

Der Open-Access-Publikationsserver der ZBW – Leibniz-Informationzentrum Wirtschaft  
*The Open Access Publication Server of the ZBW – Leibniz Information Centre for Economics*

Epstein, David B.; Siemer, Jürgen

**Working Paper**

## Difficulties in the privatisation and reorganisation of the agricultural enterprises in Russia

Discussion paper // Institute of Agricultural Development in Central and Eastern Europe, No. 8

**Provided in cooperation with:**

Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO)

Suggested citation: Epstein, David B.; Siemer, Jürgen (1998) : Difficulties in the privatisation and reorganisation of the agricultural enterprises in Russia, Discussion paper // Institute of Agricultural Development in Central and Eastern Europe, No. 8, <http://hdl.handle.net/10419/28557>

**Nutzungsbedingungen:**

Die ZBW räumt Ihnen als Nutzerin/Nutzer das unentgeltliche, räumlich unbeschränkte und zeitlich auf die Dauer des Schutzrechts beschränkte einfache Recht ein, das ausgewählte Werk im Rahmen der unter

→ <http://www.econstor.eu/dspace/Nutzungsbedingungen> nachzulesenden vollständigen Nutzungsbedingungen zu vervielfältigen, mit denen die Nutzerin/der Nutzer sich durch die erste Nutzung einverstanden erklärt.

**Terms of use:**

*The ZBW grants you, the user, the non-exclusive right to use the selected work free of charge, territorially unrestricted and within the time limit of the term of the property rights according to the terms specified at*

→ <http://www.econstor.eu/dspace/Nutzungsbedingungen>  
*By the first use of the selected work the user agrees and declares to comply with these terms of use.*

# **DISCUSSION PAPER**

## **Institute of Agricultural Development in Central and Eastern Europe**

### **DIFFICULTIES IN THE PRIVATISATION AND REORGANISATION OF THE AGRICULTURAL ENTERPRISES IN RUSSIA**

**DAVID B. EPSTEIN  
JÜRGEN SIEMER**

**Discussion Paper No. 8  
1998**



Magdeburger Straße 1, D-06112 Halle (Saale), Germany  
Phone: +49-345-500 81 11  
Fax: +49-345-512 65 99  
E-mail: [iamo@iamo.uni-halle.de](mailto:iamo@iamo.uni-halle.de)  
Internet: <http://www.landw.uni-halle.de/iamo/iamo.htm>

Prof. Dr. David B. Epstein is a research associate at the Institute of Agricultural Economics of the Nonblacksoil Zone of Russia which is affiliated to the Russian Academy of Agricultural Sciences in St. Petersburg-Pushkin. His main areas of research are business economics and the analysis of agricultural markets.

Address: Institute of Agricultural Economics of the Nonblacksoil Zone of Russia,  
Podbelskogo 9  
189 620 St. Petersburg-Pushkin,  
Russia

Phone: +007-812-470 3492  
Fax: +007-812-466 6644  
E-mail: epshtein@dbe.usr.pu.ru

Dr. Jürgen Siemer is a research associate at the Department of Business and Structural Development in Rural Areas which forms part of the Institute for Agricultural Development in Central and Eastern Europe (IAMO) in Halle/Saale in Germany. His main areas of research are the analysis of organisational structures, operations management and decision making in agricultural enterprises which are in the process of restructuring.

Address: Institut für Agrarentwicklung in Mittel- und Osteuropa (IAMO)  
Magdeburger Str. 1  
D-06112 Halle  
Germany

Phone: +49 345 5008135  
Fax: +49 345 5170611  
E-mail: siemer@iamo.uni-halle.de  
Internet: <http://www.landw.uni-halle.de/iamo/iamo.htm>

*Discussion Papers* are interim reports on work by the Institute of Agricultural Development in Central and Eastern Europe (IAMO) and have received only limited reviews. Views or opinions expressed herein do not necessarily represent those of IAMO. Comments are welcome and should be sent directly to the author(s).

The series *Discussion Papers* is edited by:

Prof. Dr. Klaus Frohberg (IAMO)  
Prof. Dr. Monika Hartmann (IAMO)  
Prof. Dr. Dr. h.c. Peter Tillack (IAMO)

### ZUSAMMENFASSUNG

Gegenwärtig durchläuft Rußland einen komplizierten Prozeß der Transformation des zentral geplanten Wirtschaftssystems in eine soziale Marktwirtschaft. Von großer Bedeutung für den Erfolg dieses Prozesses ist der institutionelle Wandel des landwirtschaftlichen Sektors, insbesondere die Privatisierung von Land und sonstigem Vermögen. Vor dem Hintergrund der ungünstigen Entwicklung der russischen Landwirtschaft werden in dieser Arbeit die Vorgehensweise und die Probleme der russischen Landwirtschaft ausführlich diskutiert.

