



MEMORANDUM

To: Files

From: Jennifer Duncan
Rural Development Institute

Date: October 6, 1999

Re: Report on Workshop on the Impact of Privatization
and Farm Restructuring in Russian Agriculture,
October 1-2, Moscow

I. Summary of Proceedings and Points Raised

A. Farm Restructure

1. Large, "Collective" Farms.

Change from "collectives" has been cosmetic in most cases. Officially, 80 percent are not profitable. This number may actually be lower, however, since under-reporting of production is wide-spread to evade taxes. By official statistics, much land on large farms goes unused, although under-reporting of land cultivated is also widespread and probably affects this picture. The reason some large "restructured" farms are successful is that they have quality management. Notably, all participants seemed to agree that large *collective*-style farms would never be efficient, whatever their legal form.

The outstanding question that received almost no attention was the process by which the current system of large collective-style, failing farms could transform into large "corporate-style", efficient farms run by a handful of owner/ managers.

The generally-accepted idea seems to be that resources (land, labor and capital) will somehow shift from the unsuccessful to the successful large farms over the near-term future. (Ideas about how this might happen were not discussed, except perhaps indirectly in stressing the need to continue implementing the land reforms, etc.—see section below.) One speaker (Uzun) said that employees of the unsuccessful farms are transferring to the successful ones. In some cases employment on the unsuccessful farms has decreased by as much as 50 percent. (What is not clear is what is happening to the land or property shares of these employees when they

change companies. Need to check Uzun's report to see if he addresses this in greater detail.)

2. Small Plots

Much discussion focused on the role of small plots in the future of Russian agriculture. Most people agreed that small plots have played a very important role in overall economic production over the past few years. Several people also commented that this was one result no one expected at the start of the reforms.

The first point of debate addressed whether the role between the small plots and large, collective-style farms is symbiotic or parasitic. Those who argued that small plots and large farms are "symbiotic" pointed to the ability of the large farms to avoid taxes by transferring large amounts of inputs to small plot production, which, to some degree, replaces salaries and/or rent payments to farm members. Since small plot production rarely enters the formal commercial sector (but rather is consumed by the household, bartered, or shared with urban friends and relatives), it goes untaxed. Those who argued that small plots are "parasitic" saw the small plots as draining off/ stealing inputs from large farms, and taking advantage of the disintegration of the management level on many large farms to up their take of the booty.

The second point of debate focused on the future of the small plot in agricultural production. Some argued that as large farms become more and more efficient (not clear if and how this will happen, see above), inputs to small plots will dry up and production will diminish. Others argued that small plot production will remain significant whether or not the large farm sector improves. (JD: another question is what will happen with small plot production as more and more pensioners pass away, if we assume many of their heirs are urban-dwellers. Answer probably has to do with the ability to transact these plots to neighbors, etc.)

3. Peasant Farm Enterprises

Most participants think that PFE's are destined to play a "marginal" role in the future of Russian agriculture. This thought seems due to two beliefs. First, many Russians seem to believe that the small farm model urged by the West does not, in fact, play a prominent role in current or future agricultural production in the West. They believe that large farms (one Russian, from the Agrarian Party, used as an example a "2,000 ha" livestock farm he visited in the US) control most of the farm resources and most of the production in the West. They also believe that a strong consolidation trend in farms has emerged in the West over the past ten years or so.¹

¹ Zvi Lerman, for example, showed two parallel graphs demonstrating that farm land holdings are actually more consolidated in the West (EU, US, Canada) than they are in Russia. In the West, the graph showed, 20 percent of all farms hold 80 percent of the land. In Russia, the graph showed, distribution of land is fairly equal among all farms. (What data did Zvi use for the Russia graph? An RA will look into the US/ West farm consolidation issue.)

Second, they believe that small farms face a number of unique “economic efficiency” hurdles, and so will never be able to compete with the large farms (and so the consolidation trend evident in the West). The hurdles include economies of scale in marketing, and a lack of ability to vertically integrate (and so lack of access to processing facilities). Interestingly, most participants agreed that production on small farms could be just as, if not more, efficient than on large farms.

Within the PFE sector, Serova and others agreed that a consolidation trend would continue, where the most successful PFE’s able to produce commercially would continue to control more and more resources, and the PFE’s operating close to the margin and mostly for household consumption would die off.

One additional point on PFE’s: Participants implicitly equated PFE’s with “small farms”. Clarification of farm structure (e.g., collective v. individual) and farm size seems important. PFE’s could start small and grow bigger, for example. On this point, it might be interesting to research and write a piece on how those farms that are large and successful in the West have developed (including, e.g., the “stories” of the top 10 or 20 largest farms in the US).

