, the farm production units will naturally prove far too unwieldy at their present size and smaller units will gradually hive off, if the legal framework is favorable. The servicing side will probably improve rapidly as the small firms described in the preceding paragraph get underway. Improving the macroeconomic environment is essential to this. The division of the excessively large units rising from the first round of privatization will be assisted greatly if price relationships for farmers are favorable and if they are assisted with management and financial services. The optimal scale of operation will be larger than what one would expect from the state of technology because labor will remain cheap by standards of other countries for some time. Thus, inefficiency in labor management will be more easily absorbed. However, the biggest inefficiencies from large labor forces in agriculture arise from inefficiencies in use of other resources, particularly, land and animal units which arise from poorly supervised labor.

The standard Russian view that developed countries are typified by farms with large labor forces, protected by subsidies and supported output prices, makes it difficult to grasp the above picture. One should not argue the point, but simply press for the flexibility in the structure that allows this to occur, and let the market operate. The principal argument for removing the necessary flexibility is to argue that the initial farm units require security of tenure for management to be able to operate effectively and that therefore the first round structure should be frozen in.

We deal with these various problems in Part II of this report in which we recommend specific interventions.

E. BACKGROUND

The agricultural sector of the Russian Federation is characterized by its large size, unusually low factor productivity and efficiency, declining output, productivity and efficiency, and, as for all middle and upper income countries, disproportionately great

political importance. These characteristics offer major opportunity and urgency to increasing the productivity of the sector. That productivity increase is best pursued through the processes of privatization that are under way. Because of the small scale of the optimal units in the agricultural and rural sector that is even more true for that sector than other parts of the economy.

By the very nature of the small- and medium-scale sector, management decisions, including choice of enterprise combination and production technique, must be made by the individual entrepreneur and hence cannot be part of a planning process specifying output, scale of operation, markets, and so on. The individual entrepreneur thus needs technical knowledge and management knowledge. The current level of and potentials for increase in technical knowledge of the agri-business complex in Russia is high. In contrast, the current level of management skills and capacity to increase them is very low relative to the potentials and needs for massive numbers of small- and medium-scale enterprises in the rural sector. The skills are particularly needed in an advisory capacity for assisting in the division of state and collective farms, in credit institutions, and to individual farmers and entrepreneurs. The United States has a strong comparative advantage in assisting development of the training institutions for providing those management skills. We do it effectively for our own small and medium scale sector.

Because the development of the small-and medium-scale enterprises, which optimally will dominate the rural sector, is so dependent on privatization, competition and market forces, and because of the political importance of the rural sector, public policies are particularly likely to go awry with a particularly important negative impact. This calls for a large and sophisticated capacity to analyze agricultural policy issues. Again, the Russian Federation is short of the personnel to guide these processes, particularly given that they are needed in a wide range of institutional structures. Again, the United States has a strong comparative advantage in assisting in the development of the needed personnel and in the training programs for expanding their supply.

E1. Size and Scope of the Agricultural Sector

Narrowly defined, agriculture represents about 15 percent of GDP, and about 15 percent of employment (Table I-1). However, the total population on the state and collective farms, plus the existing private farms comprise about 26 percent of the total population of the Russian Federation. That includes a disproportionate share of retired people, and of course includes much, but by no means, all of the manufacturing and services structures for agriculture. Perhaps it is reasonable to think of agriculture and the parts of the economy directly stimulated by its activities as representing one-quarter of the economy. Given the particularly high level of inefficiency in the agricultural sector, perhaps a third of the inefficiency in the economy lies with agriculture. Of that inefficiency, it is reasonable to assign about two-thirds to the production side and one-third to the marketing, processing and servicing side. That is the representative

characterization of the importance of the processes of decollectivization and rising productivity and efficiency which we treat.

It is the small- and medium-scale sector of the economy, both in agriculture and non-agriculture which dominates employment growth in modern private enterprise, market-oriented economies. That subsector is essentially non-existent in centrally planned economies. Thus the most important issue in developing employment, private enterprise and market orientation is how such a sector can not only be created but move quickly to its large place in the economy.

The transformation of the state and collective farms offers the single most important opportunity for development of that sector. Rising farm incomes, derived from increased factor productivity in agricultural production provide the demand stimulus for development of such enterprises. That is because of the structure of consumption of rural populations. Concurrently, the small servicing firms that arise from the transformation of state and collective farms not only create a massive increase in the number of entrepreneurs, but many of those, such as machinery repair and associated machine shop type activities lend themselves to rapid evolution into a wide range of production activities that soon reach far beyond the immediate rural area.

Stimulation and support of these activities is in aggregate impact far more important than reform of the small number of capital intensive, large scale agri-business enterprises. It is the small- and medium-scale enterprises which will usher in the wave of the future in entrepreneurship, privatization, employment creation, and income increase. Facilitation of that development and reform involves quite different forms of assistance than privatization of the large scale, necessarily more bureaucratic organizations. To put it differently, the real measure of the transformation of the Russian economy will be the number and aggregate size of the new business created, not the shift of the initial large-scale enterprises from the public to the quasi-public sector.

E2. Agriculture and Public Finance

The preceding measure of size of the agricultural sector also represents the importance of the sector in public expenditures. About 13 percent of GDP, and hence about one-quarter of public expenditure goes, to various types of subsidies and income transfers to the agricultural sector. That overstates direct agricultural subsidies since it includes the social costs of physical infrastructure, schools and pensions. Perhaps between 5 and 10 percent would be a better representation, a still large sum.

Much of this expenditure is to redress, and concurrently serves as a cloak for, inefficiency and low factor productivity in the agricultural sector. It appears that the most important mechanism of this transfer is "loans" to the state and collective farms

which are largely not repaid. There are also remaining subsidies and price distortions which transfer resources to and from agriculture.

At the same time that large, efficiency reducing transfers to agriculture take place, there is an immense underinvestment in public infrastructure, including roads. Many collective and state farms are ill served by rural infrastructure. The situation will be far worse for many small farms that will inevitably be located on the periphery of the previous state and collective farms. The lack of the infrastructure in the short run results in much lower pricing of the land at the periphery, in terms of vouchers. But it is more important that lower pricing reflects much lower net productivity, a productivity which may be gained by massive investment in rural infrastructure.

Thus a restructuring of public expenditure on agriculture will be called for. How that will be done in the context of attempts to reduce central government budget deficits will pose a set of complex policy problems. However, large expenditure on rural areas, whether productive or not, will surely be forced by a newly legitimized, large, elected bloc of votes from the one-quarter of the population in the rural sector.

E3. Factor Productivity and Efficiency of the Agricultural Sector

Agriculture has been the notoriously low-productivity sector of the Russian economy (Table I-6). Indeed, it has been a consistent source of economic failure of government, despite, and perhaps because of constant attention by successive Russian governments. The most important reason for the inefficiency of the sector and failure to rectify the problem arises from the major scale diseconomies innate to the sector. Thus as long as the sector remained in large scale operations other means for increasing efficiency were bound to fail. In view of the failure of successive Russian governments to realize this it is not surprising that many in the foreign assistance community also think in terms of change in institutional structure (privatization), but in the context of preserving the large scale of operation in the form of cooperatives, joint stock companies and other means of agglomeration.

The stickiness in the move to small scale operation (defined as a labor force per unit of only a small number of persons, not in terms of either capitalization or amount of land) arises from real factors, including fixity of capital forms suitable to large-scale operation (huge dairy barns and massive tractors) as well as to the lack of institutional structures suitable to small-scale operations, and to lack of experience, skills and confidence in entrepreneurship. All of these constraints must be treated if the move is to be made to the more efficient operations.

Productivity of milk cows is less than half that of modern western herds; labor productivity is probably as low as one-tenth as high; potato yields are half; grain yields are on the order of half. These low levels of productivity are also highly inefficient.

Thus, factor productivity and efficiency has scope for a doubling in a few years' time with a consequent doubling of real incomes. The increased efficiencies in agricultural production are essential to income increase for this large segment of the population. However, they probably cannot be achieved without major increases in labor productivity and that in a situation in which total demand for output may not be greatly higher than at present.

Thus, there must be rapid labor absorption in the ancillary enterprises in the rural sector. All the more reason to develop the small- and medium-scale sector in rural areas as rapidly as possible, obviously starting with the small enterprises for machinery repair, machine shops, storage, milling, processing, and transporting, which arise naturally from the current state and collective farm scene.