### SUMMARY

Presently Russia is experiencing the complicated process of transforming the economic system of central planning into a socially oriented market economy. Of great importance for the success of this process is the institutional reshaping of the agricultural sector, particularly the privatisation of land and assets. In this paper the procedure and the problems of privatising Russian agriculture are extensively discussed against the background of the unfavourable development of the Russian agricultural sector.

### REZÜME

V NASTOQEE VREM< PROISHODIT SLOŇNIJ PROCESS TRANSFORMACII CENTRAL#IZOVANNOJ UPRAVL<EMOJ ÄKONOMIKI V RYNOXNUÜ. PREOBRAZOVANIE (SISTEMY) INSTITUCIJ AGRARNOGO SEKTORA IMEET BOL#QOE ZNAXENIE DL< USPEHA ÄTOGO PROZESSA, V TOM XISLE PRE#DE VSEGO PRIVATIZACI< ZEMLI I IMUWESTVA. V RABOTE ANALIZIRUÜTS< MEROPRI<TI< I PROBLEMY SEL#SKOGO HOZ<JSTVA ROSSII NA FONE NEVYGDNOGO RAZ-VITI< RUSSKOGO SEL#SKOGO HOZ<JSTVA.

## CONTENTS

<b>Zusammenfassung .....</b>	<b>3</b>
<b>Summary.....</b>	<b>3</b>
<b>Rezümé .....</b>	<b>3</b>
<b>List of Tables .....</b>	<b>4</b>
<b>1 Privatisation of Agricultural Enterprises .....</b>	<b>5</b>
1.1 Concept and Objective of Privatisation.....	5
1.2 Tempo and Legal Bases of the Privatisation .....	6
1.3 The Procedure of Privatisation .....	6
1.4 On the Advantages of the Companies of the New Legal Forms.....	9
<b>2 Reorganisation of the Agricultural Enterprises .....</b>	<b>10</b>
2.1 Economic Results of the Development of Agriculture from 1992 to 1996 and its Causes .....	10
2.2 Structure of the Enterprises.....	12
2.3 Problems of Weak Enterprises .....	13
<b>3 The Further Development of Privatisation.....</b>	<b>14</b>
<b>References.....</b>	<b>16</b>

### LIST OF TABLES

Table 1: Distribution of companies of different legal forms as on 01 January, 1995 .....	8
Table 2: Distribution of agricultural land in Russia (Mill. ha) as on 01 January 1995.....	9
Table 3: Share of the different sectors of agriculture at the agricultural gross product in per cent.....	11

## 1 PRIVATISATION OF AGRICULTURAL ENTERPRISES

### 1.1 Concept and Objective of Privatisation

Presently Russia is experiencing the complicated process of transforming the economic system of central planning into a socially oriented market economy. Of great importance for the success of this process is the institutional reshaping of the agricultural sector, particularly the privatisation of land and assets.

Until the beginning of 1992 all the land used by the agricultural enterprises was state-owned. It was somewhat different with the other assets (buildings, machines, current/floating assets): there were two kinds of agricultural enterprises, sowchozes and colchozes. In the sowchozes, also the non-land assets were state-owned, whereas in the collective farms they were the property of the legal person collective farm.

In a market economy the producer is - in principle - free to choose the products, the distributor, the buyer, the price, the means of production, the suppliers and the application of his earnings. This not only contradicts the pre-dominance of the state property, but it even promotes the privatisation of production means, in that profits can be invested in the purchase of production means. Consequently, private property and the rights and responsibilities connected with it need to be legally acknowledged.

In principle the actual privatisation of state property through sale or quasi free distribution can be preceded by leasing or rental. This can be advantageous for the state if the procedural problems of a sale are not yet solved, e.g. because of a missing land-register in the case of land sale or missing opening balance sheets in the case of the sale of enterprises. Besides, through leasing or rentals the restructuring of the enterprise can be initiated and the state can hope to achieve ultimately higher earnings. On the other hand leasing can also promote corruption. Thus, the tenants could be tempted to illegally sell state assets or to intentionally drive the leased enterprise into bankruptcy to be able to purchase it cheaper afterwards. Such examples can indeed already be observed.

However, experience also shows that a market economy agriculture can emerge on the basis of leasing land from the state. Therefore, different possibilities exist for the transition period: in the course of the transition, firstly, the share of privately owned land or assets can zoom or, secondly, increase gradually. The state can own an important part or even the majority of the means of production, but in case of leasing it cannot anymore decide on their use. The objective of the transition period is to provide the legal, institutional, infrastructural and other pre-conditions for the market economy. This also includes promoting the development of a social layer of effective owners, in other words the middle classes. These should be able to use their private property entrepreneurially and profitably. This phase of the transition period can be characterised as a denationalisation of the property, although not all the assets have yet been transferred into private hands. Nevertheless, it is a phase of privatisation since the share of private property increases in its course.

