Increasing the Efficiency of the Inter-Branch Interactions in the Integrated Structures of the Agro-Food Sector of Russia

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1. Analysis of the Economic Situation in the Agro-food Complex of Russia

1.1. Positive Shifts and Achievements

Development of the agro-food complex of Russia in the recent years is the increased application of market instruments, changes in the commodity producers' economic behavior, integration of the system of inter-branch connections. At its initial stage the agrarian reform caused the consumption of the basic food products to shrink 1,5-2 times in the 1992-1998 period. The gross output of the agriculture and the processing industry decreased almost by half, while the utilization of the basic food production facilities would make up 20-40 per cent in the last years. However, during the last three years the situation changed for the better. In 1999-2000 the gross production of the agrarian sector and the food industry grew along with the consumption of basic food products (Table 1).

One of the key factors in improving the situation with the agro-food complex of Russia was acceleration of the integration processes and development of the economic mechanism of creation of integrated structures introducing radical changes to the food production process, the structure of the market and its coordination mechanism.

The advantages of integration are proven by the world experience of agrarian development. The cost and selling price reduction capabilities of large companies well meet the consumers' interests. Globalization of the world food market manifests itself in the development of transnational food corporations handling a considerable part of the commodity and financial flows. Consolidation of the competitive positions of the Russian producers is impossible without forming large multi-branch integrated structures.

Table 1

Social and Economic Development Trends in Russia in the 1993-2001 Period (in comparable prices, per cent of the previous year)

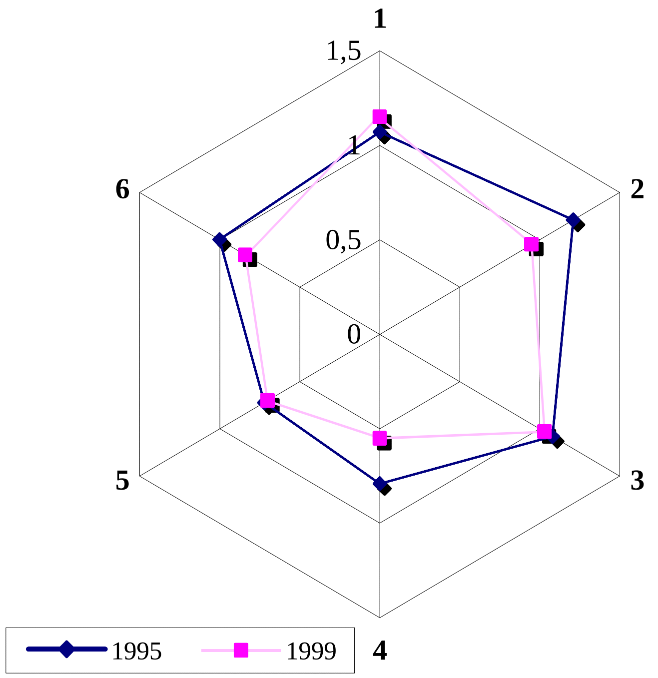
#	Description	Years								
		1993	1994	1995	1996	1997	1998	1999	2000	2001
1	Gross domestic product	91,3	87,3	95,9	96,6	100,9	95,1	105,4	108,3	
2	Actual final consumption by households	99,6	97,2	97,4	96,2	104,1	98,0	96,4	107,7	
3	Industrial output	85,9	79,1	96,7	95,5	102,0	94,8	111,0	111,9	
4	Agricultural output	95,6	88,0	92,0	94,9	101,0	86,8	104,1	105,0	
5	Retail trade turnover	101,6	100,2	93,6	99,5	103,8	96,7	92,3	108,9	
6	Average monthly wage	100,4	92,1	72,0	106,4	104,7	86,6	78,0	120,9	

In 2001 the agricultural production grew 5,9% as against the corresponding period of 2000. Positive dynamics is observed in a number of crop-growing sectors: the production of grain, potatoes and vegetables respectively increased 29,4%, 1,3% and 1,5% compared to the corresponding period of the previous year. Poultry production was a most successfully developing animal producing sector in 2001.

The rise in food production in Russia in 10 months of 2001 formed 8,2% as against the corresponding period of 2000. The production in the meat and dairy, flour-and-cereals and flavoring industries respectively grew 9,3%, 0,6% and 11,0%. The dynamics remains positive for the sugar industry. In 2001 the production of some individual food products like poultry, sausages, canned meat, whole milk products and sugar increased 23%, 10,6%, 7,2%, 8,5% and 6%, respectively. Unfortunately, the trend of enhancing the food production as a response to increased demand of the population (as distinct from that achieved by means of substitution of imports) that first manifested itself in 2000 was not preserved.