Given the 27,000 state and collective farms, their movement to the small scale private sector could be expected to generate some 2.5 million private farmers. That is 14 times as many private farmers as at present. Such a change will not occur overnight. With appropriate facilitation it might be largely completed in five years, with a modest initial movement and rapid acceleration towards the end of the period.

Although less easy to predict, it is reasonable to think in terms of another 250,000 non-farmer entrepreneurs to come up in machinery repair (many quickly branching out into other types of repairs and graduating to operating small machine shops and metal working industries), cold storage, simple processing, particularly of livestock and fruit and vegetable products, and transport. If the economic environment facilitated ready movement of these entrepreneurs into a wider range of activities their numbers might be thought of as reaching 500,000.

Thus, optimal decollectivization will provide the need to assist 2.5 million to 3 million private farms, and up to 500,000 to other small entrepreneurs in a process which offers potential to double resource productivity in a five-year period with a consequent close to doubling of incomes. That should be the target and assistance should be planned with those kinds of numbers in mind. Obviously, to assist such a process requires a tight set of priorities and emphasis on activities that can be expanded very rapidly.

E4. Decline of the Agricultural Sector

While the initial low productivity and inefficiency of the agricultural sector offers immense opportunity for growth, in fact, the agricultural sector has been contracting. That is because of the general economic dislocations and uncertainties prevailing in the Russian economy. In the past three years agricultural output has contracted by 29 percent, similar to the decline of 32 percent in the industrial sector during that same period (Table I-2). That has been accompanied by substantial decline in meat and some

decline in milk consumption, offset on a caloric basis by increased grain and potato consumption (Table I-7).

It is likely that price changes and great uncertainty about future price relationships have been a major factor in the decline. When inflation is as rapid as has been the case in Russia, variance in the rates of change of specific prices increases greatly and it is virtually impossible to obtain a realistic picture of real prices and price relationships. Agricultural output prices have risen much less than agricultural input prices, many ratios may now be quite unfavorable to farm production.

The composition of the decline has been uneven. For example dairy production has declined little, while the numbers of animals has declined modestly. Cow numbers have declined significantly on the state and collective farms, while those in private ownership have increased almost commensurately. Decline in sheep numbers and production have been precipitous. Decline in grain production and potato and cabbage production have been substantial, deriving largely from the lack of physical inputs, particularly fertilizer, which has dropped by more than half (Table I-7). That in turn has been the product of differential pricing between domestic and international markets and scarcity of credit rather than scarcity of fertilizer. Exports of fertilizer having increased greatly in the period.

In any case, given the potentials for productivity and efficiency increases, the recent decline simply offers opportunity for substantial catch-up growth.

E5. Economic Structure of the Agricultural Sector

While it has been growing at a very rapid rate, private farming comprises no more than 4 percent of agricultural output, land, and the agricultural labor force (Table I-3). It was initially comprised of two-thirds of people who came directly from urban areas into farming, with land that was typically not farmed or was on the periphery of state and collective farms. The limits of the processes which brought the current level of private farming have probably been largely reached. Future growth in private farming will occur largely through the division of the state and collective farms. The private farms in general operate at a lower level of resource productivity (except for labor productivity) than the average state or collective farm. So far, the greatest attraction of private farming is the long term capital gains from land ownership, a prospect which was particularly attractive when land and machinery were obtained at extraordinarily low prices.

Not counted in private farming is the 30 percent of the value of agricultural production produced on tiny private plots of state and collective farm workers. A high proportion of this output is of vegetables and livestock products. While a high proportion of total output it is not a high proportion of marketings, a high proportion is produced for home use. In any case, the private plots depend very much on the state and collective farms

for inputs, including livestock feed, often at no or nominal cost. The usual characterization of Russian farming by Western analysts has been two-thirds in a sector far too large to be efficient and the other third in a sector far too small to be efficient.

In Russia, half the cropped area lies in the gray-brown podzolic soils and associated climatic region which is suitable to a mixed farming regime dominated by dairy farming with the cropped area in fodder crops, pasture, small grains, potatoes and some specific types of vegetables. Such a type of farming region lends itself least well to large scale operation, and hence it is this region in which the most radical changes in organizational and institutional structure will be called for. From a United States point of view, it is notable that growth in this large region increases demand for U.S. agricultural exports (soybean meal and corn) while the other large region, of chernozem soils, competes directly with US production (wheat) as well as the European exports.

E6. Choice of Projects

Four projects have been defined. One is relatively small, designed to build the policy analysis capability for ensuring public policies that foster a competitive, efficient private sector in agriculture and rural non-agricultural sector. The second, potentially quite large, is to build a public goods capacity for training people to provide management and financial advisory services to the agricultural and rural non-agricultural sector of small- and medium-scale businesses. The latter will be particularly useful as rural financial markets develop and to assist in the analysis essential to decollectivization. The third is a technical assistance to directly forward decollectivization, but with a much larger knowledge of technical agriculture. The fourth project is to strengthen the capacity of local government, at the Ryun, and possibly lower levels, to raise and manage resources for provision of public goods, including the separately needed improvement in rural roads and other physical infrastructure, schools at various levels and other aspects of the social infrastructure.

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Table I-1. Relative Size of Agriculture and Other Sectors of the Economy, Recent Years

Sector	Relative Size of Agriculture, 1989		
	Percent GDP	Percent Employment	GDP per Worker, Percent of Average
Agriculture	15	15*	100
Industry	48	40	118
Services	37	45	84
Total	100	100	100

*Percent of Total Population on State and Collective Farms

26 percent

Relative Size of Government, 1991

Percent of GDP

Total Revenue

28

Total Expenditure

60

Deficit

32

Number of State-Owned Industrial Enterprises, 1987

29,000

Number of State and Collective Farms, 1987

27,000

Source: Compiled from World Bank (1992), "Russian Economic Reform - Crossing the Threshold of Structural Change." A World Bank Country Study, Washington, D.C.

Table I-2. Percentage Change in Output, by Sector, 1990-92

Sector	Percentage from Previous Year		
	1990	1991	1992
Agriculture	-8	-12	-9
Industry	-4	-10	-18
Net Material Product	-5	-11	-20

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-3. Characteristics of Russian Collective and Private Farms, 1992-1993

Farm Size, end of 1992

<u>Type of farm</u>	<u>Average hectares</u>	<u>Percent output/livestock</u>
<u>Collectives</u>		40
Total crop and pasture	8,000	
Household plots	0.25	75
Land per farm worker	26	
Land share/person receiving share	11-12	
<u>Private Farms</u>		20
Single Family	50	
Multi Family	100	

Form of Registration, early 1993

<u>Type of Collective</u>	<u>Percent of Farms</u>
Collective	27
State	22
Limited Liability Partnership	31
Other Collective	20
Total	<u>100</u>

<u>Type of Operation</u>	<u>Percent of Land</u>
Collectives	90
Private	10
Family farm	(3.9)
Household plots	<u>(6.1)</u>
Total	100

Table I-3. (Cont.)

Characteristics of Private Farmers

Total number, end 1992	184,000
Number per collective, end 1992	7
Number per collective, end 1991	2
Origin from collective farm, end 1992	2/3
Origin from urban area, end 1992	1/5
Origin from urban area, end 1990	2/3
Origin of land directly from collectives	30 percent
No hired labor, end 1992	90 percent
Percent of Income from farming, end 1992	80-90 percent
Percent spouse in off farm job, end 1992	Negligible
Cooperate with other farmers	30-40 percent

Characteristics and Attitudes on "Collective" Farms

Percent of total cost to social services	10 percent
"Collective" meeting held to consider new changes in land	90 percent
Percent managers expect reorganization to have <u>little</u> effect on organization and performance of the farm	58 percent
Percent of farm workers (of all types) expressing interest in private farming	6 percent
Percent interest in expanding subsidiary enterprise	6 percent

Source: Compiled from Brooks, Karen and Zvi Lerman (1993), "Land Reform and Farm Restructuring in Russia: 1992 Status." Supported by grants from The National Council for Soviet and East European Research and University of Minnesota and the World Bank.

Table I-4. Relative Wages by Sectors, 1990 and 1992/Feb.