Therefore, it is proposed to distinguish between privatisation in the wide and in the narrow sense. By privatisation in the wide sense we understand the process of the gradual growth of the share of private property until it comprises the majority of all production means in the economy. These process can start with a denationalisation of the state property. By privatisation in the narrow sense we understand the direct legal transfer of state property into private property.

## 1.2 Tempo and Legal Bases of the Privatisation

Privatisation in the wide sense can start with the transfer of the means of production through lease to the collectives of the enterprises with subsequent purchase. It is possible that with such a procedure the transition period would have been less painful for the Russian agriculture if it had been used to work out a simpler and more consistent privatisation procedure, which had reduced the uncertainty in the enterprises considerably.

However, Russia chose the short way, i.e. the fast privatisation in the narrow sense, the transfer of property rights with respect to land and assets of the new companies emerging from the former agricultural enterprises, the colchozes and sowchozes. Privatisation aimed at the creation of the legal framework necessary for the establishment of agricultural enterprises ready to meet the challenges of the market economy. It was expected that, if it was possible to leave the colchozes and sowchozes with land, an important part of the employees would seize the opportunity to found farms or small private agricultural enterprises. The remaining workers were expected to give their assets to the companies of new legal forms and restructure them in such a way that they could function more efficiently. Privatisation was also supposed to create new stimuli for the development of household plots. Hence, for three agricultural sectors a new legal basis was needed:

1. collective companies
2. farms and small private companies
3. household plots.

In contrast to the majority of the agricultural economists the government set large hopes on the second sector. Collective companies and/or big agricultural enterprises were considered a temporary phenomenon, which was supposed to provide the raw material for a new more effective structures, i.e. smaller enterprises than in the past, particularly due to the difficulties with regard to effective leadership and management.

Laws, which had still been passed by the Supreme Soviet of the RSFSR between 1990 and 1991, served as the legal basis for the privatisation of the agricultural enterprises. The law on the agricultural reform and the soil-codex of the RSFSR stated the equality of state, privately and collectively shared forms of property. The law on farms allowed any employee of an agricultural enterprise to freely leave the colchoze or the sowchoze with his asset and land. The land share had to be handed over free of charge to the farmer. In addition the farmers had the right to receive land from the soil committee of the rayons at an in fact rather small normative price, calculated on the capitalised ground rent.

## 1.3 The Procedure of Privatisation

The decree of the President No. 323 from 27 December, 1991 required all agricultural enterprises to choose one of the legal forms stated in the law "On Enterprises and Entrepreneurship" and restructure accordingly within two months (January - February 1992). Later this time limit was extended to four months, then one year. In 1993 the enterprises were granted the right to maintain their earlier legal forms until the passing of the new civil codex and then until 1999. In practice, 67 per cent of all agricultural enterprises have reorganised themselves until mid 1996.

In this process all employees, pensioners, and also social employees in the agricultural enterprises became owners of a land and asset share free of charge. The size of a land share was determined by dividing the entire land by the number of the legitimate claimants. Thereby an average size, which had been calculated by the soil committees of the rayons, was not allowed

to be exceeded. Undistributed land was often added to the soil-redistribution-funds in the rayons. A physical piece of land was assigned only to those employees who submitted an official statement on their leaving the collective in order to establish a farm.

The asset share of each owner was determined depending on the period he/she was employed with the collective and the amount of his/her salary. The new owners were then allowed to use their shares for:

- receiving a physical piece of land for the establishment of a farm,
- contributing it as a share into the new enterprise,
- selling it to another employee of the company or to the company itself for a price freely determined.

Furthermore, the asset and land shares can be bequeathed.

Hence, the property rights for the land shares are rather limited. Sale of the land shares is only allowed within the company. Contracts concerning the conditions of using the land- and asset shares through the company were, however, not required. Since this relationship is regulated by the statute of the company, the interests of the non-asset holders, who are no longer members of the company, are disadvantaged.

The decree of the president No. 1767 from 27 October, 1993 granted the owners with the right to sell their land shares, offer them free of charge, lend against them and to lease them as well as to bring their land as asset shares into other companies etc. However, the constitution of the Russian Federation, passed in December 1993, clearly determined that the conditions and order of the land utilisation were regulated by the federal laws. Therefore, until the passing of the new soil codex the right of the citizens concerning the use and application of their land shares remains essentially limited.