The negative consequences of the default of 1998 in the sphere of food consumption are being gradually overcome: the consumption is increasing, while the consumption rate differences are getting smaller. These trends are more noticeable in urban areas.

The structure of demand in the reform years used to change in the favor of the food products of the vegetable origin. The demand for meat and dairy products, eggs and fish would, on the contrary, decrease. At the same time, increasing was the share of bread and potatoes in the food basket. Changes in the structure of demand influenced the development of the food industry (Figure 1).



1 – Food industry including:
2 – Bakery industry
3 – Macaroni industry
4 – Meat industry
5 – Dairy industry
6 – Flour-milling industry

Fig. 1. Relative rates of growth by food industry branches in 1995-2000

The decade of transformations in the agrarian sphere made the market mechanisms develop. Today there is a multitude of small and large enterprises independent in their production and economic activities. The inter-sector flow-over of capital has started. The consumer market shows further development of such positive trends like the fall of market access barriers for domestic producers, expansion of competition, greater saturation of the market with goods, demonopolization of the trade and public services. The new kind of contract relations is coming to the foreground, and the producers start to select among the economic behavior strategies to secure their competitive positions.

Cooperation and integration are developing on a qualitatively new level. A tendency towards creation of large agricultural holdings can now be noticed. The successfully operating agricultural and food companies prove that the Russian agriculture can be efficient.

The financial flows to the agrarian sector have become wider, and the producers now enjoy easier access to borrowed funds, which makes the financial discipline stricter. The producers started to repay their debts. Credit facilities are becoming an efficient market instrument targeted on the most efficient agricultural producers.

The market infrastructure – the network of wholesale food markets and market information services – is taking shape.

All the regions gained positive experiences of successful farm re-organization with taking into account the local conditions. Practically in every rural area there exist a number of farms that managed to successfully adapt to the market environment. Farm leaders of the new type have appeared who are capable of generating steady profits in the difficult political and economic situation. A relatively big group of small agricultural commodity producers – personal subsidiary farm owners capable of persistently expanding their operations in the uneasy economic environment has formed.

The amount of private investments in the housing and communal facility construction in rural areas has increased. The scope of private houses construction and the rate of investments of the population in gas facility installation have grown more than twice since 1995.

1.2. Burning Problems and Urgent Tasks

However, certain negative trends still exist. The consumption differences remain considerable, and the effective demand of the population is still low owing to the slow growth of the real incomes. Income differences by sectors of the economy and regions still produce negative effects on the consumer market equilibrium.

The rational consumption standards remain unaffordable for many categories of the population. The structure of the food rations, their nutritive and calorific values leave much to be desired.

In the last years the country found itself ranking 67 in the world in terms of food consumption per head, and is today on the verge of loosing its food security. The production / minimum consumption ratio currently in Russia makes 1.19, 1.07 and 0.76 for meat, milk and vegetables, respectively. The domestic production/consumption ratio trends are unfavorable, and the opportunities to maintain the consumption on the existing level within the food provisioning model currently applied in the country are quite vague.

The level of food consumption is an important part of the methods used by the UNO to assess the living standard of the nation. According to the "human development index" calculated based on the above methods, our country has gone down from the 7th to the 71st place. The share of the Russian population living below the poverty line almost 4 times exceeds the critical level set by the UNO. Strict demand limitations and shrunk budget financing do not allow for a structural reconstruction of the agro-food complex and re-distribution of the available resources in the favor of efficient owners. Stimulation of the effective demand as a factor of economic growth comes to the foreground in this situation.

The material and technical base of the agro-food complex is in a poor condition. The fixed assets are getting worn and torn and obsolete – physically and morally, the number of agricultural machinery is decreasing, the working tractors and harvesters are in deficit as usual, while the food processing technologies are getting behind the time progressively. By the beginning of 2001 the wear of the fixed agricultural assets constituted about 50% compared to 36% in 1996. In many sectors of the food processing industry the wear of the fixed production assets makes up 70% or even more. Over a third of the equipment has worked for two or more depreciation periods. Only 19% of the active part of the assets meet the world's level. About 50% of the labor-capacious operations at domestic enterprises are performed manually. The demand for most important kinds of equipment is satisfied just 50-60%.