Sector	1990	1992/Feb.
Industry	1.05	1.28
Agriculture	1.04	0.52
State Administration	1.23	1.17

Source: Compiled from World Bank (1992), "Russian Economic Reform - Crossing the Threshold of Structural Change." A World Bank Country Study, Washington, D.C.

Table I-5. State Procurement as Percentage of Total Production, by Commodity, 1981-85 and 1992

Commodity	1981-85	1992
Grain	38	24
Potatoes	23	8
Meat	67	55
Milk	37	55

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-6. Productivity Comparisons, Russian Agriculture, Recent Years

A. <u>Million Tons of Pork per Million Pigs, 1991</u>	
United States	0.16
Russia	0.08
Decline in Per Capita Meat and Dairy Consumption, 1991 to 1992	15 percent
Rise in Per Capita Bread and Potatoes Consumption, 1991 to 1992	5 percent

Source: United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

B. <u>Milk Production Per Cow</u>	
	<u>kg/cow</u>
Average, Brorovsk District	3,442
Average for State Breeding Farm, Brorovsk District	5,400
Average, mothers of bulls, State Breeding Farm, Brorovsk District	11,000
Average, Large dairy farms, Los Angeles County, U.S.	11,000

Source: John Mellor Associates, Inc., and International Commission on Peace and Food (1992), "Rural Development at the District Level in the Russian Federation: Context, Policy, and Projects." Supported by a grant from the Ford Foundation. March

C. <u>Kilogram Feed per Kilogram of Livestock Product</u>	
Pigs, FSU	8.0
Germany	4.2
Poultry, FSU	4.2
Germany	2.5
Milk, FSU	1.4
Germany	0.8

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-7. Application Rate of Nitrogen Fertilizer

Year	Kg/ha
1986	43
1991	32
1992	17

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series. May.

Table I-8. Consumption Per Capita, Specific Agricultural Commodities, 1988-90

Commodity	Kg	Percent Imported	Percent change to 1992
Grain	117	20	+5
Meat & Products	72	10	-15
Milk & Products	389	4	-6

Source: Compiled from United States Department of Agriculture, Economic Research Service (1993), "Former USSR," International Agriculture and Trade Reports. Situation and Outlook Series, May; and Personal Assessment.

Table I-9. Data on a "First Round" Agro-Service Enterprise, Nizny Novgorad, 1993

76	Shareholders in firm
Plus 20	Sold shares to firm
30	Employees (all shareholders)
46	Pensioners (all shareholders)
76	
13	Pensioners (of 46) hold a 53 percent controlling interest (unlike land, which is distributed equally; property is according to position and years employed)
0.5	Percent of shares held by manager who is young and had little service. He expects to buy 10% interest from own funds in 1994 and at least a controlling interest later (hopefully with a subsidized loan from the Oblast government!)

Enterprises Include: 2 grain warehouse of 750 tons each; dairy (Butter); materials warehouse; 3 self unloading trucks; 2 regular trucks; 3 milk tankers; 1 gasoline tanker; 1 jeep; 2 non working tractors; fuel tanks and pumps; grain cleaner and dryer complex; 100 cows (to be converted to working capital); considerable grain, fuel and other stock; no cash.

- Manager hires, fires, sets pay scales subject to Board overruling
- Board sets manager's salary
- Unlike farm production, no excess labor, expects to increase employment
- Will expand dairy -- more butter, add ice cream and cheese; move to retailing
- Cash is a huge problem; if had cash can buy anything, including imported dairy processing equipment
- Specifically expressed need for management and financial analysis short courses.

Source: Personal interviews.

SECTION II

SECTION II SPECIFIC PROJECT INTERVENTIONS

A. OBJECTIVE AND PROJECTS IN BRIEF

The objectives of the project interventions are three.

- (1) Eliminate the key bottlenecks inhibiting the development of a massive, small to medium scale rural private sector providing critical services to agriculture and building from that to a much larger system serving the economy at large. It is this sector which will provide the bulk of the incremental employment needed for the one-quarter of the Russian population now falling in the State and Collective farm system. The intervention builds on the initial absence of this sector (typical of all centrally planned economies and in particularly sharp contrast to the United States, Japan, and Taiwan) and the ease with which existing structures can be converted to this purpose. Whether or not this employment source develops rapidly will be a key determinant of the complexion of the large rural political block.
- (2) Make a large addition to net national income by increasing factor productivity in farm production. Agriculture includes the Russian economies single largest block of low productivity resources and continues to be vital to the overall efficiency and productivity of the economy. This has of course been recognized by every post Stalinist head of government, but without implementing the basic reform necessary to success. Increased factor productivity will occur for both labor and non-labor resources. Thus, the farm production sector will reduce its employment by one-third to two-thirds in a relatively few years. (An American level of labor productivity would reduce the farm labor force by over 80 percent.) Because much of the social infrastructure for this labor force is in place in rural areas and the missing elements can be provided more cheaply than in the largest cities, providing jobs in the rural non-farm production sector is the most effective option. Thus, the incipient efficiency of the rural, small and medium scale non-farm production sector in meeting economic objectives is reinforced by current circumstances in Russia.
- (3) Solve the immense rural social infrastructure problem while building strong local democratic institutions. Democracy has little meaning if it does not come down to the local level which directly touches the mass of the population. The social infrastructure problems, particularly including provision of all-weather rural roads, other public utilities, and education probably cannot be solved without development of local revenue raising and expenditure capacities in a democratic

environment. The large bloc of rural votes cannot be mobilized for positive reforms without treating these problems.

Thus the interventions will make a massive contribution to establishing a market economy, to democratization of the countryside, to sustainable, efficient use of a major set of natural resources, and to efficient, equitable systems for delivering essential social services.

The four interventions presented are carefully chosen to fill specific bottlenecks in a Russian system that already has the bulk of the capacity to achieve the objectives. All the interventions use existing Russian institutional capacity, there is no need to develop new institutions or even to make radical change in existing ones, except for the direct actions of decollectivizing the existing state and collective farms. Each of the interventions has a synergistic relation to each of the others. Thus they should be pursued in close relation to each other. Their management should not be scattered about among various donor agencies, even though disparate elements from other interventions can be readily and usefully coordinated with them.

The four interventions strengthen the operation of private markets and increase the efficiency of providing those public goods which are essential complements to small and medium scale private activities. The first provides public support to increase the efficiency and competitiveness of private markets and institutions through improved public policy. The second provides public support for training to increase the management efficiency of private small and medium scale firms in rural farm and non-farm enterprises. The third assists in the evolution of State and Collective farms from their initial large scale, to similar smaller scale operations and finally to the optimal size enterprises for specific agro-ecological and management circumstances. The fourth assists in building efficient local governmental bodies, in part fulfilling functions previously filled by the State and Collective farms, to support the vital public services essential to a rapidly growing small and medium scale private sector. The interventions focus on the radical transformation of the state and collective farm system, which encompasses some one-quarter of the Russian population. Along the way they will contribute to solution of the food security problem. However, they are in no way agricultural interventions in the traditional sense. They go far beyond that with much broader objectives.

B. STRENGTHENING RUSSIAN CAPACITY FOR AGRICULTURAL POLICY REFORM

B1. The Bottlenecks

There is a myriad of constantly changing policy problems that inhibit the development of a competitive, efficient private sector. The small and medium scale sector, so vital to

employment and to the competitiveness and prosperity of agriculture is particularly vulnerable to such policies. That is doubly so in an economy used to command and monopoly. Some current examples are as follows: lack of appropriate lease agreements for pooling land, given the small size of initial holdings and their dispersion among many persons who do not intend to farm; barriers to free movement of trade across administrative units, barriers that go far beyond the simple promulgation of laws that restrict or remove restrictions on movement; import policies which enforce scarcity of high protein meal in livestock feed, providing the single most important source of low productivity in the livestock sub-sector; restrictions that reinforce monopoly power of large scale agricultural distributors and processors to the detriment of more efficient small scale units; high costs of transport which reinforce local monopolies and price fixing; lack of uniform grades and standards, making price reporting inaccurate and reducing competition; lack of access to markets at various levels of the system; shortage of key inputs and credit to the more competitive parts of the agri-business system, e.g. the small and medium scale units; allocation of large scale public subsidies and other resource transfers to the rural sector (which is bound to continue in the new parliament) in a manner which reduces competition and efficiency and resource productivity. Overriding many of the foregoing are price relationships which for a wide variety of reasons are quite different to those that competitive markets would provide and which therefore distort production patterns and reduce income.