In a meeting the members of the newly established companies (the successor companies of the earlier sowchozes or colchozes) had to choose one of the following legal forms:

- Stock corporation of an open type
- Stock corporation of a closed type
- full or mixed company (comparable to the German "Gesellschaft Bürgerlichen Rechts" (GBR) and "Kommanditgesellschaft" (KG))
- Private limited liability company (LTD.) (comparable to the German "Gesellschaft mit beschränkter Haftung" (GmbH))
- Production Co-operative
- farmer association.

In 1992 the relationship between the newly founded companies and their owners had to be exhaustively regulated in the statutes of the companies, because corresponding laws on their legal forms did not exist. The formal process of the privatisation was completed with the passing of the statute and the registration of the companies by the state enterprises responsible. In the overwhelming majority of the cases this process was accomplished relatively fast and without essential changes in the relationships between company, management and employees.

However, many enterprises did not register anew and maintained their old designations of colchoze or sowchoze. Here a high percentage of the employees received a document for their land share. With the new civil codex of Russia coming into force in January 1995, some legal



forms such as associations of farmers were not permitted anymore. However, such forms as the full company and the company on trust (limited partnership) were comprehensively described.

**Table 1: Distribution of companies of different legal forms as on 01 January, 1995**

Legal Form	Number of Companies	average agricultural area (ha)
All Companies	30521	5675
there of		
colchozes	6025	5361
sowchozes, state farms	3592	6151
stock corporations of an open type	320	7049
stock corporations of a closed type	12862	7049
other associations	140	7049
agricultural co-operatives	2227	5029
collective enterprises	2183	2838
association of farmers	751	2838
private farmers	528	2838
remaining	1893	2838

Remark: A similar average land size of some legal forms marks the average value of the group.

Source: APK (1996, p. 33, 39).

Concerning their nature we now have three fundamentally different groups of agricultural enterprises:

1. State-owned enterprises (assets and land are state-owned). These companies comprise 22.1 million hectares of agricultural land,
2. Companies, stock corporations and other forms with collectively-shared property, where the right to vote depends on the number of asset shares. These economies use over 107.6 million ha of agricultural land,
3. Production co-operatives, among which are also colchozes, i.e. companies with collectively-shared property, in which only those can vote who are employed in this enterprise and brought in their assets. Here each member of the association has only one vote. Enterprises of this type comprise 43.5 million ha of agricultural land.

In addition, until the end of 1995 there emerged 282,300 farms in the course of the privatisation process comprising 10.5 million ha of agricultural land. Now, 44.5 million families (from a total of 50 million) own land in the form of household plots, vegetable and other gardens, datschas and residential buildings. Altogether, this amounts to more than 20 million ha of land, which is more than twice the amount of 1990 (GOSKOMSTAT (ed.) (1995, p. 356). Besides, there is now the soil redistribution fund, which contains more than 15 million ha agricultural land available for the increase of the number of farms and household plots and/or their enlargement.

The change in the structure of the land utilisation for agricultural production purposes in the process of the privatisation of the land is presented in Table 2:

**Table 2: Distribution of agricultural land in Russia (Mill. ha) as on 01 January 1995**

	1990	1995
<b>all agricultural land</b>	215,6	209,2
thereof		
<b>1) land in big agricultural companies</b>	211,8	173,2
a) land of state and municipal companies, including sowchozes	126,1	22,1
b) land of production co operatives and colchozes thereof: land in colchozes	85,4	43,5
c) land in stock holding companies, associations and other forms	4	32,3
<b>2) land in collective gardening, vegetable production, animal production etc.</b>	3,8	107,6
<b>3) land used by private farmers</b>	0	9,3
<b>4) land in ownership of local administrations</b>	0	16,2

Source: Computed on the basis of the APK (1996, p. 33).

In this way in the course of the privatisation of the agricultural land the private form of property became prevailing - at the beginning of the year 1995 in comparison the state and municipal property comprised only 18 per cent of the land.

#### **1.4 On the Advantages of the Companies of the New Legal Forms**

Now we can ask the following question: did the property transfer accomplished on a large scale in the years 1992 to 1996 result in those potential stimuli which are supposed to contribute to the improvement of productivity, management, quality of the production, the reduction of the expenses as well as the promotion of the scientific and technical progress? At present, this question can only partly be answered with 'yes'. There are in fact numerous examples of agricultural companies of different legal forms with which the presented stimuli work in such a way, that genuine entrepreneurial structures were created and these companies now successfully work under the new conditions. This does, however, by no means hold for the majority of the companies, since most of them work with losses since 1994. As we will show the cause of these losses lies in the depressive development of the national economy.

Concerning the internal company relationships, that between the asset holders and the company and that between the management and the employees in fact hardly changed after the formal registration of the companies.