The amount of budget support to the agriculture is constantly decreasing. In the first half of 2001 the share of expenses on the agriculture in the consolidated budget made up just 2,3%. The present system of financing and motivation of business activity is inefficient not only because of the insufficiency of budget resources, but also due to the practice of payment of compensations and subsidies that are distributed irrespective of the economic results achieved by the recipients. The financial imbalance leads to working capital shortages and to the situation when the economic agents mostly practice non-money forms of mutual payments and attempt to avoid the taxation. The difficult financial position of the producers and the lack of advanced institutional framework cause the emergence of a huge "shadow" turnover.

A specific feature of the Russian market is the monopolistic position of large intermediate structures having access to cheap raw materials distributed from the state funds and to financial resources. The major operators on the Russian food market are at the same time importers and holders of the controlling interest of the food processing companies. They handle more than 70% of the food stocks generating considerable revenues, which they are not eager to invest in the agro-food complex.

Being one of the subjects of the food market, the state today does not practically influence the price formation processes, but rather adjusts itself to the market conjuncture.

The attempts of the local authorities to regulate the food market by imposing restrictions or complete prohibitions on the free resource migration lead to market pricing distortions, destabilize the market and reinforce the monopolistic position of the regional state and “near-state” structures. These actions cause substantial damage to all the participants in the food market, particularly to the agricultural producers that find themselves deprived of the opportunity to fulfill their contractual obligations vis-a-vis the processing companies.

Inequality of competitive conditions is a cause of greater imbalance in the economy, unjustified budget expenses (when inefficient production is subsidized), smaller tax receipts, lower pricing transparency and higher transaction costs.

A key problem is the insufficiency of investments in the renewal of production facilities. The economic growth is mostly financed from the own funds, which are, however, not enough to allow for a deep structural reconstruction and increase in efficiency. The share of the agro-food complex in the total amount of investments today forms 8% as against 30% in the 80’s. This is mainly because of the fact that despite the efforts made the conditions that would facilitate the inflow of investments have not yet been provided in Russia, and the investment climate remains generally unfavorable. From the point of view of attractiveness to foreign investors and risks Russia is closing the world’s list rating 126 out of 160. The investors try to take root in the most paying sectors like the production of non- and low-alcohol drinks, confectionery and other.

The results of almost a decade of reforms in the agrarian sector allow speak of rather revolutionary than reformatory transformations in the rural sphere. As a rule, revolutionary changes bring about greater social losses in terms of the quality of life of the population. The methods applied to re-organize the kolkhozes and sovkhozes, the “farmerization” and the financial policy did not have any thorough scientific and legal grounds, nor did they take into account the specific nature of the regions, their economic and cultural traditions. The result was rapid destitution of the rural population, greater hidden unemployment, shrinkage of investments in the social sphere, poorer health and poorer qualification and intellectual potential of the rural areas.

The main features of the rural social regress are the following:

- Rural areas remain outsiders of the social and economic development processes, the zone of stagnant poverty. The factors making the economic position of the rural population worsen at greater pace than that of the urban dwellers are still in force.
- The personal subsidiary farm (PSF) became the main source of income. Without it the absolute majority of the rural population would have found themselves below the poverty line. However, any hopes for further rise of production on the PSFs is only an illusion.
- The demographic situation in rural regions is desperate. Most of them experience steady depopulation. In spite of the slight reduction of the death rate in the last years, the extreme mortality of men of the able-bodied age remains a serious social and demographic problem. As a consequence of the steadily low birth rate and migration of the young people to the cities, the rural areas face the problem of senescence of the population. The latter tendency is long-term and will produce negative effects in the long run: the demographic burden (the dependant /

able-bodied population ratio) will get heavier, which will cause the social costs to increase.

- The structure of employment of the rural population is inefficient. The rate of unqualified labor has increased. The change of proportions in the favor of the non-state sector was to a large extent formal. Liquidation of inefficient jobs and shift of the labor to competitive enterprises did not occur.
- The quality and range of the social services offered to the population are in decay. The economically disadvantageous and inhuman commercialization of the rural social infrastructure is still in progress.