Such policy problems constantly arise, often in new guises and require a continuing capacity to diagnose, analyze, recommend and implement change. That is not to say that such a capacity will eliminate bad policy, but only that there will be less than otherwise and hopefully sufficiently less to allow the system to increase its productivity and employment. This is a vital bottleneck for which US foreign assistance has a clear comparative advantage.

B2. Specific Interventions

The proposed agricultural policy intervention has three component parts. First, a joint Russian/American Committee (Commission) on Agricultural policy, to bring the highest level skills to bear on prioritizing and implementing policy change. Second, an American technical Assistance to four Russian Institutions to increase their capacity to diagnose and analyze policy issues. Third, an American technical assistance to advise on implementation. The technical assistance would use one long term American in Russia (very small component), short term Americans making a sequence of short visits; specific mission oriented visits of Russians to the United States; and support for Russian initiatives in policy analysis.

The objective of the Russian/American Agricultural Policy Committee is to bring about improved policy. The mechanism is to bring together the best minds on agricultural policy in Russia and the United States, with contrasting but complementary knowledge,

to assess existing information as to priority objectives, policy bottlenecks, and means of breaking those bottlenecks. Russians obviously have a deep understanding and historical perspective on their policy objectives, problems, and the means of dealing with them. Americans bring a deeper experience and broader perspective on how the market system works, particularly with respect to small and medium scale farms and firms, the inhibitions to competition and efficiency erected by policy, and a wide range of means for dealing with them. The objective is to tap the best minds available for intensive interaction. The Committee would meet twice a year for the better part of a week, the meeting based on careful, intense preparation. Three Russians and three Americans would be the minimum size of the Committee and probably a larger size would not be substantially more effective. With such a small Committee choice of members would require great care to obtain the necessary diversity of experience. One of the two annual meetings would be held in Russia and one in the United States. In each case the Committee members would have an intensive program of meetings to learn about specific issues when visiting the other nation. In this manner the Americans would expand their capacity to understand the perspective of the Russian members and similarly for the Russian members.

The objective of the technical assistance to specific Russian institutions is to increase their capacity to define relevant policy issues, collect relevant data and analyze the data so as to shed light on the policy issue. It would be efficient to station one American, fluent in Russian, in Russia to coordinate activities, provide staff services to the Committee and for other purposes. However, the bulk of the technical assistance would be comprised of short term assignments, normally with a small group making repeated visits. The appropriate size would be two Americans to each of three Russian institutions, visiting twice per year spending one month per visit in Russia. An equal number of Russians would spend a comparable length of time in the US pursuing intensive analysis of the approaches taken to specific problems. At least one training institutions would be included from the Russian side to increase the multiplier effect of the intervention.

The objective of the policy intervention element is to bring American technical assistance to practical policy intervention. One American each year visiting each of the institutions over a period of one month and working closely with the Committee would be adequate for this function. Again a Russian from each of the institutions would spend one month in the US analyzing the approaches used. In addition, the Russian Institutions would receive grants to allow expansion of mutually agreed upon policy research projects to support the practical policy advise.

Slicing the other way, the intervention is comprised of one long term American stationed in Russia, 3 Americans spending two months per year each, one month in Russia and one month in the US for the Committee, 6 Americans making two trips to Russia per year for a month each for the policy analysis component, one American making two trips per year of a month each for the policy intervention component, and 12 Russians visiting the

US each year for a month each. For each position the same person should continue for the life of the effort.

B3. Russian Institutions

Choice of specific institutions for the agricultural policy interventions is complex and requires further attention. The following shows that there are viable institutions for these purposes. The ones stated would be fully competent to carry out the tasks.

The Agrarian Institute would be the home of the Agricultural Policy Committee. In addition it would receive the technical assistance to further strengthen its capacity in diagnosis, analysis and recommendations for agricultural policy. It is a national level institution with a substantial proportion of the most thoughtful Russians thinking about agricultural policy. It has been actively engaged in the reform process, particularly on the State and Collective farms. Its President is widely respected as a person and as a professional who has consistently maintained professional integrity. The criteria for selection are competence and experience of the staff, identification with the reform movement, leadership with a high degree of personal and professional integrity, and national level reputation.

The Moscow Timiryazev Agricultural Academy would receive technical assistance as above. It is chosen so that a premier, national level teaching institution would be fully involved in the process so that it could be multiplied on a larger scale. The criteria are national level importance, proven capacity to teach at the highest level, sufficient orientation towards reform as to be responsive to the initiative, and sufficiently high intellectual level to respond to the high level of the intervention.

The third institution would be one of the Agricultural Institutes at the Oblast level. An Agricultural Institute is chosen despite their weakness on the agricultural policy analysis side because in the final analysis agricultural policy must be welded to in depth knowledge of the technical constraints in agriculture. The existing structure within these institutes will be frail at best for this effort, but linking them to the two national level institutions and to the foreign assistance will be helpful. The criteria for choice of oblast should be one with a strong Agricultural Institute and a reform oriented administration. It would be logical to choose an Oblast in which decollectivization is proceeding effectively.

B4. The Technical Assistance/Training to be Provided

The Agrarian Institute would expand its contacts with the other institutions in the intervention and expand its capacity for policy analysis. The technical assistance would

bring close interaction in specific research projects in Russia and observation of similar research in the US.

The Timiryazev Academy would expand its curriculum to provide training to persons who would in turn practice and teach in the agricultural policy area. The support would be through interaction with the total process of the intervention, specific assistance with teaching materials from the US technical Assistance, and observation of how such materials are developed and used in the US.

The Oblast Agricultural Institute would expand its research on policy related projects, particularly including those with a strong need for technical input. It would benefit from the interaction with the Agrarian Institute. The TA would be similar to that with the Agrarian Institute but at a more applied and technically oriented level.

B5. US Organizations to Provide the TA

It is critical to the success of this interventions that the pluralism of the US approach be conveyed as an integral part of the project. Thus, a single part of the US system should not be in charge. At the same time the highest level of reputation and competence in the agricultural policy sphere is needed to develop and guide the intervention. This must be a quality project if it is to succeed. Within the chosen lead institutions, a wide range of US institutions should be involved, with due attention to reflecting pluralism and diversity. These institutions would include the USDA, the Land Grant Universities, Private Universities, and National and International Institutes. Conveying the pluralism of our approach would be an important part of the exercise, something which is commonly lost because of the administrative structure of interventions.

B6. Project Implementation

At least for this intervention on Agricultural Policy, it is essential that one lead agency be in charge of the total effort. One highly respected agricultural policy analyst, with the highest reputation in the US and in Russia should be in charge. That person must have the usual set of administrative resources behind him/her to provide the complex services required by the intervention. The joint Russian/American Agricultural Policy Committee would be a key source of advice and should be built into the project as a supervising board.

B7. Use of Funds

The project would not be appropriate for loan funds; it would be appropriate for grant funds. The funds would be used to provide the US persons providing technical

assistance, the Russians traveling to the US, and should include some research support to the Russian counterparts, given the extreme paucity of such fund in Russia and the currently chaotic budget cuts.

B8. Use of Existing Agricultural Activities

This intervention grows from the experience of existing US projects, including the specific knowledge of the policy problems now inhibiting success of those projects. The agribusiness joint ventures and the storage activities would continue to be an important source of information about constraints. The existing USDA effort could be incorporated into the larger effort and would represent a valuable resource for the effort.

B9. Coordination With Other Donor Activities

The intervention is essential to the success of all the efforts to privatize and increase enterprise efficiency because policy at all levels is a strong inhibition to these efforts. The project requires success in the basic privatization process, so those activities are complementary. The privatization and privatization roll out of State and Collective farms is required for the success of this intervention and in turn this intervention is essential to the success of the roll out. All meetings with current USAID and other donor contractors emphasized the need for policy reform at many levels to the success of their efforts. Conversely their was constant complaint about specific policy reform gaps that were inhibiting their efforts.

B10. Alternative Scopes

The intervention has been designed at minimal scope for success. The three Russian institutions are minimum. Other institutions could be added at the Oblast level if the project is to be larger. The numbers of American technical assistance persons could be reduced modestly, similarly for the Russian visits to the US, without compromising the project. It could be expanded symmetrically. However the minimal size delineated would represent the most efficient use of resources. The intervention should have a minimum duration of three years and four to five would be more efficient.