Until 1994 the companies were not required to make contracts with the share holders on the usage conditions. Thereby, especially the rights of pensioners, employees in the social sphere and others not producing in the respective enterprise were clearly cut. Because of the crisis-like economic development in the majority of the cases no dividend was paid for the shares. In the best case the companies provided the pensioners and social employees with some economic services free of charge. In general the share holders, first of all the employees, played practically no role in the decision making in the enterprise.

It is therefore plausible that the state statistics exhibits no significant differences in the effectiveness between the economic activity of the companies of old and new legal forms<sup>1</sup>. The degree of economic freedom of the companies of the old and new legal forms does practically not differ, likewise the internal relationships have in fact not been changed in this crisis-like situation.

The first step of the well-known Nipni Novgorod methodology of reorganising agricultural enterprises, compiled under professor V.J. UZUN, consists of a detailed enlightenment of all asset holders with respect to their rights regarding the application of their asset and land shares. The second step is that of an analysis and the splitting up of large, not efficiently manageable companies into smaller ones. A comparison of the economic parameters of reorganised and not reorganised companies did not show any advantages of the reorganised enterprises with respect to their production efficiency. One of the reasons for this is probably the fact that first of all weak enterprises had been reorganised (UZUN and SHAGAJDA 1996). Up to now clear improvements in efficiency could only be discovered with the five so-called pilot enterprises which were the first firms to be reorganised and which consequently were advised very intensely. The better results of these five companies are connected with a considerable reduction in the number of employees (UZUN and SHAGAJDA 1996, p. 27).

Let us now proceed to the economic results of the agricultural development from 1992 to 1996.

## **2 REORGANISATION OF THE AGRICULTURAL ENTERPRISES**

### **2.1 Economic Results of the Development of Agriculture from 1992 to 1996 and its Causes**

This period is characterised by a major drop in the agricultural production. Between 1991 to 1995 the gross product decreased by 33 per cent, in 1996 a further reduction by 4 to 5 per cent is expected. In the large agricultural enterprises the production dropped by appr. 45 per cent. However, as has already been pointed out, the causes for this development do not lie in the privatisation and reorganisation of the agricultural enterprises, but in the general economic conditions, which shall be presented here briefly:

1. Decline of the demand for agricultural products and food stuff because of the strong decrease of the incomes of the population.
2. Disparity in the price developments: from 1992 to 1996 the prices for production means increased three times as much as those for agricultural products. For animal production this proportion even rises to 4 to 5. This disparity of prices is mainly caused by the existence of

---

<sup>1</sup> In 1994 the number of companies with new legal forms was actually greater than than the number of col'chozes and sowchozes realizing losses (61 % : 55 %). Higher were also the absolute losses and their relationship with expenses. APK (1995, p. 71).

a number of monopolies in the upstream and downstream sectors. This resulted in high losses and a liquidity crisis due to which the agricultural enterprises were not any longer able to finance their floating capital.

3. Increase of food imports with a weak protection of the domestic market.
4. Reduction of the state subsidies for agriculture from 19 per cent of the state budget in 1991, to 15 per cent in 1992 and 3.5 per cent in 1996.

Moreover, the economic crisis added the following causes:

5. Increasing average production costs per unit caused by the dropping production amount.
6. Overaging and withdrawal of capital goods (the extent of technology bought sank on average to one eighth).
7. Decreasing soil fertility due to a reduction in the application of organic manure (to one third) and mineral fertilisers (to one eighth), the decrease in liming of the soils and the insufficient maintenance of the melioration systems.
8. Losses in cattle productivity because of a decrease in breeding, the same holds for crop production.
9. Reduced motivation of the employees caused by sinking real incomes and a frequently delayed wage payment, simultaneously theft and working in the private household plots during the official working hours increased.
10. Decreasing quality of the managers due to the most dynamic ones leaving for their own farms or other economic activities (with faster capital turnover).
11. Price increase of credits in the period of hyperinflation to interest rates of 140 to 240 per cent. This was accompanied by a return on investment in agriculture which was as low as 3 - 7 per cent.

This demonstrates clearly that the fundamental causes for the drop in agricultural production are by no means connected with the process of privatisation.

Another result of these processes was furthermore an essential rise of the relative share of the personal household plots at the agricultural production (see Table 3).

**Table 3: Share of the different sectors of agriculture at the agricultural gross product in per cent**

	1990	1995
big agricultural companies	72	55
private household plots	28	43
private farmers	0	2

Source: APK (1996, p. 39).

The personal household plots contribute substantially to the stabilisation of the agricultural production. This is accompanied, however, by the simultaneous shift to manual work, lower productivity and a higher share of subsistence production. Nevertheless, a certain production reduction in the personal household plots can be ascertained since 1994, since these are closely connected to the large companies. In 1995 the livestock in the personal household plots, e.g., sank between 1 and 3 per cent. According to an estimation by economists not only 3 to 4 per cent of the agricultural land but more than 40 per cent is used for the production in the per-

sonal household plots. The labour productivity in this sector reaches only about 50 per cent of the productivity in the colchozes (BOGDANOVSKIJ 1996, p. 17).