1.2. How Enterprises Adapt to the Existing Conditions

The situation currently existing in the agrarian sector of Russia makes the agricultural producers operate in an extremely severe environment. The question of survival has acquired concrete shape. The diversity of ownership and economic forms fails to ensure high efficiency of agricultural production as it was meant to do. Most of the agricultural producers survive on their own assuming all the dangers and risks.

The enterprises practice new ways of adaptation to the difficult situation. For instance, today they apply more pragmatic criteria when choosing among the organizational and legal forms, that being the advantages like tax privileges, simplicity of management and accounting and certainty with the ownership and responsibilities. In this respect the present period differs from the initial stage of the reforms.

Seeking for extra revenues, the enterprises expand their operations to food processing, machinery repair, transportation services and etc.

Many of them are in search of new markets, and some entered the foreign markets – mainly the ones in Ukraine and Transcaucasia. The export activity has become one of the means to survive. Among the agricultural products sunflower seeds, barley, wheat and wool are in the greatest demand abroad.

The enterprises accept radical internal changes as well, rejecting the unprofitable and the most labor- and resource-intensive lines of activity like sheep and pig breeding and milk production.

The production restructuring entails changes in the land use practices: the least productive and remote areas are no longer being cultivated.

The agricultural enterprises give up their earlier plans and even programs already being implemented that require big capital, resource or labor investments. This first and foremost concerns land improvement projects, road building, construction of big objects and capital repair works. Almost all of the enterprises partially or fully rejected to maintain the social sphere.

While in the times of kolkhozes and sovkhozes the money part of the wage would constitute 20-25% of the self-cost of the product, in the market environment it grows up to 50%. Such amounts are too big for most of the farms, and they have to delay the payment of the wages. In some cases and on some farms the delay can last for 2,5 – 3 years.

Now that both positive and negative transformation experiences have been gained, the real reforms in the agrarian sector can be started based on the evolutionary way of development and with rendering due support to positive changes.

II. Analyzing the Results of the Agrarian Reform

From the very beginning the current agrarian reform did not take into account the patterns of the transition period and its evolutionary nature. The tactics applied was much subjective and chaotic, there was no strict state regulation: no wonder the results are negative.

The economic policy has not yet brought along any turn in the living standard trends, nor it has caused any noticeable increase in the effective demand, which seriously hampers the business activity.

However, a number of Federal Laws and Decrees of the Government of the Russian Federation adopted in the last years helped stabilize the situation in a number of sectors of the agro-food complex. At the same time the factors that hinder the development of the complex still exist. The most important of them are the following:

- the distorted economy with raw-material orientation, macroeconomic instability making it difficult to work for the future;
- the shrunk effective demand, very different by social groups and regions, that forms the respective structure of supply and makes the consumer expenses stay low;
- the high import dependence placing the domestic producers in a disadvantageous position;
- the lack of an efficient producer support system aimed at increasing the added value;
- the relatively low technical level of the domestic agro-food complex;
- the unstable investment climate – a result of the legislation drawbacks and the lack of clear priorities in the investment policy.

By now the privatization of food processing and large collective enterprises of the agro-food complex has almost been completed. The initial stage of privatization of agricultural lands is over as well. The appropriate legal framework to ensure economic freedom and encourage business initiative is being arranged for.

However, the economic policy seems to overestimate the role of ownership as an institution apart from the role of rural labor productive forces. At the same time organizational and economic reinforcement of the existing ownership forms is more important today than their numerical growth.

The way the state property is managed deserves special attention. The strategy and tactics of management should aim to form a two-sector structure: a sector of enterprises directly managed by the state and the one comprising the enterprises that have switched to market-oriented commercial mode of operation. The rate of scientific and technical development, technologies and basic products should be the criteria to distinguish among the above two kinds of enterprises.

The driving forces of agrarian relations and the values of peasantry cannot be researched by viewing the peasants as a homogeneous mass without clear understanding that they are different by social and professional features, interests, values, and finally, attitudes towards land ownership. Only 10% of the rural producers at most can fittingly face the competition today. Taking into account the social heterogeneity of the rural population and regional patterns by the economic policy can reduce the risks of negative consequences.

The government should give up the unacceptable practices of not observing the Federal Law in the part concerning the agro-food complex. It is essential that the Federal Laws "On the State Regulation of the Agro-industrial Production" and "On the Procurement and Delivery of Agricultural Products, Raw Materials and Food for the State Needs" aimed to help overcome the crisis in the agro-food complex be fully implemented.