4. State farms.

No one at the workshop discussed the role of state farms in any detail. The implicit assumption, as stated in Serova’s paper, is that the state farm sector has privatized. (Our data estimates 30 percent of the agricultural land in Russia is still in state enterprises that are “exempt” from privatization, compared to 5 percent in Eastern Europe.)

B. Land Market

Most participants agreed that reforms in the agricultural sector have been only partially implemented, and that further implementation would be a positive step.² Some (Uzun, for example) pointed to the need to study more closely where the reforms have/ have not been implemented and why. According to Uzun, large farm enterprises are currently using 23 % of all land shares without any form of compensation to their owners or recognition that ownership has passed to individuals. (7 % land share holders withdrew to form PFE’s, 42% got contracts to lease out their shares; 15% contributed shares to charter capital; 8 % did not receive their shares). In some areas such as Mariel (sp?) Oblast, only 5-10 % have received shares. He and others (including Kalinin) also said land share owners have rights “on paper only” in many areas. The first step is to get legal title to land share owners in all regions.

² Note, however, that only one person from the Duma was present (as far as I could tell)—other policy-makers came from the government. The Duma representative, from the Agrarian Party, spoke about his experience in the US, etc., and to the need for large, Western-style corporate farms run by only a few. On the other hand, he pointed to the outrage that on some restructured farms in Russia almost one-third of income must go to pay rent to people who don’t contribute any labor at all. His speech points, I think, to the confusion about how to get from point A (large collectives) to point C (large corporate-style farms run by a few) without an interim step of market formation.

Serova ended her presentation (the first of the workshop) with a statement that we had “very little time for discussing land markets, and we should not make this a focus.”³ She went on to say that Russia does not have a land market, but that no Eastern Europe or Central Asian country has a functioning market like those found in the West. She noted that a leasing market existed, at least in theory, that should make it possible to transfer land to the most efficient user. (She pointed to Decree 337 and a regulation in Rostov Oblast allowing transfer of land from one enterprise to another. Do we have this regulation? Have we done fieldwork in Rostov?)

C. Rural Social Welfare

The status of rural social welfare did not play a large role in the discussions. Several people did mention it had deteriorated over the past ten years, and that the high degree of agricultural production that takes place outside of formal commerce contributes to a tax revenue shortage that limits all levels of government from developing good services. No one suggested, however, that responsibility for social welfare should return to the state or collective farms.

D. Other

1. Serova and others said that the fall of the ruble in August, 1998, proved a boon to Russian agriculture, as consumption shifted away from imported products. Consumption of domestic agricultural products rose 30 percent. Long-term effects on farm efficiency are not yet known. (Query the effect of foreign food aid on demand for domestic products in an “import substitution” environment.)

2. High and confusing taxes on farm enterprises (including taxes on land, production, wages, etc.) may be a substantial disincentive to participating in commercial markets and to accurate reporting. The participants who discussed taxes favored moving in the direction of a unified tax on agriculture.

II. The primary question: How to facilitate the transfer of resources from inefficient to efficient farms? 60-80 percent of the large farms are not profitable. How transfer resources from these farms to profitable ones? (The assumption seems to be that resources will shift to more effective, corporate-style large farms. How will this happen?)

A. Develop a market in land (plots and shares). Uzun said, for example, that 50% of the employees in “bad” farms had left, many for the better farms. To what extent do laws/ regulation/ local implementation or lack thereof ALLOW people to transfer their shares from one enterprise to another? How could they be improved? (Legally, people have the right to withdraw land shares they have leased out to the farm, or contributed *for use* to the farm, but not the right to withdraw land shares they have contributed permanently to charter capital unless the company charter allows this. Practically, even people who are

³ Uzun, in the presentation following Serova’s, said land ownership is a critical component of reforms. Without it, he said, you can’t have any reform at all. (“Everyone knows you have to build your house from the land up.”)

leasing their land out to large farms, or who have contributed their land shares for use only, often experience difficulty in withdrawing decent land.)

The first step might be to implement land share rights fully in all areas. The second could be a major education campaign (NOT left only to the hands of local officials!) on the possible ways to dispose of a share, including leasing out to an agricultural enterprise (whether JSC, agricultural cooperative, or Peasant Farm Enterprise), contributing to use of an agricultural enterprise (it seems to me that permanent contribution of land shares to charter capital should be strongly discouraged, if land shares are to remain flexible and transferable), or withdrawing the land in kind (alone or in small groups) to begin an independent Peasant Farm Enterprise. The third step might be establishment of the means to enforce these land rights in rural areas. (See, for example, the work of the legal aid centers RDI collaborates with in Samara and Vladimir oblasts.)

