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## **NEW STAGE OF THE AGRARIAN REFORM IN RUSSIA**

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## New stage of the agrarian reform in Russia

### 1. Main results of the agrarian reform

Within a short time, in the course of the economic reform, the agroindustrial complex saw radical changes in the organisational, economic and legal production conditions.

**In the sphere of organisational conditions**, it should be noted that an economic structure has been established which envisages various forms of ownership and in which collectively owned and individual enterprises based on private ownership of land and property prevail. Now no more than 10 per cent of agricultural production potential remains in the state-owned enterprises. Currently, there are around 280 thousand actively operating farms. The sector of small producers has grown due to the addition of adjacent plots of land to the plots, which belong to individual households and are used for growing fruit and vegetables. 94 per cent of agricultural processing enterprises as well as 70 per cent of enterprises providing agricultural services have been privatised.

The process of *integration of agricultural production with the processing enterprises and enterprises providing services* is under way. Co-operatives are becoming increasingly numerous and the number of agrarian financial-industrial groups is growing. There is a gradual transformation of agricultural enterprises, which become increasingly market oriented.

An important result of the agrarian reform is the *denationalisation of the system of purchases of agricultural produce from the producers and their marketing, procurement of inputs for agricultural production as well as wholesaler companies and retail outlets*. State purchases of agricultural produce have dwindled sharply. State purchases are now always arranged through tenders. New marketing channels are being developed, including wholesale markets, commodity exchanges and fairs.

*A system of agricultural loans* is being created. Its important component is a special fund for lending to enterprises of the agroindustrial complex (AIC). The first lending co-operatives have sprung into being.

**In the sphere of economic conditions**, the place and role of agriculture are changing. The structure of agricultural production is changing in favour of plant growing. The role of agriculture in the major macroeconomic indicators is shrinking.

*Relations in the sphere of land have been drastically transformed*. The state monopoly right to land has been liquidated. The foundation has been laid for relations in the sphere of land, which are based on forms of private ownership. Payment for the use of land has been introduced and operations with arable land have been initiated, primarily leasing and land equity transactions.

*The basis has been formed for a system of support* for agriculture and the agroindustrial complex. Grants, subsidies and compensations have softened the decline of production in the agrarian sector.

Gradually *a system of regulating the external trade in agricultural goods and food products* is being formed. The system of protection of domestic agricultural market through tariffs is being improved.

The agrarian sector experiences *a serious pressure due to price disparity and the low profit margins in agricultural production*. The financial position of agricultural producers has drastically deteriorated, the number of loss-making agricultural enterprises is growing, accounts payable have swollen. They make 120 per cent of the value of annual shipments. The analogous indicator for the economy as a whole makes 71 per cent. In this environment, barter transactions have become widely spread.

**In the sphere of legal conditions**, one can note a gradual formation of the legal basis for the functioning of agriculture and the agroindustrial complex can be noted. Within a short time, regulatory documents have been developed which regulate the process of privatisation and reorganisation of agricultural enterprises and determine guidelines for the support of the agrarian sector, for lending to agriculture etc.

## **2. New conditions for the development of agriculture and the agrarian reform**

New conditions have now been formed for the development of agriculture, which make it possible to speak of *a new stage in the agrarian reform*.

*First*, the agrarian sector is functioning in a new macroeconomic situation. The latter is characterised by:

- a more realistic budget with a smaller deficit;
- lower, single-digit annual inflation numbers;
- evident signs showing that the crisis has bottomed out and industry has begun to grow;
- increased incentives to invest into the real sector of economy.

*Second*, a new situation is being created in the agrarian sector itself. Its characteristic features are:

- a certain stabilisation in the price parity between the prices of agricultural produce and industrial goods;
- new signs of stabilisation in the development of agricultural production as a whole and its major branches;
- increase in the "points of growth" in the food producing and processing branches of the AIC;
- some growth in livestock breeding.