The experience shows that the agriculture should no longer be merely treated as a sector supplying the nation with food and the industry with raw materials. The strategic role of the agro-food complex should be well understood at last – the role of a major consumer of industrially made products that finally governs the rate of profits in various sectors of the economy, the employment in rural and urban regions, the social, political and economic situation in the country and its food security.

III. The Agro-food Complex: Social and Economic Development Prospects

III.1. Improvement of the Legal Framework

The current public policy and law give the Russian peasant the opportunity to perform his farming activities in a new way, to become the owner of the land and other production means, and to interact with the state and society being autarkic and independent. However, this is insufficient for the peasant to painlessly flow into the market environment. Like never before Russia needs the Law "On the Food Security" today that would guarantee subsistence wage and minimum social standards for the entire population and set out efficient measures to protect the domestic food market.

Other laws should be adopted as well, like the ones on price parity for agricultural and industrial goods, privileged lending, taxation, agricultural producer insurance, and personal subsidiary farms.

Taking the example of the USA and other countries, it seems advisable that the law on the social and economic development of the agrarian sphere should be adopted for some certain periods of time. This law could regulate the inter-branch relations in the agrarian sector ensuring equivalent exchange within the agro-food complex, the crediting and insurance in the agriculture, the marketing of agricultural products, the support extended to the selection, seed producing, pedigree breeding and veterinary activities, the procedures applied to loser farms and etc. Also, this law could and should be the basis for other special legal acts in the agrarian sphere.

To eliminate the distortions in the agro-food sector and form a balanced food market in Russia it is necessary to change the national agrarian policy, make system transformations in the structure of the food market and develop the supply and demand interaction mechanism.

III.2. Priority Development of the Agro-food Complex as the Basis for the Food Security of the Nation

The priority public policy line within the food security concept should be the development of the domestic food market and protection and support of domestic producers. Having a great agricultural, scientific and technical potential, qualified and cheap labor, developed production infrastructure, high sensitivity to new technologies and being ready to accommodate the most up-to-date production lines, Russia undoubtedly can cover the demand for the basic food products through domestic production.

It is necessary to switch from the policy of smoothing the decline to the policy of growth and development of creative potential. An important priority here is the development of large agricultural commodity production zones and the transition from the currently prevailing model of regional self-sufficiency to the model of regional specialization. The latter presumes the existence of developed trade and cooperation connections between the regions, and of a solid system of wholesale food markets on all – rayon, oblast, inter-regional and national – levels.

The public policy should advance towards new principles of formation of the national food stocks. The policy intending to solve the food problem by encouraging the self-sufficiency of households with the PSFs playing the key role should gradually be rejected.

III.3. Stimulation of Effective Demand for Food Products

In view of the above the problem of increasing the general income level and ensuring the minimum income and consumption social standards by regions and social groups of the population comes to the foreground. It is necessary to stimulate the economic growth in those sectors of the agro-food complex that produce finished products that are in mass demand.

The strategic goal of the social and economic development in 2002 should be real improvement of the living standard of the population. For this a number of tactic tasks have to be fulfilled:

- improve the public income policy;
- reach conformity among the minimum wage, pension, consumer basket and subsistence minimum rates;
- decrease the basic living standard differences among social groups and regions, abolish the process of divergence of the real incomes, gross regional product and retail turnover that makes the “rich” regions even richer and the “poor” ones – poorer;
- provide the agriculture with money income yielding opportunities equal to that in other sectors of the economy, improve the labor remuneration policy for

agricultural enterprises of various legal forms, regulate the labor law issues in the agrarian sector.

It is important that public policy facilitates steady development of rural communities and helps prevent the growing destitution of peasant families.

Special target programs are needed to ensure social protection of the population of Russia in the sphere of food provision.

III.4. Government Regulation of the Agro-food Complex

The major functions of government interference should be the following:

- liquidation of the financial imbalance;
- transformation of the entire system of financing;
- increase in money flows to the agro-food sectors as a key factor of recovery and development of the normal reproduction process;
- extension of priority support to the basic food production sectors;
- re-orientation of the financial and investment policies towards structural reconstruction of the food processing industry;
- creation of food reserves.

To liquidate the financial imbalance it is necessary not only to achieve inter-branch equivalency in the agro-food complex and ensure budget financing, but what is more important, to create appropriate conditions for efficient self-financing of the complex. One of the ways to settle the problem with financing and investments can be utilization of development budgets on the federal and regional levels.