B11. Quick Start Elements

The Russian/ American Committee is the quick start element. It could begin immediately pooling knowledge and recommending policy changes and moving towards their implementation. The organizations currently under contract in Russia would not be appropriate to take on this intervention for reasons detailed above. But the experienced Americans to manage and implement the intervention are available and it could start

immediately. The Committee element could be followed at a later date by the other activities. However, the other activities feeding information into the Committee are vital to its effective operation.

C. STRENGTHENING RUSSIAN CAPACITY TO IMPROVE MANAGEMENT IN AGRIBUSINESS AND FARMS

C1. The Bottleneck

Russian capability in technical fields is substantial and the capacity to roll that out to service small and medium scale rural enterprises can develop relatively quickly, possibly without outside assistance. However, there is a striking gap in applied agribusiness and farm management skills. These include ability to develop and analyze accounts for business control and decision making, simple organizational principles, practical rules of thumb in marketing and development of farm budgets for lending and management. Every person we conferred with showed enthusiasm for technical assistance to develop these capacities. Given the necessity of building the rural small and medium scale enterprise system if production is to occur efficiently and employment problems are to be solved, massive numbers of people have to be trained. Initially 500,00 farmers need such help. That will grow to two and then to three million. Initially 250,000 small business need that help, growing to a half million or more.

Thus, there is an immense bottleneck in the capacity to train trainers for such work. Until that capacity expands, farms will continue to include substantial inefficiency, credit systems will not be able to expand rapidly, and small firms will not be able to compete with large firms in a manner that provides maximum economy wide efficiency. This is the next to largest bottleneck, after agricultural policy, slowing privatization and the transition to higher efficiency and employment. There are a number of small fragmented efforts to solve this problem. This project would have the critical mass to have an aggregate impact. Smaller efforts could be related to the larger effort. No better proof of the need for this project can be generated than the extraordinarily low level of efficiency of Russian farming, particularly including the new private farmers (demonstrating that incentives alone are not enough), and the inexperience of a high proportion of those now moving in to run rural non-farm enterprises.

C2. Specific Interventions

The basic intervention is to train the trainers for practical agricultural business and financial management in a wide range of enterprise types. Much of what is to be taught is the same whether it is for farm managers, agricultural credit specialists, or marketing concerns. Thus it is best to train the trainers for a wide range of activities with a common approach where appropriate and splicing on to that specific training as necessary. The key is to bring the US experience with highly practical approaches that

are particularly needed by practical business operatives. The components would involve a long term American as a coordinator, a joint Russian/American advisory Board, short term Americans coming to Russia to help prepare materials and to do hands on instruction to be sure the materials were effective, and visits by Russians to American institutions successfully applying the methods being transferred.

C3. Russian Institutions

Three institutions would be chosen, two national level and one at the Oblast level. The national level institutions would be chosen to give diversity of approach, and a large multiplier to the Oblasts; the Oblast level institution would be chosen to demonstrate the practicality of the approach for reaching down to the individual firm and farm level. The Oblast pilot could be rolled out to other Oblasts.

At the national level the Moscow Timiryazev Agricultural Academy, as a premier training institution, is a logical choice. The other national level institution would be the Academy of National Economy and its department of agri-business. Both these institutions have a key role to play in training the trainers, both greatly need strengthening in the area of the intervention. At the Oblast level, a progressive Oblast, with a reasonably progressive Agricultural Academy, should be chosen. At the national level the selection criteria are prestige for training that reaches into the Oblast level institutions.

C4. Technical Assistance and Training to be Provided

The two national level institutions would provide training of persons who would train the persons offering training at the Oblast level to the agri-business and farm level managers. The Oblast level institution would directly train the operatives, primarily through short courses. They would also build such training into their standard curricula for training their full student body.

The technical assistance would include one long term staff member, fluent in Russian, to be stationed in Russia to provide coordination, continuity and administrative support; and, short term personnel to provide teaching materials and hands on experience. The same long term person could handle each of the interventions delineated. The US personnel would participate in short courses offered to practical operatives to ensure hands on experience and a practical outcome. Three, short term US personnel would be used per Russian institution, making two visits per year, and providing continuity of personnel in these positions. Similarly 9 Russian participants per year would receive an intensive experience at American institutions. The US experience would emphasize practical observation at the University and outreach levels and involve interaction with American farmers and small business managers as they participated in various training

programs. Exposure would be given to Trade Association efforts as well as public activities.

C5. US Organizations to Provide the Technical Assistance

The technical assistance would best be provided by an American Land Grant Institution or consortium of such institutions. However the staff should be drawn from more than one institution. The effort could also be managed by a consortium of consulting firms.

C6. Project Implementation

The project manager should be experienced in farm management and agri-business training in the US, including training for farm credit institutions. There should be only one lead agency --that is it should not be divided among different agencies to work with each of the three Russian institutions. There should be a task manager for the project, preferably the person stationed in Russia and a Russian/American advisory panel. That could be the same as for the Policy initiative.

C7. Uses of Grant Funds

The intervention does not lend itself to use of loan funds. Grant funds would be used to cover key personnel, travel of Russians and for preparation of materials.

C8. Use of Existing Agricultural Activities

The farmer to farmer program as well as others are now being used to bring people to do similar tasks. Conceivably one of those activities could be expanded to encompass this activity. However it is vital that the highest level US operatives be chosen as participants and the sponsoring structure chosen accordingly. Russians seem, more than in other aid receiving countries, to notice more quickly and to be more offended by low quality technical assistance.

C9. Coordination with other Donor Activities

Because this is so obviously an important area for technical assistance, several small efforts are underway. The need is for an integrated coordinated approach with critical minimum level of effort for achieving an aggregate impact in a few years time. Other efforts can be coordinated by the joint Committee and the project director.

C10. Alternative Scopes

The program has been laid out with a minimum participation of Russian institutions. A smaller scope would lose the element of pluralism in the effort. It should have a minimum life of three years and four or five would be better.

C11. Quick Start Elements

Since the objective is to influence the quality of management of small and medium scale Russian enterprises, it cannot have a quick impact. With appropriate attention to multipliers the effects could be visible in three years time.

D. ROLL OUT OF DECOLLECTIVIZATION OF STATE AND COLLECTIVE FARMS

D1. The Bottlenecks

The various decrees, particularly that of October 27, 1993, plus the experience of the USAID technical assistance to the Nizny Novgorod pilot scheme have provided the legal framework and the operating rules for rapid downsizing of state and collective farms. Two interrelated barriers will slow the process.

First, very few members of the state and collective farms are willing to take the risks involved in setting up optimal size units. In practice farms are breaking up into less than half dozen farm units and a similar number of non-farm production units. Thus practically all of the farm production operation is going into two to four units that might best be described as mini collective farms. The incentive systems will be better than in the past, but the management units with respect to labor force size will be uneconomically large. Similarly, the non farm production enterprises remain horizontally integrated to a greater extent than the economies of integration would merit.

Second, the management skills of the managers of the new units are generally very deficient. That will cause low profitability of the enterprises and further discourage risk taking entrepreneurship. Those problems are of course compounded by the effect on profitability of uncompetitive markets, poor physical infrastructure and widespread monopoly powers.

D2. Specific Interventions

All the interventions proposed deal with this serious inhibitor of the impact of decollectivization. The policy intervention will foster competitive markets, the training intervention is to improve management skills, the local government intervention is to improve the quality of locally provided public services essential to competitive production systems.

A specific intervention is proposed to directly accelerate the decollectivization process. It would provide a joint team of Russian and Americans to work with specific collective and state farms ready to evolve rapidly towards a large number of units operating at the most efficient scale. Technical, management and financial advice would be provided to assist individual entrepreneurs or prospective entrepreneurs analyze their alternatives and implement the most efficient. The intervention would provide a source of information for the policy intervention and a trial for the management training intervention. The intent would be to provide a pilot effort that could be rolled out on a large scale, further facilitated by the fruits of the training program.

D3. Russian Institutions

Nizny Novgorod, and presumably other Oblasts as well, have a structure to accommodate the program delineated. The model would be the Nizny Novgorod effort. The difference would be that it would go far beyond the legal, land titling, land transfer operation of the present program and bring in a substantial farm management advisory content intended to emphasize development of optimal size units, or at least starting the process and the understanding for moving in that direction. It would see the process as a dynamic one, evolving gradually from the old structures to a more optimal new structure.