Currently the private farmers cultivate only appr. 6 per cent of the agricultural land and produce 2 per cent of the agricultural gross product. It can be stated that this is the only sector where a certain production growth was observed in 1995 as compared to 1994.

Let us now proceed to the problems of the large agricultural enterprises.

## 2.2 Structure of the Enterprises

Since the differences in the legal forms have up to now appeared to have only little influence on the efficiency of the production, it is important to try to clarify the objective factors allowing an agricultural enterprise to work relatively successfully under the present complicated conditions, in a time where an important part of the agricultural companies is actually bankrupt (probably more than 55 per cent). As our research has shown one of the most important success factors is the proximity of the companies to large markets, e.g., oblast-centers. For Russia this seems plausible, if we remember its geographic expansion and the relatively weakly developed transportation system especially in the rural areas. Our research allows us to distinguish the following four groups:

- Highly specialised enterprises of an industrial type, usually one-product-companies, which can also be characterised as factories. These comprise for instance large poultry enterprises, cattle fattening complexes, industrial pig fattening factories, fur farms and greenhouse-enterprises. The animal production companies of this type work on the basis of purchasing of fodder and raw materials.
- Companies closely situated to cities: in general they are also highly specialised, however, they combine the more profitable plant production with their animal production activities.
- Companies which are located far away from the oblast-centres and from other cities of the region: the situation depends on the region, its configuration, the population density etc..
- Companies with a medium distance to the markets: these are companies not belonging to the first three groups.

As the result of the analysis of the agricultural enterprises in the St. Petersburg oblast, which was accomplished jointly with Z. LERMAN (LERMAN and EPSTEIN 1995), we came to the conclusion that the companies close to the cities had the most favourable economic situation. Their profitability (the relationship of the profit and their basic funds) exceeded that of the enterprises of medium distance by approximately 65 per cent and that of the companies far away by 3.3 times. They usually have their own processing facilities for agricultural products as well as shops in the city. Due to the more intense state support in the time before the reforms they are better equipped with funds, technology etc. Because of the proximity to the city they employ more highly qualified workers and have less problems with unused labour capacity. These companies are usually centralised and well managed. They profit from the large market, higher sale prices and lower transport costs. Consequently, more than half of the companies close to the cities work profitably.

The situation of many factories, particularly the fattening enterprises, is very unfavourable because of the low prices for animal products and the high costs for the purchase of grains, mixed fodder and other resources. In order to work profitably they must reduce the expenses for fodder per unit product by 40 to 50 per cent (NAZARENKO 1996, p. 12), a task which in the

next three to five years does not seem realisable. Only the situation for the egg-producing companies and greenhouse-enterprises can be characterised as relatively favourably.

The companies situated remote from the markets do not only suffer from considerably higher transport costs, they also have to cope with a less solvent demand and thus achieve lower prices for their products. Already before the reforms they had considerably smaller base funds at their disposal, and also the quality of their management as well as of the most important employees is lower. Additionally, the soils and climatic conditions are generally worse for the remote companies than for the average of the region. According to our estimate already in 1994 the bulk of the remote companies (about 25-40 per cent of all companies) did not make profits. Here specific economic and social problems meet, a point on which we will elaborate later.

The group of the companies with medium distance lies between those close and those far away from the cities. One part of these enterprises still has the chance to develop positively, but under the present conditions their number will probably be considerably less than 50 per cent.

In our view, proposals for the further course of the privatisation of the Russian agriculture must consider the differences shown and submit concepts created specifically for the need of the different groups. Thus, for the companies situated closely to the cities centralised management structures with a well developed accounting systems for the subdivisions appear to be useful. In general, the employees of these enterprises reject the division of their enterprise into smaller units. In contrast, the remote companies can preserve a part of their potential only by splitting into smaller units. If there are some energetic employees, at least some of them have the chance to survive. In many cases the economic conditions will then at least lead to the enlargement of these new companies. According to V.J. UZUN for these companies the limited partnership is the legal form best suited and providing the largest perspective since it allows them to take assets and land of the villagers in lease. However, the splitting of the enterprise must be the result of a decision of the majority of the asset holders or the decision of the new owner after the bankruptcy.

Let us now proceed to the problem of the economically weak, not solvent enterprises.

### **2.3 Problems of Weak Enterprises**

One of the main problems of economically weak enterprises is their low productivity. This is mainly caused by production capacities which are too limited, delays in the wage payment, and weaknesses in the management.