Note also equity issues involved: unless land rights held by rural people are “real” and enforceable, and a market has developed to the extent that they are worth some non-nominal value, it is difficult to imagine how the shift from large, collective style farms to large, “corporate” style farms (owned and managed by only a few) could happen without somehow robbing the millions of farm members and pensioners who currently own land shares of their rights, and redistributing them to corporate managers.

Comparative research would be helpful here. Has this shift (from large coop-style farms to large corporate-style farms owned by only a few) ever happened successfully without an intermediate “small farm” stage? At what social cost?

- B. Bankruptcy: to what extent could bankruptcy law be used to re-allocate (or at least expropriate from the most inefficient of the large farms) resources? (Note: Have we already done research on this issue? Need to check the files.) Note concerns of one of the speakers at the workshop, however: even if good bankruptcy law was in place that would allow the transfer FROM big, inefficient farms, real questions remain in terms of who these resources should be transferred TO. Perhaps go with U.S. style—auctioned to highest bidder? Saratov oblast has experimented with land auctions over the past couple of years. These results could be checked.
- C. Other legal means: land law currently gives the state Land Committee the authority to confiscate private, unutilized land. We do not normally encourage this kind of provision, as it seems at odds with real “ownership rights.” Given the political will (this is a big “given”), however, this provision could be used to re-allocate the land not being used by large farms.

III. Specific research issues

- A. To what extent, if any, do current policies (national, regional, local) favor large farms in Russia? What needs to happen to create a “level playing” field for all types and forms of farm? Possible areas of government preferences for large farms:

- credit/ debt write-offs;
- informal political connections between farm bosses and local, regional officials;
- policies held by state-run input suppliers and purchasers ;
- legal issues (e.g. the draft Land Code has a number of provisions onerous only to Peasant Farm Enterprises but not to other legal forms of farm enterprises);
- enforcement of land reform laws (e.g. failure of local officials to enforce rights of farm members to withdraw a decent plot of land and their property shares in-kind);
- land tax—enforced on Peasant Farm Enterprises more than on large farms?

B. Regional research/ comparisons. Could compare results and farm performance in different regions to determine whether more secure land rights and development of an agricultural land market facilitates the transfer of resources from inefficient to efficient farms. Could compare Samara/ Saratov with other, less progressive regions for trends.

C. Is the underlying assumption that Peasant Farm Enterprises are not the “way of the future” premature? What is it based on (a sense that successful farms in the West are increasingly larger in size, and that farm resources in the West are consolidating—and/or a perception that rural people in Russia don’t want to start PFE’s—and/or a sense that many of the PFE’s that have started in Russia have failed)?

(1) Are farms in the West growing larger, and farm resources consolidating? What is the process by which this is happening, if it is in fact happening? How do we present it/ analogize it in the context of Russia?

(2) Do rural people really not want to own PFE’s? What if there was a more level playing field and some access to credit for machinery?

(3) What are the real barriers to profitability unique to this sector (e.g., economies of scale gained through marketing). How could these be overcome to fully capitalize on the benefits (in production, in social welfare and emergence of rural participatory democracy, etc.) of small-scale, individual farming? For example, how could small farms increase their marketing efficiency relative to large farms? (Note Serova’s point that the type of person who wants to start a PFE in Russia does not want to have anything to do with “cooperation” systems, not in production and not in provision of machinery, processing or marketing.)

(4) Do official statistics accurately reflect trends of growth (or contraction) in the PFE sector? (Several people at the conference suggested that many PFE’s have “de-registered” their official status as farm enterprises to become simply small plots; they are continuing to produce in the same way they always have but have a lower tax burden. I believe Pulin may have some information about this. While this may be an unfortunate trend in terms of revenue collection, it

could also disguise a stronger growth in the (de facto) small farm sector than the official statistics show.)

- D. What are the implicit disincentives to withdrawing from large farms in Russia today? (We should contact a woman at the WB who was researching this question last spring to see if her results are available.)
- E. To what extent do inaccurate statistics create an inaccurate picture of what is happening in agriculture? (Everything from under-reporting by large farms which skews the picture of the amount of unutilized arable land to the apparent trend out of Peasant Farm Enterprise—which could be explained in large part by simply a “formal” transfer from the legal status of a PFE to a subsidiary plot.)
- F. To what extent does the current agricultural tax structure provide a disincentive to: (1) accurate reporting of land used and production; and (2) sales of production through commercial channels? How could this be improved?