The intervention, as a pilot, could be relatively small, perhaps with no more than a half dozen, or even fewer, Americans working with a similar number of Russians. The function of the Americans would be to bring an in depth knowledge of optimal size farm operations under various operating conditions, to combine with specific Russian knowledge. As a pilot the operation would work in one Oblast, providing intensive coverage of a small number of Ryuns.

D4. Technical Assistance and Training to be Provided

The technical assistance would be in the form of a small number of experienced Americans experienced in analysis of optimal size and organization of farms. They would work with Russian counterparts. The purpose would be to demonstrate a pilot. The training function would be fed into the management training intervention discussed above. That would provide the Russian staffing for the roll out.

D5. US Organization to Provide the Technical Assistance

The technical assistance could be provided by several of the present operatives for USAID in Russia. Farmer to farmer is one example. But, again quality of personnel is essential.

D6. Project Implementation

A high level management cum advisory structure would be needed. If Farmer to Farmer were to provide the operatives, then the policy intervention could provide the joint Russian/American advisor input and the manager of that project the over-all guidance to the staff. Alternatively the intervention could be part of an integrated effort for all the interventions recommended. As a further alternative it could be a part of the policy intervention.

D7. Uses of Funds

Loan funds would not be appropriate; grant funds would work.

D8. Use of Existing Agricultural Activities

As indicated above the Farmer to Farmer program could provide the staff for this project.

D9. Coordination with Other Donors Activities

Presumably the effort would need to be coordinated with the IFC, although the pilot could be run purely as a joint effort with a Russian Oblast administration.

D10. Alternative Scopes

The minimum scale of operation would be one American adviser working for a year in one Ryun. It would be more efficient to field several Americans working together and covering more than one Ryun. Enough measurable progress has to be made to provide a measurable basis for a roll out.

D11. Quick Start Elements

The intervention is a quick start intervention that would build on the past IFC effort, to move quickly in a significantly different direction. The staffing could be handled by an existing organization. Effective operation would depend on starting the policy initiative concurrently. But that too could be started immediately.

E. TECHNICAL ASSISTANCE TO IMPROVE DEMOCRATIZATION AND PROVISION OF SOCIAL SERVICES AT THE LOCAL GOVERNMENT LEVEL

(Note that on some aspects of this topic the Mission lacked technical expertise. Because of the importance of the bottlenecks described the Mission has filled in as much detail as it could, but more effort will be needed.)

E1. Bottlenecks

With the division of the State and Collective farms, the major source of rural social services is being lost. Local government bodies, at the Ryun, or lower level must be expanded, democratized, provided with taxation powers and increased administrative capacity. The objective is not to simply replace the old capacities but to greatly enhance them.

The current state of rural physical infrastructure is completely inadequate to a prospering, competitive rural farm and non-farm sector. In particular, massive investment is needed in rural roads -- presumably far beyond what can be paid for from national government resources. Other elements of rural infrastructure are in poor shape, or non-existent. In addition, a severe problem of support of pensioners is likely to arise. That will be particularly so if there are no "dividends" paid on the land shares or if they sell their shares. The composition of the political system will ensure that these problems are addressed, but probably not efficiently. The initiatives delineated increase the probability of providing efficient alternatives for meeting the political objectives. Failure to solve these problems promises gross inefficiency as well as rural discontent.

E2. Specific Interventions

The intervention will provide technical assistance to local government bodies on a pilot basis, for eventual roll out on a large scale. The functions include local taxation (with a relation to the agricultural policy intervention which will carry the needs for higher level policy action complementary to the local government effort), planning for physical infrastructure, priority setting, and development of appropriate democratic institutions and their molding in productive directions.

E3. Russian Institutions

The appropriate Russian institutions would be a progressive Oblast and then choice of a small number of progressive Ryuns within the Oblast for an intensive pilot effort.

E4. Technical Assistance and Training to be Provided

The technical assistance would require a small number (e.g. four) Americans on a long term basis to work intensively with a small number of Ryuns to develop and improve the relevant structures.

E5. US Organizations to Provide the Technical Assistance

E6. Project Implementation

E7. Uses of Funds

E8. Use of Existing Agricultural Activities

E9. Coordination with other Donors Activities

E10. Alternative Scopes

E11. Quick Start Elements

The project is intended as a quick start activity with a fast roll out.

ANNEX G

STATEMENT OF WORK

STATEMENT OF WORK

Agriculture Privatization Support Initiative

Objective: USAID/Moscow requests that Chemonics provide five consultants for a four-week design activity in Moscow beginning in mid-November as part of its on-going indefinite quantity contracts (IQCs) under the Omnibus Project of the Private Sector Initiatives Office of the NIS Task Force. The consultants will advise USAID/Moscow and participate in the design of the Agriculture Privatization Support Initiative.

Consultants will review constraints in Agricultural Policy, Creation of Market-Based Agricultural Financial Institutions, Improving Farm Management relating to services available on-farm), Agribusiness Enterprise Development, and Social Infrastructure and Rural Small Business Development. The contractor will select five consultants with expertise in these areas to serve on the design team along with appropriate staff from USAID/Moscow and AID/Washington. They will recommend specific activities that will have the maximum impact in promoting Russian agricultural privatization and economic reform.

The following consultants are required:

- (1) Senior Agriculture Economist to advise on the agricultural policy framework and recommend how USAID can best support the former state farms and agribusiness enterprises as they privatize;
- (2) Senior Agriculture Economist to analyze agricultural sector financial problems and recommend how USAID can support the development of market-based agricultural credit institutions;
- (3) Farm Management Expert to recommend technical assistance and training activities to help the newly privatized farms become well managed, business oriented, economically viable entities;
- (4) Agribusiness Development Expert to recommend technical assistance and training activities to help transform the former state agribusiness enterprises into efficient, market-based businesses and develop new agri-based activities to improve input supply, storage, processing, and distribution.
- (5) Social Infrastructure Expert to advise on development of new institutions and mechanisms to provide the rural social services and economic infrastructure formerly provided through the state and collective enterprises.

The scopes of work for the design team as a whole and each consultant are described below.

Background and Discussion:



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As the keystone of A.I.D.'s support to the Russian agricultural sector, USAID/Moscow is proposing a major new Agricultural Privatization Support Initiative under the Food Systems Restructuring Project (FSRP). Targeted at both the already private farms and agribusinesses and those in the process of privatizing, this new activity will address and help eliminate the major constraints these entities face in becoming market-based, economically viable, truly private enterprises. Concentrating in several regions of Russia, it will provide technical assistance and training, help build financial and other institutions, and support policy formulation at the local and federal government levels.

The Agricultural Privatization Support Initiative will flow from and be closely coordinated with our current FSRP, Farmer-to-Farmer Program and land privatization activities. The concept for the new activity is based on the lessons the Mission has learned during a year of experience managing these projects, as well as discussions with and valuable inputs from the contractors implementing these and other agricultural activities in Russia.

This initiative is part of A.I.D.'s strategic response to the crucial necessity to assist the Russian economy's transformation into a privately owned, free market system. Because of the importance of the agriculture sector in Russia, economic reform cannot occur without a radical restructuring of this sector. Agriculture constitutes an inordinate share of the Russian national economy when compared with most western countries. For one out of every four Russians agriculture is the principal source of income, and many more maintain their own gardens. The sector has been dominated by some 26,000 state and collective farms, many with more than 10,000 hectares, and by state enterprises monopolizing input supply, storage, processing and marketing. Agriculture represents 20 percent of GDP, but never efficient, it has traditionally received subsidies equal to 13 percent of GDP. About 65 percent of all working capital and one-third of production expenses were previously covered with subsidized bank credits to Russian state and collective farms. Many still rely on state support. Budgetary support for agriculture and rural social services remains one of the largest government expenditures and a key factor in the expanding budget deficit and high rate of inflation. As a result of low productivity of agricultural production resources, high post harvest losses, and inadequate and misdirected investment in food distribution systems, production has repeatedly fallen short of demand. In an average year Russia has imported 20-30 percent of its grain requirements -- an average of 30 million tons annually.