Consequently, basic technology requirements are not complied to so that these enterprises display extremely low production parameters. Thus, the milk performance per cow, e.g., is often less than 1000-1200 kilograms of milk, the number of calves per 100 cows amounts to only 55 - 60, the average daily increase in live weight with feeder cattle totals only 200 grams and with pigs only 100 grams. With the majority of the weak enterprises the potato yield amounts to only 50 - 70 dt/ha and with vegetables to 80-120 dt/ha. As compared to the period before transition, the production indices of these enterprises were at least twice as high. The non-compliance with technological requirements diminishes the quality of the products and accordingly reduces the prices. Moreover, part of the products and resources in these enterprises are also stolen by the employees.

The most important human cause for the bad performance is, however, an inefficient management. In 1991 and 1992 managers frequently gave away the most profitable branches of the

enterprise free of charge or turned it into their own independent companies, which often was the first step to the factual bankruptcy of the former enterprises.

With the majority of these enterprises the employees hardly trust the management not believing that it can deal with the crisis effectively. On the other hand, also the managers do not trust their employees. Thus, for instance the manager responsible for animal production does not provide minerals and compound feed because he assumes that the milkers would only steal it.

The market production in the insolvent enterprises was reduced to a minimum, since it only results in further losses. A minimum of income is needed in order to be able to pay the wages of the management, the remainder is distributed among the employees. Hence, the wages in these enterprises are, in fact, independent from the personal or the collective production performance. The accountancy calculates the total costs for the entire enterprise, but not for individual departments. In these enterprises management and social services take up between 15 and 18 per cent of the total number of employees. The factual workload for an employee in such a plant or animal production enterprise amounts to only half or even one third of the norm, i.e. the number of employees exceeds the need by far. A main part of the agricultural land as well as stables for animal production are not used.

In many enterprises more than 50 per cent of the asset holders are pensioners, former employees and other enterprise staff members who are not producing. This situation became characteristic for many regions of Russia, particularly for the non-black-earth zone (BOEV et al. 1996, p. 10). In some cases the asset holders remaining in the co-operative decided to compensate for the asset share in the form of goods, for instance with productive animals. Their value, however, exceeded the liquidation value by far. In the legal form of the producers' co-operatives such developments are less likely since there only incorporators and employees have the right to vote.

In general, the principal creditor of these insolvent enterprises is the state. The debts mainly originate from commodity credits (fuel, mineral fertilizer etc) and from wage taxes. The government agencies hesitate to announce such enterprises bankrupt since they are afraid of a worsening the already complicated social situation in the rural areas and do, moreover, not expect to find purchasers for the assets of these enterprises. According to economic theory, however, bankruptcy proceedings are a very efficient form of restructuring because they promote the fast redistribution production capacities to better entrepreneurs and prevent the accumulation of further losses. Whether these reasons indeed justify not carrying out bankruptcy proceedings can be doubted. Here, it has to be pointed out that it also prevents enterprises from becoming newly established.

With these enterprises the largest problem consists in the lack of suitable management personnel. It is also difficult to find somebody intending to entrepreneurially use the remaining asset parts of the enterprises. The lack of managers with the necessary qualification is also the biggest problem in the Russian agriculture. Therefore, the collectives of these enterprises often reject a restructuring following the Nizni Novgorod model, i.e. splitting up. They rather prefer to exist further as a collective hoping that subsidies will be continued to be paid to them.

### **3 THE FURTHER DEVELOPMENT OF PRIVATISATION**

At present the property rights of the owners with regard to land in the collective enterprises are extensively limited. They can only receive a physical piece of land if they leave the enterprise and establish their own farm. They can also bequeath their land share or sell it within the respective enterprise. This hampers the process of reorganisation in agriculture, since other-

wise successfully performing enterprises of all types and forms could, for instance, buy the land. The implementation of the right to take a loan on or sell one's land share would also facilitate the influx of capital from outside sources into agriculture. On the other hand it is a widely held view that under the unprofitable economic conditions in agriculture the right to take up loans or sell the land would hardly lead to considerable investments into agriculture. Besides the price of the land would be rather low. Already for a small amount of money many pensioners and persons of a pre-retirement age were willing to sell their pieces of land. In this way many agricultural enterprises would be deprived of their production basis „land“, which seriously damages agricultural production, even with the most effective suburban enterprises. The opponents of a further liberalisation of the land market are also supported by the lack of historic experience with private land property in Russia so that today the overwhelming majority of the agricultural producers, among them also many farmers, oppose the free purchase and sale of land.

In our opinion agricultural interests should be considered in liberalising the land market, e.g. by a legal fixation of preemptions for agriculture. Besides those who gained their financial means by illegal means must be prevented from abusing the land market for speculation purposes.