Subsidizing of commodity producers should be directly connected with their efficiency. The funds should strictly be allocated for concrete target development programs, and privileged lending should primarily be available for the final food production stages performed by multi-branch integrated structures.

Furthermore, to improve the financial position of agricultural enterprises measures should be taken to restructure the debts of the agro-food companies backed up by a law that would provide for a comprehensive and differentiated approach to the restructuring of the companies' creditor indebtedness vis-a-vis the budgets of all levels, state non-budget funds and suppliers. Special measures should be taken by the government to analyze and, if needed, to readjust the performance of the chronically loser companies. This would enable to release the settlement accounts, re-establish the normal financial performance of the agricultural enterprises, and in certain cases, to re-organize those of them, which for some objective or subjective reasons terminated civilized relationships with the state and other economic agents.

Food stocks can be created through food market interventions. The government structures appointed to carry out the intervention procurement should ensure the demand and supply balance on the market. The objective of the intervention procurement is formation of food stocks by reaching mutually beneficial agreements with the producers, insuring against their risks and regulating the food market conjuncture. At the same time the interventions have to be thoroughly planned in terms of the time ("turning point"), amounts, price limits and geography.

Commodity interventions requiring application of guaranteed purchase prices can be facilitated by creation of a special non-budget rural support fund formed of deductions from the food wholesale and retail turnover. This fund can also be filled up through increasing the customs duties on individual food products.

In the middle term the state can rather support the agriculture through "state contracts" on the production of certain products. The major emphasis can be made on supporting the enterprises and farmers that can ensure the maximum returns on the investments. Subsidies should be granted on contractual basis, the contracts clearly indicating the obligations of the agricultural enterprises.

The new pricing, financial and crediting policy applied to the agro-food complex is intended to facilitate the gradual transition to equivalent relations and keep up the incomes of the rural producers on the level allowing for extended reproduction and implementation of rural social development programs, and, finally, for creation of a single economic space in the country.

The prices of the most important kinds of industrial goods used in the agro-food complex should be subject to adjustment to the inflation rate. Along with the introduction of price limits the government should impose penalties for breaking the upper limits and encourage the application of lower prices.

When improving the system of pricing in the agro-food complex, measures should be taken to revise the economic relations between the producers, procurers, processors and traders with taking into account the real contribution of all the participants in the chain.

It seems appropriate to set the ceiling for the intermediate and trade margins for final products with regard to the purchase prices of the raw agricultural produce or the wholesale prices asked by the processing companies. This will help reduce the number of intermediates in the chain, make the production, processing and marketing more or less equally beneficial, cause an increase in the volume of sales and, consequently, make the effective demand of the population rise.

An efficient means to promote the rational land use practices could be the introduction of a single land tax. Each owner of land has to pay tax. The experimental application of the tax in Saratov Oblast shows that the innovation can well increase the land use efficiency. Moreover, the land, which the owner is in no opportunity to cultivate, will naturally pass over to capable producers or to the state.

Tactically in 2002 before using the land as an immovable property it is necessary to get down to practical implementation of the Land Code of RF in the part concerning the priority protection of the land as a most important element of the environment and production means. In particular, it is necessary to start the drawing up of land improvement projects and programs aiming to put the idle lands into circulation in accord with the economic, social and ecological criteria and with the complex rural development plans.

It is also important to restore the agricultural insurance system with paying due respect for the new market environment (in 2001 Ukraine adopted the Law on obligatory crop insurance).

As far as the information backup in the agro-food complex is concerned, the tasks should be the following: creation of the information-commercial-financial systems on the main food markets, advertising and promotion of domestic products abroad, extension of information support to the agrarian policy, development of the information and consulting services.

III.5. Integration into the World's Food System

Heading for the WTO membership, Russia should stand upon its right to employ the entire set of external economic regulation tools normally applied in external trade practices and ensure the protection of the food and agricultural markets on the level comparable to that the main trade partners provide.

The policy of joining the WTO should be well considered and provide for a number of actions to avoid possible negative consequences:

- take constant control over the observance of the maximum inflow of imports to the Russian food market fixed on the basis of balances between the basic agricultural raw products and finished food products;
- take special protection measures in the form of restrictions on the import of certain goods in case the amounts imported cause or can cause serious damage to the domestic producers;
- within the existing customs tariffs it is necessary to be flexible in adjusting the import duties to the world price fluctuations and seasonal conjuncture of the markets for certain products;
- arrange for a longer transition period (up to 8-9 years) than is stipulated by the WTO regulations;
- when fixing the maximum aggregate amount of subsidies to the Russian agriculture adjust the rate of the aggregate support to the current rate of subsidizing in the EU countries;
- employ the system of non-tariff trade restrictions (technical and sanitary standards) to protect the most vulnerable segments of the market.