The Russian government has taken important steps in agricultural reform. In 1989 the Gorbachev government promoted the establishment of private farms. In 1992, as part of the Yeltsin government's reforms, the state and collective farms and

agricultural input and output distribution enterprises were reorganized as joint stock companies, with the former collective workers becoming stock owners in the new companies. New laws regarding the right to own, buy and sell land have been passed. Agricultural credit subsidies and support prices for grains, bread and baby food recently have been reduced or eliminated.

While progress has been encouraging, much remains to be done. The share of private farms in total arable land and agricultural production, although growing, is still relatively quite small. The majority of the collective and state farms and agricultural enterprises have been "privatized" in name only; the workers still have little power to make decisions because the directors are majority stockholders. With the same old guard in control, there is little incentive to adopt new methods. The joint stock farms continue to have access to heavily subsidized Central Bank credit and to state input, storage and distribution systems, which for the most part remain monopolistic, inefficient entities that are only beginning to privatize. At the same time, the small private farms face a dearth of credit and input and output resources.

Real privatization will mean a radical restructuring of the agricultural sector: a tearing down of the old system, breaking up of the state monopolies and establishment of market-oriented businesses and very different agricultural support institutions. As government subsidies continue to be withdrawn and the agricultural enterprises are forced to compete, many will probably go under. New, more efficient ones must take their place. The ultimate success of agricultural reform will depend on whether the privatized farms and state input and distribution systems restructure themselves into, or are replaced by, profit-motivated enterprises able to produce efficiently and attract the domestic and foreign investment necessary to compete in the Russian and international economy.

The government has just announced a new land decree, which is expected to have a significant impact in breaking up or converting the joint stock enterprises into truly private entities. As the farms and agribusinesses go through this restructuring process and new enterprises are formed, they face many obstacles: lack of experience in setting up and managing a private business; the inability to obtain legal title and to mortgage land in order to obtain credit; limited access to non-targeted credit; inadequate institutional and policy support to aid the development of a private agriculture sector; lack of agriculture extension services; limited access to and insufficient supplies of agricultural inputs, farm machinery and storage facilities; and inadequate distribution and marketing mechanisms.

The Agricultural Privatization Support Initiative will focus on eliminating many of these obstacles. The purpose will be to

assist in creating new enterprises and transforming former state and collective farms and agribusinesses and existing private farms into economically viable entities. It will do this by strengthening their business management capabilities; improving access to market-based credit; stimulating investment opportunities for both Russian and U.S. agribusinesses; helping develop new businesses and financial and other institutions supportive of private agriculture; and helping create the policy, legal and regulatory environments necessary for a private, market-oriented agricultural sector. The goal is the development of a wide range of prosperous, private agricultural enterprises that efficiently produce, store, market and distribute agricultural commodities throughout Russia, leading to increased employment and incomes in the overall economy.

Under the new activity, it is expected that USAID will provide technical assistance and training to farms and agribusinesses in several regions of Russia. It will do this primarily through technical support and grants to local institutions and grants to their U.S. counterparts that will be working to strengthen the new agricultural enterprises. These organizations will work directly with the enterprises (e.g., in such areas as farm and business management training and developing business plans). They will also assist them indirectly by providing advice on policy and legal issues (e.g., land titling and registration) and by strengthening the economic and social infrastructure (e.g., helping establish market-based agricultural credit institutions and assisting local governments and NGOs in delivering the social services formerly provided by the collective farms and state enterprises).

Scopes of Work:

In addition to providing expertise in their special areas, the five consultants will work as team members as follows.

Site Visits. In designing the project the team must consider a number of issues, explore a number of design options and alternative approaches, and choose from a number of implementation alternatives. In order to make these decisions, the design team needs to have access to a full range of experiences and opinions. Therefore members of the team will make trips to several cities in regions preselected by the Mission as potential project sites and will meet with Russian government officials, agricultural enterprise managers and directors of institutions both in Moscow and the regions.

Each consultant will be expected to visit a total of three to four cities to ascertain the region's potential for participation in the project. Each visit is expected to last about four days, during which meetings with the local administration and various agricultural cooperatives and private

farms will be arranged. Pending staff availability, USAID/Moscow may accompany the consultants on parts or all of their visits. Upon arrival in Moscow, the consultants will be briefed by the Mission and given further guidance as to the locations to be visited. The Mission will arrange contacts in sites to be visited in an effort to make tentative schedules for each site.

In addition to collecting information from the regions, the team will review all existing agribusiness and agriculture program activities. The team then will:

- review the problem formulation of the USAID/Moscow concept paper, confirm or reject problems identified, identify others not already listed
- prioritize the major bottlenecks to agricultural sector reform which the project will address. The team will decide whether these are vital, whether they are being addressed by other projects or donors, and whether A.I.D. should address them in this project.
- for each of the project's main components, decide on and prioritize the specific project interventions and their specific objectives (e.g., the nature and scope of the agricultural credit component);
- select and prioritize the specific assistance targets -- the initial districts/regions and agricultural enterprises with which to work, and the Russian institutions which will provide and receive technical assistance and other support;
- outline the technical assistance and/or training to be provided by the participating Russian institutions, and the support to be provided to the institutions through long term or short term technical assistance contractors;
- identify the kinds of U.S. organizations which could provide technical assistance and training to the agricultural enterprises and Russian institutions and identify possible U.S. counterparts for these institutions;
- recommend the type of project implementors and managers and whether overall project activities should be divided among more than one lead agency and select and design a structure for management and implementation of the project contractors;
- decide on the uses of the project grant funds and whether to include a loan fund;
- recommend how existing agricultural activities, including the agribusiness joint ventures and storage activities, might be modified so they fit in with the overall strategy to support

agricultural privatization;

- recommend how best to coordinate with current and planned activities of USAID and other donors, including the land privatization pilot activities, planned privatization roll out, urban and rural land privatization, NGO support, New Business Development, and the Russian American Enterprise Fund;
- plan a project with several alternative scopes. The scope of the project, including components, number of activities and regional sites, and the project life, will depend on the amount of funds available. The team will recommend the ultimate minimum scope required for the project to successfully achieve its goal;
- identify quick start activities which can be undertaken in the immediate short term by organizations already working or prepared to work in Russia. These organizations will be selected as soon as the design is approved and will go to work immediately. We expect these initial project activities to begin in early spring of 1994.

The specific scope of work for the consultants are as follows.

(1) The Senior Agriculture Economist will assess the existing agriculture policy framework and analyze both federal and oblast-level policy constraints to agriculture privatization. The adviser will make recommendations as to the impact of the October 27 Land Privatization decree on family and corporate farms. The adviser will also identify overall impediments to the development of a private agriculture sector and recommend a strategy for how USAID can best assist the Russian government and local area institutions in addressing them.

(2) The Senior Agriculture Economist will analyze the agricultural sector's needs for credit to finance working capital and long term investment as privatization occurs and the impact of the October 27 Land Privatization decree as it relates to agricultural credit. The adviser will recommend the policy, legal and regulatory reforms which are necessary for establishing a private, free market agricultural credit system, including new land titling and mortgage legislation to enable farms to use land for collateral for loans. The adviser will recommend how USAID can best assist in the formulation of new policies affecting agricultural credit. The adviser also will outline the institutional constraints to and requirements for establishing a market-based credit system and will recommend how USAID can best assist in the development of the necessary new financial institutions.

(3) The Farm Management Expert will advise on how to improve the management of newly privatized farms and convert them to viable

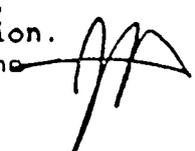
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businesses. This advisor will investigate the need for business management training (marketing, financial management, accounting, information management, etc); outline how such training would be coordinated with existing A.I.D.-funded management training projects (e.g., New Business Development, NGO Support, Farmer-to-Farmer Program); develop a list of major constraints to effective farm management for each site visited; advise on priority interventions to address the need for business management skills (e.g., Russian-language textbooks, tailored two-week courses, a resident farm management advisor, commodity support for existing small farmers associations, etc.).

(4) The Agribusiness Development Expert will assess the specific regional requirements and potential for establishing successful new agriculture-based input, storage and processing activities in rural areas and marketing and distribution systems in the urban areas. Similar to the Farm Management Expert, the advisor will advise on how to improve the management of newly privatized or newly formed agribusinesses and make them profitable businesses, investigate specific needs for business management training and advise on priority interventions.