*Third*, the situation in the market of agricultural goods and food products is changing. The problem of marketing agricultural produce is exacerbating. The high volumes of production go together with a considerable decline in prices.

*Fourth*, the first, formal and legal, stage of privatisation has been completed. The basic

conditions have been created for the deepening of market relations.

*Fifth*, the financial situation of agricultural producers is being aggravated. The "barterisation" of economic relations has reached a menacing scope. Some branches (sugar- and butter-and-fat production) have in most of their operations shifted to the use of the goods-for-processing mode.

The above factors determine the characteristic features of the present stage of agrarian reform.

It is necessary to go over from the agrarian policy of cushioning the fall to a policy of encouraging sustainable growth. This involves the development and implementation of measures towards attracting domestic and foreign investment, measures to encourage higher demand for agricultural products, introduction of new mechanisms for regulating agroindustrial production.

Given the pronounced economic growth and increased incomes, a shift to the production of import substitutes should be considered, and branches, which account for excess domestic supply, should become more export oriented.

In the sphere of privatisation, from spreading *out* we should go on to spreading *deeper*. This implies development of mechanisms whereby the property rights should be fully realised outside the agricultural enterprises as well as within them. This includes the establishment of a system of transactions with land, which should be strictly regulated by the state. These transactions, in their turn, constitute a precondition for the formation of a long-term lending system for agricultural enterprises. The potential volume of long-term investment against the collateral of land into efficient and solvent enterprises amounts to no less than RUR 10 billion (new denomination).

Given the tight budgetary constraints and the low inflation it will be realistically possible to provide assistance only to efficiently operating or potentially profitable agricultural producers.

It will also be a taxing task to overcome barterisation, to which the enterprises have already adjusted.

On the whole, it may be concluded that the new phase of the agrarian reform is far from being less challenging and painful. It therefore envisages various guidelines and measures.

### **3. The main guidelines and measures towards reform in agriculture and the AIC**

**In the sphere of operations with land**, the main direction of reform is to effect a transition from the administrative land distribution to the economic distribution to be carried out on the basis of an economic regulatory system.

The main measures in this area should be as follows:

- establish contractual relations between the users of land and its owners;
- strengthen the legal basis and expand the use of land leasing;
- create a mechanism whereby land could be used as collateral against liabilities relating to

agricultural production and transactions would be regulated by government agencies;

- allow for bigger maximum plots of land allowed for farmers and lift restrictions on the leasing of land;
- provide legal support for market transactions with agricultural land.

**In the sphere of institutional reform in agriculture**, a major objective should be to achieve restructuring and financial rehabilitation of insolvent agricultural enterprises. It is suggested that this process should be accompanied by measures towards retaining their production and social infrastructure, as well as ensuring efficient use of land and labour resources.

Furthermore, it is proposed to:

- update the names and lists of agricultural enterprises falling within a group reorganisation whereof has to be conducted in accordance with special terms;
- continue work in order to bring the statutes of all organisational and legal forms of enterprises into compliance with the current legislation. This is an important and in many cases necessary phase of improving the established legal relations, since when the collective farms (kolkhoz) and soviet collective farms (sovkhoz) were being reorganised, there was insufficient experience in drawing up statutory documents, there was no legal basis, no model statutes;
- provide legal support for the reorganisation of enterprises, including incorporation;
- continue to transfer objects of social and engineering infrastructure in the villages to the village local administrations. Ministry of Agricultural Products of Russia had developed a draft federal law "On the Social Development of Rural Areas," which introduces legal, economic, financial, social and other provisions aimed at ensuring the social development of rural areas and normal functioning of social and engineering infrastructures;
- develop a network of agricultural machinery and equipment stations which would be conducive to cutting production costs as well as to the growth of labour productivity, introduction of progressive technologies and new machinery and equipment thereby helping the agricultural producers to carry out their work given that they do not have sufficient technical resources themselves. These stations will be immediately involved in agricultural production on plots of land leased from farmers, who have no resources to use this land themselves;
- further develop co-operation as well as integration of agricultural producers and processing enterprises, including vertical integration;
- create efficiently functioning institutions for regulating markets of major agricultural products.