III.6. Elimination of Unequal Competitive Conditions

Creation of a developed market environment, reinforcement of competitive advantages of domestic producers is an essential precondition for efficient operation of the food market. To launch the market competition it is necessary to develop the appropriate market institutions with all the paraphernalia (exchanges, clearing agencies, futures auctions, government and independent information and analytical services, etc.), set up efficient commodity circulation systems, protect the domestic producers from the pressure of imports, encourage the food processing companies to make use of such competitive advantages like active investing, innovations and etc.

On the federal level it is necessary to draw up a concept of creation of a single agrarian market of Russia based on efficient regional specialization and presuming that the administrative barriers hindering the movement of food be removed. This should be done in collaboration with the sector unions and associations of producers and inter-regional corporations.

III.7. Formation of Large Agro-food Corporations

Concentration of production and inflow of big industrial and trade capital into the agrarian sector lead to comprehensive and deep organizational reconstruction of the agriculture. The chaotic-market interaction of numerous scattered and mostly small-scale agricultural producers should be replaced by the operation of a single food system uniting the agricultural production and the related sectors.

To promote the integration the government should focus on the establishment and observance of new contract relations, when all the elements of the technological chain are linked by agreements setting out the volumes of production, quality of the products, terms of delivery, prices and etc.

Promotion of integration and cooperation on the inter-sector level and institutional changes aiming to create the inter-sector economic and management structures (financial and industrial groups, sector and regional unions and associations of producers) will help achieve price parity between the agriculture and the related sectors.

III.8. Stirring up the Investment Processes

The major public policy line designed to improve the investment climate in Russia and stir up the investment activity is re-direction of the investment flows towards the sectors dealing with strategically important production (grain, dairy, meat industries). Prompt adoption of the laws providing a legal framework for the long-term investment institutions is very important here. The laws should be well coordinated with the policies facilitating the investing in the agro-food complex. It is necessary to gradually re-direct the investments towards the entire cycle of high-tech export-oriented production done with the use of domestic research and innovations.

III.9. Rural Social Policy Priorities

Special development programs should be drawn up to support the depressive rural regions. These can be implemented through agricultural servicing cooperatives consisting of independent farmers, owners of PSFs, other producers, non-commercial public organizations and local administrations. In conditions of both commercialization and liquidation of agricultural enterprises it is very important to extend adequate support to the peasant households, including legal protection from criminal persecution.

It can be expected that the depressive regions will be a stronghold of archaic farming requiring social support to survive. That means that the aged families, lonely retired people and the disabled should be offered top-priority support, which in turn requires regular payment of pensions and well maintained mobile medical services and social and transport infrastructures. In economically developed southern regions of Russia the focus should rather be made on attraction of the population into various kinds of servicing cooperation, reduction of taxes and elimination of bureaucratic restrictions on the export of goods.

A national program is needed that would enable to develop the rural territories into multifunctional economic systems and expand the non-agricultural rural employment. The latter can include the construction, food processing and trade activities as well as extension of services to summer country residents and people on vacation.

Priority changes in the structure of rural employment in the short term should be aimed to liquidate the inefficient and reduce the number of poorly paid jobs and do away with the informal employment, which is neither controlled by the state, nor taxed. The negative consequences of the rural unemployment growth can only be smoothed through integration of the employment and agrarian policies.

Active political measures should be taken to expand the range and improve the quality of educational and training services rendered to the employed and unemployed living in rural areas and small towns, forced migrants and refugees, and people under the threat of dismissal. Special attention here should be paid to young rural dwellers. To achieve all this it is necessary to support the system of professional secondary education in rayon centers, offer privileges when entering the profile educational institutions, solve the housing problem for young specialists and grant them with land shares.

Taking account of the well-developed family relations in rural areas that to a large extent compensate for the public social policy drawbacks, it seems appropriate to offer tax privileges to various cooperatives of rural dwellers dealing with the marketing of food products from the RSFs, credit partnerships and other non-state structures providing social support to the population.