Finally, it is to be remarked that the conciliation committee of the Parliament discussed a compromise at the end of October 1996.

In our view in the further course of privatisation not only the share of private property of land and assets must increase, but also the legal system must be developed further. This affects both the regulation of the land market as well as the carrying out of bankruptcy proceedings. After that as quickly as possible efforts should be shifted to the reorganisation and restructuring of the agricultural enterprises. In this process the state should participate in the following tasks:

- Support of the working out of a methodology of the reorganisation of the various types of agricultural enterprises
- Support of the managers taking over insolvent enterprises, particularly with contractual regulations
- Distribution of experience of successful reorganisations
- Support of the scientific investigation researching reorganisation procedures for agricultural enterprises.



**REFERENCES**

- APK (ed.) (1995): *Ėkonomika, upravlenie*, No. 11.
- APK (ed.) (1996): *Ėkonomika, upravlenie*, No. 6.
- BOEV, V.R., SERKOV, A.F., ROMANOV, A.E. (1996): Osnovnye rezul'taty agrarnoj reformy, *Ėkonomika sel'skogo chozjajstva i pererabatyvajuščej promyšlennosti*, No. 4.
- BOGDANOVSKIJ, V.A. (1996): Usilenie liënogo podsobnogo chozjajstvovanija na sele, *Ėkonomika sel'skogo chozjajstva i pererabatyvajuščej promyšlennosti*, No. 4.
- LERMAN, Z., EPSTEIN, D. (1995): Sel'skoe chozjajstvo Leningradskoj oblasti v period perestrojki i reform, in: APK: *Ėkonomika, upravlenie*, No. 12, p. 44-50.
- NAZARENKO, V. (1996): Sel'skoe chozjaistvo Rossii i mirovoj prodovol'stvennyj rynek, *Mežlunarodnyj sel'skochozjajstvennyj žurnal*, No. 1.
- GOSKOMSTAT (ed.) (1995): Rossiiskij statističeskij žegodnik, Moskau.
- UZUN, V.J., SHAGAIDA N.I. (1996): Ėkonomičeskie i social'nye posledstvija reformirovanija sel'chozpredprijatij po Nižnegorodskoj modeli (predvaritel'nye rezul'taty), in: RASCHN, M.: *Agrarnyj institut*, p. 10-22.

**DISCUSSION PAPERS  
DES INSTITUTS FÜR AGRARENTWICKLUNG  
IN MITTEL- UND OSTEUROPA (IAMO)**

**DISCUSSION PAPERS  
OF THE INSTITUTE OF AGRICULTURAL DEVELOPMENT  
IN CENTRAL AND EASTERN EUROPE (IAMO)**

- No. 1 FROHBERG, K., HARTMANN, M. (1997):  
Promoting CEA Agricultural Exports through Association Agreements with the EU - Why is it not working?
- No. 2 FROHBERG, K., HARTMANN, M. (1997):  
Comparing Measures of Competitiveness: Examples for Agriculture in the Central European Associates
- No. 3 POGANIETZ, W.R., GLAUCH, L. (1997):  
Migration durch EU-Integration? Folgen für den ländlichen Raum
- No. 4 WEINGARTEN, P. (1997):  
Agri-Environmental Policy in Germany - Soil and Water Conservation -
- No. 5 KOPSIDIS, M. (1997):  
Marktintegration und landwirtschaftliche Entwicklung: Lehren aus der Wirtschaftsgeschichte und Entwicklungsökonomie für den russischen Getreidemarkt im Transformationsprozeß
- No. 6 PIENIADZ, A. (1997):  
Der Transformationsprozeß in der polnischen Ernährungsindustrie von 1989 bis 1995
- No. 7 POGANIETZ, W.R. (1997):  
Vermindern Transferzahlungen den Konflikt zwischen Gewinnern und Verlierern in einer sich transformierenden Volkswirtschaft?
- No. 8 EPSTEIN, D.B., SIEMER, J. (1998):  
Difficulties in the Privatization and Reorganization of the Agricultural Enterprises in Russia
- No. 9 GIRGZDIENE, V., HARTMANN, M., KUODYS, A., RUDOLPH, D., VAIKUTIS, V., WANDEL, J. (1998):  
Restructuring The Lithuanian Food Industry: Problems and Perspectives
- No. 10 JASJKO, D., HARTMANN, M., KOPSIDIS, M., MIGLAUS, A., WANDEL, J. (1998):  
Restructuring The Latvian Food Industry: Problems and Perspectives

Die Discussion Papers sind erhältlich beim Institut für Agrarentwicklung in Mittel- und Osteuropa (IAMO).

The Discussion Papers can be ordered from the Institute of Agricultural Development in Central and Eastern Europe (IAMO).