**In the sphere of market regulation and market infrastructure development**, it is proposed to:

- create a system for regulating the food market and the modern marketing infrastructure for agricultural products, which have a major role to play in making production in the agroindustrial complex profitable. A Federal Agency for the Regulation of the Food Market will be an important component thereof;
- develop a system of interventions for purchases and sales, create mechanisms for collateral, and advance payment for purchased agricultural produce;

- develop and implement programs for the development of wholesale food markets, commodity exchanges and other elements of the market infrastructure;
- develop leasing activity by:
  - increasing the number of agents engaged in leasing operations;
  - expanding the list of goods provided on a lease;
  - attracting financing for leasing operations from banks (loans), investment companies, local budgets and private investors;
  - improving forms of state support for leasing arrangements and mechanisms for the provision of state guarantees;
  - developing legislation on collateral and improvement of tax legislation pertaining to leasing operations;
  - improving the organisational aspect of leasing arrangements and methods for the computation of lease payments.

**In the sphere of development of the financial and lending system for the AIC**, one of the top priorities is to create a system of agricultural loans. In order to reach this objective, the following tasks have to be accomplished:

- improve the operations of the Concessional Lending Fund;
- create and expand a network of rural lending co-operatives;
- expand the system of mortgage lending;
- expand the network of commercial banks in the rural areas;
- create a system of Funds providing guarantees for loans, including those formed on a co-operative basis.

An important remaining task is to *create an efficient system of grants and subsidies*. For these ends it is necessary to:

- retain subsidies for livestock breeding and elite seeds selection - branches, which to a large degree determine the potential of agricultural production;
- go over to the system of targeted grants, compensation and subsidies to be provided to selected, efficiently operating agricultural producers based on special support programs provided these producers meet certain requirements and criteria. (optimisation of the use of land, yield levels and productivity, etc.);
- with the support of the state, create an income insurance system for agricultural producers;
- specify support measures in case of natural calamities to bring them into better compliance with the criteria, determined by the WTO Agreement on Agriculture;
- develop support measures towards bolstering demand for agricultural produce on the part of the poor;
- incorporate price stabilisation measures into the support system for agriculture.

**In the sphere of foreign trade regulation**, it is necessary to:

- increase tariff escalation depending on the degree to which the agricultural raw materials have been processed, thus creating more favourable conditions for food and processing industries;
- take into account the seasonality of production while improving the structure of import duties, primarily those imposed on vegetable crops and potatoes;
- expand the base for specific and combined duties to include, in particular, raw materials for meat processing industry;
- raise the level of tariff protection for selected types of agricultural products and food items, if the production thereof fully satisfies the domestic demand;
- reduce the level of tariff protection for goods which are not produced in the country and which provide for scientific and technical progress, the growing efficiency of production and increased tax revenues;
- develop the concept and model for long-term food trade policy;
- develop a federal program and regional programs for expanding the export of agricultural produce and food as an important source of investment, incorporating therein a system of state support for exports, including the system of export loans and subsidies;
- assist the creation of a common food market of the CIS states.

**In the sphere of improvement of the AIC management system,** the following objectives are pending:

- strengthen the regulatory function for regulating markets of certain goods and create price stabilisation institutions;
- as the management mechanism within the framework of the program evolves, a vertical program management system should be created based on the existing agencies currently managing agriculture;
- continue to develop price monitoring, analyse and forecast the situation on the domestic and external markets for major agricultural products;
- expand the system of information and consultative services in the regions as a vehicle for disseminating information about the latest achievements in science and technology;
- improve co-ordination between the Ministry of Agricultural Products of Russia and organisations of producers in specific branches.

The entire set of reform measures for the agroindustrial complex will require intensive work of all agencies involved in the management of agriculture, both on the federal and regional levels. Progress in this direction will make it possible to consolidate the positive tendencies, which are already becoming manifest in the agrarian sector.