(5) The Social Infrastructure Expert will identify how new institutions and mechanisms can be developed to replace the social services (schools, hospitals, etc,) and economic infrastructure (e.g., farm services such as equipment repair and various consumer goods and services) formerly provided through the state and collective farms and agricultural enterprises. This person will visit institutions which had been supported by the state enterprises and interview the administrators of those institutions; determine the extent to which these institutions are receiving private financing; determine the relative importance of each institution given limited community resources; determine the feasibility of privatizing those institutions and discuss constraints to such privatization. The advisor will also meet with officials of rural district governments to discuss how they can develop new administrative systems and structures as they assume some of the responsibility for social and economic infrastructure functions. The advisor will recommend how USAID interventions can best assist both the privatized service providers and the local governments.

Reports: The consultants will be expected to give an oral briefing to the Mission, at which time they will present their findings. Prior to their departure, the consultants will leave in final form a written report detailing their recommendations on priority problems to be addressed, specific project interventions and budgets, institutions to be considered for participation, sites to be selected, and project management and implementation. A list of the persons contacted, including addresses and phone numbers, should be included as an attachment to the report.



Time Frame: USAID/Moscow requests that the contractor field the consultants in mid-November. They are expected to remain in-country for a period of up to four work weeks.

Miscellaneous: The consultants will report to the Special Projects Officer, Elisabeth Kvitashvili. The Mission will provide limited office space and copying facilities, but personal computers will probably not be available. Therefore, the contractors are requested to bring their own personal computers. Check-cashing facilities will also not be available and the contractor will be expected to make its own arrangements for an interpreter to travel with each of the two teams (probably through the Moscow-based firm Statistica). In addition, the responsibility for arranging local transport (to and from sites and within sites) will rest with the contractor.



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ANNEX H

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VOCA

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Friday, November 26, 1993

USAID/Moscow

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No date

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Social Science Analyst
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USAID
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November 18-20, 1993

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Casey, Lukas

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"Pravdinskii" State farm

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November 21-23, 1993

PERM

Dmitriev, Gennady Sergeevich
Deputy Head
Perm City Administration
Chairman
Property Management Committee
Tel.: (3422) 32-6721
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Gaidash, Oleg
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Deputy Head
Perm Oblast Administration
Chairman
Property Management Committee
Tel.: 34-9921, 39-4987
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Kuzyaev, Andrei Ravelevich
President
Perm Commodity Exchange
Tel.: (3422) 32-8310, 31-9263
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Telex: 134337 DISK

Malyshev, Nikolai Ivanovich
Deputy Head
Perm City Administration
Tel.: 32-6488
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November 21-23, 1993

Smolensk

Andreev, Sergei Nikolayevich
Former Director
Department of New Economic Relations
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Kozarez, Ivan Ivanovich
General Manager
"Smolensky Farmer" Bank
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Kudryavtsev, Sergei Nikolaevich
Chairman
Committee for International Economic Relations
Smolensk Oblast Administration
Tel.: 5-7626, 5-7330

Lavrov, Gennady Vasilievich
Deputy General Manager
"Smolensky Farmer" Bank
Tel.: 9-1580
Credit Department, "Smolensky Farmer" Bank
Tel.: 9-1582

Morozova, Elena Nikolaevna
Deputy Chairman
Smolensk Oblast Rosselkhozbank
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Myshko, Vladimir Sergeevich
Chairman of the Board (Predsedatel Pravleniya),
Smolensk Oblast Rosselkhozbank
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Tsvetkov, Vladimir Pavlovich
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Smolensk Oblast Farmers Association (AKKOR "Sodeistviye")
Chairman of the Board, "Smolensky Farmer" Bank
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Glinka Raion, Smolensk Oblast

Atrokhov, Andrei Mikhailovich
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Azimov, Saidaali Seidseimovich
Chairman
Farmers Association "Soyuz"
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Goncharov, Valery
Farmer
Wife: Goncharova, Zinaida Nikolaevna
Accountant
Tel.: (65) 4-1158 (wife's office)

Khrisanenkova, Tamara Dmitrievna
Manager
Glinka Savings Bank

Ryabinin, Evgeny Borisovich
Farmer
Former state farm director

Varyanitsa, Elena Anatolievna
Manager
Rosselkhozbank, Glinka Branch

Sunday, November 28, 1993

VOCA Saratov

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Office manager
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Farley, Katherine
Southern Russia Representative of VOCA
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Monday, November 29, 1993

Beregovsky, Victor Ivanovich
Chairman, General Manager
(Predsedatel Pravleniya)
Complexbank

Davoyan, Nikolai Ivanovich
Director
Joint Stock Company "Elite Yugo-Vostok" (Elite South East)
(through Neverova)

Dukharev, Nikolai Alexandrovich
Project Development Specialist
Southern Russia VOCA
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Galanin, Alexander Grigorievich
Chairman
Association of peasant farms "Koltsovskoye"
(Predsedatel objedineniya krestyanskikh khoziaistv)
Kolokoltsovka
Kalinin raion
Saratov Oblast
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Farmers Cooperative "Golden Grain"
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Saratov Center for Business Development
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Commercial Center "Saratovskiyе Semena"
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Shepelev, Nikolai Vasilievich
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Suvatkin, Sergei Vladimirovich
Head, Hard Currency Department
Complexbank

Telepenko, Svetlana Matveevna
Deputy General Manager
Complexbank

Vladykina, Roza Alexeevna
Deputy General Manager
Complexbank

Tuesday, November 30, 1993

Krasnoarmeisk Raion, Saratov Oblast

Alexeev, Vladimir Mikhailovich
Farmer
(400 ha of land, with 5 brothers)

Bredikhin,
Chairman
Former state farm "IX Five-Year Plan"
Now Association of Peasant Farms "Niva"

Bredikhina, Nina Yurievna
Director
11-year school
Krasnoarmeisk raion
Saratov Oblast

Wednesday, December 1, 1993

Flight to Krasnodar

Thursday, December 2, 1993

Krymsk Raion, Krasnodar Krai

Dontsova, Galina Semyonovna
General Manager
Commercial Bank (independent, formerly branch of Agroprombank)
Natalia Fyodorovna, Deputy General Manager
Andrei Alexevich, Head of Department
Tel.: 4-6084

Melnik, Valentina Iosifovna
Head, Krestianskoe khoziaistvo Melnikov
Krymsk
Krymsk raion
Krasnodar krai

Melnik, Vladimir Ottovich
Member, Krestianskoe khoziaistvo Melnikov
Chairman, farmers' sales cooperative "Sodruzhestvo"
Chairman, Krymsk Raion Association of Private Farms and
Agricultural Cooperatives
Krymsk
Krymsk raion
Krasnodar krai
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Parkhomenko, Alexandra Dmitrievna
Head, Financial Department (zav. finansovym otdelom)
Raion Administration
Krymsk raion
Krasnodar Krai

Vyrvo, Lyudmila Vasilievna
Director
Kubinbank
Krymsk
Krasnodar Krai

Friday, December 3, 1993

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Farmer
Chairman
Byelorechensk Raion AKKOR
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Krasnodar Krai Administration
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Department Head
Prices Committee
Krasnodar Krai Administration
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Department of Agriculture and Foodstuffs
Krasnodar Krai Administration
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Head
Supply Division
Department of Agriculture and Foodstuffs
Krasnodar Krai Administration

Trubilin, Alexander Ivanovich
First Deputy Director General
South Russia Foodstuffs Exchange
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Vitchenko, Valentina Pavlovna
Head
Marketing Department
Department of Agriculture and Foodstuffs
Krasnodar Krai Administration

Saturday, December 4, 1993

Marchenko, Dmitry Mikhailovich
Chairman
Farmers Cooperative "Yarilo" (through Sergeev)

Sergeev, Victor Vasilievich
Deputy Head
Krasnodar City Administration
President
Krasnodar City Farmers Union
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Wednesday, December 8, 1993

Kalinin, Alexander Alexandrovich
Head
Agricultural Department (APK)
(Zav. otdelom)
Council of Ministers of the Russian Federation

Khitrov, Anatoly Nikolaevich
Head
International Economic Relations Division
Agricultural Department (APK)
Council of Ministers of the Russian Federation

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Krasnodar Krai

Agricultural Magazine "Selskie Zori"
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farmer (fish-breeding farm)
President
Farmers Association
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Samoilenko
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Smolkin, Sergei Petrovich
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